Prospectus

ELM B.V.

(Incorporated for an unlimited duration with limited liability in The Netherlands and having its corporate seat in Amsterdam, The Netherlands)

€700,000,000 5.849% Perpetual Fixed to Floating Rate Notes

secured over the

€700,000,000 Guaranteed Subordinated Perpetual Fixed to Floating Rate Loan Notes

of

Swiss Life Insurance and Pension Company

guaranteed on a subordinated basis by

Swiss Life Holding

€15,000,000,000
Secured Note Programme

SERIES 100

Lead Manager

UBS Investment Bank

Co-Lead Managers

BayernLB

Credit Suisse

Deutsche Bank

Goldman Sachs International

HSBC

The date of this Prospectus is 5 April 2007

This Prospectus (as used herein, this "**Prospectus**") is prepared in connection with the EUR 15,000,000,000 Secured Note Programme (the "**Programme**") of ELM B.V. (the "**Issuer**") and is issued in conjunction with, and incorporates by reference the contents of the Programme Memorandum dated 10 August 2006 relating to the Programme (the "**Programme Memorandum**"). This document should be read in conjunction with the Programme Memorandum and will, subject to its being approved by the Irish Financial Services Regulatory Authority in its capacity as the competent authority in Ireland in accordance with the requirements of the Prospectus (Directive 2003/71/EC) Regulations 2005 of Ireland and Directive 2003/71/EC (the "**Prospectus Directive**"), constitute a prospectus issued in compliance with the Prospectus Directive and relevant laws in Ireland. Save where the context otherwise requires, terms defined in the Programme Memorandum have the same meaning when used in this Prospectus.

This Prospectus may only be used for the purposes for which it has been published. The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge and belief of the Issuer (which has taken all reasonable care to ensure that such is the case), such information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The Notes have not been and will not be registered under the U.S. Securities Act of 1933, as amended, (the "**Securities Act**") and are subject to U.S. tax law requirements, and may not be offered or sold in the United States (as defined in Regulation S ("**Regulation S**") under the Securities Act) or to, or for the account or the benefit of, U.S. persons (as defined in Regulation S) unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. For a description of certain restrictions on offers and sales of the Notes and on the distribution of this Prospectus, see "*Subscription and Sale*" below and the section of the Programme Memorandum entitled "*Subscription and Sale*".

Neither Bayerische Landesbank, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, HSBC Bank PLC nor UBS Limited (together the "**Managers**") nor the Trustee has separately verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is or will be made and no responsibility or liability is or will be accepted by the Trustee or the Managers as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Notes. Furthermore no representation, warranty or undertaking, express or implied is or will be made and no responsibility or liability to any holder of Notes is or will be accepted by Swiss Life Insurance and Pension Company as the issuer of the Charged Loan Notes ("**Charged Assets Issuer**") and Swiss Life Holding as guarantor of the Charged Loan Notes (the "**Charged Assets Guarantor**") as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Notes.

No person is, has been or will be authorised to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Trustee or the Managers or any other person.

Neither this Prospectus nor any other information supplied in connection with the Notes (i) is intended to provide the basis of any credit or other evaluation or (ii) should be considered as a recommendation or as constituting an invitation or offer by the Issuer, the Trustee or the Managers that any recipient of this Prospectus or other information supplied in connection with the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer, the Charged Assets Issuer and the Charged Assets Guarantor. Neither this Prospectus nor any other information supplied in connection with the Notes constitutes an offer or invitation by or on behalf of the Issuer, the Trustee or the Managers or any other person to any person to subscribe for or to purchase the Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of the Notes shall at any time or in any circumstances imply that the information contained herein or therein concerning the Issuer, the Charged Assets, the Charged Assets Issuer and the Charged Assets Guarantor is correct at any time subsequent to the date hereof or thereof (as the case may be) or that any other information supplied in connection with the Notes is correct as of any time subsequent to the date indicated in the document containing the same. The Trustee and the Managers expressly do not undertake to review the financial condition or affairs of the Issuer, the Charged Assets Issuer or the Charged Assets Guarantor while the Notes are outstanding. Investors contemplating purchasing any Notes should review, *inter alia*, the most recent financial statements, if any, of the Issuer, the Charged Assets Issuer and the Charged Assets Guarantor when deciding whether or not to purchase any Notes.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Issuer, the Trustee and the Managers do not and will not represent that this Prospectus may be lawfully distributed, or that the Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been or will be taken by the Issuer, the Trustee or the Managers which would permit a public offering of the Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published, in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or Notes come must inform themselves about, and observe, any such restrictions. In particular, there are restrictions on the distribution of this Prospectus and the offer and sale of Notes in the United States (or to or for the account or benefit of U.S. persons), the United Kingdom and other jurisdictions (see ''*Subscription and Sale*'' below and the section of the Programme Memorandum entitled ''*Subscription and Sale*'').

This document is directed only at persons who (i) are outside the United Kingdom or (ii) have professional experience in matters relating to investments or (iii) are persons falling within Articles 49(2)(a) to (d) (''high net worth companies, unincorporated associations etc.'') of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (all such persons being referred to as ''**relevant persons**''). This document must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this communication relates is available only to relevant persons and will be engaged in only with relevant persons.

The distribution of this document in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of U.S. securities laws or the laws of any such other jurisdictions.

The Notes will be issued in bearer form and therefore are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and the regulations promulgated thereunder.

Any prospective purchaser of the Notes should ensure that it understands the nature of the Notes and the extent of its exposure to risk and that it considers the suitability of the Notes as an investment in the light of its own circumstances and financial condition. In particular, the Notes are secured limited recourse securities, the value and return in respect of which is dependent on the performance of the Charged Assets. Accordingly, among other risks, investors will be exposed to the credit risk of the Charged Assets Issuer, the Charged Assets Guarantor and the terms of the Charged Assets. **Prospective purchasers of Notes must read all of this Prospectus (including the document annexed to this Prospectus and the Programme Memorandum incorporated by reference herein), paying particular attention to the section of this Prospectus entitled "Risk Factors" and the section of the offering memorandum relating to the Charged Assets annexed to, and forming part of, this Prospectus entitled "Risk Factors".**

Application has been made to the Irish Financial Services Regulatory Authority as the competent authority under the Prospectus Directive for this Prospectus to be approved. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List of the Irish Stock Exchange and to be admitted to trading on the regulated market of the Irish Stock Exchange.

All references in this Prospectus to ''**euro**'', ''**EUR**'' and ''**€**'' are to the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the Treaty on European Union (signed in Maastricht on 07 February 1992), as amended by the Treaty of Amsterdam (signed on 02 October 1997) and as amended by the Treaty of Nice (signed on 26 February 2001).

In connection with the issue of the Notes UBS Limited (the "Stabilising Manager") (or any persons acting on behalf of the Stabilising Manager) may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager (or persons acting on behalf of the Stabilising Manager) will undertake stabilisation action. Any stabilisation action, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes.

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RISK FACTORS

Investor Suitability

The purchase of the Notes may involve substantial risks. Each prospective purchaser of the Notes should be familiar with instruments having characteristics similar to the Notes and should fully understand the terms of the Notes and the nature and extent of its exposure to risk of loss.

Before making an investment decision, prospective purchasers of the Notes should conduct such independent investigation and analysis regarding the Issuer, the Charged Assets Issuer, the Charged Assets Guarantor and all other relevant persons and such market and economic factors as they deem appropriate to evaluate the merits and risks of an investment in the Notes. However, as part of such independent investigation and analysis, prospective purchasers of the Notes should consider carefully all the information set out in this Prospectus (including the offering memorandum in relation to the Charged Assets (the "**Charged Assets Information Memorandum**") annexed to, and forming part of, this Prospectus and the Programme Memorandum incorporated by reference into this Prospectus) and the considerations set out below.

Investment in the Notes is only suitable for investors who have the knowledge and experience in financial and business matters necessary to enable them to evaluate the information contained in this Prospectus (including the information annexed to and incorporated by reference in this Prospectus) and the merits and risks of an investment in the Notes in the context of the investor's own financial circumstances and investment objectives.

No assurance as to the availability of a secondary market for the Notes can be given. Prospective purchasers of the Notes should therefore recognise that they may not be able to make any transfer of the Notes for a substantial period of time, if at all. Investment in the Notes is therefore only suitable for investors who are capable of bearing the economic risk of an investment in the Notes for their full term and are not acquiring the Notes with a view to a potential resale, distribution or other disposition at some future date.

None of the Issuer, the Trustee or the Managers nor any affiliate of any of them or other person on their behalf has made any investigation of, or makes any representation or warranty, express or implied, as to (i) the credit quality or transferability of the Charged Assets, (ii) the existence or financial or other condition of the Charged Assets Issuer, the Charged Assets Guarantor or the Charged Assets or (iii) whether the Charged Assets constitute legal, valid and binding obligations of the Charged Assets Issuer and/or the Charged Assets Guarantor.

Investment Considerations Associated with the Charged Assets

The Charged Assets in respect of the Notes comprise unsecured €700,000,000 Guaranteed Subordinated Perpetual Fixed to Floating Rate Loan Notes issued by Swiss Life Insurance and Pension Company. The ability of the Issuer to meet its obligations under the Notes will be dependent upon the payment of interest and principal due on the Charged Loan Notes. Accordingly, Noteholders are exposed to, among other things, the terms of the Charged Loan Notes and the Charged Assets Guarantee and the creditworthiness of the Charged Assets Issuer in respect of the Charged Assets and the Charged Assets Guarantor in respect of the Charged Assets Guarantee. In particular, to the extent that the Charged Assets Issuer and/or the Charged Assets Guarantor is subject to any financial difficulties, laws relating to bankruptcy, moratorium, reorganisation or similar processes may apply which could result in the Charged Assets Issuer and/or the Charged Assets Guarantor defaulting or making partial payment on the Charged Loan Notes or, as the case may be, the Charged Assts Guarantee which will result in the Issuer being unable to meet its obligations under the Notes. The Charged Assets Information Memorandum, which is annexed to, and forms a part of, this Prospectus, and the risk factors set out in such document should be considered carefully in relation to the Notes.

Limited Recourse

The Notes constitute secured, limited recourse obligations of the Issuer, recourse in respect of which will be limited to payments under or, following an enforcement/realisation, the net proceeds of the Charged Assets and the other Mortgaged Property relating to the Notes in accordance with the applicable priority of payments and no other assets of the Issuer will be available to satisfy claims of Noteholders. In the event that such payments or net proceeds are insufficient to pay all amounts due under the Notes, such shortfall shall be borne by the Noteholders.

Debtor of the Notes

The sole debtor in respect of the Notes is the Issuer. The Notes are not obligations of, or guaranteed in any way by, the Charged Assets Issuer, the Charged Assets Guarantor or the Managers.

Reliance on Cashflows from Charged Assets

The payments made on the Charged Assets are the only source of payment on the Notes. The stated interest rate in respect of the Notes is 5.849% until 12 April 2017 and, thereafter, the Notes bear interest at a floating rate. However, interest will be payable under the Notes only to the extent that interest is paid under the terms of the Charged Assets. In particular, interest may be suspended and cancelled in certain circumstances pursuant to the terms of the Charged Assets, in which case the Issuer will not be able to pay interest under the Notes to the extent of such suspension and cancellation.

The terms of the Notes provide for capitalisation of unpaid interest. However, the terms of the Charged Assets do not provide for capitalisation of unpaid interest. Accordingly, while the amount of interest due under the Notes at any time may be greater than the amount of interest due under the Charged Assets as a result of capitalisation of unpaid interest, the Issuer's obligation in respect of interest shall be limited to no more than amounts of interest received by it from time to time under the Charged Assets at the time such amounts are received by the Issuer and all claims in respect of any such shortfall shall, upon redemption, be extinguished.

The Issuer will not have any source of income to fund principal other than principal amounts received by the Issuer under the Charged Assets. Accordingly, regardless of the outstanding principal amount of the Notes as at the final redemption date, the amount payable upon redemption of the Notes shall be equal to the amount payable upon redemption of the Charged Assets and the excess of the outstanding principal amount of the Notes over the redemption amount actually payable shall be written off and no Noteholder shall have any claim for such written-off amount.

Redemption of the Notes

The Notes are undated securities and, accordingly, there is no Maturity Date. However, the Notes will fall due for redemption by payment of an amount described above under "*Reliance on Cashflows from Charged Assets*" when the Charged Assets fall due for redemption. Prospective Noteholders should read the Charged Assets Information Memorandum and understand the circumstances in which the securities comprising the Charged Assets may fall due for redemption.

No Recourse against the Charged Assets Issuer or the Charged Assets Guarantor

An investment in the Notes is not the same as an investment directly in the Charged Assets. Investors in the Notes will not have rights in or against the Charged Loan Notes or the Charged Assets Guarantee and will have no recourse against the Charged Assets Issuer or the Charged Assets Guarantor. Investors must recognise that it is likely that the only assets which will be available to the Issuer to meet any claims against it by Noteholders will be the Charged Assets and the other Mortgaged Property in respect of the Notes. In particular, the proceeds of (i) the Managers' Security Interest (as defined in item 26(vi)(A) of the Terms of the Notes set out in this Prospectus) will, in the event that the Managers' Security Interest becomes enforceable, be held by the Trustee on behalf of the Managers and applied in respect of any Managers' Claims (also as defined in such item 26(vi)(A)) and (ii) the Charged Assets Obligors' Security Interest (as defined in item 26(vi)(B) of the Terms of the Notes set out in this Prospectus) will, in the event that the Charged Assets Obligors' Security Interest becomes enforceable, be held by the Trustee on behalf of the Charged Assets Issuer and the Charged Assets Guarantor and applied in respect of any Charged Assets Obligors' Claims (also as defined in such item 26(vi)(B)).

Furthermore, if the Charged Assets Issuer or the Charged Assets Guarantor should default in the performance of any of their respective obligations under the Charged Loan Notes and the Charged Assets Guarantee, no Noteholder shall be entitled to proceed against the Charged Assets Issuer or the Charged Assets Guarantor. In the event of a payment default under the Charged Loan Notes and the Charged Assets Guarantee then the Notes shall become due and repayable and security for the Notes shall become enforceable. Upon security becoming enforceable, the Trustee may in its discretion or as directed by holders of at least one-fifth in aggregate principal amount of the Notes or by an Extraordinary Resolution of Noteholders, on being indemnified and/or secured to its satisfaction, but without liability as to the consequence of such action and without having regard to the effect of such action on individual Noteholders, realise the Charged Assets and the other Mortgaged Property in respect of the Notes. In doing so, the Trustee may attempt to sell the Charged

Assets (as to which see applicable restrictions on transfers of Charged Assets under "*Transfer of Charged Assets*", below) or take such action as may be appropriate against the Charged Assets Issuer and/or the Charged Assets Guarantor. Any such action brought by the Trustee against the Charged Assets Issuer and/or the Charged Assets Guarantor shall be taken by the Trustee, acting as agent for the Issuer and not as trustee for the Noteholders and no Noteholder shall be entitled to give directions to the Trustee in relation to the manner in which any such action is pursued against the Charged Assets Issuer and/or the Charged Assets Guarantor. In no circumstances will any Charged Assets be delivered to any Noteholder.

If the Trustee fails to take enforcement action within a reasonable period of time, investors in the Notes will have no right to take possession of the Charged Assets or to take any action against the Charged Assets Issuer or the Charged Assets Guarantor. However, the Noteholders have the power, exercisable by Extraordinary Resolution, to remove the Trustee provided that a successor is appointed.

Transfer of Charged Assets

No assurance as to the availability of a liquid secondary market for the Charged Loan Notes can be given or as to the price at which they would be sold upon the security for the Notes becoming enforceable. In particular, certain transfer restrictions apply in respect of the Charged Assets which restrict their ownership to Qualifying Banks (as defined in the Charged Assets Information Memorandum) or one Permitted Non-Qualifying Lender (as defined in the Charged Assets Information Memorandum). The Issuer is currently the one Permitted Non-Qualifying Lender. The market value of the Charged Assets, if they were ever sold following the security for the Notes becoming enforceable, may be less than would be the case were the Charged Assets fully transferable.

Tender Offer/Exchange Offer

The terms of the Notes provide that in certain circumstances (as set out in the Special Conditions below) the Issuer may participate in a Tender Offer or an Exchange Offer (each, as defined in the Special Conditions below) with respect to the Charged Assets. If, in such circumstances, the Charged Assets Issuer and/or, as the case may be, the Charged Assets Guarantor defaults in the performance of its payment or delivery obligations under the terms of the Tender Offer or the Exchange Offer, then all the Notes will become subject to mandatory early redemption upon which the security for the Notes shall become enforceable. Accordingly, Noteholders must recognise that they will be exposed to the risk of default by the Charged Assets Issuer and/or, as the case may be, the Charged Assets Guarantor in respect of any such offer, regardless of whether or not they participate in an ELM Tender Offer or an ELM Exchange Offer (each, as defined in the Special Conditions below). Any ELM Tender Offer or ELM Exchange Offer is subject to any terms or conditions required by the Trustee and, for as long as the Notes are listed on the Official List of the Irish Stock Exchange and admitted to trading on the regulated market of the Irish Stock Exchange, all applicable rules and regulations of the Irish Stock Exchange.

Independent Review and Advice

Each prospective Noteholder must determine, based on its own independent review and such legal, business and tax advice as it deems appropriate under the circumstances, that its acquisition of the Notes (i) is fully consistent with its financial needs, objectives and condition, (ii) complies and is fully consistent with all investment policies, guidelines, authorisations and restrictions (including as to its capacity) applicable to it, (iii) has been duly approved in accordance with all applicable laws and procedures and (iv) is a fit, proper and suitable investment for it, undertaken for a proper purpose.

Legality of Purchase

None of the Issuer, the Trustee or the Managers or any affiliate of any of them or other person on their behalf has or assumes responsibility for the lawfulness of the acquisition of the Notes by a prospective purchaser of the Notes, whether under the laws of the jurisdiction of its incorporation or the jurisdiction in which it operates (if different), or for compliance by that prospective purchaser with any law, regulation or regulatory policy applicable to it.

No Reliance

The Issuer, the Trustee or the Managers and all affiliates of any of them disclaim any responsibility to advise purchasers of the Notes of the risks and investment considerations associated with the purchase of the Notes as they may exist at the date hereof or from time to time hereafter. Noteholders may not at any time rely on any of the Issuer, the Trustee or the Managers or any affiliate of any of them or any person on their behalf to monitor whether or not a default or an event or circumstances which, with the giving of notice, the passage of time or making of any determination, could constitute a default has occurred under the Charged Assets.

No Restrictions on Activities

Any of the Issuer, the Trustee or the Managers and any affiliate of any of them or other person on their behalf may have existing or future business relationships (including depository, lending, advisory or any other kind of commercial or investment banking activities or other business) with the Charged Assets Issuer or the Charged Assets Guarantor or any affiliate of the Charged Assets Issuer or the Charged Assets Guarantor and may purchase, sell or otherwise deal in any assets or obligations of, or relating to, any such party. Any of the Issuer, the Trustee or the Managers and any affiliate of any of them or other person on their behalf may act with respect to any such business, assets or obligations without regard to any possible consequences for the Charged Assets Issuer, the Charged Assets Guarantor, the Notes or any Noteholder (or the impact of any such dealing on the interests of any Noteholder) or otherwise.

Provision of Information

Any of the Issuer, the Trustee or the Managers or any affiliate of any of them or any other person acting on their behalf may at the date hereof or at any time hereafter be in possession of information in relation to the Charged Assets Issuer, the Charged Assets Guarantor or the Charged Assets (which may or may not be publicly available or confidential). None of such persons shall be under any obligation to make any such information available to Noteholders or any other party.

Taxation

Each Noteholder will assume and be solely responsible for any and all taxes of any jurisdiction or governmental or regulatory authority, including, without limitation, any state or local taxes or other like assessment or charges, that may be applicable to any payment to it in respect of the Notes. Neither the Issuer nor any other person will pay any additional amounts to the Noteholders to reimburse them for any tax, assessment or charge required to be withheld or deducted from payments in respect of the Notes by the Issuer or by the Principal Paying Agent, although such requirement will give rise to an obligation to redeem the Notes early in the circumstances described in the terms of the Notes.

Credit Ratings

The Notes and the Charged Assets are rated securities. Credit ratings of debt securities represent the rating agencies' opinions regarding their credit quality and are not a guarantee of quality. Rating agencies attempt to evaluate the safety of principal and interest payments and do not evaluate the risks of fluctuations in market value; therefore, credit ratings may not fully reflect the true risks of an investment. Rating agencies may fail to make timely changes in credit ratings in response to subsequent events, so that an issuer's current financial condition may be better or worse than a rating indicates. Rating agencies may change their rating methodology which could adversely affect the rating of the Notes.

Legal Opinions

Whilst legal opinions relating to the issue of the Notes have been obtained with respect to English law and Dutch law, no such opinions have been obtained with respect to any other applicable laws, including the laws of Switzerland or as to the validity, enforceability or binding nature of the securities comprising the Charged Assets as against the Charged Assets Issuer or the Charged Assets Guarantee as against the Charged Assets Guarantor.

TERMS OF THE NOTES

The Notes designated as above (the "**Notes**") shall have the following "**Terms**" which shall complete, modify and amend the Master Conditions (August 2006 Edition) (as set out in the Issuer's Programme Memorandum under the heading "Terms and Conditions of the Notes"), which shall apply to the Notes as so completed, modified and amended. References to "**Conditions**" or "**Condition**" shall, unless otherwise provided, mean references to the Terms and Conditions of the Notes. Unless the context otherwise requires, expressions used herein and not otherwise defined herein or in the Conditions shall have the meanings given to them in the terms and conditions of the Charged Assets.

1.	(i)	Issuer:	ELM B.V.
	(ii)	Arranger:	In relation to the Notes, there is no Arranger. Pursuant to a subscription agreement dated 4 April 2007 (the "**Subscription Agreement**") between Bayerische Landesbank, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, London Branch, Goldman Sachs International, HSBC Bank PLC and UBS Limited (the "**Managers**") and the Issuer, the Managers have agreed, subject to the satisfaction of certain conditions, to subscribe for the Notes at the Issue Price. Each reference in the Conditions to the Arranger shall be construed as a reference to the Managers.
2.	(i)	Series Number:	100.
	(ii)	Tranche Number:	Not applicable.
3.	Principal Amount:		The principal amount of the Notes is EUR 700,000,000.
4.	Issue Price:		100.00 per cent.
5.	Net proceeds:		EUR 696,500,00.
6.	Authorised Denomination:		EUR 50,000.
7.	(i)	Issue Date:	12 April 2007.
	(ii)	Interest Commencement Date:	Issue Date.
8.	Maturity Date:		The Notes are undated securities and, accordingly, there is no Maturity Date. The Notes shall be redeemed on the Business Day next following the redemption of the Charged Loan Notes for an amount equal to their outstanding principal amount together with accrued interest on the Notes up to the redemption date of the Charged Loan Notes; provided always that, on the date on which the Notes are due to be redeemed, the aggregate outstanding principal amount of the Notes shall be an amount equal to the amount of principal payable under the Charged Loan Notes minus an amount equal to the difference between (i) the accrued interest due on the Notes on the relevant redemption date and (ii) the accrued interest due on the Charged Loan Notes on their relevant redemption date, and the outstanding principal amount of each Note shall be adjusted proportionately.
9.	Interest Basis:		Fixed Rate as provided in item 12 below in respect of the period from and including the Issue Date, to but excluding 12 April 2017 and thereafter Floating Rate as provided in item 13 below.
10.	Status of the Notes:		
	(i)	Status of the Notes:	Secured and limited recourse obligations of the Issuer ranking *pari passu* without any preferences amongst themselves secured as set out under Security below and subject to the priority set out under Priority below. *(See also, in particular, Condition 10 as set out in the Programme Memorandum incorporated by reference herein).*

	(ii) Priority:	Noteholder Priority (*see Condition 4(d)).* For the avoidance of doubt, Noteholder Priority shall only apply in relation to the application of the proceeds of enforcement of the security for the Notes and shall not apply to the application of the proceeds of enforcement of the Managers' Security Interest or the Charged Assets Obligors' Security Interest (each as defined in item 26(vi) below). The proceeds of enforcement of the Managers' Security Interest shall be applied first in meeting the expenses and remuneration and any other amounts due to the Trustee (both in its capacity as trustee of the Managers and the Noteholders and in its capacity as agent of the Issuer in the circumstances described in item 26(vi)(C) below) including in respect of any liabilities incurred, or to any receiver appointed pursuant to the relevant Constituting Instrument including in respect of any liabilities incurred and thereafter in meeting the claims of the Managers under the Subscription Agreement. The proceeds of enforcement of the Charged Assets Obligors' Security Interest shall be applied first in meeting the expenses and remuneration and any other amounts due to the Trustee (both in its capacity as trustee of the Charged Assets Obligors (as defined in item 26(vi) below) and the Noteholders and in its capacity as agent of the Issuer in the circumstances described in item 26(vi)(C) below) including in respect of any liabilities incurred, or to any receiver appointed pursuant to the relevant Constituting Instrument including in respect of any liabilities incurred and thereafter in meeting the claims of the Charged Assets Obligors under the Purchase Agreement.
11.	Listing:	Application has been made to the Irish Financial Services Regulatory Authority, as competent authority under the Prospectus Directive, for the Prospectus to be approved. Application has been made to the Irish Stock Exchange for the Notes to be admitted to the Official List and traded on its regulated market.
12.	Fixed Rate Provisions:	Applicable in respect of the Interest Payment Dates specified below.
	(i) Interest Rate:	5.849 per cent. per annum.
	(ii) Interest Payment Dates:	12 April in each year, commencing 12 April 2008 to and including 12 April 2017, each such date subject to adjustment in accordance with the Business Day Convention; provided that each Interest Amount shall not actually be payable until the Business Day immediately following each Interest Payment Date.
	(iii) Calculation Amount:	In respect of each Note and an Interest Period, the outstanding principal amount of such Note on the last day of such Interest Period.
	(iv) Relevant Business Day:	A day (other than a Saturday or a Sunday) on which commercial banks are open for business in London and Zurich and which is a TARGET Business Day (each, a "**Business Day**"). "**TARGET Business Day**" means a day on which the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) system is available for settlement of euro payments.
	(v) Day Count Fraction:	The Day Count Fraction shall be determined in the same manner as that used to determine the Fixed Rate of Interest in Condition 3(a)(ii) of the terms and conditions of the Charged Loan Notes.
	(vi) Business Day Convention:	Following Business Day Convention; provided that no Interest Period shall be adjusted even if a relevant Interest Payment Date is so adjusted.

	(vii)	Other terms relating to the method of calculating interest for Notes for the period during which the Interest Basis is Fixed Rate:	The Interest Amount shall be calculated in accordance with the Conditions and the Fixed Rate Note provisions set out above, save to the extent that the Issuer receives an amount of interest under the Charged Assets (in accordance with the terms and conditions of the Charged Assets) which is payable on an Interest Payment Date and which is less than the aggregate of the Interest Amounts due on each Note with respect to such Interest Payment Date, in which case the aggregate Interest Amount shall be such lesser amount. An amount equal to the difference between the aggregate Interest Amount as calculated in accordance with the Conditions and the Fixed Rate Note provisions and the aggregate Interest Amount actually paid to the Noteholders with respect to such Interest Payment Date shall, as of such Interest Payment Date, be added to the aggregate outstanding principal amount of the Notes.
13.	Floating Rate Provisions:		Applicable in respect of the Interest Payment Dates specified below.
	(i)	Interest Payment Dates:	12 April, 12 July, 12 October and 12 January in each year commencing 12 July 2017, each such date subject to adjustment in accordance with the Business Day Convention; provided that each Interest Amount shall not actually be payable until the Business Day immediately following each Interest Payment Date.
	(ii)	Business Day Convention:	Modified Following Business Day Convention (where ‘‘**Relevant Business Day**’’ shall have the same meaning as set out in item 12(iv) above).
	(iii)	Manner in which the Interest Rate is to be determined:	The Interest Rate shall be comprised of the Benchmark and the Spread (each, as set out below). If the Benchmark does not appear on the Relevant Screen Page on the relevant Interest Determination Date, the Calculation Agent will: (a) Request the principal euro-zone office of each of four banks in the Relevant Financial Centre (whose offered rates were used to determined the quotation when such quotation last appeared on the Relevant Screen Page) (the ‘‘**Reference Banks**’’) to provide a quotation of the rate at which deposits in euros are offered by it at approximately 11:00 am (Brussels time) on the Interest Determination Date to prime banks in the euro-zone interbank market for a period of three months commencing on the first day of the relevant Interest Period and in an amount that is representative for a single transaction in the market at that time; and determine the arithmetic mean of such quotations to the nearest 5 decimal places (with 0.00005 being rounded upwards). (b) If fewer than two quotations are provided as requested, the Calculation Agent will request the principal euro-zone office of each of the Reference Banks to provide quotations offered to such Reference Bank by leading banks in the euro-zone market at approximately 11:00 am (Brussels time) on such Interest Determination Date for loans in euros for a period of three months commencing on the first day of the relevant Interest Period and in an amount that is representative for a single transaction in the relevant market at that time.

		(c) If fewer than two quotations of offered rates are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates quoted by banks in the euro-zone (selected on the basis of Calculation Agent's opinion that such banks are suitable for such purpose) at approximately 11:00 am (Brussels time) on such Interest Determination Date for loans in euros to leading banks in the euro-zone market, or the Calculation Agent, for a period of three months commencing on the first day of the relevant Interest Period and in an amount that is representative for a single transaction in the relevant market at that time.
		(d) If the Calculation Agent is unable to determine an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Benchmark during such Interest Period will be the offered rate for deposits in euros with a designated maturity of three months which appears on the Relevant Screen Page as of 11:00 am (Brussels time) on the last day such Page is available prior to the relevant Interest Determination Date.
(iv)	Calculation Amount:	In respect of each Note and an Interest Period, the outstanding principal amount of such Note on the last day of such Interest Period.
(v)	If Screen Rate Determination:	Applicable. The ''**Relevant Screen Page**'' is (A) Reuters Screen EURIBOR01 Page on the Reuters Service; (B) such other page as may replace that page on that service for the purpose of displaying such information; or (C) if that service ceases to display such information, such page as displays such information on such service (or, if more than one, that one selected at the discretion of the Calculation Agent) as may replace the Reuters Screen EURIBOR01 Page. The ''**Benchmark**'' is three month EURIBOR, being the offered rate for deposits in euros with a designated maturity of three months which appears on the Relevant Screen Page as of 11:00 am (Brussels time) on the relevant Interest Determination Date. The ''**Interest Determination Date**'' is the second TARGET Business Day prior to the commencement of each Interest Period or, in the case of the first Interest Period under these Floating Rate Provisions, 12 April 2017.
(vi)	Spread:	2.50 per cent. per annum (which includes a 100 basis point step-up above the original issue margin).
(vii)	Spread Multiplier:	Not applicable.
(viii)	Minimum Interest Rate:	Not applicable.
(ix)	Maximum Interest Rate:	Not applicable.
(x)	Relevant Financial Centre:	The euro-zone interbank market, where ''**euro-zone**'' means the region comprised by the member states of the European Union that adopted the single currency in accordance with the EC Treaty.
(xi)	Day Count Fraction:	Actual/360.

	(xii) Other terms relating to the method of calculating interest for Notes for the period during which the Interest Basis is Floating Rate:	The Floating Amount shall be calculated in accordance with the Floating Rate Note provisions set out above, save to the extent that the Issuer receives an amount of interest under the Charged Assets (in accordance with the terms and conditions of the Charged Assets) which is payable on an Interest Payment Date and which is less than the aggregate of the Interest Amounts due on each Note with respect to such Interest Payment Date, in which case the aggregate Interest Amount shall be such lesser amount. An amount equal to the difference between the aggregate Interest Amount as calculated in accordance with the Conditions and the Floating Rate Note provisions and the aggregate Interest Amount actually paid to the Noteholders with respect to such Interest Payment Date shall, as of such Interest Payment Date, be added to the aggregate outstanding principal amount of the Notes.
14.	Zero Coupon Note provisions:	Not applicable.
15.	Dual Currency Note Provisions:	Not applicable.
16.	Variable Coupon Amount Note Provisions:	Not applicable.
17.	Call/Put Option:	Not applicable.
18.	Redemption Amount:	An amount equal to the Authorised Denomination of each Note, subject as provided in item 8 above.
19.	Mandatory Redemption:	Condition 7(b)(1) shall apply, but shall be amended and restated so as to state ''there is a payment default under the Charged Loan Notes and the Charged Assets Guarantee; or''
20.	Redemption Amount on redemption for taxation:	Condition 7(c) shall apply.
21.	Form of Notes:	Bearer Notes: TEFRA D.
	(i) The Notes will initially be represented by:	Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note.
	(ii) Registered Notes:	Not applicable.
22.	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	Not applicable.
23.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	No.
24.	Details relating to Instalment Notes: amount of each instalment, date on which each payment is to be made:	Not applicable.
25.	Redenomination applicable:	Not applicable.
26.	Security:	
	(i) Charged Assets:	€700,000,000 Guaranteed Subordinated Perpetual Fixed to Floating Rate Loan Notes (the ''**Charged Loan Notes**'') issued by Swiss Life Insurance and Pension Company (the ''**Charged Assets Issuer**''), guaranteed on a subordinated basis by Swiss Life Holding (in such capacity, the ''**Charged Assets Guarantor**'') pursuant to a guarantee dated 12 April 2007 (the ''**Charged Assets Guarantee**'').

		(The Charged Assets are not listed on any stock exchange. The ordinary shares of the Charged Assets Guarantor are admitted to trading on the EU Regulated Market segment of virt-x. The name, address, country of incorporation and nature of business of the Charged Assets Issuer and the Charged Assets Guarantor are stated in the Charged Assets Information Memorandum which is annexed hereto.)
		The Custodian (which shall initially be UBS AG) is required at all times to be an OECD bank or other financial institution with a rating in respect of its short-term unsecured, unsubordinated and unguaranteed debt obligations of no less than A-1 from Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. (''**S&P**'') and no less than P-1 from Moody's Investor Services, Inc. (''**Moody's**'').
(ii)	Charging Instrument:	Not applicable.
(iii)	Depositary Account:	Each account of the Custodian in which the Charged Assets are held from time to time.
(iv)	Charged Agreement:	No.
(v)	Swap Counterparty:	Not applicable.
(vi)	Other Security:	(A) Pursuant to the Trust Deed in relation to the Notes, the Issuer will assign by way of security in favour of the Trustee for itself and as trustee for the Managers all of the Issuer's rights against the Charged Assets Issuer and the Charged Assets Guarantor (together, the ''**Charged Assets Obligors**'') under the purchase agreement (the ''**Purchase Agreement**'') between the Issuer and the Charged Assets Obligors relating to the purchase of the Charged Assets by the Issuer and will charge the proceeds of enforcement of any claim under the Purchase Agreement (such security, the ''**Managers' Security Interest**''). The Manager's Security Interest is granted to the Trustee to hold for itself and as trustee for the Managers as continuing security in respect of any claim the Managers may have (the ''**Managers' Claim**'') against the Issuer under the Subscription Agreement arising from any representation, warranty, covenant or agreement given therein by the Issuer regarding the Charged Assets, the Charged Assets Obligors and the part of the Prospectus for the Notes comprising the Charged Assets Information Memorandum. Enforcement of the Managers' Security Interest shall, subject to and in accordance with the terms of the Trust Deed, take effect only in the manner described in paragraph (C) below.
		(B) Pursuant to the Trust Deed in relation to the Notes, the Issuer will assign by way of security in favour of the Trustee for itself and as trustee for the Charged Assets Obligors all of the Issuer's rights against the Managers under the Subscription Agreement and will charge the proceeds of enforcement of any claim under the Subscription Agreement (such security, the ''**Charged Assets Obligors' Security Interest**''). The Charged Assets Obligors' Security Interest is granted to the Trustee to hold for itself and as trustee for the Charged Assets Obligors as continuing security in respect of any claim the Charged Assets Obligors may have (a ''**Charged Assets Obligors' Claim**'') against the Issuer under the Purchase Agreement. Enforcement of the Charged Assets Obligors' Security Interest shall, subject to and in accordance with the terms of the Trust Deed, take effect only in the manner described in paragraph (C) below.

		No Noteholder shall have any interest in the Managers' Security Interest or the Charged Assets Obligors' Security Interest. If the Managers' Security Interest or the Charged Assets Obligors' Security Interest becomes enforceable, the security for the Notes shall not consequentially become enforceable and the Notes shall not be affected thereby and shall accordingly remain outstanding. (C) Any action which the Trustee takes against the Charged Assets Issuer and/or the Charged Assets Guarantor upon the security for the Notes or the Managers' Security Interest becoming enforceable or against the Managers upon the Charged Assets Obligors' Security Interest becoming enforceable shall be taken by the Trustee in its capacity as agent for the Issuer and not as trustee for the Noteholders, the Managers or the Charged Assets Obligors, as the case may be. Pursuant to the Trust Deed, the Issuer has appointed the Trustee as its agent for such purposes. Consequently, the Issuer has assigned by way of security in favour of the Trustee for itself and as trustee for the Noteholders, the Managers and the Charged Assets Obligors all of the Issuer's rights against the Trustee (in its capacity as the Issuer's agent) pursuant to the Trust Deed. Such security is granted to the Trustee to hold for itself and as trustee for the Noteholders as continuing security for the payment of interest and principal on the Notes, for the Managers as continuing security for the Managers' Claim and for the Charged Assets Obligors as continuing security for the Charged Assets Obligors' Claim. (D) The net proceeds of the issue of the Notes shall be credited to an account (the ''**Custody Cash Account**'') of the Issuer with the Custodian pending application on or about the Issue Date towards payment of the purchase price by the Charged Assets Issuer. The Issuer will, pursuant to the Trust Deed in relation to the Notes, create a charge over, and assign by way of security its rights against the Custodian in respect of, the Custody Cash Account in favour of the Trustee for itself and as trustee for the Noteholders.
27.	Securities Lending Agreement:	No.
28.	Additional selling restrictions:	The applicable selling restrictions are as set out in ''Subscription and Sale'' below and in the Programme Memorandum. In the event of any inconsistency, the selling restrictions set out in ''Subscription and Sale'' shall prevail.
29.	Rating:	It is a condition to the issuance of the Notes that they receive a rating at the time of issuance from S&P of at least BBB.
30.	ISIN Code:	XS0295383524
31.	Common Code:	29538352
32.	Alternative Clearing System:	Not applicable.
33.	Delivery:	Delivery against payment.
34.	Principal Paying Agent:	UBS AG, London Branch.
35.	Sub-Custody:	Not applicable.
36.	Calculation Agent:	UBS Limited or any successor thereof. All determinations made by the Calculation Agent hereunder shall, in the absence of manifest error, wilful default or bad faith, be final and conclusive, and the Calculation Agent shall have no liability to the Issuer, the Noteholders or any third party in relation to such determinations. Nothing contained herein shall prevent the Calculation Agent from dealing in these Notes or from entering into any transactions, including without limitation any swap or hedging transactions with the Charged Assets Issuer.

37.	Exchange of Permanent Global Note:	Provided that certification of non-U.S. beneficial ownership has been received by Euroclear or Clearstream, Luxembourg the Permanent Global Note will be exchangeable, in whole but not in part, for definitive Bearer Notes if: (i) Euroclear or Clearstream, Luxembourg or other clearing system in which the Permanent Global Note is for the time being deposited is closed for business for a period of 14 days (other than by reason of holidays statutory or otherwise) or announces an intention permanently to cease business or to make its book-entry system available for settlement of beneficial interests in such Permanent Global Note or does in fact do either of such things and no alternative clearing system, satisfactory to the Trustee and the Principal Paying Agent (after consultation with the Issuer) is available, or (ii) the Notes become due and payable in accordance with Condition 9 and payment is not made on due presentation of the Permanent Global Note for payment.
38.	PMP Redemption Event under Condition 7(k):	Not applicable.

Special Condition: Tender Offers and Exchange Offers

The Issuer may at any time make an offer to purchase the Notes for cash consideration (an "**ELM Tender Offer**") or to exchange the Notes for non-cash assets (an "**ELM Exchange Offer**"). Any ELM Tender Offer or ELM Exchange Offer may only be made on a limited recourse basis and the Issuer shall not make an ELM Tender Offer or an ELM Exchange Offer without first having entered into an agency agreement with an agent to act as tender agent or, as the case may be, exchange agent for the Issuer in connection with the ELM Tender Offer or the ELM Exchange Offer and without first being satisfied that its costs and expenses in connection with the same will be met. Furthermore, any ELM Tender Offer or ELM Exchange Offer shall be subject to any terms or conditions required by the Trustee and shall, for as long as the Notes are listed on the Official List of the Irish Stock Exchange and admitted to trading on the regulated market of the Irish Stock Exchange, be in accordance with all applicable rules and regulations of the Irish Stock Exchange.

If at any time the Charged Assets Issuer and/or the Charged Assets Guarantor makes an offer to the Issuer, or the Custodian on behalf of the Issuer, to purchase the Charged Assets for cash consideration (a "**Tender Offer**") or for non-cash assets (an "**Exchange Offer**"), then the Issuer shall not accept such Tender Offer or Exchange Offer, and the Trustee shall not be permitted to release the security created over the Charged Assets pursuant to the Trust Deed, other than in accordance with this paragraph. The Trustee shall release the security created over the Charged Assets to the extent Noteholders accept an ELM Tender Offer or an ELM Exchange Offer, which the Issuer shall make, subject as provided in the previous paragraph, upon such occurrence unless, in the reasonable opinion of the Issuer, the Issuer would be materially disadvantaged by the same.

The occurrence of any default by the Charged Assets Issuer and/or, as the case may be, the Charged Assets Guarantor in respect of any payment or delivery obligation under a Tender Offer or an Exchange Offer, shall be an Additional Mandatory Redemption Event for the purposes of Condition 7(b)(3).

USE OF PROCEEDS

The net proceeds from the issue of the Notes (amounting to € 696,500,000) will be applied by the Issuer to finance the purchase price for the Charged Assets.

SWISS TAXATION

General

The following summary does not purport to address all tax consequences of the acquisition, ownership and disposal of Notes, and does not take into account the specific circumstances of any particular investor. This summary is based on the tax laws, regulations and regulatory practices of Switzerland, as in effect on the date hereof, which are subject to change (or subject to changes in interpretation), possibly with retroactive effect and a tax ruling with the Swiss federal tax administration, and assumes, as confirmed in a Swiss federal tax ruling, residence and effective management of the Issuer outside Switzerland.

Noteholders or prospective Noteholders are advised to consult their own tax advisers in light of their particular circumstances as to the Swiss tax laws, regulations and regulatory practices that could be relevant for them in connection with acquiring, owning and disposing of Notes and receiving interest, principal or other payments on the Notes and the consequences of such events under the tax laws, regulations and regulatory practices of Switzerland.

Withholding Tax

Interest, principal and other payments on the Notes will not be subject to Swiss Withholding Tax (*Verrechnungssteuer*).

Stamp Taxes

The issuance of the Notes will not be subject to Swiss Issuance Stamp Tax (*Emissionsabgabe*) and the issuance of the Notes to the original Noteholders at the original offering price will not be subject to Swiss Securities Turnover Tax (*Umsatzabgabe*). Subsequent dealings in the Notes where a bank or another securities dealer in Switzerland (as defined in the Swiss Federal Stamp Tax Act) acts as an intermediary, or is a party, to the transaction, may be subject to Swiss Securities Turnover Tax at an aggregated rate of up to 0.3 percent of the purchase price of the Notes.

Swiss Federal, Cantonal and Communal Income Taxation

Non-Resident Noteholders

Payments on the Notes to a Noteholder who is not resident in Switzerland for tax purposes, and who, during the relevant taxation year, has not engaged in a trade or business through a permanent establishment or fixed place of business in Switzerland for tax purposes, and who is not subject to corporate or individual income taxation in Switzerland for any other reason will not be subject to any Swiss federal, cantonal or communal income tax, capital tax or wealth tax.

Resident Noteholders and Noteholders with a Trade or Business in Switzerland

Noteholders who hold Notes as part of a trade or business in Switzerland for tax purposes, in the case of residents abroad carried on through a permanent establishment or a fixed place of business, are required to recognize payments on the Notes and capital gains or losses realized on the disposal of Notes in their income statement for the respective taxation period and are subject to Swiss federal, cantonal and communal corporate or individual income tax, as the case may be, on any net taxable income (including payments on the Notes and capital gains or losses realized on the disposal of Notes) for such taxation period. The same taxation treatment also applies to Swiss-resident private individuals who, for income tax purposes, are classified as "professional securities dealers" for reasons of, *inter alia,* frequent dealing, or leveraged investments, in securities.

Private individuals resident in Switzerland and holding Notes as part of their private fortune, are required to include interest payments (but not repayment of principal) on the Notes in their personal income tax return and are subject to Swiss federal, cantonal and communal income tax on any net taxable income (including interest payments (but not repayment of principal) on the Notes) for the relevant taxation period. For private individuals capital gains resulting from the disposal of Notes are not subject to Swiss federal, cantonal and communal income tax; this is also the case for accrued interest. Capital losses are not tax-deductible. Swiss resident private individuals who hold the Notes as part of their private fortune are required to report their Notes as part of their taxable wealth and will be subject to cantonal and communal wealth tax, provided that their net taxable wealth (including the Notes) exceeds applicable allowances or levels.

SUBSCRIPTION AND SALE

The Managers have in the subscription agreement (the "**Subscription Agreement**") dated 4 April 2007 agreed with the Issuer, subject to the satisfaction of certain conditions, to subscribe for the Notes at 100 per cent. of their principal amount. The Subscription Agreement entitles the Manager acting together to terminate it in certain circumstances.

United States

The Notes have not been and will not be registered under the U.S. Securities Act of 1933 (the "**Securities Act**"), as amended and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons unless the Notes are registered under the Securities Act or an exemption from the registration requirements of the Securities Act is available. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes will be issued in bearer form and therefore are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the completion of the distribution of all the Notes, in either case within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each distributor, dealer or person receiving a selling commission, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

Until 40 days after the commencement of the offering of the Notes, an offer or sale of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

United Kingdom

Each Manager has represented and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") received by it in connection with the issue or sale of any Notes in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to such Notes in, from or otherwise involving the United Kingdom.

General

No action has been taken by the Issuer or the Managers that would, or is intended to, permit a public offer of the Notes in any country or jurisdiction where any such action for that purpose is required. Accordingly, each Manager has undertaken that it will not, directly or indirectly, offer or sell any Notes or distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

GENERAL INFORMATION

1. **Authorisation**

   The Issuer has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes. The issue of the Notes was duly authorised by a resolution of the board of directors of the Issuer dated 4 April 2007.

2. **Listing of the Notes**

   Application has been made for the Notes to be admitted to the Official List of the Irish Stock Exchange and to be admitted to trading on the regulated market of the Irish Stock Exchange.

3. **Significant or Material Change**

   There has been no significant change in the financial or trading position of the Issuer since the date of its incorporation and there has been no material adverse change in the financial position or prospects of the Issuer since such date.

4. **Litigation**

   There are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer is aware) which may have or have had since the date of its incorporation a significant effect on the financial position of the Issuer.

5. **Paying Agent in Ireland**

   The Paying Agent in Ireland through which payments are made is HSBC Institutional Trust Services (Ireland) Limited, whose office is set out on the back page hereof.

6. **Irish Listing Agent**

   Arthur Cox Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the official list of the Irish Stock Exchange or to trading on the Irish Stock Exchange for the purposes of the Prospectus Directive. The address of Arthur Cox Listing Services Limited is set out on the back page hereof.

7. **Documents Available**

   For as long as the Notes are listed on the Irish Stock Exchange, copies of the following documents will be available for inspection by physical means during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) at the registered office of the Issuer, the specified office of the Principal Paying Agent in London and the specified office of the Irish Paying Agent for so long as any of the Notes shall remain outstanding:

   (i) this Prospectus and the Programme Memorandum;

   (ii) the Constituting Instrument dated 12 April 2007; and

   (iii) the Articles of Incorporation of the Issuer.

8. **The Trustee**

   The Trustee will represent the Noteholders in accordance with the Trust Deed comprising the Master Trust Terms and the Constituting Instrument referred to above. The security granted by the Issuer in respect of the Notes is granted in favour of the Trustee who holds such security on trust for the Noteholders in accordance with the Trust Deed, including the order of priorities specified therein and herein. The Trustee is entitled to exercise certain powers, trusts, authorities and discretions in accordance with the Trust Deed.

9. **Clearing Systems and Settlement**

   The Notes have been accepted for clearance through Euroclear, Clearstream, Luxembourg or such other clearing system approved by the Issuer and the Trustee. The common code and ISIN for the Notes, will be 29538352 and XS0295383524 respectively.

10. **Estimated total expenses**

The Arranger has agreed to take responsibility for the expenses relating to the admission to trading and therefore the cost of such expenses to the issuer is nil.

11. **Post Issuance Reporting**

The Issuer does not intend to provide post-issuance transaction information.

ANNEX

Charged Assets Information Memorandum

Information Memorandum dated 4 April 2007

SwissLife

Swiss Life Insurance and Pension Company

€700,000,000

Guaranteed Subordinated Perpetual Fixed to Floating Rate Loan Notes

guaranteed on a subordinated basis by

Swiss Life Holding

The €700,000,000 5.849 per cent. Guaranteed Subordinated Perpetual Fixed to Floating Rate Loan Notes (the ''Loan Notes'') will be issued by Swiss Life Insurance and Pension Company (the ''Issuer'' or ''Swiss Life/Rentenanstalt'') on 12 April 2007 (the ''Issue Date'') and guaranteed on a subordinated basis by Swiss Life Holding (the ''Guarantor'' or ''Swiss Life Holding''). Initially, only one Loan Note will be issued in this issue (the ''Loan Notes Issue'').

The Loan Notes have no final maturity date. The Issuer may redeem the Loan Notes in whole but not in part at their principal amount, together with any accrued interest, on 12 April 2017 (the ''First Optional Redemption Date'') and on each Floating Interest Payment Date (as defined in Condition 3(b) of the terms and conditions of the Loan Notes (the ''Conditions'')) thereafter. The Issuer may also redeem the Loan Notes in whole but not in part upon the occurrence of a Recalculation of Interest Event or a Special Tax Event (each as defined in the Conditions, and referred to collectively as a ''Par Redemption Event'') or upon the occurrence of an Accounting Event, a Regular Tax Event or a Regulatory Event (each as defined in the Conditions, and referred to collectively as a ''Make Whole Redemption Event''). A redemption upon the occurrence of a Par Redemption Event will be at the principal amount of the Loan Notes, together with any accrued interest. A redemption upon the occurrence of a Make Whole Redemption Event will be at the higher of (i) the Make Whole Amount (as defined in the Conditions) and (ii) the principal amount of the Loan Notes, in either case, together with any accrued and unpaid interest through and including the redemption date. In the case of any redemption, the Issuer may call and redeem the Loan Notes only if the Swiss Federal Office of Private Insurance (''FOPI''), any successor to the FOPI or any other authority or successor authority that has regulatory jurisdiction over Issuer, the Guarantor and/or the Swiss Life group's operations (collectively a ''Successor Authority'') has given (and has not subsequently withdrawn) its consent to the redemption, to the extent such consent is required, or otherwise has not objected to the redemption, all as more fully described in the Conditions.

The Loan Notes will bear interest at (i) a fixed rate of 5.849 per cent. per annum from and including 12 April 2007 until and excluding the First Optional Redemption Date payable annually in arrears on 12 April in each year commencing on 12 April 2008, and (ii) a floating rate equal to the sum of the three month EURIBOR plus the Margin of 2.50 per cent. per annum from and including the First Optional Redemption Date payable quarter-annually in arrears on each 12 April, 12 July, 12 October and 12 January thereafter. Under certain circumstances described in Condition 4 of the Conditions, the Issuer may elect, or be required, to suspend interest payments on the Loan Notes. Interest payments so suspended will be cancelled and will not accumulate.

The Loan Notes constitute direct, unsecured, subordinated and perpetual obligations of the Issuer and rank equally without any preference among themselves and any other future unsecured, subordinated perpetual obligations of the Issuer (whether actual or contingent) outstanding from time to time ranking, or expressed to rank, equally with the obligations of the Issuer under the Loan Notes, except that the Loan Notes will rank senior to any debt or other obligation of the Issuer that is expressly or by applicable law subordinated to the Loan Notes. In the event of the liquidation, dissolution or winding-up of the Issuer, the claims of the Loan Noteholders against the Issuer in respect of payments of principal of, and interest on, the Loan Notes will be subordinated in right of payment to the claims of all Senior Creditors (as defined in Condition 2(d)) of the Issuer, but will be paid in priority to any debt or other obligation of the Issuer that is expressly or by applicable law subordinated to the Loan Notes and to distributions to all classes of equity of the Issuer. The Guarantor has given an unconditional and irrevocable guarantee on a subordinated basis for the due payment of principal of, and interest on and any premium, and any other amounts expressed to be payable by the Issuer under the Loan Notes (the ''Guarantee'') in accordance with Article 111 of the Swiss Federal Code of Obligations, irrespective of the validity of the Loan Notes and has waived all rights of objection and defence arising from the Loan Notes. In the event of the liquidation, dissolution or winding-up of the Guarantor, the claims of the Loan Noteholders under the Guarantee will be subordinated in right of payment to the claims of all Senior Creditors of the Guarantor, but will be paid in priority to any debt or other obligation of the Guarantor that is expressly or by applicable law subordinated to the Guarantee and to distributions to all classes of equity of the Guarantor.

The Loan Notes will be represented by a definitive certificate in registered form. The Loan Notes will not be listed on any securities exchange.

The Loan Notes are expected to be assigned on issue a rating of BBB by Standard & Poor's.

The Loan Notes have not been, and will not be, registered under the U.S. Securities Act of 1933 (the "Securities Act"). The Loan Notes are only being offered outside the United States in accordance with Regulation S promulgated under the Securities Act. The Loan Notes are subject to significant restrictions on transfer.

Each investor contemplating purchasing the Loan Notes should make its own independent investigation of the financial condition and affairs of the Issuer and the Guarantor, and its own appraisal of the creditworthiness of the Issuer and the Guarantor. **See "Risk Factors" for a discussion of certain factors that should be considered by prospective investors.** No person has been authorised to give any information or to make any representation other than those contained in this Information Memorandum in connection with the issue or sale of the Loan Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer and the Guarantor.

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DOCUMENTS INCORPORATED BY REFERENCE

Each document incorporated herein by reference is current only as at the date of such document, and the incorporation by reference of such documents shall not create any implication that there has been no change in the affairs of the Issuer, the Guarantor or the Swiss Life Group, as the case may be, since the date thereof or that the information contained therein is current as at any time subsequent to its date. Any statement contained therein shall be deemed to be modified or superseded for the purposes of this Information Memorandum to the extent that a subsequent statement contained herein modifies or supersedes that statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Information Memorandum.

The following documents shall be incorporated herein by reference:

- *The consolidated audited statutory financial statements of the Swiss Life Group (including the notes thereto and the auditors' reports) as at, and for the years ended 31 December 2006 and 2005.*

Documents incorporated by reference into this Information Memorandum will, for so long as the Loan Notes are outstanding, be available for inspection at the specified office of the Issuer and the Guarantor, respectively.

Prospective investors are advised to obtain and read the documents incorporated by reference herein before making their investment decision in relation to the Loan Notes.

OVERVIEW OF THE TERMS AND CONDITIONS OF THE LOAN NOTES

This overview should be read as an introduction to the Information Memorandum. Holder of Loan Notes should read the entire Information Memorandum carefully, including the sections "Risk Factors", the "Description of the Swiss Life Group", "Selected Financial Data" and the documents incorporated by reference into this Information Memorandum.

Issuer	Swiss Life Insurance and Pension Company
Guarantor	Swiss Life Holding
Securities	5.849 per cent. Guaranteed Subordinated Perpetual Fixed to Floating Rate Loan Notes
Status of the Loan Notes	The Loan Notes constitute direct, unsecured, subordinated and perpetual obligations of the Issuer and rank equally without any preference among themselves and any other future unsecured, subordinated perpetual obligations of the Issuer (whether actual or contingent) outstanding from time to time ranking, or expressed to rank, equally with the obligations of the Issuer under the Loan Notes, except that the Loan Notes will rank senior to any debt or other obligation of the Issuer that is expressly or by applicable law subordinated to the Loan Notes. In the event of the liquidation, dissolution or winding-up of the Issuer, the claims of the Loan Noteholders against the Issuer in respect of payments of principal of, and interest on, the Loan Notes will be subordinated in right of payment to the claims of all Senior Creditors (as defined below) of the Issuer, but will be paid in priority to any debt or other obligation of the Issuer that is expressly or by applicable law subordinated to the Loan Notes and to distributions to all classes of equity of the Issuer. No security (except for the Guarantee with respect to the Loan Notes) of whatever kind is, or will at any time be, provided by the Issuer or any other person securing rights of the Loan Noteholders under the Loan Notes. No subsequent agreement may limit the subordination pursuant to the provisions set out in Condition 2(a) or shorten any applicable notice period in respect of the Loan Notes. If the Loan Notes are redeemed in violation of Condition 5, the amounts redeemed must be returned to the Issuer irrespective of any agreement to the contrary, unless the Issuer has been dissolved or such amounts have been replaced by regulatory capital qualifying with the same regulatory (sub-)category or equivalent thereof or if the FOPI (as defined below) or any Successor Authority (as defined below) has given its consent to the redemption. No Loan Noteholder may set off any claims arising under the Loan Notes against any claims that the Issuer may have against the Loan Noteholder. The Issuer may not set off any claims it may have against any Loan Noteholder against any of its obligations under the Loan Notes. "Obligor" means the Issuer or the Guarantor, as the case may be. "Senior Creditors" means creditors of an Obligor, (i) who are policyholders or other unsubordinated creditors of such Obligor, or (ii) whose claims are, or are expressed to be, subordinated (whether only in the event of the liquidation, dissolution or winding-up of such Obligor or otherwise) to the claims of policyholders and other unsubordinated creditors of such Obligor (including all existing and future unsecured, subordinated dated obligations and all existing (but, for the avoidance of doubt, not future) unsecured, subordinated, perpetual obligations of such Obligor (whether actual or contingent), except those whose claims rank, or are expressed to rank, equally with or junior to the claims of the Loan Noteholders under the Loan Notes and/or the Guarantee, respectively;

Guarantee	The Guarantor has given an unconditional and irrevocable guarantee on a subordinated basis for the due payment of principal of, and interest and any premium on, and any other amounts expressed to be payable by the Issuer under the Loan Notes (the "Guarantee") in accordance with Article 111 of the Swiss Federal Code of Obligations, irrespective of the validity of the Loan Notes and has waived all rights of objection and defence arising from the Loan Notes. Accordingly, the Guarantor has agreed to pay to the Principal Paying Agent, on behalf of the Loan Noteholders, within ten Business Days after the receipt by the Guarantor of the first written demand of the Principal Paying Agent as acceleration agent (the "Acceleration Agent") for payment and the Acceleration Agent's confirmation in writing that an amount has become due and payable under the Loan Notes which is equivalent to the amount claimed under the Guarantee has and remained unpaid on the due date. Demands for payment may be made by the Acceleration Agent for sums due under the Loan Notes with respect to payments of principal of, and interest on, the Loan Notes payable pursuant to the Conditions. In the event of the dissolution, liquidation, insolvency or of other proceedings for the avoidance of insolvency of the Guarantor, the claims of the Loan Noteholders under the Guarantee will be subordinated in right of payment to the claims of all Senior Creditors of the Guarantor, but will be paid in priority to any debt or other obligation of the Guarantor that is expressly or by applicable law subordinated to the Guarantee and to distributions to all classes of equity of the Guarantor. No security of whatever kind is, or will at any time be, provided by the Guarantor or any other person securing rights of the Loan Noteholders under the Guarantee. No subsequent agreement may limit the subordination pursuant to the provisions set out in Condition 2(b) or shorten any applicable notice period in respect of the Loan Notes or the Guarantee. Any redemption payments made on the Guarantee must be returned to the Guarantor irrespective of any agreement to the contrary, unless (x) the Guarantor has been dissolved or (y) such amounts have been replaced by regulatory capital qualifying with the same regulatory (sub-)category or equivalent thereof or (z) if the FOPI or any Successor Authority has given its consent to the payment. No Loan Noteholder may set off any claims arising under the Guarantee against any claims that the Guarantor may have against the Loan Noteholder. The Guarantor may not set off any claims the Guarantor may have against any Loan Noteholder against any of its obligations under the Guarantee.
Securities Rating	BBB from Standard & Poor's
Aggregate Principal Amount of the Loan Notes	€700,000,000. Initially, only one Loan Note will be issued.
Form of Loan Notes	The Loan Notes will be represented by definitive certificates in registered form. The Loan Notes shall each bear the manual or facsimile signatures of two duly authorised officers of the Issuer as well as the manual signature of an authentication officer of the Registrar. The Bank of New York (Luxembourg) S.A. (the "Registrar") will maintain a register (the "Register") of the holders of record of the Loan Notes (the "Loan Noteholders") reflecting the ownership of the Loan Notes.
Issue Price	100 per cent.
Maturity, Redemption	Perpetual, but redeemable at the option of the Issuer as set out below.
Issuer Call	The Loan Notes are redeemable in whole but not in part at the option of the Issuer at their principal amount together with any accrued interest on

the First Optional Redemption Date and on each Interest Payment Date thereafter. In all cases, the Issuer may call and redeem the Loan Notes only if the FOPI or any Successor Authority has given (and has not subsequently withdrawn) its consent to the redemption to the extent such consent is required or otherwise has not objected to such redemption.

Early Redemption Events

The Issuer may also redeem the Loan Notes in whole but not in part upon the occurrence of a Par Redemption Event or upon the occurrence of a Make Whole Redemption Event (each as defined below).

Par Redemption Event

A ''Par Redemption Event'' means an early redemption by the Issuer of the Loan Notes prior to the First Optional Redemption Date at their principal amount together with any accrued interest at any time following a (a) Recalculation of Interest Event or (b) Special Tax Event (each as defined below).

Where:

''Recalculation of Interest Event'' means the occurrence of a Recalculation of Interest or a payment of Additional Amounts in respect of the Loan Notes and this cannot be avoided by the Issuer taking such reasonable measures as the Issuer (acting in good faith) deems appropriate. With respect to the occurrence of a Recalculation of Interest Event, the Issuer shall deliver to the Fiscal Agent an opinion of a recognised independent tax counsel which confirms such occurrence.

''Special Tax Event'' means that due to a change in law, ruling or interpretation, the Issuer no longer obtains a tax deduction for the purposes of Swiss corporation tax for any payment of interest by the Issuer on the Loan Notes, and this cannot be avoided by the Issuer taking such reasonable measures as it (acting in good faith) deems appropriate. With respect to the occurrence of a Special Tax Event, the Issuer shall deliver to the Fiscal Agent an opinion of a recognised independent tax counsel which confirms such occurrence.

Make Whole Redemption Event

A ''Make Whole Redemption Event'' means a redemption by the Issuer of the Loan Notes prior to the First Optional Redemption Date at the higher of (1) the Make Whole Amount, and (2) their principal amount together, in each case, with any accrued interest through and including the redemption date, at any time following (a) an Accounting Event, (b) a Regular Tax Event or (c) a Regulatory Event (each as defined below).

The ''Make Whole Amount'' will equal the sum of the Present Values (as defined in the Conditions) on the date of redemption of (i) the principal amount of the Loan Notes assuming such to be due on the First Optional Redemption Date and (ii) the remaining scheduled payments of interest on the Loan Notes to but excluding the First Optional Redemption Date, using a discount rate equal 0.65 per cent. above the relevant Bund Rate on the Redemption Reference Date.

Where:

''Accounting Event'' means that an opinion of a recognised accounting firm has been delivered to the Issuer or the Guarantor, stating that obligations of the Issuer in respect of the Loan Notes must not or must no longer be recorded as liabilities on the balance sheet of the Guarantor published in the Guarantor's annual consolidated financial statements pursuant to the International Financial Reporting Standards (IFRS) and this cannot be avoided by the Issuer or the Guarantor, as the case may be, taking such reasonable measures as the Issuer or the Guarantor, as the case may be, (acting in good faith) deems appropriate. With respect to an Accounting Event the Issuer or the Guarantor, as the case may be, will deliver the applicable opinion to the Fiscal Agent.

"Regular Tax Event" means that the Issuer no longer obtains a tax deduction (other than due to a change in law, ruling or interpretation) for the purposes of Swiss corporation tax for any payment of interest by the Issuer on the Loan Notes, and this cannot be avoided by the Issuer taking such reasonable measures as it (acting in good faith) deems appropriate. With respect to the occurrence of a Regular Tax Event, the Issuer shall deliver to the Fiscal Agent an opinion of a recognised independent tax counsel which confirms such occurrence.

"Regulatory Event" means the occurrence of any of the following events which occurrence cannot be avoided by the Issuer or the Guarantor, as the case may be, taking such reasonable measures as the Issuer (acting in good faith) deems appropriate:

(A) the FOPI or any Successor Authority states that the Loan Notes are no longer eligible to qualify as Upper Additional Capital ("oberes ergänzendes Kapital") pursuant to Art. 49 in connection with Art. 39 of the SPICO (as defined below), and no longer fulfil the requirements for such category, or equivalent thereof, for group or solo solvency purposes; or

(B) the FOPI or any Successor Authority issues further guidance in relation to instruments qualifying under Art. 39 of the SPICO for group or solo solvency purposes (by way of law, ordinance, regulation or a published interpretation thereof), and following which the FOPI or any Successor Authority states that such guidance has an adverse regulatory capital implication for the Issuer in relation to the Loan Notes; or

(C) the FOPI or any Successor Authority issues further guidance in relation to Tier 1 Capital ("Kernkapital") qualifying instruments for group or solo solvency purposes (by way of law, ordinance, regulation or a published interpretation thereof), and following which the FOPI or any Successor Authority states that the Loan Notes do not fulfil the requirements of Tier 1 Capital ("Kernkapital"); or

(D) the FOPI or any Successor Authority issues further guidance in relation to Tier 1 Capital ("Kernkapital") qualifying instruments for group or solo solvency purposes (by way of law, ordinance, regulation or a published interpretation thereof), and the FOPI or any Successor Authority affords the Loan Notes recognition as Tier 1 Capital ("Kernkapital") for group or solo solvency purposes, and at a subsequent time the FOPI or any Successor Authority states that the Loan Notes no longer fulfil the requirements of Tier 1 Capital ("Kernkapital").

"SPICO" means the Ordinance on the Supervision of Private Insurance Companies (*Verordnung über die Beaufsichtigung von privaten Versicherungsunternehmen – AVO*) of 9 November 2005, as amended.

In all cases, the Issuer may call and redeem the Loan Notes only if the FOPI or any Successor Authority has given (and has not subsequently withdrawn) its consent to the redemption to the extent such consent is required or otherwise has not objected to such redemption.

Substitution or Modification of the Loan Notes

Subject to the Conditions to Substitution or Modification, the Issuer may, without any requirement for the consent or approval of the Loan Noteholders, substitute at any time all (but not less than all) of the Loan Notes, or modify the terms of the Loan Notes:

(a) if an Accounting Event occurs, so that no Accounting Event exists after such substitution or modification; or

(b) if a Regular Tax Event occurs, so that no Regular Tax Event exists after such substitution or modification; or

(c) if a Special Tax Event occurs, so that no Special Tax Event exists after such substitution or modification; or

(d) if a Recalculation of Interest Event occurs, so that no Recalculation of Interest Event exists after such substitution or modification; or

(e) if a Regulatory Event occurs, so that no Regulatory Event would exist after such substitution or modification.

Substitution of the Issuer

Subject to the Conditions to Substitution or Modification, the Issuer may at any time, without the consent or approval of the Loan Noteholders, substitute for itself as principal debtor under the Loan Notes a successor in business to the Issuer or such substitute, being a duly licensed and regulated entity that carries on the business of an insurance company within the Swiss Life group (a "Successor Issuer").

Conditions to Substitution or Modification

Any substitution or modification of the Loan Notes is conditional on the substituted Loan Notes or the modified Loan Notes:

(a) having terms that are not less favourable to an investor than the terms of the Loan Notes; and

(b) being issued by the Issuer or being issued by another member of the Swiss Life group or in the case of a Substitution of the Issuer by a Successor Issuer (each "New Issuer") with a guarantee by the Guarantor, such that investors have the same material rights and claims as provided by the Loan Notes and the Guarantee; and

(c) ranking at least equal to the Loan Notes and featuring the same tenor, principal amount, interest rate (including applicable margins and step-up), interest payment dates and first call date as the Loan Notes.

In addition, any substitution or modification is subject to (A) all interest amounts accrued and due on the relevant Interest Payment Date being satisfied in full on or prior to the date thereof; (B) the prior written notice (if such notice is required to be given) by the Issuer to, and receiving no objection from, the FOPI or any Successor Authority; (C) the substitution or modification not itself giving rise to a change in any published rating of the Loan Notes in effect at such time; (D) the substitution or modification not triggering the right to effectuate a Par Redemption Event or a Make Whole Redemption Event; and (E) certification by two of executive officers of the Issuer that these conditions have been complied with.

In connection with any substitution or modification as indicated above, the Issuer will comply with the rules of any stock exchange or other relevant authority on which the Loan Notes are then listed or admitted to trading.

Interest

Subject to the interest suspension provisions described below, the Loan Notes bear interest at the Fixed Rate of Interest from and including 12 April 2007 to but excluding the First Optional Redemption Date and at the Floating Rate of Interest from (and including) the First Optional Redemption Date and thereafter.

Fixed Rate of Interest

5.849 per cent. per annum

Floating Rate of Interest

Three month EURIBOR plus a Margin of 2.50 per cent. per annum (which includes a 100 basis point step-up above the original issue margin).

Recalculation of Interest

If a tax deduction or withholding (collectively, a "Tax Deduction") is required by law to be made by the Issuer in respect of any interest payable in respect of the Loan Notes, the applicable interest rate in relation to that Interest Payment Date shall be the interest rate which would have otherwise been payable on that Interest Payment Date divided by 1 minus the rate (as a fraction of 1) at which the relevant tax deduction or withholding is required to be made.

Fixed Interest Payment Dates	12 April in each year until, subject to an early redemption, the First Optional Redemption Date. The first Fixed Interest Payment Date will be 12 April 2008.
Floating Interest Payment Dates	12 April, 12 July, 12 October and 12 January in each year until the redemption date. The first Floating Interest Payment Date will be 12 July 2017.
Tax Deductions and Recalculation of Interest	If a tax deduction or withholding or retention (collectively, a ''Tax Deduction'') is required by law to be made by the Issuer or the Guarantor, as the case may be, in respect of any payment of interest payable in respect of the Loan Notes or, as the case may be, any payment by the Guarantor under the Guarantee for, any taxes, duties, assessments or governmental charges of whatever nature imposed by the Swiss Confederation or any subdivision thereof (''Taxes'') and should Condition 7(a) be unlawful for any reason, the applicable interest rate in relation to that Interest Payment Date will, subject to Condition 7(b), be the interest rate which would have otherwise been payable on the Interest Payment Date divided by the difference between 1 and the rate (as a fraction of 1) at which the relevant Tax Deduction is required to be made and the Issuer will (i) be obligated to pay the relevant interest on that Interest Payment Date at the adjusted rate in accordance with Condition 3(c) and (ii) make the Tax Deduction on the recalculated interest. Without prejudice to the foregoing, all references to a rate of interest in the Conditions shall be construed accordingly and all provisions in Condition 7 (other than Condition 7(a)) shall apply to the Tax Deduction on the recalculated interest payment (such recalculation is referred to herein as a ''Recalculation of Interest'').
Optional suspension of interest payments/Cancellation of suspended Interest Payments	Save to the extent that a Solvency Event has occurred, with respect to any interest which accrues during an Interest Period ending on but excluding an Optional Interest Payment Date, the Issuer may elect in its discretion to suspend in whole or in part the payment of interest which accrued during the interest period to but excluding such Interest Payment Date by giving notice in accordance with Condition 14 not less than ten Business Days prior to such Interest Payment Date. The Issuer may not suspend an interest payment if the FOPI or any Successor Authority states at any time prior to the relevant Interest Payment Date that the Loan Notes are no longer eligible to qualify as Upper Additional Capital (''oberes ergänzendes Kapital'') pursuant to Art. 49 in connection with Art. 39 of the SPICO. The Issuer shall promptly give notice to the Loan Noteholders if such an event occurs. An ''Optional Interest Payment Date'' occurs if during the 12 months preceding such Interest Payment Date: (A) neither the Issuer nor the Guarantor has declared or made or paid any dividend or other distribution or interest (or arrears thereof) on or in respect of any Junior Instruments and/or Parity Instruments (except where such payment is made intra-group, or where such payment on or in respect of any of their respective Parity Instruments was itself mandatory under the terms and conditions of such Parity Instrument); and (B) no redemption, repayment, repurchase for purposes of cancellation or any other acquisition for purposes of cancellation of any of their respective Parity Instruments and/or Junior Instruments has been made by or on behalf of the Issuer and the Guarantor or any of their respective subsidiaries.

"Interest Amount" means, with respect to any Interest Payment Date or the redemption date, the amount of interest which would be payable on the aggregate principal amount of Loan Notes outstanding on such Interest Payment Date or the redemption date pursuant to the Condition 3.

"Junior Instruments" means, with respect to an Obligor, (i) ordinary shares, (ii) preferred or preference shares ranking junior to Parity Shares (as defined below) of such Obligor, and (iii) any other securities or obligations of such Obligor ranking or expressed to rank junior to its Parity Instruments (as defined below) issued directly by such Obligor.

"Parity Instruments" means, with respect to an Obligor, (i) the most senior ranking perpetual non-cumulative preferred or preference shares that have equivalent financial terms as the Loan Notes and which are issued directly by such Obligor (**"Parity Shares**"), if any, (ii) guarantees by such Obligor (whether through an agreement or instrument labelled as a guarantee, as a support agreement, or with some other name but with an effect similar to a guarantee or support agreement) of preferred or preference shares issued by any of such Obligor's subsidiaries, effectively ranking or expressed to rank *pari passu* with such Obligor's Parity Shares, if any, (iii) any future unsecured, subordinated perpetual obligations of such Obligor ranking, or expressed to rank, equally with the obligations of such Obligor under the Loan Notes or the Guarantee. For the avoidance of doubt, the obligations of the Issuer under the loan agreement, dated 14 November 2005, between the Issuer and J.P. Morgan Bank Luxembourg S.A. and the loan agreement, dated 31 March 1999, between the Issuer, Morgan Guaranty Trust Company of New York and J.P. Morgan Securities Ltd. do not constitute Parity Instruments.

Required suspension of interest payments in the case of a Solvency Event/Cancellation of suspended Interest Payments

If on any Interest Payment Date or the redemption date a Solvency Event has occurred, the Issuer will be required to suspend payment of any Interest Amount; provided that in the case where the payment of such Interest Amount would itself cause a Solvency Event to occur, the Issuer will only be required to suspend the Solvency Shortfall (as defined below), except that the Issuer will not be required to suspend the payment of such Interest Amount or Solvency Shortfall, as the case may be, if the FOPI or any Successor Authority has given its consent to such payment.

The "Solvency Event" shall have occurred if on the Reference Date:

(A) the Issuer does not have appropriate funds to cover the required minimum solvency margin (or a comparable term in case of a change in applicable rules) in accordance with the provisions of mandatorily applicable regulatory capital requirements (including but not limited to Swiss insurance regulatory law (for group solvency and single solvency purposes and the solvency pursuant to the regulation for financial conglomerates) and a generally recognised administrative practice, if any, of the FOPI or any Successor Authority) mandatorily applicable at that time, and the amount of such funds would, as a result of a full or partial interest payment or redemption payment, respectively, that would otherwise be due on such Interest Payment Date or date of redemption, respectively, be or become less than the required minimum solvency margin, all as shown in the most recent solvency report submitted by the Issuer to the FOPI or any Successor Authority available on the Reference Date, or

(B) the Issuer is unable to pay its debts owed to its Senior Creditors as they fall due, or

(C) the Assets (as defined below) of the Issuer do not exceed its Liabilities (as defined below) (other than liabilities to persons who are not Senior Creditors of the Issuer).

	Where:
	"Assets" means the unconsolidated total assets of the Issuer, as shown in the Issuer's latest annual audited balance sheet, but adjusted for all subsequent events, as reasonably determined by the Issuer, or if the Issuer is being liquidated, its liquidator.
	"Liabilities" means the unconsolidated total liabilities, as shown in the Issuer's latest annual audited balance sheet, but adjusted for all subsequent events, as reasonably determined by the Issuer, or if the Issuer is being liquidated, its liquidator.
	"Solvency Shortfall" means the portion of the Interest Amount that would cause a Solvency Event to occur or be continuing.
	If an interest payment is suspended pursuant to such a required suspension, the Issuer shall not have any obligation to make such interest payment on the relevant Interest Payment Date and the failure to pay such interest shall not constitute a default by the Issuer or any other breach of obligations under the Loan Notes or for any other purpose. Interest payments so suspended will be cancelled and will not accumulate.
Transfer of Loan Notes	The Loan Notes may only be assigned or transferred, including upon an enforcement of a security, (a "Transfer" and "Transferred" shall be construed accordingly), (i) in whole or in part, if the Transfer is to a Qualifying Bank (as defined in the Conditions), provided that in the case of a Transfer of the Loan Notes in part the Loan Notes may not be transferred to more than five Qualifying Banks, or (ii) in whole but not in part, if the Transfer is to a Permitted Non-Qualifying Lender (as defined in the Conditions).
Fiscal Agent, Principal Paying Agent and Calculation Agent	The Bank of New York.
Governing Law	The Loan Notes will be governed by the laws of England (except the provisions described under "Status of the Loan Notes" above which will be governed by the laws of Switzerland). The Guarantee will be governed by the laws of Switzerland.

Capitalised terms used in the Information Memorandum shall have the meaning given to them in the Terms and Conditions unless otherwise specified herein.

RISK FACTORS

*An investment in the Loan Notes involves risks. Prospective Investors of Loan Notes should carefully consider the following risk factors and the other information in this Information Memorandum before making an investment decision. Any of the risk factors could impact the business, financial conditions or operating results of the Issuer, the Guarantor and all the Guarantor's direct and indirect subsidiaries taken as a whole (the "**Swiss Life Group**" or "**Swiss Life**").*

The Issuer and the Guarantor believe that the following factors may affect their respective ability to fulfil their respective obligations under the Loan Notes. All of the factors are contingencies which may or may not occur and neither the Issuer nor the Guarantor is in a position to express a view on the likelihood of any such contingency occurring.

Factors which the Issuer and the Guarantor believe may be material for the purpose of assessing the market risks associated with the Loan Notes issued are also described below.

The Issuer and the Guarantor believe that the factors described below represent the principal risks inherent in investing in the Loan Notes, but the Issuer and, under the Guarantee, the Guarantor may be unable to pay interest in connection with the Loan Notes for other reasons and neither the Issuer nor the Guarantor represents that the statements below regarding the risks of holding the Loan Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Information Memorandum and reach their own views prior to making any investment decision.

Risks related to the Swiss Life Group

Risks relating to Swiss Life Group's Business

Swiss Life faces strong competition and may fail to attain the growth rate required in order to maintain and develop its position as a significant competitor in the European insurance market

In its markets, Swiss Life competes with global and national insurance companies, as well as with non-insurance financial services companies, such as banks and asset management companies. Many of these non-insurance competitors and their products are regulated in a different manner from Swiss Life. Some of these competitors may have greater financial, technical or operating resources, a more competitive cost structure, a different level of employee skills or may offer alternative products or more competitive pricing. The recent consolidation in the global financial services industry has also enhanced the competitive position of some of Swiss Life's competitors by broadening the range of their products and services, and increasing their distribution channels (including through the internet) and their access to capital. In addition, the development of alternative distribution channels for certain types of insurance and securities products, and the increasing transparency in certain markets for insurance products may result in increased competition as well as increased pressure on margins in respect of certain types of products. These pressures could result in increased pricing pressures on a number of Swiss Life's products and services, particularly where competitors seek to win market share, and may harm Swiss Life's ability and strategy to maintain or increase its profitability and market share. These competitive pressures may in particular, force Swiss Life to adapt its product pricing.

Swiss Life Group faces particular risks in attaining profitable growth in its life insurance business in Switzerland

Swiss Life Group's insurance business in Switzerland is subject to the general economic conditions of the Swiss market. In periods of economic slow down or in a low interest rate environment, there may be a general reduction in demand for life insurance products throughout the market, particularly for individual life products.

Swiss Life Group has renewed its marketing activities around a new streamlined brand model and has launched a revised product offering for its Swiss BVG (Bundesgesetz über die berufliche Alters-, Hinterlassenen- und Invalidenvorsorge, or Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans) life insurance business ("BVG" business) which it believes will offer attractive features to customers and will differentiate its product from those of its competitors. However, there can be no assurance that these marketing activities or the revised product offering will produce the desired results and that Swiss Life Group will succeed in attaining long-term profitable growth for its life insurance business in Switzerland.

If Swiss Life Group is unable to increase volumes in the individual insurance segment, and the interest environment remains at the current low levels in its Swiss market, this could have an adverse effect on Swiss Life's financial condition and results of operations and may, in particular, have an adverse impact on the value of new business written in Switzerland.

Implementation of certain of Swiss Life Group's strategic initiatives is subject to uncertainties and may give rise to ongoing expenses or liabilities

Swiss Life Group defined a set of ambitious strategic targets, including growth objectives and basic insurance result targets for its insurance operations until 2008. The achievement of these targets, however, remains subject to uncertainty. Whilst the objectives for growth are subject to market demand fluctuations and competition, the ability to achieve a satisfactory performance in respect of the basic insurance result depends on pricing, the ability to control costs, claims figures, changes in reserves and the ability to generate insurance-related fee income. In addition to the basic insurance result, the investment result is an important factor in the profitability of Swiss Life's insurance operations. This result is driven by the returns achieved on the investment portfolio, which will partially depend on capital markets conditions, and on the guaranteed and non-guaranteed payments made to policyholders. Besides the profit contribution of the insurance operations, Swiss Life also depends on achieving a sufficient level of profits in its Banca del Gottardo unit as well as in its asset management businesses.

Further mergers, acquisitions and disposals may result in Swiss Life Group incurring costs and using considerable management resources. Furthermore, it is possible that as a result of any past or future disposals, Swiss Life Group may be subject to warranty, indemnity or other claims or to adverse tax or accounting charges which may have a material adverse effect on its results of operations and financial position. While Swiss Life Group has undergone a cost reduction programme, no assurance can be given that such cost reduction is sufficient to achieve long term profit targets.

The implementation of economic pricing of insurance products may cause policyholders to surrender their policies or cease contributing further premiums, and may also lead to a decline in the volume of new business and a loss of market share Switzerland. This decline could reduce the embedded value of Swiss Life Group and decrease its future profitability. In following its strategy on economic pricing of its life insurance products, there are several factors beyond Swiss Life's control, such as regulatory approval, general market conditions or an increase in competition which could have an adverse effect on Swiss Life Group's profit. In addition, Swiss Life is targeting premium growth, whilst continuing to adhere to its strict profitability targets. There is a risk that the marketing, product structuring and other steps Swiss Life proposes to take in order to achieve its growth targets will be insufficient to offset the impact of the higher pricing of its products on premium volumes.

A failure to retain distribution channels for its insurance products subjects Swiss Life to certain risks

Swiss Life uses different distribution channels in the countries where Swiss Life transacts business (sales personnel, tied agents, brokers, banking channels and others). Any failure to retain distribution channels may have a material adverse impact on Swiss Life's ability to maintain and increase its premium volume and market share, and may therefore adversely affect its financial performance.

Swiss Life Group's private banking business may not ensure envisaged profitable growth and efficiency and is exposed to the development of the financial markets

Swiss Life Group's private banking activities are conducted primarily through Banca del Gottardo, which recently reviewed its organisational structure and its strategy, confirming the importance of the Swiss offshore private banking business and focusing on the strengthening of its position in the Swiss and Italian onshore private banking markets. In order to obtain the necessary operational excellence to reach the ambitious financial targets it has set for the year 2008, Banca del Gottardo launched a strategic project called "BdG transformation Program". Such a change management project may not, or not immediately, result in the envisaged profitable growth and efficiency.

The strategic review, the new organisational structure, as well as the related changes in the top management of the bank may produce some internal resistance and result in the resignation of relationship managers and consequently some assets under management outflow as was encountered during the year 2006.

An additional source of risk for Banca del Gottardo is the evolution of financial markets. Adverse financial market fluctuations would, amongst other things, have a negative impact on commission revenues, proprietary trading results and currency positions. The negative impact on commission revenues would be driven by a decreased willingness of clients to re-allocate their assets (resulting in lower brokerage commissions) and by a reduction in clients' assets due to lower indices (resulting in lower commissions proportional to assets).

Other areas of risk include those of reputational, business, operational and credit risk. Reputational risk, which could potentially reduce the assets under management of Banca del Gottardo, is mitigated by the required strict compliance procedure for entering into new business relationships. Business risk, meanwhile, is associated with factors including new domestic or foreign regulatory requirements, such as compliance with the new operational risk management measures required by Basle II or fiscal measures taken by foreign governments to encourage repatriation of offshore assets. During the past few years, Italy, Germany and other countries have implemented such measures and some clients of Banca del Gottardo have, as a result, repatriated their assets.

One main operational risk for Banca del Gottardo relates to the outsourcing of its IT and certain back-office operations to B-Source, an IT and back-office service company based in the Canton of Ticino (Switzerland). The operational risk associated with the external production of IT and back-office services is mitigated by the transfer of certain relevant full-time employees of Banca del Gottardo to B-Source, by Banca del Gottardo being represented in B-Source's board of directors and the execution of an appropriate shareholder agreement which provides for the exercise of minority shareholder veto rights by Banca del Gottardo. However, even with these measures in place, there can be no assurance that the services provided would be sufficient to meet the requirements of Banca del Gottardo or that operational failures such as the malfunction of IT systems or human error in the settlement of transactions will not occur.

Risks relating to changes in regulations

Swiss Life Group is subject to special regulations and any changes to, or an increase in, regulation of Swiss Life's operations may materially affect its business

Swiss Life Group is subject to detailed and comprehensive regulation and supervision in all the jurisdictions in which it transacts business. Its insurance operations are subject to insurance laws and regulations which are generally intended to protect policyholders (including through solvency measures) rather than shareholders or creditors. Such laws and regulations give regulatory agencies control over many aspects of Swiss Life's business, including tariffs and premiums, marketing and selling practices, solvency and capital adequacy requirements and permitted investments. Similarly, Swiss Life Group's other activities are also subject to regulation.

Changes in existing regulations may materially affect the way in which Swiss Life Group conducts its business and the products it may offer, and may have a material adverse effect on the results of operations and financial condition of Swiss Life Group.

Although Swiss Life Group believes that it has all material permits and otherwise complies with present laws and regulations, failure to comply with present or future laws or regulations could result in fines, cessation of operations or other negative consequences which could have a material adverse effect on Swiss Life Group's business, financial condition and/or results of operations. In addition, Swiss Life Group could be held liable for any resulting damages, and any such liability could have a material adverse effect on Swiss Life Group.

Swiss Life's life insurance reserves depend on mandatory interest rates, mortality assumptions, regulatory requirements regarding disability and other liabilities, as well as other factors

Swiss Life maintains reserves for its life insurance business to cover its estimated ultimate liabilities. While Swiss Life believes its economic risk is reduced by the matching of durations of assets and liabilities, mandatory interest rates may not change in line with market yields and may result in sudden changes in the reported amounts even if there was no corresponding change in investment yields and the value of assets. Moreover, changes in mortality assumptions may have a significant impact on annuity and other reserves. Loss reserves also do not represent an exact calculation of ultimate liabilities, but rather are estimates of the expected liabilities. Furthermore, disability and other reserves depend on regulatory requirements as well as subjective factors, which may cause actual liabilities to differ from estimates. Likewise, annuity reserves may change significantly due to regulatory changes and other factors. Any insufficiencies in loss reserves for future claims and any change in reserves required as a result of changes in interest rates, mortality assumptions or other factors could adversely affect the extent to which new business may be written and may adversely affect the results of operations or financial condition of Swiss Life.

The "legal quote" in Switzerland and similar regulations in countries where Swiss Life transacts business may adversely affect the flexibility of Swiss Life Group to allocate surplus to its shareholders and its debt servicing capacity and is likely to affect Swiss Life Group's financial condition and results of operations

Some of Swiss Life Group's life insurance business is affected by the "legal quote". The "legal quote" restricts Swiss Life Group's ability to allocate surplus to its shareholders and may affect the debt servicing capacity of the Swiss Life Group, including the Issuer's ability, or the Guarantor under the Guarantee, to meet interest payments under the Loan Notes. Under certain circumstances, the "legal quote" may affect the profitability of other Swiss Life companies which provide services to the insurance life business. The legal quote limits Swiss Life Group's flexibility in a way which, in certain market conditions, could have a negative impact on Swiss Life Group's future profitability and the value of new business.

The Swiss BVG legal quote mechanism introduced in 2004 is regularly subject to political and public discussions. Swiss Life cannot be certain that unfavourable changes to the BVG legal quote regime which would affect the profitability of Swiss Life Group may not be introduced as a result of such discussions.

In Germany, a regulation on the reform of insurance contacts (VVG) will come into effect as of 1 January 2008. This regulation may have an impact on legal quote and transparency rules and may therefore affect business profitability in the German market.

Elimination of tax benefits for Swiss Life's products may adversely affect sales of Swiss Life's insurance and investment advisory products, and changes in banking regulations and taxation could adversely affect the private banking operations of Swiss Life Group

Changes to tax laws may affect the attractiveness of certain of Swiss Life's products, which currently benefit from favourable tax treatment. From time to time, governments in the jurisdictions in which Swiss Life does business have considered proposals for tax law changes that could adversely affect Swiss Life's products and result in a loss of competitive advantage for insurance products generally. The enactment of any such tax legislation in relation to insurance products could result in a significant reduction in sales of Swiss Life's currently tax-favoured products, as consumers shift their savings into products such as those offered by banking rather than insurance organisations.

The profitability of Swiss Life Group's BVG business depends on the mandatory guaranteed interest rates and the annuity conversion rates being set at acceptable levels and the setting of such rates is subject to uncertainty

Swiss Life Group's BVG business is subject to guaranteed minimum interest and annuity conversion rates. Guaranteed minimum interest rates could be imposed by the Swiss Federal Council in a manner which may diverge from the rates of return that Swiss Life Group is able to achieve on its assets. These minimum interest rates are subject to annual changes and do not as yet follow a predictable formula consistent with the economic notion of a guarantee. The process for setting these rates is not predictable and the rates may from time to time diverge from the rates of return that Swiss Life Group is able to achieve on the assets backing such business.

While Swiss Life Group believes that the legal quote reduces the sensitivity of its results (after policyholder participation) to changes in the BVG guaranteed minimum interest rate or the mandatory conversion rate, nevertheless if there is a change in either of these rates or a change in economic, market or other conditions without a corresponding change to these rates, the profitability of Swiss Life Group's BVG business and Swiss Life Group's ability to maintain and increase its premium volume and market share could both be adversely affected.

In addition, while Swiss Life Group has some flexibility to reprice or restructure its products in response to such conditions or changes, the ability to implement a revised product offering is subject to a number of uncertainties and may not have immediate effect. For example, the current Swiss regulatory regime requires that approval must be sought from the regulator prior to the introduction of new tariffs. Also, the ability to implement a revised product offering is subject to customers' acceptance of the new terms.

Following the Swiss Federal Council decision on 10 September 2003, a reduction in the guaranteed interest rate for the mandatory BVG business, from 3.25 per cent. to 2.25 per cent., took effect on 1 January 2004. The rate was subsequently raised to 2.50 per cent. with effect from 1 January 2005 and confirmed to remain at this level for the year 2007. While this rate is below the direct yields of Swiss Life Group investment portfolio, it is close to the current yields available on long term fixed income investments with AAA rating. Although Swiss Life Group has taken the change into account in the pricing and structuring of its life insurance products in Switzerland, the extent to which a revised product offering can be implemented remains subject to a number of other uncertainties, including existing customers' acceptance of the revised offering. Also, it is not certain that future guaranteed rates will be set at levels compatible with returns achievable in future periods. As long as Swiss legislation does not provide for a predictable and transparent process to set the guaranteed interest rate for mandatory BVG business, a considerable part of Swiss Life Group's business will be exposed to this uncertainty.

Swiss law provides for an annuity conversion rate which determines the amount of the annual retirement pension payable to an annuitant based on the contributions accumulated to the retirement date. For the mandatory part of the group life insurance business in Switzerland, the legally stipulated conversion rate is applied whereas in the non-mandatory part of the BVG business a reduced conversion rate calculated using actuarial assumptions is applied. Pursuant to BVG, the guaranteed annuity conversion rate for the mandatory part of the BVG business is set at 7.15 per cent. for women and 7.1 per cent. for men, who will reach the statutory retirement age in the year 2007.

Since then, thought has been given to the increased life expectancy and in the first amendment to the BVG legislation, which took effect on 1 January 2005, it was resolved that the annuity conversion rate should be reduced gradually from 7.2 per cent. to 6.8 per cent by 2014. Although Swiss Life Group has taken the reduction into account in its plans to amend the pricing and structure of its life insurance products in Switzerland, the extent to which Swiss Life Group will be able to benefit from the reduction is subject to a number of uncertainties, including existing customers' acceptance of the revised offering. Also, because the new legislation does not allow insurance companies to continuously re-evaluate their pricing in the light of changing economic and other conditions, such as increased life expectancy figures and the calculation of technical interest rates, there can be no assurance that the current rate or any future rate will be such that insurance companies in Switzerland will be able to conduct a profitable mandatory BVG business.

The failure by Swiss Life Group to achieve a rate of return on its investments in excess of the statutory guaranteed minimum interest rate could adversely affect Swiss Life Group's financial condition and results of operations, as could increases in life expectancy, changes in technical interest rates not provided for in the statutory guaranteed annuity conversion rate, and any adverse change in the statutory guaranteed interest or annuity conversion rates. At the extreme, in the event of market deterioration or of the setting of the statutory guaranteed interest rate or the statutory guaranteed annuity conversion rate at certain levels, Swiss Life Group may be unable to write profitable group life insurance business in Switzerland.

The introduction of new risk based solvency regimes may have a negative impact on Swiss Life

Solvency II is the proposed new EU legislation which will govern the capital requirements of insurance companies. One of the key objectives of the Solvency II project is the establishment of a solvency regime that, unlike the current regime, is matched to the true risks on an insurance undertaking. Switzerland adopted its own risk based solvency framework which is known as Swiss Solvency Test ("SST"). The SST is already implemented in Switzerland under the Revised Insurance Supervision Act which came into force on 1 January 2006. Currently, the SST applies on a sole level only to the legal entity Swiss Life/Rentenanstalt. As of 2008, the SST must also be conducted on group level. In connection with the introduction of these new risk based solvency regimes, Swiss Life is exposed to the following risks.

From a methodological point of view, the ultimate Solvency II framework could deviate from the current SST approach. In the event that the methodologies are incompatible, it is likely that the Swiss regulator, Federal Office of Private Insurance, ("FOPI") would be required to adjust the SST methodology in line with the Solvency II framework. Consequently, Swiss Life would incur additional costs for the implementation of such adjustments. In addition, some European regulators may not accept the SST as an adequate instrument for solvency assessments. If this is the case, Swiss Life's foreign branches and subsidiaries will have to measure their risks against standards that are accepted by the local regulators. The steering of the company would become difficult if different yardsticks were used for risk measurement purposes.

The economic solvency ratio resulting from the SST is likely to be smaller than the statutory solvency ratio. This may lead to increased capital requirements. If this would be the case Swiss Life could increase the available capital through additional capital transactions (see section "Swiss Life Group may require additional capital in the future, which may not be available or may only be available on unfavourable terms"). Alternatively, the risks could be reduced, either on the asset side or on the liability side. The "de-risking" or risk capital liberation on the asset side, however, could result in lower returns. To reduce the liability risk, Swiss Life might be forced to discontinue the sale of certain products because they bear too much risk under the SST.

Swiss life insurance companies are required to build internal models for SST purposes and this could result in debates with the regulator concerning the acceptability of such models. Consequently, the deadline (as given in the Insurance Supervision Act) for developing and implementing internal models may not be met. Not only will such changes lead to a budget exceedance, they could also result in a loss of reputation. As of 2008, Swiss insurance undertakings will also need to apply the SST on a group level. The development of an internal model that can be used on a group level could be a costly project.

The SST framework is still subject to the risk of model adaptations from the FOPI and as such there is uncertainty as to adaptation costs and any business implications.

Both the SST and Solvency II require disclosure of certain company specific information. These requests could have unfavourable consequences for Swiss Life, if, for example, various stakeholders are not satisfied with the content of the information disclosed.

Risks relating to Asset & Liability Management and Investments

Swiss Life is exposed to the risk that its assets and liabilities are not matched, and action taken to mitigate these risks – such as the lengthening of the maturity of its fixed income portfolio – may result in Swiss Life having to recognise losses or reduce its ability to generate value

In order to reduce the volatility of Swiss Life's net asset value from an economic perspective, Swiss Life seeks to match long term fixed liabilities arising from the conduct of its life insurance business with long term assets with similar durations and, to a certain extent, similar cash flow characteristics. While Swiss Life's asset and liability management ("ALM") processes are designed to mitigate the risk of a mismatch between the duration of Swiss Life's liabilities and that of its assets, there currently exists, and there will remain in the future, the risk that Swiss Life will not be able to fully match its long term liabilities and long term assets, which could have an adverse impact on Swiss Life's results of operations and net asset value and eventually impact on its ability to meet its liabilities as they fall due.

As part of its ALM processes, Swiss Life has significantly lengthened the maturity of its fixed income portfolio over the past few years. An increase in interest rate levels could however lead to a significant decrease in the value of this fixed income portfolio under International Financial Reporting Standards ("IFRS"), which would have an impact on Swiss Life's profit and loss figures and/or its equity, even though in economic terms value has been generated. This effect is known as the accounting asymmetry in the treatment of insurance contracts.

The limited availability of fixed income securities that match the cash flow profiles of the long term liabilities of Swiss Life has resulted in Swiss Life having to invest in foreign currency assets (mainly EUR) to generate the required returns.

The internal risk model used by Swiss Life may lead to inaccuracies in the ALM process

Swiss Life uses an internal risk model for its ALM process, in order to determine its strategic asset allocation. Swiss Life believes that the model accurately reflects the actual risk situation. However, it remains possible that utilisation of the risk model could lead to an inappropriate asset allocation, incorrect cash-flow patterns for the assets and/or the liabilities, an incorrect estimate of the risk relating to the assets and/or liabilities, or an incorrect estimate of the dependencies between assets and liabilities.

The model is subject to an ongoing development process, with new releases being launched twice a year. The possibility of errors in this development process cannot be excluded, and any such errors may cause the accuracy of the model used to decrease over time. Although the model goes through an internal approval process with a sign-off by the Investment and Risk Committee, it is not subject to a regular review process and is not audited either internally or externally. Some elements in the model are based on assumptions, such as forward-looking parameters in Swiss Life Group insurance business. These include BVG minimum rates, which cannot always be predicted in a reliable way due to their politically determined nature. The resulting future bonus rates paid to the policyholders are modelled on the current interest rates, which fluctuate over time, and this could significantly influence the interest rate sensitivity of liabilities and their durations. This would particularly be the case if interest rates were to approach the guaranteed levels, causing the forward-looking part of the bonuses with a negative duration to progressively disappear, whilst leaving only the guaranteed part of the liabilities with a positive duration.

All the above risks could have a negative effect on the intended aim of aligning asset allocation with life insurance liabilities.

Swiss Life's results are subject to fluctuations in fixed income, equity and other markets and other factors which affect investment returns and the value of its assets and liabilities

Investment returns are an important part of Swiss Life's overall profitability, and fluctuations in the financial markets, including the equity markets and fixed income markets, could have a material adverse effect on Swiss Life's financial condition, results of operations and cash flows. In addition, a default by a major market participant or a significant act of terrorism could disrupt the securities markets or clearance and settlement systems in major markets which could in turn cause market declines or increased volatility. The failure of a major market participant also could lead to a chain of defaults that could adversely affect Swiss Life.

The return on Swiss Life's fixed income investments has been and is subject to fluctuations in interest rates. Such fluctuations affect, inter alia, Swiss Life's interest income and the market values of, and corresponding levels of capital gains or losses on, the fixed income securities in Swiss Life's investment portfolios. Generally, interest income will be reduced during sustained periods of lower interest rates, while prices of fixed income securities tend to rise. During periods of rising interest rates, prices of fixed income securities tend to fall. Consequently, the revaluation reserves on fixed income investments on the balance sheet will diminish and this may have a negative impact on the solvency capital available and therefore reduce the risk capacity of Swiss Life Group and limit its ability to generate returns on the assets. While fixed income securities are normally considered to be less volatile than equity securities, in the past there have been sudden changes in interest rates generally, which have led to significant changes in the prices of fixed income securities. Swiss Life is exposed to the risk that its assets and liabilities are not matched, and action taken to mitigate these risks – such as the lengthening of the maturity of its fixed income portfolio – may result in Swiss Life having to recognise losses.

As Swiss Life has introduced a holistic ALM approach which defines a strategic asset allocation and allows tactical deviations subject to risk limits set by the board of directors, any change in the composition or weightage of the asset classes of the assets invested are subject to market risks. Strong equity market corrections may negatively affect several asset classes and therefore negatively affect Swiss Life's results of operations and financial condition.

Hedges in place with respect to Swiss Life's equity holdings are designed to reduce Swiss Life's economic exposures to further declines in equity values but would not prevent an impairment charge in Swiss Life's accounts in the event the impairment criteria were met. In addition, Swiss Life's equity investments are subject, to the extent they are sold, to the risk that they will be sold for less than their book value, and that Swiss Life will recognise a loss. To the extent that such equity investments are not sold, and their value decreases, Swiss Life may be required to write-off a portion of the book value of such equity investments.

A small size of Swiss Life's investment portfolio is comprised of investments in funds which hold securities issued by non-public companies. 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, such liquidations may be executed at a significant discount to the book value 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.

Real estate investments also can be relatively illiquid and property prices are subject to fluctuations in interest rates, general economic conditions and other factors. Swiss Life's real estate portfolio is particularly concentrated in the Swiss market, where it is one of the largest investors in real estate. There is no assurance that Swiss Life will be able to dispose of a property in the desired time period or that the sale price of such property will exceed its book value. According to existing Swiss law with respect to real estate rentals, rents for residential buildings are tied to variable mortgage interest rates. This specific correlation results in a considerable exposure of real estate investments to shifts in mortgage interest rates.

Swiss Life's investment returns are also susceptible to changes in general economic conditions, including changes that impact the general credit-worthiness of the issuers of debt securities or the value of equity investments. Fluctuations in interest rates and returns from equity markets may also impact on customer demand for a number of the products offered by Swiss Life, particularly demand for single-premium products and also for unit-linked as well as variable life insurance products. Fluctuations in the securities markets could result in investors withdrawing capital from the markets, decreasing their rate of investment or surrendering life insurance policies, any of which could adversely affect sales of life insurance and other investment products.

Fluctuations in currency exchange rates may affect Swiss Life's earnings and Swiss Life's hedging structure may not protect it from market risks

Most of Swiss Life's assets, including its investment assets and its liabilities, are denominated in CHF, EUR and USD, the value of which is subject to exchange rate fluctuations. In particular, as part of its new investment strategy and due to the lack of available liquidity in the CHF bond market, Swiss Life has increased its EUR denominated bond portfolio thereby increasing the risk of its EUR currency exposure.

Although Swiss Life actively engages in currency management to reduce the effect of exchange rate fluctuations on its assets and liabilities, particularly by hedging against the risk of such movements in relation to some of its investments denominated in EUR and in USD, significant movements in exchange rates could nevertheless adversely affect Swiss Life's earnings and financial condition, including the value of its investment portfolio. Swiss Life's hedging arrangements are directed at covering its exposures from an economic perspective, but they do not necessarily mean that the financial statements and reporting of Swiss Life are insulated from the impact of market movements. Such movements may still result in changes in earnings or in capital or both, and the volatility of Swiss Life's earnings may also be increased by the use of hedging arrangements. The instruments which Swiss Life uses to hedge exposures may not be perfectly correlated to the related asset, so Swiss Life 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. Swiss Life is required to bear further expenses and costs in establishing such hedging arrangements, and counterparties to the hedging arrangements may also fail to honour their obligations.

In addition, the financial statements of Swiss Life Group are presented in CHF while Swiss Life Group operates with various functional currencies (predominantly CHF, EUR and USD). Swiss Life's financial condition and earnings could therefore be significantly affected by a weakening of such currencies against the CHF.

Other Risks

The financial statements of Swiss Life/Rentenanstalt are unconsolidated and consequently the financial statements do not represent the financial position of Swiss Life Group and are prepared in accordance with Swiss statutory accounting law, which differs in significant respects from IFRS requirements.

The financial statements of Swiss Life/Rentenanstalt are prepared in accordance with Swiss statutory accounting law as prescribed by the Swiss Code of Obligations (the ''Swiss Statutory Accounting Rules''). These accounting rules differ in significant respects from IFRS, which are the standards that are applied in the consolidated financial statements prepared by Swiss Life Holding, the parent company of the Swiss Life/Rentenanstalt of which Swiss Life/Rentenanstalt is a principal subsidiary. Swiss Life/Rentenanstalt itself is not required to and does not produce its own consolidated financial statements. It should therefore be recognised that the financial information contained in the financial statements of Swiss Life/Rentenanstalt and the consolidated financial statements of the Swiss Life Holding are not comparable. Differences may be attributable to differences between the applicable Swiss Statutory Accounting Rules and IFRS, the effects of consolidation on the financial statements of the Swiss Life/Rentenanstalt or other factors.

Decreases in Swiss Life Group's capital base or a rating downgrade could adversely affect Swiss Life's business, its results of operations and its funding costs and financial flexibility

Certain Swiss Life Group entities as well as Swiss Life Group as a whole are subject to regulatory capital regulations (solvency rules) in their respective countries. If, as a result of declines in the value of investment portfolios, shortfalls in future earnings or for any other reason, Swiss Life Group were not able to maintain adequate levels of shareholders' equity, regulatory capital, other core capital components or operating earnings, this could lead to a number of potentially negative consequences. The regulated entities of Swiss Life Group could face restrictions imposed by the regulators if solvency rules are not met. A downgrading of Swiss Life Group's insurance entities' financial strength ratings could reduce the attractiveness of Swiss Life Group's products to customers and distributors. In addition a downgrading could reduce Swiss Life's flexibility in borrowing as well as increase the cost of borrowing, which in turn would reduce revenues and profitability.

Swiss Life Group may require additional capital in the future, which may not be available or may only be available on unfavourable terms

Swiss Life Group's future capital requirements depend on many factors, including its ability to write new business successfully and its ability to establish premium rates and reserves at levels sufficient to match future policy liabilities, as well as pending regulatory changes to capital requirements and other regulatory developments. Capital requirements could come from the Swiss operation and also from branch insurance operations abroad, although whilst capital transfers from foreign branches can be sought, the obtaining of these can be subject to uncertainty.

Actual experience may differ from that assumed in the calculation of embedded value financial information

The assumptions used when calculating Swiss Life's assessment of its embedded value may differ from actual developments in the future. Swiss Life obtains its embedded value calculations using actuarial practices and assumptions, including assessments of the long term developments of interest rates, investment returns, the allocation of investments between equity, fixed income and other assets, policyholder bonus rates (some of which are guaranteed), mortality and morbidity rates, policyholder lapses and future expense levels. Adjustments in such assumptions may have to be made in reaction to revised regulatory requirements, changing financial markets or expected future actuarial experience, which may lead to changes in the embedded value as well as the value of any new business of Swiss Life's life insurance operations.

Swiss Life's loss reserves may not adequately cover future losses and benefits

Swiss Life maintains loss reserves for its non-life insurance businesses to cover its estimated ultimate liability for losses and loss adjustment expenses for losses, reported and unreported, incurred during each accounting period. Loss reserves do not represent an exact calculation of liabilities, but rather are estimates of the expected cost of the ultimate settlement of losses. These estimates are based on actuarial and statistical projections, at a given time, of facts and circumstances known at that time and estimates of trends in loss severity and other variable factors, including new concepts of liability or other changes in legal precedents and general economic conditions. Changes in these trends or other variable factors could result in claims in excess of loss reserves or in a need to increase the loss reserves. Any insufficiencies in loss reserves for future claims, and any resulting change in loss reserves, could adversely affect the extent to which new business may be written and may adversely affect the results of operations or capital of Swiss Life.

Internal controls may not effectively address all material risks affecting Swiss Life Group

Although Swiss Life Group considers the controls and procedures it currently has in place to minimise the financial reporting, legal, disclosure and other regulatory risks associated with its business to be adequate for its purposes, Swiss Life Group recognises that the efficacy of some of these controls and procedures depends significantly on input from external legal and other advisers and all of these controls and procedures need to be kept under regular review, particularly given the comprehensive regulatory scrutiny. There can be no assurance that Swiss Life Group will be able to identify and adequately remedy failures or weaknesses in the internal controls and procedures of Swiss Life Group.

Swiss Life Group is exposed to operational risk

Operational risk is the risk of direct and indirect loss arising from the inadequacies of business processes, procedures or security and human error. Swiss Life Group faces operational risk arising from mistakes made in the confirmation or settlement of transactions or from transactions not being properly recorded, evaluated or accounted for. Swiss Life's businesses are highly dependent on its ability to process, on a daily basis, a large number of transactions. Consequently, it relies heavily on its financial, accounting and other data processing systems. If any of these systems do not operate properly or malfunction, Swiss Life Group could suffer financial loss, a disruption of its businesses, liability to clients, regulatory intervention or damage to its reputation.

Swiss Life faces the risk of litigation or other proceedings

Swiss Life faces the risk of litigation and other proceedings. While Swiss Life believes it has appropriately provided for the financial effects of the outcome of litigation and other proceedings, the outcome may differ from management expectation thereby exposing Swiss Life to unexpected costs and losses and reputational and other non-financial consequences, as well as taking up management time and resources. For example, the outcome of litigation and other proceedings may not correspond to the manner in which it is perceived by the market, and Swiss Life's reputation may thus be impacted in a way which adversely effects its results of operations and financial condition. In addition, the consequences of such proceedings for Swiss Life's regulated business may be to expose Swiss Life to increased regulatory scrutiny and to accept constraints which involve additional cost or otherwise put the business at a competitive disadvantage.

Substantial legal liability arising in relation to such litigation or other proceedings could have a material adverse effect on Swiss Life's business, reputation, results of operations and/or financial condition.

In addition, whether or not these or other proceedings are commenced or are successful, Swiss Life is exposed to the risks of negative publicity and press speculation. which, whether with or without any foundation, could cause damage to its reputation and other damage to its business, including the risk that it will be subjected to greater regulatory scrutiny.

Risks Related to the Loan Notes

An investment in the Loan Notes involves certain risks that would not be associated with an investment in typical debt securities. Such risks could result in principal or interest not being repaid or paid by the Issuer and/or a material impairment of the market price of the Loan Notes. The following is a description of risk factors in relation to the Loan Notes.

Perpetual securities

The Loan Notes have an indefinite term. The Issuer is under no obligation to redeem the Loan Notes at any time, and holders of Loan Notes have no right to call for their redemption. As there is an indefinite term, there is no fixed date for the payment of principal on the Loan Notes. Holder of Loan Notes do not have the right to accelerate the payment of the principal amount of the Loan Notes if the Issuer is in default under the Loan Notes or to otherwise declare the Loan Notes due and payable.

Redemption at the Option of the Issuer

The Loan Notes are redeemable in whole but not in part at the option of the Issuer at their principal amount on the First Optional Redemption Date and on each Interest Payment Date thereafter. The Issuer may also redeem the Loan Notes in whole but not in part prior to the First Optional Redemption Date at their principal amount together with any accrued interest at any time following the occurrence of a Par Redemption Event (which could be triggered by a Recalculation of Interest Event or a Special Tax Event) and at the greater of the Make Whole Amount and the principal amount of the Loan Notes, in each case, together with accrued interest, following the occurrence of a Make Whole Redemption Event (which could be triggered by an Accounting Event, a Regular Tax Event or a Regulatory Event). In any case, the Issuer may call and redeem the Loan Notes only if the FOPI or any Successor Authority has given (and has not subsequently withdrawn) its consent to the redemption, to the extent such consent is required, or otherwise has not objected to the redemption, all as more fully described in the Conditions. If the Issuer calls and redeems the Loan Notes in any of the circumstances mentioned above, holder of Loan Notes may only be able to reinvest the redemption proceeds in securities with a lower yield.

Subordination

The Loan Notes constitute direct, unsecured, subordinated and perpetual obligations of the Issuer and rank equally without any preference among themselves and any other future unsecured, subordinated perpetual obligations of the Issuer (whether actual or contingent) outstanding from time to time, ranking, or expressed to rank, equally with the obligations of the Issuer under the Loan Notes, except that the Loan Notes will rank senior to any debt or other obligation of the Issuer that is expressly or by applicable law subordinated to the Loan Notes. The Guarantor's obligations under the Guarantee are subordinated and perpetual obligations of the Guarantor. In the event of the liquidation, dissolution or winding-up of the Issuer or of the Guarantor, the claims of the Loan Noteholders against the Issuer or the Guarantor, respectively, in respect of payments of principal of, and interest on, the Loan Notes will (i) with respect to the Issuer be subordinated in right of payment to the claims of all Senior Creditors of the Issuer, but will be paid in priority to any debt or other obligation of the Issuer that is expressly or by applicable law subordinated to the Loan Notes and to distributions to all classes of equity of the Issuer and (ii) with respect to the Guarantor be subordinated in right of payment to the claims of all Senior Creditors of the Guarantor, but will be paid in priority to any debt or other obligation of the Guarantor that is expressly or by applicable law subordinated to the Guarantee and to distributions to all classes of equity of the Guarantor. In any such event, Loan Noteholders may suffer a partial or total loss of the amounts invested.

Optional Suspension of Interest Payments and Cancellation of Interest Payments

The Issuer may, with respect to any Optional Interest Payment Date, elect in its discretion to suspend in whole or in part the payment of interest on the Loan Notes, if during the 12 months in respect of such Interest Payment Date neither the Issuer nor the Guarantor has declared or made or paid any dividend or other distribution or interest (or arrears thereof) on or in respect of any Junior Instruments and/or Parity Instruments (except where such payment is made intra-group, or where such payment on or in respect of any of their respective Parity Instruments was itself mandatory under the terms and conditions of such Parity

Instrument); and no redemption, repayment, repurchase or any other acquisition for purposes of cancellation of any of their respective Parity Instruments and/or Junior Instruments has been made by or on behalf of the Issuer and the Guarantor or any of their respective subsidiaries.

If the Issuer elects to suspend an interest payment in whole or in part, the Issuer will not have any obligation to make such interest payment or shall only be obliged to pay such part of the Interest Amount it elects to pay, respectively on the relevant Interest Payment Date and the failure to pay such interest will not constitute a default by the Issuer or any other breach of obligations under the Loan Notes or for any other purpose.

Interest payments so suspended will be cancelled and will not accumulate.

Required Suspension of Interest Payments and Cancellation of Interest Payments

If on any Interest Payment Date or the redemption date a Solvency Event has occurred, the Issuer will be required to suspend payment of any Interest Amount; provided that in the case where the payment of such Interest Amount would itself cause a Solvency Event to occur, the Issuer will only be required to suspend the Solvency Shortfall and provided further that the Issuer will not be required to suspend the payment of such Interest Amount or Solvency Shortfall, as the case may be, if the FOPI or any Successor Authority has given its consent to such payment.

If an interest payment is suspended, the Issuer shall not have any obligation to make such interest payment on the relevant Interest Payment Date and the failure to pay such interest shall not constitute a default by the Issuer or any other breach of obligations under the Loan Notes or for any other purpose.

Interest payments so suspended will be cancelled and will not accumulate.

Interest Rate Risks

Initially, the Loan Notes will carry fixed interest. A holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital market (the ''Market Interest Rate''). While the normal interest rate of a bond or note with a fixed interest rate is fixed during the life of such security or during a certain period of time, the Market Interest Rate typically changes on a daily basis. As the Market Interest Rate changes, the price of such security changes in the opposite direction. If the Market Interest Rate increases, the price of such security typically falls. If the Market Interest Rate falls, the price of a security with a fixed interest rate typically increases. Movements of the Market Interest Rate can adversely affect the market price of the Loan Notes and could lead to losses for holders of Loan Notes if they sell the Loan Notes.

After the First Optional Redemption Date, unless the Loan Notes have been redeemed, they will bear interest at a floating rate. A holder of a security with a floating rate of interest is exposed to the risk of fluctuating compensation rate levels and uncertain compensation income. Fluctuating compensation rate levels make it difficult to determine the yield of the instrument.

Transfer of Loan Notes

No assurance as to the availability of a liquid secondary market for the Loan Notes can be given or as to the price at which they would be sold on a secondary market. In particular, certain transfer restrictions apply in respect of the Loan Notes which restrict their ownership to Qualifying Banks or one Permitted Non-Qualifying Lender. The market value of the Loan Notes may be significantly less than would be the case were the Loan Notes fully transferable.

Risks relating to the ratings on the Loan Notes

A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating organisation.

The Issuer has received a financial strength credit rating of A- with a stable outlook from Standard & Poor's, a division of The McGraw-Hill Companies, Inc (''Standard & Poor's''). The Guarantor has received a counterparty credit rating of BBB with a stable outlook from Standard & Poor's.

The Loan Notes have been assigned a rating of BBB from Standard & Poor's. In addition, other rating agencies may assign credit ratings to the Loan Notes with or without any solicitation from the Issuer or the Guarantor and without any provision of information from the Issuer or the Guarantor.

A downgrade or potential downgrade in these ratings, the assignment of a new rating that is lower than existing ratings, or a downgrade or potential downgrade in the ratings assigned to the Issuer or the Guarantor, its respective subsidiaries or any of their securities could adversely affect the price and liquidity of the Loan Notes. The rating may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of the Loan Notes.

No limitation on issuing debt

There is no restriction on the amount of securities or liabilities that the Issuer or the Guarantor may issue or guarantee that rank senior to the Loan Notes or the Guarantee or on the amount of securities or liabilities that the Issuer or the Guarantor may issue or guarantee that rank *pari passu* with the Loan Notes or the Guarantee. The issuance of such securities may reduce the amount recoverable by the holder of Loan Notes on liquidation, dissolution or winding-up of the Issuer or the Guarantor or may increase the likelihood that the Issuer may elect or be required to suspend payments of interest under the Loan Notes.

No Covenants concerning operations of the Issuer and the Guarantor and No Transaction Limitations

The Loan Notes do not contain covenants governing the operations of the Issuer or the Guarantor and do not limit the ability of the Issuer or the Guarantor to enter into a merger, asset sale or other significant transaction that could materially alter their existence, jurisdiction of organisation or regulatory regime and/or the composition and business of the Group. In the event the Issuer or the Guarantor would enter into such a transaction, holder of Loan Notes could be materially and adversely affected.

TERMS AND CONDITIONS OF THE LOAN NOTES

(the "Conditions")

1 Form

(a) The Loan Notes are issued by Swiss Life Insurance and Pension Company (the "**Issuer**") and guaranteed on a subordinated basis by Swiss Life Holding (the "**Guarantor**") in the aggregate principal amount of €700,000,000. Initially, only one Loan Note will be issued.

(b) The Loan Notes will be represented by definitive certificates in registered form. The Loan Notes shall each bear the manual or facsimile signatures of two duly authorised officers of the Issuer as well as the manual signature of an authentication officer of the Registrar. The Bank of New York (Luxembourg) S.A. (the "**Registrar**") will maintain a register (the "**Register**") of the holders of record of the Loan Notes (the "**Loan Noteholders**") reflecting the ownership of the Loan Notes. Transfer (as defined in Condition 10) of Loan Notes shall be made in accordance with Condition 10.

2 Status of the Loan Notes and the Guarantee

(a) Status of the Loan Notes

The Loan Notes constitute direct, unsecured, subordinated and perpetual obligations of the Issuer and rank equally without any preference among themselves and any other future unsecured, subordinated perpetual obligations of the Issuer (whether actual or contingent) outstanding from time to time ranking, or expressed to rank, equally with the obligations of the Issuer under the Loan Notes, except that the Loan Notes will rank senior to any debt or other obligation of the Issuer that is expressly or by applicable law subordinated to the Loan Notes.

In the event of the liquidation, dissolution or winding-up of the Issuer, the claims of the Loan Noteholders against the Issuer in respect of payments of principal of, and interest on, the Loan Notes will be subordinated in right of payment to the claims of all Senior Creditors (as defined below) of the Issuer, but will be paid in priority to any debt or other obligation of the Issuer that is expressly or by applicable law subordinated to the Loan Notes and to distributions to all classes of equity of the Issuer.

No security (except for the Guarantee with respect to the Loan Notes) of whatever kind is, or will at any time be, provided by the Issuer or any other person securing rights of the Loan Noteholders under the Loan Notes. No subsequent agreement may limit the subordination pursuant to the provisions set out in this Condition 2(a) or shorten any applicable notice period in respect of the Loan Notes. If the Loan Notes are redeemed in violation of Condition 5, the amounts redeemed must be returned to the Issuer irrespective of any agreement to the contrary, unless the Issuer has been dissolved or such amounts have been replaced by regulatory capital qualifying with the same regulatory (sub-)category or equivalent thereof or if the FOPI (as defined below) or any Successor Authority (as defined below) has given its consent to the redemption.

No Loan Noteholder may set off any claims arising under the Loan Notes against any claims that the Issuer may have against the Loan Noteholder. The Issuer may not set off any claims it may have against any Loan Noteholder against any of its obligations under the Loan Notes.

(b) Status of the Guarantee

The Guarantor has given an unconditional and irrevocable guarantee on a subordinated basis for the due payment of principal of, and interest and any premium on, and any other amounts expressed to be payable by the Issuer under the Loan Notes (the "**Guarantee**") in accordance with Article 111 of the Swiss Federal Code of Obligations, irrespective of the validity of the Loan Notes and has waived all rights of objection and defence arising from the Loan Notes.

Accordingly, the Guarantor has agreed to pay to the Principal Paying Agent, on behalf of the Loan Noteholders, within ten Business Days after the receipt by the Guarantor of the first written demand of the Principal Paying Agent as acceleration agent (the "**Acceleration Agent**") for payment and the Acceleration Agent's confirmation in writing that an amount has become due and payable under the Loan Notes which is equivalent to the amount claimed under the Guarantee has and remained unpaid on the due date. Demands for payment may be made by the Acceleration Agent for sums due under the Loan Notes with respect to payments of principal of, and interest on, the Loan Notes payable pursuant to the Conditions.

In the event of any liquidation, dissolution or winding-up of the Guarantor, the claims of the Loan Noteholders under the Guarantee will be subordinated in right of payment to the claims of all Senior Creditors of the Guarantor, but will be paid in priority to any debt or other obligation of the Guarantor that is expressly or by applicable law subordinated to the Guarantee and to distributions to all classes of equity of the Guarantor.

No security of whatever kind is, or will at any time be, provided by the Guarantor or any other person securing rights of the Loan Noteholders under the Guarantee. No subsequent agreement may limit the subordination pursuant to the provisions set out in this Condition 2(b) or shorten any applicable notice period in respect of the Loan Notes or the Guarantee. Any redemption payments made on the Guarantee must be returned to the Guarantor irrespective of any agreement to the contrary, unless (x) the Guarantor has been dissolved or (y) such amounts have been replaced by regulatory capital qualifying with the same regulatory (sub-)category or equivalent thereof or (z) if the FOPI or any Successor Authority has given its consent to the payment.

No Loan Noteholder may set off any claims arising under the Guarantee against any claims that the Guarantor may have against the Loan Noteholder. The Guarantor may not set off any claims the Guarantor may have against any Loan Noteholder against any of its obligations under the Guarantee.

(c) The provisions of this Condition 2 are governed by the laws of Switzerland and such provisions are irrevocable.

(d) In these Conditions

"**FOPI**" means Federal Office of Private Insurance;

"**Obligor**" means the Issuer or the Guarantor, as the case may be.

"**Senior Creditors**" means creditors of an Obligor, (i) who are policyholders or other unsubordinated creditors of such Obligor, or (ii) whose claims are, or are expressed to be, subordinated (whether only in the event of the liquidation, dissolution or winding-up of such Obligor or otherwise) to the claims of policyholders and other unsubordinated creditors of such Obligor (including all existing and future unsecured, subordinated dated obligations and all existing (but, for the avoidance of doubt, not future) unsecured, subordinated, perpetual obligations of such Obligor (whether actual or contingent)), except those whose claims rank, or are expressed to rank, equally with or junior to the claims of the Loan Noteholders under the Loan Notes and/or the Guarantee, respectively; and

"**Successor Authority**" means any domestic or foreign successor authority to FOPI or otherwise that has regulatory jurisdiction over the Issuer, the Guarantor and/or the Swiss Life group's operations.

3 Interest

(a) Fixed Rate of Interest

(i) Subject to Condition 4, from and including 12 April 2007 (the "**Interest Commencement Date**") to but excluding 12 April 2017 (the "**First Optional**

Redemption Date") the Loan Notes will bear interest (the "**Fixed Rate of Interest**") on their aggregate principal amount at a fixed rate of 5.849 per cent. per annum. Such Fixed Rate of Interest will be payable annually in arrear on 12 April in each year, commencing on 12 April 2008 (each such date a "**Fixed Interest Payment Date**").

(ii) Where interest is to be calculated in respect of a period which is equal to or shorter than a Fixed Interest Period the interest will be calculated on the basis of the actual number of days elapsed in the relevant period, from and including the most recent Fixed Interest Payment Date (or, if none, the Interest Commencement Date) to but excluding the date on which it falls due, divided by the number of days in the Fixed Interest Period in which the relevant period falls (including the first such day but excluding the last).

"**Fixed Interest Period**" means each period from and including the Interest Commencement Date to but excluding the first Fixed Interest Payment Date and thereafter from and including each Fixed Interest Payment Date to but excluding the next following Fixed Interest Payment Date.

(b) Floating Rate of Interest

(i) Floating Interest Payment Dates

(A) Subject to Condition 4, the Loan Notes will bear interest (the "**Floating Rate of Interest**") on their aggregate principal amount from and including the First Optional Redemption Date to but excluding the first Floating Interest Payment Date and thereafter from and including each Floating Interest Payment Date to but excluding the next following Floating Interest Payment Date (each such period a "**Floating Interest Period**" and, together with any Fixed Interest Period, an "**Interest Period**"). Interest on the Loan Notes will be payable in arrear on each Floating Interest Payment Date.

(B) "**Floating Interest Payment Date**" means subject to (C) below, 12 April, 12 July, 12 October and 12 January in each year (and, together with any Fixed Interest Payment Date, an **"Interest Payment Date**").

(C) If any Floating Interest Payment Date would otherwise fall on a calendar day which is not a Business Day, the Floating Interest Payment Date shall be the next calendar day which is a Business Day unless it would thereby fall into the next calendar month, in which case the relevant Floating Interest Payment Date shall be the immediately preceding Business Day.

(ii) The rate of interest (the "**Floating Rate of Interest**") for each Floating Interest Period will, except as provided below, be the offered quotation (expressed as a percentage rate per annum) for three months deposits in Euro for the relevant Floating Interest Period which appears or appear, as the case may be, on the Screen Page (as defined below) as of 11.00 a.m. (Brussels time) on the relevant Interest Determination Date (as defined below) plus the Margin, all as determined by the Calculation Agent.

If the Screen Page is not available or if no such quotation appears as at such time, the Calculation Agent shall request the principal Euro-zone office of each of the Reference Banks selected by it to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for three months deposits in Euro for the relevant Floating Interest Period to leading banks in the interbank market of the Euro-zone at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date. As long as two or more of the selected Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Period shall be the arithmetic mean of such offered quotations (rounded if necessary to the nearest one thousandth of a percentage point, with 0.0005 being rounded upwards) plus the Margin. If the Rate of Interest cannot be determined in accordance with the foregoing provisions, the Rate of Interest shall be the offered quotation or the arithmetic mean of the offered quotations on the Screen Page on the last day preceding the Interest Determination Date on which such quotations were offered plus the Margin.

As used herein, "**Reference Banks**" means those offices of five of such banks whose offered rates were used to determine such quotation when such quotation last appeared on the Screen Page.

(iii) The Calculation Agent will, on or as soon as practicable after each date at which the Floating Rate of Interest is to be determined, calculate the amount of interest payable on the Loan Notes for the relevant Floating Interest Period by multiplying the Floating Rate of Interest by the Floating Day Count Fraction and by the aggregate principal amount of the Loan Notes and rounding the resulting figure to the nearest 0.01 Euro, 0.005 Euro being rounded upwards.

(iv) The Calculation Agent will cause the Rate of Interest, each amount of interest for each Floating Interest Period, each Floating Interest Period and the relevant Floating Interest Payment Date to be notified to the Loan Noteholders by notice in accordance with Condition 14 as soon as possible after their determination, but in no event later than the first day of the relevant Floating Interest Period. Each amount of interest and Floating Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Floating Interest Period. Any such amendment will be promptly notified to the Loan Noteholders by notice in accordance with Condition 14.

(v) All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 3(b) by the Calculation Agent shall (in the absence of manifest error) be binding on the Issuer, the Guarantor and the Loan Noteholders.

(vi) The Issuer will procure that, so long as any Loan Note is outstanding, there will at all times be a Calculation Agent for the purposes of the Loan Notes. If the Calculation Agent is unable or unwilling to continue to act as calculation agent or if the Calculation Agent fails duly to establish the Floating Rate of Interest for any Floating Interest Period or to calculate the amount of interest, the Issuer will appoint some other leading bank to act as such in its place. The Calculation Agent may not resign its duties without a successor having been so appointed.

(vii) In these Conditions:

"**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks in London and Zurich are open for business and which is a TARGET Business Day;

"**Euro-Zone**" means the region comprised of those member states of the European Union that have adopted, or will have adopted from time to time, the single currency in accordance with the Treaty establishing the European Community (signed in Rome on 25 March 1957), as amended by the Treaty on European Union (signed in Maastricht on 7 February 1992), the Amsterdam Treaty (signed in Amsterdam on 2 October 1997) and the Treaty of Nice (signed in Nice on 26 February 2001), as further amended from time to time;

"**Floating Day Count Fraction**" means, in respect of the calculation of an amount of interest on the Loan Notes for any period of time (the "**Calculation Period**") the actual number of days in the Calculation Period divided by 360;

"**Interest Determination Date**" means the second TARGET Business Day prior to the commencement of the relevant Floating Interest Period;

"**Margin**" means 2.5 per cent. per annum (which includes a 100 basis point step-up above the original issue margin);

"**Screen Page**" means Reuters Screen EURIBOR01, such other page as may replace that page on that service for the purpose of displaying such information; or (if that service ceases to display such information, such page as displays such information on such service (or if more than one, that one selected at the discretion of the Calculation Agent) as may replace the Reuters Screen EURIBOR01; and

"**TARGET Business Day**" means a day on which the Trans-European Automated Real-time Gross settlement Express Transfer (TARGET) system is available for settlement of euro payments.

(c) Tax Deductions and Recalculation of Interest

If a tax deduction or withholding (collectively, a "**Tax Deduction**") is required by law to be made by the Issuer or the Guarantor, as the case may be, in respect of any payment of interest in respect of the Loan Notes or, as the case may be, any payment by the Guarantor under the Guarantee for, any taxes, duties, assessments or governmental charges of whatever nature imposed by the Swiss Confederation or any subdivision thereof ("**Taxes**") and should Condition 7(a) be unlawful for any reason, the applicable interest rate in relation to that Interest Payment Date will, subject to Condition 7(b), be the interest rate which would have otherwise been payable on the Interest Payment Date divided by the difference between 1 and the rate (as a fraction of 1) at which the relevant Tax Deduction is required to be made and the Issuer will (i) be obligated to pay the relevant interest on that Interest Payment Date at the adjusted rate in accordance with this Condition 3(c) and (ii) make the Tax Deduction on the recalculated interest. Without prejudice to the foregoing, all references to a rate of interest in the Conditions shall be construed accordingly and all provisions in Condition 7 (other than Condition 7(a)) shall apply to the Tax Deduction on the recalculated interest payment (such recalculation is referred to herein as a "**Recalculation of Interest**").

(d) Cessation of Interest Accrual

The Loan Notes shall cease to bear interest from the end of the day preceding the day on which they become due for redemption. If the Issuer fails to redeem the Loan Notes when due, interest shall continue to accrue on the outstanding principal amount of the Loan Notes beyond the due date until the end of the day preceding the day of the actual redemption of the Loan Notes. The applicable rate of interest will be determined in accordance with this Condition 3. This does not affect any additional rights that might be available to the Loan Noteholders.

4 Payment and cancellation of interest payments

(a) Compulsory interest payments

Interest which accrues during an Interest Period to but excluding an Interest Payment Date will be payable in cash on that Interest Payment Date, save that if on the Interest Payment Date (x) an optional suspension of interest has been elected pursuant to Condition 4(b)(i)(B)), the provisions of Condition 4(b) shall apply or (y) a Solvency Event has occurred, the provisions of Condition 4(c) shall apply.

(b) Optional suspension of interest payments

(i) Save to the extent that a Solvency Event has occurred, with respect to any interest which accrues during an Interest Period ending on but excluding an Optional Interest Payment Date the Issuer may elect in its discretion:

(A) either to pay on such Optional Interest Payment Date the interest which accrued during the interest period to but excluding such Optional Interest Payment Date in cash, or

(B) to suspend in whole or in part the payment of interest which accrued during the interest period to but excluding such Interest Payment Date by giving notice in accordance with Condition 14 not less than 10 Business Days prior to such Interest Payment Date (which notice will be irrevocable).

The Issuer may not suspend an interest payment pursuant to Condition 4(b)(i)(B) if the FOPI or any Successor Authority states at any time prior to the relevant Interest Payment Date that the Loan Notes are not longer eligible to qualify as Upper Additional Capital (''oberes ergänzendes Kapital'') pursuant to Art. 49 in connection with Art. 39 of the SPICO (as defined in Condition 5(b)(ii)). The Issuer shall promptly give notice to the Loan Noteholders in accordance with Condition 14 if such an event occurs.

(ii) An ''**Optional Interest Payment Date**'' occurs if during the 12 months preceding such Interest Payment Date:

(A) neither the Issuer nor the Guarantor has declared or made or paid any dividend or other distribution or interest (or arrears thereof) on or in respect of any Junior Instruments and/or Parity Instruments (except where such payment is made intra-group, or where such payment on or in respect of any of their respective Parity Instruments was itself mandatory under the terms and conditions of such Parity Instrument); and

(B) no redemption, repayment, repurchase for purposes of cancellation or any other acquisition for purposes of cancellation of any of their respective Parity Instruments and/or Junior Instruments has been made by or on behalf of the Issuer and the Guarantor or any of their respective subsidiaries.

(iii) If the Issuer elects to suspend an interest payment pursuant to Condition 4(b)(i)(B) in whole or in part, the Issuer will not have any obligation to make such interest payment or shall only be obliged to pay such part of the Interest Amount it elects to pay, respectively, on the relevant Interest Payment Date, and the failure to pay such interest will not constitute a default by the Issuer or any other breach of obligations under the Loan Notes or for any other purpose. Interest payments so suspended will be cancelled and will not accumulate.

''**Interest Amount**'' means, with respect to any Interest Payment Date or the redemption date, the amount of interest which would be payable on the aggregate principal amount of Loan Notes outstanding on such Interest Payment Date or the redemption date pursuant to Condition 3.

''**Junior Instruments**'' means, with respect to an Obligor, (i) ordinary shares, (ii) preferred or preference shares ranking junior to Parity Shares (as defined below) of such Obligor, and (iii) any other securities or obligations of such Obligor ranking or expressed to rank junior to its Parity Instruments (as defined below) issued directly by such Obligor.

''**Parity Instruments**'' means, with respect to an Obligor, (i) the most senior ranking perpetual non-cumulative preferred or preference shares that have equivalent financial terms as the Loan Notes and which are issued directly by such Obligor (**"Parity Shares**"), if any, (ii) guarantees by such Obligor (whether through an agreement or instrument labelled as a guarantee, as a support agreement, or with some other name but with an effect similar to a guarantee or support agreement) of preferred or preference shares issued by any of such Obligor's subsidiaries, effectively ranking or expressed to rank *pari passu* with such Obligor's Parity Shares, if any, (iii) any future unsecured, subordinated perpetual obligations of such Obligor ranking, or expressed to rank, equally with the obligations of such Obligor under the Loan Notes or the Guarantee. For the avoidance of doubt, the obligations of the Issuer under the loan agreement, dated 14 November 2005, between the Issuer and J.P. Morgan Bank Luxembourg S.A. and the loan agreement, dated 31 March 1999, between the Issuer, Morgan Guaranty Trust Company of New York and J.P. Morgan Securities Ltd. do not constitute Parity Instruments.

(c) Required suspension of interest payments

(i) If on any Interest Payment Date or the redemption date a Solvency Event has occurred, the Issuer will be required to suspend payment of any Interest Amount; provided that in the case where the payment of such Interest Amount would itself cause a Solvency Event to occur, the Issuer will only be required to suspend the Solvency Shortfall (as defined below), except that the Issuer will not be required to suspend the payment of such Interest Amount or Solvency Shortfall, as the case may be, if the FOPI or any Successor Authority has given its consent to such payment.

"**Reference Date**" means the 10^{th} Business Day preceding the relevant Interest Payment Date or redemption date, as the case may be.

A "**Solvency Event**" shall have occurred if on the Reference Date:

(A) the Issuer does not have appropriate funds to cover the required minimum solvency margin (or a comparable term in case of a change in applicable rules) in accordance with the provisions of mandatorily applicable regulatory capital requirements (including but not limited to Swiss insurance regulatory law (for group solvency and single solvency purposes and the solvency pursuant to the regulation for financial conglomerates) and a generally recognised administrative practice, if any, of the FOPI or any Successor Authority) mandatorily applicable at that time, and the amount of such funds would, as a result of a full or partial interest payment or redemption payment, respectively, that would otherwise be due on such Interest Payment Date or date of redemption, respectively, be or become less than the required minimum solvency margin, all as shown in the most recent solvency report submitted by the Issuer to the FOPI or any Successor Authority available on the Reference Date, or

(B) the Issuer is unable to pay its debts owed to its Senior Creditors as they fall due, or

(C) the Assets (as defined below) of the Issuer do not exceed its Liabilities (as defined below) (other than liabilities to persons who are not Senior Creditors of the Issuer).

Where:

"**Assets**" means the unconsolidated total assets of the Issuer, as shown in the Issuer's latest annual audited balance sheet, but adjusted for all subsequent events, as reasonably determined by the Issuer, or if the Issuer is being liquidated, its liquidator.

"**Liabilities**" means the unconsolidated total liabilities of the Issuer, as shown in the Issuer's latest annual audited balance sheet, but adjusted for all subsequent events, as reasonably determined by the Issuer, or if the Issuer is being liquidated, its liquidator.

"**Solvency Shortfall**" means the portion of the Interest Amount that would cause a Solvency Event to occur or be continuing.

In case of a Solvency Event the Issuer will give notice in accordance with Condition 14 not less than three Business Days prior to such Interest Payment Date of the amount of the relevant interest payment that shall be suspended, if any.

(ii) If an interest payment is suspended pursuant to Condition 4(c)(i), the Issuer shall not have any obligation to make such interest payment on the relevant Interest Payment Date and the failure to pay such interest shall not constitute a default by the Issuer or any other breach of obligations under the Loan Notes or for any other purpose. Interest payments so suspended will be cancelled and will not accumulate.

5 Redemption

(a) No scheduled redemption

The Loan Notes have no final maturity date, are not redeemable at the option of the Loan Noteholders and will not otherwise be redeemed except at the option of the Issuer and in accordance with the provisions set out in Conditions 5(b) and 5(c).

(b) Early redemption events

Subject to Condition 5(f), the Issuer may prior to the First Optional Redemption Date (as defined below) redeem the Loan Notes in whole but not in part upon the occurrence of a Par Redemption Event (as defined below) pursuant to Condition 5(b)(i) or upon the occurrence of a Make Whole Redemption Event pursuant to Condition 5(b)(ii).

(i) If at any time after the issue of the Loan Notes a Recalculation of Interest Event (as defined below) or a Special Tax Event (as defined below) (each a "**Par Redemption Event**") occurs, the Issuer may call and redeem the Loan Notes at their principal amounts plus accrued interest at any time on giving not less than 30 nor more than 60 days' irrevocable notice to the Loan Noteholders in accordance with Condition 14, provided that:

(A) no such notice of redemption may be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor, as the case may be, would be for the first time obligated to pay the Additional Amounts (as defined in Condition 7) in respect of the Loan Notes or, as the case may be, in respect of a demand for payment duly made under the Guarantee or to pay amounts in respect of which there has been a Recalculation of Interest or, as applicable, the date on which the Special Tax Event becomes effective; and

(B) prior to the giving of any such notice of redemption, the Issuer will deliver or procure that there is delivered to the Fiscal Agent:

(I) a certificate signed by the Issuer stating that the Issuer is entitled to effect that redemption and setting out a statement of facts showing that the conditions precedent to its right so to redeem have occurred; and

(II) an opinion of an independent legal advisor of recognised standing to the effect that the Issuer or the Guarantor, as the case may be, has or will become subject to the Par Redemption Event in question as a result of the relevant change or amendment.

Where:

A "**Recalculation of Interest Event**" means the occurrence of a Recalculation of Interest pursuant to Condition 3(c) or a payment of Additional Amounts pursuant to Condition 7(a) in respect of the Loan Notes and this cannot be avoided by the Issuer taking such reasonable measures as the Issuer (acting in good faith) deems appropriate. With respect to the occurrence of a Recalculation of Interest Event, the Issuer shall deliver to the Fiscal Agent an opinion of a recognised independent tax counsel which confirms such occurrence.

A "**Special Tax Event**" means that due to a change in law, ruling or interpretation, the Issuer no longer obtains a tax deduction for the purposes of Swiss corporation tax for any payment of interest by the Issuer on the Loan Notes, and this cannot be avoided by the Issuer taking such reasonable measures as it (acting in good faith) deems appropriate. With respect to the occurrence of a Special Tax Event, the Issuer shall deliver to the Fiscal Agent an opinion of a recognised independent tax counsel which confirms such occurrence.

The Issuer may redeem the Loan Notes pursuant to this Condition 5(b)(i) only in accordance with Condition 5(f) and subject to no Solvency Event having occurred.

Upon the occurrence of any of the events set forth above that give rise to a Par Redemption Event, the Issuer must deliver to the Fiscal Agent a notice bearing the manual signature of two duly authorised officers of the Issuer stating that such Recalculation of Interest Event or Special Tax Event, as the case may be, has occurred as well as a copy of any related opinions.

(ii) If at any time after the issue of the Loan Notes and prior to the First Optional Redemption Date an Accounting Event (as defined below), a Regular Tax Event (as defined below) or a Regulatory Event (as defined below) (each a "**Make Whole Redemption Event**") occurs, the Issuer may call and redeem the Loan Notes (in whole but not in part) at their Make Whole Redemption Amount (as defined below) at any time on giving not less than 30 nor more than 60 days' irrevocable notice to the Loan Noteholders in accordance with Condition 14; provided that:

(A) no such notice of redemption may be given earlier than 90 days prior to the date on which the applicable Make Whole Redemption Event becomes effective; and

(B) prior to the giving of any such notice of redemption, the Issuer will deliver or procure that there is delivered to the Fiscal Agent:

(I) a certificate signed by the Issuer stating that the Issuer is entitled to effect that redemption and setting out a statement of facts showing that the conditions precedent to its right so to redeem have occurred; and

(II) an opinion of an independent legal advisor of recognised standing to the effect that the Issuer or the Guarantor, as the case may be, has or will become subject to the Make Whole Redemption Event in question as a result of the relevant change or amendment.

Upon the occurrence of any of the events set forth above that give rise to a Make Whole Redemption Event, the Issuer or the Guarantor must deliver to the Fiscal Agent a notice bearing the manual signature of two of its duly authorised officers stating that such Accounting Event, Regular Tax Event or Regulatory Event, as the case may be, has occurred and in which respect as well as a copy of any related opinions.

The Issuer may redeem the Loan Notes pursuant to this Condition 5(b)(ii) only in accordance with Condition 5(f) and subject to no Solvency Event having occurred.

Where:

"**Accounting Event**" means that an opinion of a recognised accounting firm has been delivered to the Issuer or the Guarantor, stating that obligations of the Issuer in respect of the Loan Notes must not or must no longer be recorded as liabilities on the balance sheet of the Guarantor published in the Guarantor's annual consolidated financial statements pursuant to the International Financial Reporting Standards (IFRS) and this cannot be avoided by the Issuer or the Guarantor, as the case may be, taking such reasonable measures as the Issuer or the Guarantor, as the case may be, (acting in good faith) deems appropriate. With respect to an Accounting Event the Issuer or the Guarantor, as the case may be, will deliver the applicable opinion to the Fiscal Agent.

"**Bund Rate**" means the yield on the relevant Bund as selected by the Independent Investment Banker (as defined below) having a maturity date closest to the First Optional Redemption Date.

"**Independent Investment Banker**" means one of the Reference Dealers appointed by the Issuer.

The "**Make Whole Amount**" will be calculated by the Independent Investment Banker and will equal the sum of the Present Values (as defined below) on the date of redemption of (i) the principal amount of the Loan Notes assuming such to be due on the First Optional Redemption Date and (ii) the remaining scheduled payments (assuming each such scheduled payment to be due in full) of interest on the Loan Notes until the First Optional Redemption Date, using a discount rate equal to 0.65 per cent. above the Bund Rate on the Redemption Reference Date (as defined below).

The "**Make Whole Redemption Amount**" of the Loan Notes will in the case of a Make Whole Redemption Event equal the greater of (x) the Make Whole Amount (as defined below) and (y) the principal amount of the Loan Notes together, in each case, with any accrued and unpaid interest to but excluding the redemption date.

The "**Present Values**" will be calculated by the Independent Investment Banker by discounting the principal amount of the Loan Notes and the remaining scheduled payments of interest back to the redemption date on an annual basis, assuming a 365-day year or a 366-day year, as the case may be, and the actual number of days elapsed in such year.

"**Redemption Reference Date**" means the third Business Day prior to the date on which the Loan Notes are redeemed by the Issuer pursuant to Condition 5(b).

"**Reference Dealer**" means:

(x) UBS Limited and its successors, provided that if UBS Limited ceases to be a primary European government bond dealer, the Issuer will substitute UBS Limited by another primary government bond dealer, and

(y) any other primary government bond dealer selected by the Issuer.

"**Regular Tax Event**" means that the Issuer no longer obtains a tax deduction (other than due to a change in law, ruling or interpretation) for the purposes of Swiss corporation tax for any payment of interest by the Issuer on the Loan Notes, and this cannot be avoided by the Issuer taking such reasonable measures as it (acting in good faith) deems appropriate. With respect to the occurrence of a Regular Tax Event, the Issuer shall deliver to the Fiscal Agent an opinion of a recognised independent tax counsel which confirms such occurrence.

"**Regulatory Event**" means the occurrence of any of the following events which occurrence cannot be avoided by the Issuer or the Guarantor, as the case may be, taking such reasonable measures as the Issuer (acting in good faith) deems appropriate:

(A) the FOPI or any Successor Authority states that the Loan Notes are no longer eligible to qualify as Upper Additional Capital ("oberes ergänzendes Kapital") pursuant to Art. 49 in connection with Art. 39 of the SPICO (as defined below), and no longer fulfil the requirements for such category, or equivalent thereof, for group or solo solvency purposes; or

(B) the FOPI or any Successor Authority issues further guidance in relation to instruments qualifying under Art. 39 of the SPICO for group or solo solvency purposes (by way of law, ordinance, regulation or a published interpretation thereof), and following which the FOPI or any Successor Authority states that such guidance has an adverse regulatory capital implication for the Issuer in relation to the Loan Notes; or

(C) the FOPI or any Successor Authority issues further guidance in relation to Tier 1 Capital ("Kernkapital") qualifying instruments for group or solo solvency purposes (by way of law, ordinance, regulation or a published interpretation thereof), and following which the FOPI or any Successor Authority states that the Loan Notes do not fulfil the requirements of Tier 1 Capital ("Kernkapital"); or

(D) the FOPI or any Successor Authority issues further guidance in relation to Tier 1 Capital ("Kernkapital") qualifying instruments for group or solo solvency purposes (by way of law, ordinance, regulation or a published interpretation thereof), and the FOPI or any Successor Authority affords the Loan Notes recognition as Tier 1 Capital ("Kernkapital") for group or solo solvency purposes, and at a subsequent time the FOPI or any Successor Authority states that the Loan Notes no longer fulfil the requirements of Tier 1 Capital ("Kernkapital").

"**SPICO**" means the Ordinance on the Supervision of Private Insurance Companies (*Verordnung über die Beaufsichtigung von privaten Versicherungsunternehmen* – AVO) of 9 November 2005, as amended.

(iii) The Issuer will inform, if required by any stock exchange on which the Loan Notes are then listed, such stock exchange, and the Principal Paying Agent as soon as possible of such early redemption.

(c) Redemption at the option of the Issuer

(i) Subject to Condition 5(f) and subject to no Solvency Event having occurred, the Issuer may at its option, upon giving not less than 30 nor more than 60 days' notice in accordance with Condition 5(c)(ii), redeem in whole but not in part the Loan Notes at their principal amount together with any accrued interest on the First Optional Redemption Date and on each subsequent Interest Payment Date thereafter (each, an "**Optional Redemption Date**").

(ii) The appropriate redemption notice is a notice given by the Issuer to the Loan Noteholders in accordance with Condition 14. The notice shall be irrevocable and shall specify:

(A) the Loan Notes subject to redemption;

(B) that such Loan Notes are to be redeemed in whole; and

(C) the Interest Payment Date on which the Loan Notes are to be redeemed.

(iii) The Issuer will inform, if required by any stock exchange on which the Loan Notes are then listed, such stock exchange, and the Principal Paying Agent as soon as possible of such optional redemption.

(d) No redemption at the option of the Loan Noteholders

The Loan Noteholders shall not be entitled to put the Loan Notes for redemption at any time.

(e) Purchase of Loan Notes

Subject to the Non-Bank Rules, the Issuer, the Guarantor or any other member of the Swiss Life group may at any time (subject to mandatory provisions of law) purchase Loan Notes in the open market or otherwise and at any price. Such acquired Loan Notes may be cancelled, held or resold.

The aforementioned persons may purchase the Loan Notes in accordance with this Condition 5(e) only in accordance with Condition 5(f) and subject to no Solvency Event having occurred or occurs as a result of such purchase.

(f) Limitation of termination rights and purchase

(i) The Issuer may call and redeem the Loan Notes in accordance with Condition 5(b) or Condition 5(c) only if the FOPI or any Successor Authority has given (and not subsequently withdrawn) its consent to the redemption (having been given no less than 6 months prior notice by the Issuer) to the extent such consent is required or otherwise has not objected to such redemption.

(ii) The persons mentioned in Condition 5(e) may, subject to mandatory provisions of law, acquire the Loan Notes in accordance with Condition 5(e) only if the FOPI or any Successor Authority has given (and not subsequently withdrawn) its consent to the acquisitionto the extent such consent is required or otherwise has not objected to such acquisition.

(iii) If the Loan Notes are repaid or payments on the Guarantee, as the case may be, are made in circumstances other than as described in this Condition 5(f), then, irrespective of any agreement to the contrary, the amount so (re)paid must be repaid to the Issuer or the Guarantor, as the case may be.

6 Payments

(a) The Issuer undertakes to pay, as and when due, principal and interest on the Loan Notes in Euros. Payment of principal and interest on the Loan Notes shall be made to the Fiscal Agent or to its order for credit to the relevant account holders of the Fiscal Agent as of the relevant Record Date. "**Record Date**" means the date that is 5 Business Days prior to the relevant Interest Payment Date, Optional Redemption Date or date of early redemption pursuant to Condition 5(b).

(b) The Issuer or the Guarantor, as the case may be, shall be discharged by payment to the Fiscal Agent.

(c) Except as otherwise provided in Condition 3(b)(i), if the due date for payment of any amount in respect of the Loan Notes is not a Business Day, then the Loan Noteholder shall not be entitled to payment until the next such day which is a Business Day and shall not be entitled to further interest or other payment in respect of such delay.

(d) Reference in these Conditions to principal in respect of the Loan Notes shall be deemed to include the Make Whole Redemption Amount of the Loan Notes. Any reference in these Conditions to principal or interest will be deemed to include any Additional Amounts in respect of principal or interest (as the case may be) which may be payable under Condition 7.

7 Taxation

(a) All payments of principal and interest in respect of the Loan Notes and all payments by the Guarantor under the Guarantee will be made free and clear of, and without Tax Deduction (as defined in Condition 3(c)) for, any Taxes (as defined in Condition 3(c)), unless the Issuer or the Guarantor, as the case may be, is compelled by law to make such Tax Deduction. In the event of such Tax Deduction, the Issuer or the Guarantor, as the case may be, will pay such additional amounts (the "**Additional Amounts**") as the Loan Noteholders would have received if no Tax Deduction had been required.

(b) However, no such Additional Amounts or interest recalculated pursuant to Condition 3(c) shall be payable with respect to such Taxes in respect of any Loan Noteholder:

(i) if the Loan Note is presented for payment by or on behalf of a Loan Noteholder which is liable to such taxes, duties, assessments or governmental charges in respect of that Loan Note by reason of it having some connection with Switzerland other than the mere holding of that Loan Note;

(ii) if the Loan Note is presented for payment more than 30 days after the Relevant Date (as defined below), except to the extent that the relevant holder would have been entitled to payment of such Additional Amounts or interest recalculated pursuant to Condition 3(c) if it had presented its Loan Note for payment on the 30th day after the Relevant Date, on the assumption if such is not the case, that such last day is a Business Day;

(iii) where such Tax Deduction is imposed on a payment to an individual and is required to be made pursuant to the agreement between the European Community and the Swiss Confederation providing for measures equivalent to those laid down in Council Directive 2003/48/EC on taxation of savings income in the form of interest payments;

(iv) if the Loan Note is presented for payment by or on behalf of a Loan Noteholder which would have been able to avoid such Tax Deduction by presenting the Loan Note to a Paying Agent in another Member State of the European Union;

(v) if the payment could have been made to the relevant Loan Noteholder without a Tax Deduction if it was a Qualifying Lender (as defined below), but on that date that Loan Noteholder is not or has ceased to be a Qualifying Lender other than as a result of any change after the date it became a Loan Noteholder under these Conditions in (or in the interpretation, administration, or application of) any law or double taxation treaty, or any published practice or concession of any relevant taxing authority; or

(vi) if the payment could have been made without a Tax Deduction if the Loan Noteholders had complied with Condition 10.

(c) Within 30 days of making either a Tax Deduction or a payment required in connection with a Tax Deduction, the Issuer must deliver to the relevant Loan Noteholder evidence satisfactory to that Loan Noteholder (acting reasonably) that the Tax Deduction has been made or (as applicable) the appropriate payment has been paid to the relevant taxing authority.

(d) If the Issuer must make a Tax Deduction and the relevant Loan Noteholder (acting in good faith) determines that (i) a Tax refund for such Tax Deduction is available to it and it has retained that Tax refund, that Loan Noteholder shall pay within 10 Business Days after such Tax refund an amount to the Issuer which that Loan Noteholder determines (in its sole discretion) will leave it (after that payment) in the same after-tax position as it would have been if the payment of the Additional Amount or a payment at an interest rate recalculated in accordance with Condition 3(c) had not been required to be made by the Issuer.

(e) In these Conditions:

"**Guidelines**" means, together, the guideline S-02.123 in relation to interbank loans of 22 September 1986 (Merkblatt "Verrechnungssteuer auf Zinsen von Bankguthaben, deren Gläubiger Banken sind (Interbankguthaben)" vom 22. September 1986), guideline S-02.122.1 in relation to bonds of April 1999 (Merkblatt "Obligationen" vom April 1999), the Circular letter No. 15 in relation to bonds and derivative financial instruments subject to the direct federal tax, the Swiss withholding tax and the stamp tax of 7 February 2007 (Kreisschreiben Nr. 15 "Obligationen und derivative Finanzinstrumente als Gegenstand der direkten Bundessteuer, der Verrechnungssteuer sowie der Stempelabgaben" vom Februar 2007), article 4 of the guideline S-02.128 in relation to syndicated credit facilities of January 2000 (Merkblatt "Steuerliche Behandlung von

Konsortialkrediten, Schuldscheindarlehen, Wechseln und Unterbeteiligungen'' vom January 2000), the guideline S-02.122.2 in relation to customer deposits of April 1999 (Merkblatt ''Kundenguthaben'' vom April 1999), and the guideline S-02.130.1 in relation to accounts receivable of Swiss debtors of April 1999 (Merkblatt ''Geldmarktpapiere und Buchforderungen inländischer Schuldner'' vom April 1999), as issued, and as amended from time to time, by the Swiss Federal Tax Administration.

''**Non-Bank Rules**'' means the Ten Non-Bank Rule and the Twenty Non-Bank Rule (each as defined below).

''**Permitted Non-Qualifying Lender**'' means:

(i) initially ELM B.V., Amsterdam, The Netherlands (''**ELM**''), and

(ii) a successor of ELM by way of Transfer (as defined in Condition 10) of all of the Loan Notes, except for Loan Notes held by Qualifying Banks, that is not a Qualifying Bank on the date it becomes a Loan Noteholder, provided that:

(A) such proposed Permitted Non-Qualifying Lender (prior to its becoming a Loan Noteholder) is designated as the Permitted Non-Qualifying Lender in writing by the Issuer with at least ten days' notice before such designation notice is intended to become effective;

(B) if the Issuer (acting reasonably), on receiving such notification with respect to a proposed Permitted Non-Qualifying Lender, believes such proposed Permitted Non-Qualifying Lender is more than one person for purposes of the Non-Bank Rules, the Issuer may during such notice period request from that proposed Permitted Non-Qualifying Lender, at its cost) a tax ruling of the Swiss Federal Tax Administration that such proposed Permitted Non-Qualifying Lender constitutes one person for purposes of the Non-Bank Rules; and

(C) following such a request under subparagraph (B) of this definition, such proposed Permitted Non-Qualifying Lender shall only be a Permitted Non-Qualifying Lender under this paragraph (ii) if (x) the Issuer receives from such proposed Permitted Non-Qualifying Lender a certified copy of such tax ruling and such tax ruling confirms, to the Issuer's reasonable satisfaction, that such proposed Permitted Non-Qualifying Lender constitutes one person for the Non-Bank Rules and (y) such proposed Permitted Non-Qualifying Lender confirms to the Issuer that such proposed Permitted Non-Qualifying Lender has disclosed all facts relevant to this determination to the Issuer.

The Issuer will confirm within ten days of its receipt of any such tax ruling whether or not such ruling is satisfactory for this purpose and, in the absence of such confirmation, the Issuer will be deemed to have confirmed that such tax ruling is so satisfactory on the 10th day after the Issuer's receipt of such tax ruling; which (in each case) has not ceased to be a Loan Noteholder in accordance with the terms hereof.

''**Qualifying Bank**'' means any legal entity acting on its own account which is recognised as a bank by the banking laws in force in its jurisdiction of incorporation and, any branch of a legal entity, which is recognised as a bank by the banking laws in force in the jurisdiction where such branch is situated, and which, in each case, exercises as its main purpose a true banking activity, having bank personnel, premises, communication devices of its own and authority of decision making, always in the meaning given to it in the guideline S-02.123 in relation to interbank loans of 22 September 1986 (Merkblatt ''Verrechnungssteuer auf Zinsen von Bankguthaben, deren Gläubiger Banken sind (Interbankguthaben)'' vom 22. September 1986).

''**Qualifying Lender**'' means a Loan Noteholder which is a Qualifying Bank or the Permitted Non-Qualifying Bank Lender.

''**Relevant Date**'' means whichever is the later of the date on which the payment in question first becomes due and, if the full amount payable has not been received by the Principal Paying Agent on or prior to that due date, the date on which notice of receipt of the full amount has been given to the Loan Noteholders in accordance with Condition 14.

"**Ten Non-Bank Rule**" means the rule that the aggregate number of the Issuer's lenders (including Loan Noteholders) under the Loan Notes which are not Qualifying Banks must not at any time exceed ten, in each case in accordance with the meaning of the Guidelines.

"**Twenty Non-Bank Rule**" means the rule that the aggregate number of the Issuer's lenders (including Loan Noteholders), other than Qualifying Banks, under all outstanding loans (including intra-group loans), facilities and/or private placements (including under the Loan Notes) must not at any time exceed twenty, in each case in accordance with the meaning of the Guidelines.

8 Presentation

Claims in respect of principal and interest will become void unless presentation for payment is made as required by Condition 6 within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date.

9 Fiscal Agent, Principal Paying Agent and Calculation Agent

(a) The initial Fiscal Agent, Principal Paying Agent and the Calculation Agent for the Loan Notes will be The Bank of New York, which is located at:

One Canada Square
London E14 5AL
United Kingdom.

(b) The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of the Fiscal Agent, the Principal Paying Agent, any Paying Agent and the Calculation Agent and to appoint another Fiscal Agent, Principal Paying Agent or additional or other Paying Agents or other Calculation Agents provided that they will at all times maintain (i) a Fiscal Agent, a Principal Paying Agent and a Calculation Agent and (ii) so long as the Loan Notes are listed on a stock exchange, a Paying Agent (which may be the Principal Paying Agent) with (a) specified office in such city as may be required by the rules of the relevant stock exchange and (iii) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26 – 27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive. The Fiscal Agent, the Principal Paying Agent and the Calculation Agent reserve the right at any time to change their respective specified offices to some other specified office in the same city. Notice of all changes in the identities or specified offices of the Fiscal Agent, the Principal Paying Agent, any Paying Agent and the Calculation Agent will be given promptly by the Issuer to the Loan Noteholders in accordance with Condition 14.

(c) The Fiscal Agent, the Principal Paying Agent, any Paying Agent and the Calculation Agent act solely as agents of the Issuer and the Guarantor, respectively, and do not assume any obligations towards or relationship of agency or trust for the Loan Noteholder. The Fiscal Agent, the Principal Paying Agent, any Paying Agent and the Calculation Agent are exempt from the restrictions relating to self-dealing.

10 Transfer and Exchange of Loan Notes

(a) The Loan Notes may only be assigned or transferred, including upon an enforcement of a security, (a "**Transfer**" and "**Transferred**" shall be construed accordingly),

(i) in whole or in part, if the Transfer is to a Qualifying Bank, provided that in the case of a Transfer of the Loan Notes in part the Loan Notes may not be transferred to more than five Qualifying Banks, or

(ii) in whole but not in part, if the Transfer is to a Permitted Non-Qualifying Lender.

Title to the relevant Loan Note passes only on due registration on the Register. The Loan Note will bear a legend setting forth the applicable transfer restrictions.

(b) A Loan Noteholder may at any time require that the Issuer replaces such Loan Noteholder's certificate(s) representing the Loan Notes with certificates in minimum denominations of EUR 50,000. The Fiscal Agent shall accordingly authenticate such replacement certificates and the Registrar shall amend the Register.

(c) Loan Notes may be Transferred in amounts of EUR 50,000 in accordance with the terms of this Condition 10.

(d) Any Transfer of a Loan Note shall be recorded by the Registrar in the Register on production by the transferee at the registered office of the Registrar of:

(i) the relevant certificate representing the Loan Note with the form of transfer endorsed thereon duly executed by the transferor and the transferee and such form of transfer shall include a representation by the transferee that it is a Qualifying Bank or the Permitted Non-Qualifying Lender; and

(ii) such other evidence as the Issuer may require to prove the authority of the person signing the form of transfer endorsed on the relevant certificate representing the Loan Note or the transferee's status as a Qualifying Bank or the Permitted Non-Qualifying Lender.

(e) No Loan Noteholder shall enter into any agreement with another person which is treated as a Sub-Participation. However, no Loan Note will be invalidated by any such agreement having being entered into.

"**Sub-Participation**" means any agreement of a Loan Noteholder with another person under which such Loan Noteholder makes to such other person payments by reference to any of the Loan Notes and which agreement is treated as the Issuer's sub-participation (*Unterbeteiligung*) in the meaning of the Guidelines.

(f) At the date hereof and for so long as the Loan Notes are outstanding the Issuer will ensure that it is in compliance with the Non-Bank Rules, provided that the Issuer will not be in breach of this Condition 10(f) if either of the Non-Bank Rules are exceeded solely by reason of a failure by one or more Loan Noteholders to comply with their respective obligations under this Condition 10.

11 Grants of Security

Any Loan Noteholder may, without the consent of the Issuer, at any time charge or create a security interest in all or any portion of its rights under any Loan Note to secure obligations of such Loan Noteholder; provided that:

(a) no such charge or creation of a security interest shall:

(i) substitute any such chargee or holder of the benefit of such security interest for such Loan Noteholder as Loan Noteholder except in accordance with the provisions of Condition 10; or

(ii) require any payments to be made by the Issuer other than as required by the Loan Notes. A copy of any notice of charge or creation of security interest as envisaged in this paragraph shall be delivered to the Fiscal Agent and the Fiscal Agent shall not be obligated to take any action in regard to such notice; and

(b) such charge or security interest shall in each case provide that upon any assignment or transfer of the interest in the Loan Note or enforcement of such charge or security interest, any resulting assignment or transfer shall be in accordance with Condition 10; and

(c) the Loan Noteholder promptly notifies the Fiscal Agent of any such charge or security interest and the secured party's identity and status by delivering to the Fiscal Agent a respective notification, which notification the Fiscal Agent shall promptly forward to the Issuer.

12 Substitution/Modification

(a) Substitution or Modification of the Loan Notes

Subject to Condition 12(c), Condition 12(d) and Condition 12(e), the Issuer may at any time, without the consent or approval of the Loan Noteholders, substitute all (but not less than all) of the Loan Notes, or modify the terms of the Loan Notes:

(i) if an Accounting Event occurs, so that no Accounting Event exists after such substitution or modification; or

(ii) if a Regular Tax Event occurs, so that no Regular Tax Event exists after such substitution or modification; or

(iii) if a Special Tax Event occurs, so that no Special Tax Event exists after such substitution or modification; or

(iv) if a Recalculation of Interest Event occurs, so that no Recalculation of Interest Event exists after such substitution or modification; or

(v) if a Regulatory Event occurs, so that no Regulatory Event would exist after such substitution or modification.

(b) Substitution of the Issuer

Subject to Condition 12(b), Condition 12(c) and Condition 12(d), the Issuer may at any time, without the consent or approval of the Loan Noteholders, substitute for itself as principal debtor under the Loan Notes a successor in business to the Issuer or such substitute, being a duly licensed and regulated entity that carries on the business of an insurance company within the Swiss Life group (a "**Successor Issuer**").

(c) Requirements of Substitution or Modification

(i) Any substitution or modification of the Loan Notes is conditional on the substituted Loan Notes or the modified Loan Notes:

(A) having terms that are not less favourable to an investor than the terms of the Loan Notes; and

(B) being issued by the Issuer or being issued by another member of the Swiss Life group or in the case of Condition 12(b) by a Successor Issuer (each a "**New Issuer**") with a guarantee by the Guarantor, such that investors have the same material rights and claims as provided by the Loan Notes and the Guarantee; and

(C) ranking at least equal to the Loan Notes and featuring the same tenor, principal amount, interest rate (including applicable margins and step-up), interest payment dates and first call date as the Loan Notes.

(ii) In addition, any substitution or modification of the Loan Notes is subject to:

(A) all interest amounts accrued and due on the relevant Interest Payment Date (if any) being satisfied in full on or prior to the date thereof;

(B) the prior written notice (if such notice is required to be given) by the Issuer to, and receiving no objection from, the FOPI or any Successor Authority;

(C) the substitution or modification not itself giving rise to a change in any published rating of the Loan Notes in effect at such time;

(D) the substitution or modification not triggering the right to effectuate a Par Redemption Event or a Make Whole Redemption Event; and

(E) certification by two of executive officers of the Issuer that these conditions have been complied with.

(iii) In connection with any substitution or modification as indicated above, the Issuer will comply with the rules of any stock exchange or other relevant authority on which the Loan Notes are then listed or admitted to trading.

(d) References

In the event of a substitution pursuant to Condition 12(b)(i)(B), any reference in these Conditions to the Issuer shall be a reference to the New Issuer and any reference to Switzerland shall be a reference to the New Issuer's country of domicile for tax purposes.

(e) Notice and Effectiveness of Substitution

Notice of any substitution of the Issuer shall be given by publication in accordance with Condition 14. Upon such publication, the substitution shall become effective, and the Issuer and in the event of a repeated application of this Condition 12, any previous New Issuer shall be discharged from any and all obligations under the Loan Notes. In the case of such substitution, the stock exchange(s), if any, on which the Loan Notes are then listed will be notified and a supplemental prospectus describing the New Issuer will be prepared.

13 Meetings and Amendments

(a) Single Loan Noteholder

For so long as there is no more than one Loan Noteholder registered in the Register (x) no amendment, waiver, variation of the Loan Notes, the Fiscal Agency Agreement or the Conditions may be made without the prior written consent of such Loan Noteholder and parties to the Fiscal Agency Agreement and (y) the meeting, quorum and voting provisions of Conditions 13(b) and (c) shall not apply.

(b) Meetings of Loan Noteholders

The Fiscal Agency Agreement contains provisions for convening meetings of Loan Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Fiscal Agency Agreement. Such a meeting may be convened by Loan Noteholders holding not less than 10 per cent. in principal amount of the Loan Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more persons holding or representing a clear majority in principal amount of the Loan Notes for the time being outstanding, or at any adjourned meeting, two or more persons being or representing Loan Noteholders whatever the principal amount of the Loan Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia,* (i) to modify the maturity of the Loan Notes or the dates on which interest is payable in respect of the Loan Notes, (ii) to reduce or cancel the principal amount of, any premium payable on redemption of, or interest on or to vary the method of calculating the rate of interest on the Loan Notes, (iii) to change the currency of payment of the Loan Notes, (iv) to vary, amend or grant a waiver in relation to Condition 2, 3, 4 or 5 or (v) to modify the provisions concerning the quorum required at any meeting of Loan Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in principal amount of the Loan Notes for the time being outstanding. Any Extraordinary Resolution duly passed shall be binding on Loan Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Loan Noteholders.

(c) Modification and Waiver

The parties to the Fiscal Agency Agreement may agree, without the consent of the Loan Noteholders, to (i) any modification of any of the provisions of the Fiscal Agency Agreement which is of a formal, minor or technical nature or which is made to correct a manifest error and (ii) any other modification and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Fiscal Agency Agreement which is in the opinion of such parties not materially prejudicial to the interests of the Loan Noteholders. Any such modification, authorisation or waiver shall be binding on the Loan Noteholders and such modification shall be notified to the Loan Noteholders as soon as practicable.

14 Notices

(a) Notices to the Loan Noteholders will be valid if published in a national newspaper designated for exchange notices by any stock exchange (if any) where the Loan Notes are then listed, and if the Loan Notes are unlisted the Issuer will deliver such notice to the Registrar for communication by the Registrar to the Loan Noteholders. Any notice so given will be deemed to have been validly given on the third day after the date of the first such publication.

(b) Provided this complies with the rules of the stock exchange on which the Loan Notes are listed (if any), the Issuer may replace any newspaper notice pursuant to Condition 14(a) by delivering the notice to the Registrar for communication by the Registrar to the Loan Noteholders. Any such notice shall be deemed to have been given to the Loan Noteholders on the seventh day after the day on which the said notice was given to the Registrar.

15 Further Issues

The Issuer reserves the right from time to time, without the consent of the Loan Noteholders to issue additional securities with identical terms and conditions as the Loan Notes in all respects (or in all respects except for the issue date, the first payment of interest, if any, and the issue price on them) so as to be consolidated and form a single series with such Loan Notes. The term ‘‘Loan Notes’’ shall, in the event of such further issue, also comprise such further securities.

16 Applicable Law, Place of Performance and Jurisdiction

(a) Governing Law

The Fiscal Agency Agreement and the Loan Notes will be governed by, and shall be construed in accordance with, English law (except for the subordination provisions (Condition 2) which will be governed by the laws of Switzerland). The place of performance is London, United Kingdom. The Guarantee will be governed by the laws of Switzerland.

(b) Jurisdiction

(i) Subject to Condition 16(b)(ii), the Issuer has irrevocably agreed that the courts in England shall have exclusive jurisdiction in relation to any legal action or proceedings arising out of or in connection with the Fiscal Agency Agreement or the Loan Notes (''**Proceedings**'') and have waived any objection to Proceedings in such courts on the grounds of venue or on the grounds that Proceedings have been brought in an inappropriate forum.

(ii) Condition 16(b)(i) operates for the benefit of the Loan Noteholders and accordingly the Loan Noteholders shall be entitled to take Proceedings in any other court or courts having jurisdiction.

(c) Service of Process

(i) The Issuer and the Guarantor irrevocably appoint Cheeswrights, Notaries Public, 10 Philpot Lane, London EC3M 8BR, as their process agent to receive on their behalf service of process of any Proceedings in England.

(ii) Service of process upon any process agent appointed by or in accordance with this Condition 16(c) shall be good service upon the Issuer or the Guarantor, as the case may be, whether or not it is forwarded to and received the Issuer or the Guarantor, as the case may be. The Issuer and the Guarantor irrevocably agree that if, for any reason, any such process agent ceases to be able to act as process agent on their behalf, or no longer has an address in England, the Issuer and the Guarantor will within 30 days thereof appoint a substitute process agent with an address in England acceptable to the Fiscal Agent and deliver to the Fiscal Agent a copy of the substitute process agent's acceptance of that appointment. In the event that the Issuer and the Guarantor fail to appoint a substitute process agent, it shall be effective service for the Fiscal Agent to serve the process upon the last address in England known to the Fiscal Agent of the process agent for the Issuer and the Guarantor notified to the Fiscal Agent notwithstanding that such process agent is no longer found at such address or has ceased to act. As used in this Condition 16(c), the expression ''process agent'' includes, where the context so admits, a substitute process agent.

(iii) In addition to the methods of service set out in the foregoing provisions of this Condition 16(c), process may be served upon the Issuer and the Guarantor in any other manner permitted by law.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any rights to enforce any term or condition of the Loan Notes under the Contracts (Rights of Third Parties) Act 1999 but this does not affect any right or remedy of a third party which exists or is available apart from that act.

THE GUARANTEE

This section contains extracts of the guarantee (in the meaning of Article 111 of the Swiss Federal Code of Obligations; the "Guarantee") which will be given by the Guarantor on the Issue Date:

"1 Being informed that Swiss Life Insurance and Pension Company, General-Guisan-Quai 40, 8002 Zurich, Switzerland (the "Issuer"), issued/will issue perpetual loan notes (the "Loan Notes") in the aggregate principal amount of EUR 700,000,000, Swiss Life Holding, General-Guisan-Quai 30, 8002 Zurich, Switzerland (the "Guarantor"), herewith irrevocably and un-conditionally guarantees on a subordinated basis to the holders of the Loan Notes (the "Loan Noteholders") in accordance with Article 111 of the Swiss Federal Code of Obligations, irrespective of the validity of the Loan Notes and waiving all rights of objection and defence arising from the Loan Notes, the due payment of principal of, and interest and any premium on, and any other amounts expressed to be payable by the Issuer or any New Issuer under the Loan Notes. Accordingly, the Guarantor agrees to pay to the Bank of New York, in its capacity as principal paying agent (the "Principal Paying Agent") in relation to the Loan Notes, on behalf of the Loan Noteholders, within ten Business Days after the receipt by the Guarantor of the first written demand of the Principal Paying Agent as acceleration agent (the "Acceleration Agent") for payment and the Acceleration Agent's confirmation in writing that an amount has become due and payable under the Loan Notes which is equivalent to the amount claimed under the Guarantee and has not been paid and remained unpaid on the due date. Demands for payment may be made by the Acceleration Agent for sums due under the Loan Notes with respect to payments of principal of, and interest on, the Loan Notes payable pursuant to the terms and conditions of the Loan Notes (the "Conditions of the Loan Notes").

2 All payments by the Guarantor under this Guarantee will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed by the Swiss Confederation or any subdivision thereof, unless such withholding or deduction is required by law. In the event of such withholding or deduction, the Guarantor will – subject to the Condition 7(b) through (d) of the Loan Note – pay (i) such additional amounts as the Loan Noteholders would have received if no withholding or deduction had been required or, as the case may be, (ii) interest at a rate recalculated pursuant to Condition 3(c).

3 The Guarantee constitutes a direct, unsecured, (subject as hereinafter provided) subordinated and perpetual obligation of the Guarantor and ranks and will rank equally with all other future unsecured, (subject as hereinafter provided) subordinated and perpetual obligations of the Guarantor except for such preferences as are provided by any mandatory applicable provision of law.

(a) In the event of liquidation, dissolution or winding-up of the Guarantor, the claims of the Loan Noteholders under this Guarantee will be subordinated in right of payment to the claims of all Senior Creditors of the Guarantor, but will be paid in priority to any debt or other obligation of the Guarantor that is expressly or by applicable law subordinated to the Guarantee and distributions to all classes of equity of the Guarantor.

(b) For the avoidance of doubt, and save for such obligations as may be preferred by mandatory provisions of applicable law, the claims of a Loan Noteholder against the Guarantor pursuant to this Guarantee shall be subordinated as follows: all claims shall rank junior to the claims of all Senior Creditors of the Guarantor, and senior to the rights of the holders of shares of the Guarantor then in issue.

(c) No security of whatever kind is, or will at any time be, provided by the Guarantor or any other person securing rights of the Loan Noteholders under the Guarantee. No subsequent agreement may limit the subordination pursuant to the provisions set out in this Clause 3 or shorten any applicable notice period in respect of the Loan Notes or the Guarantee.

(d) Any redemption payments made on the Guarantee must be returned to the Guarantor irrespective of any agreement to the contrary, unless (x) the Guarantor has been dissolved or (y) such amounts have been replaced by regulatory capital qualifying with the same regulatory (sub-)category or (z) equivalent thereof or if the FOPI or any Successor Authority has given its consent to the payment.

(e) No Loan Noteholder may set off any claims arising under the Guarantee against any claims that the Guarantor may have against the Loan Noteholder. The Guarantor may not set off any claims the Guarantor may have against any Loan Noteholder against any of its obligations under the Guarantee.

4 Payments under the Guarantee shall be made in EUR. The Guarantor undertakes to pay to the Principal Paying Agent on behalf of the Loan Noteholders without costs to be borne by the Principal Paying Agent, without any restrictions, and whatever the circumstances may be, irrespective of nationality or domicile of the beneficiary of such payments and without requiring any affidavit or the fulfilment of any other formality, any sums due pursuant to the Guarantee in EUR freely disposable. Any transfer tax, which might possibly be imposed on the transfer of such funds to the Principal Paying Agent shall be borne by the Guarantor.

5 The Guarantee shall give rise to a separate and independent cause of action against the Guarantor and shall apply irrespective of any indulgence granted to the Issuer by the Acceleration Agent or any Loan Noteholders from time to time and shall continue in full force and effect notwithstanding any judgment or order against the Issuer and/or the Guarantor.

6 The Guarantee is governed by Swiss law.

Any dispute regarding the Guarantee which may arise between the Acceleration Agent, on the one hand, and the Guarantor, on the other hand, shall be governed by Swiss law and shall fall within the exclusive jurisdiction of the Commercial Court of the Canton of Zurich, the place of jurisdiction being Zurich, with the right of appeal to the Swiss Federal Supreme Court, whose decision shall be final. The Guarantor hereby irrevocably submits for any such action or proceeding to the jurisdiction of the afore-said courts.

7 Terms and expressions not otherwise defined in the Guarantee shall have the same meaning as defined in the Conditions of the Loan Notes.''

Signed in 2 originals,

as of 12 April 2007

Swiss Life Holding

By: ____________________ ____________________

Name/Title: ____________________ ____________________

Swiss Life Insurance and Pension Company

By: ____________________ ____________________

Name/Title: ____________________ ____________________

USE OF PROCEEDS

The Issuer will use the net cash proceeds of the Issue for general corporate purposes.

DESCRIPTION OF SWISS LIFE GROUP

BUSINESS OVERVIEW

Swiss Life Group

Swiss Life Group is a leading life insurer in Europe and the largest life insurer in Switzerland in terms of gross written premiums[1], and also operates in France, Germany, the Netherlands, Belgium, Luxembourg and Liechtenstein. In 2005, Swiss Life Group was the eighth largest life insurance and pensions provider in Europe in terms of gross written premiums, and in its markets, it ranked sixth[2]. In addition to its insurance business, Swiss Life Group also offers private banking and investment management services.

As at 31 December 2006, Swiss Life Group had a total of 8,693 full-time employees.

Insurance

The life insurance operations of Swiss Life Group include a comprehensive range of risk protection and long-term savings products aimed at both individual and corporate customers. Non-life operations principally include health and accident, work disability, property and casualty and motor vehicle insurance, however Swiss Life Group does not offer industrial property or casualty products. Swiss Life Group had total gross written premiums, policy fees and policyholder deposits of CHF 22,064 million and total revenues of CHF 21,531 million for the year ended 31 December 2006, and CHF 20,211 million in gross written premiums, including policy fees and policyholder deposits, and CHF 21,542 million in total revenues for the year ended 31 December 2005. Assets under management stood at CHF 205,490 million as at 31 December 2006 and CHF 207,630 million as at 31 December 2005 (all figures above are on an IFRS basis).

Swiss Life Group's strongest market position is in its home market of Switzerland, where in 2006 it ranked number one in terms of gross written premiums and held 27.6 per cent. of the overall life insurance market, ranked number one and held 20.3 per cent. of the individual life insurance market, and ranked number two and held 30.9 per cent. of the group life insurance market. Swiss Life is also among the top six insurers offering unit-linked products in Switzerland in 2005[3].

In Switzerland, Swiss Life has approximately 620,000 current policies in relation to its individual life insurance business and in excess of 40,000 corporate contracts in relation to its group life insurance business.

In 2006, Swiss Life Group also held 2.7 per cent. of the life insurance market in France, 1.7 per cent. of the life insurance market in Germany (with a particularly strong position in group life insurance products), 4.7 per cent. of the life insurance market in the Netherlands and 2 per cent. of the life insurance market in Belgium (again with a particularly strong position in group life insurance products).

Banking

Swiss Life Group's private banking activities are conducted through Banca del Gottardo and its subsidiaries. Banca del Gottardo, a wholly-owned subsidiary of Swiss Life Holding, was founded in 1957 and has its headquarters in Lugano, Switzerland. Currently, Banca del Gottardo operates a universal bank in the Canton of Ticino (Switzerland), provides onshore private banking services (mainly in Switzerland, Italy and France) and offers private banking offshore services (mainly from Switzerland, Luxembourg and Nassau). Additional activities of the bank include fund management and administration, custody services and proprietary trading.

In order to ensure profitable growth and efficiency, the strategy of Banca del Gottardo was recently reviewed. The bank will focus on Swiss offshore private banking services and at the same time will strengthen its position in the Swiss and Italian onshore private banking markets.

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[1] *Source: SVV: Swiss Insurance Association*

[2] *Source: ISIS Database, Company annual reports*

[3] *Source: SVV: Swiss Insurance Association*

In addition, Swiss Life/Rentenanstalt's subsidiary Swiss Life Banque France offers banking services in France. (See *"France"* below).

The table below shows assets under management for Swiss Life Group's banking business for the years ended 31 December 2005 and 2006:

Assets under management – Banking	**Year ended 31 December**	
	2005	**2006**
	(CHF million)	
Banking		
Assets under management	45,953	42,631
Custody assets	31,329	49,658
Total	77,282	92,289

Investment management

The investment management functions of Swiss Life Group are partially centralised in the Swiss Life Investment Management Holding AG ("SLIMH") which is wholly owned by Swiss Life Holding. SLIMH was founded on 6 April 2005, as part of Swiss Life Group's structural realignment to improve the separation of the insurance and asset management businesses, by way of the contribution in kind of the shares of Swiss Life Asset Management, Zurich, Swiss Life Asset Management (Nederland) B.V., Amstelveen, Swiss Life Funds AG, Lugano, and Swiss Life Funds Business AG, Zurich. In 2006, the newly established Swiss Life Asset Management GmbH, Munich became a wholly owned subsidiary of SLIMH and Swiss Life Funds (Lux) Management Company S.A., Luxembourg was established as a wholly owned subsidiary of Swiss Life Funds Business AG, Zurich.

The table below shows assets under management for Swiss Life Group's investment management business for the years ended 31 December 2005 and 2006:

Assets under management – Investment management	**Year ended 31 December**	
	2005	**2006**
	(CHF million)	
Investment Management		
Assets under management	11,237	3,367
Off-Balance Sheet Assets[4]	68,979	71,056
Total	80,216	74,423

[4] *These are intra-group assets which are on-balance sheet assets of the Swiss business of Swiss Life/Rentenanstalt and which are managed by the investment management companies under SLIMH as off-balance sheet assets.*

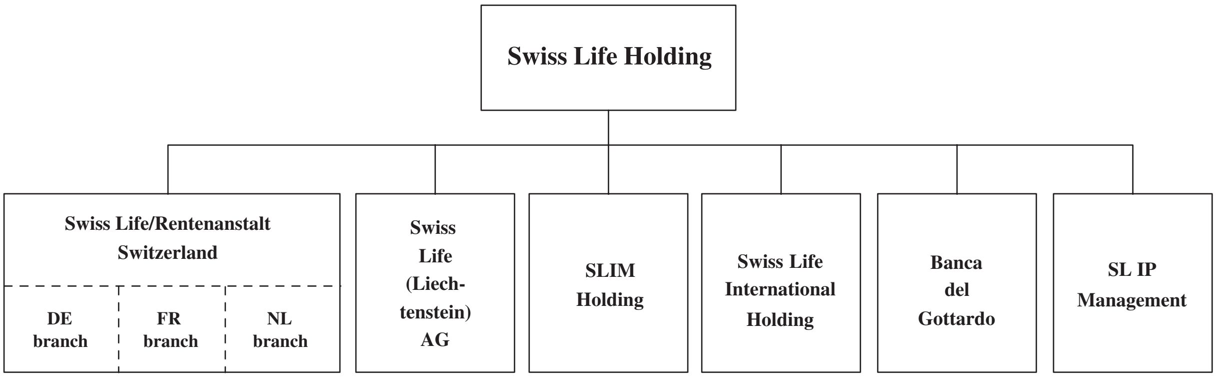
Structure of Swiss Life Group

Except for Swiss Life (Liechtenstein) AG, Swiss Life Luxembourg and Swiss Life Insurance Solutions AG (the credit life business in Germany), all the life insurance activities of Swiss Life Group are carried out by Swiss Life/Rentenanstalt, either directly through branch offices or through its subsidiaries and participations.

Swiss Life Group's private banking activities are conducted through Banca del Gottardo, a wholly-owned subsidiary of Swiss Life Holding, and its subsidiaries. The bank also offers fund management and custody services.

The investment management operations of Swiss Life Group (which are partially centralised under Swiss Life Investment Management Holding AG) manage funds from both Swiss Life's insurance operations and from third party investors. They also manage Swiss Life's real estate portfolio in Switzerland, its hedge fund investments and foreign exchange exposure.

This structure chart sets out all of the direct subsidiaries of Swiss Life Holding[5] as at 31 December 2006.



Note to structure chart:

Abbreviations used, in alphabetical order, are as follows: DE – Germany; FR – France; NL – Netherlands; SLIM Holding – Swiss Life Investment Management Holding AG; SL IP Management – Swiss Life Intellectual Property Management AG.

Strategy

Swiss Life believes it has an attractive position in its markets in Europe as a focused provider of life and pensions products with a strong brand. It is well positioned to take advantage of the pensions market opportunities resulting from increased pressure on the state pension systems. These opportunities provide a platform for Swiss Life to grow organically and to gain market share while maintaining strict profitability criteria.

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[5] *For a list of Swiss Life Holding's significant subsidiaries, please refer to page 173 of Swiss Life Holding's Annual Report for the year ended 31 December 2006.*

After the completion of the 2002 strategy to focus primarily on the life insurance business, the sale in 2005 of the Swiss non-life business of La Suisse being the last significant step, Swiss Life again updated its strategy and targets until 2008. While the focus on profitability and operational progress continues, the updated strategy is more ambitious and strives to achieve "Pensions Leadership" in the markets in which Swiss Life operates. To achieve this, Swiss Life aims to be recognised as a leading provider of pension solutions for both individual and corporate customers. Swiss Life's mission is to help people create a financially secure future for life. Furthermore, its corporate shared values have remained unchanged and serve as a source of direction for management and employees throughout the group in order to ensure that the strategy is implemented:

- expertise – in providing solutions for pensions and long term savings;
- proximity – to clients, customers and partners in order to best understand their needs;
- openness – in dialogue both within Swiss Life and externally;
- clarity – in communicating products and services to customers; and
- commitment – to customers, staff and shareholders.

The strategy is underpinned with ambitious targets for Swiss Life Group: CHF 1 billion net profit in the fiscal year 2008 and a sustainable return on equity of at least 10 per cent. In each of its markets, Swiss Life aims to exceed the market growth by at least 1 per cent. per annum. These targets are internally cascaded down to the different entities within Swiss Life Group and, where feasible, to individuals. The three strategic directions of the updated strategy are set out under the following three sub-sections.

Growth

Swiss Life intends to manage its growth by concentrating on its core life and pensions business and building on its traditional strengths of understanding its clients and developing insurance products that will meet its clients' needs. Swiss Life in the medium term seeks to achieve sustainable growth that outpaces the market while adhering to its strict profitability criteria. Growth is expected to be primarily organic. Opportunities will arise from the increased pressure on the state pension system in a number of its markets in Europe and changing tax legislation. In particular, the group pensions market is still in its early stages of development in certain major European markets such as France and Germany.

To address individual and corporate clients' growing pensions needs, the client value proposition should be centred around "Pensions". This can also entail products and services outside of the traditional life insurance markets, for example investment-type products or administrative services for pension funds. In distribution, both own and third party channels should be developed, in order to reduce single-channel dependency.

Efficiency

The drive for efficiency continues throughout Swiss Life Group, being an important factor in increasing value. For this reason, Swiss Life has set itself ambitious targets regarding the "basic insurance result". This result encompasses both the risk and the cost result, including the contributions from fee business and including all reserve strengthening. It is independent of investment returns and policyholder bonuses. An important mechanism to achieving this target will be the simplification of each stage of the value chain in order to improve process efficiency and to lower costs. Corresponding initiatives are under way in all countries in which Swiss Life operates.

Leadership

The goal of Swiss Life's management approach is to enhance entrepreneurial responsibility at all levels of Swiss Life. This allows for more flexible and close-to market decision making. For this reason, the updated strategy has also led to a realignment of Swiss Life's corporate structure, with a clearer separation of responsibilities for Swiss Life Group Head Office, the Swiss market and international business. Furthermore, Swiss Life is implementing an integrated approach to managing its human capital portfolio in order to anchor its leadership culture in the hearts and minds of its employees. Also in this area, Swiss Life has set itself ambitious targets regarding employee commitment.

Insurance operations

The table below shows gross written premiums for Swiss Life Group's insurance business for the years ended 31 December 2005 and 2006 and was extracted without material adjustments from the audited consolidated financial statements of Swiss Life Group.

Gross written premiums, policy fees and policyholder deposits	**Year ended 31 December**	
	2005	**2006**
	(CHF million)	
Individual life insurance	10,684	11,865
Group life insurance	8,436	9,321
Non-life	909	631
Assumed business	182	247
Total	20,211	22,064

The table below shows gross written premiums for Swiss Life Group's life insurance business, broken down into selected key geographic segments, for the years ended 31 December 2005 and 2006:

Gross written premiums, policy fees and policyholder deposits	**Year ended 31 December**	
	2005	**2006**
	(CHF million)	
Switzerland	7,517	7,611
France	6,837	7,643
Germany	2,061	2,116
Netherlands	1,592	1,901
Belgium	684	671
Luxembourg	473	841
Liechtenstein	163	646
Total	19,327	21,429

Life insurance

Swiss Life offers a comprehensive range of risk protection and long-term savings products to both individual and corporate customers. Its products range from traditional life insurance products to a variety of financial solutions with risk protection elements. For individuals, products include (i) life insurance policies with coverage for death and disability, (ii) endowment and annuity policies and (iii) unit-linked products with premiums taking the form of regular payments or lump sum payments. For corporate customers, products include those aimed at small and medium sized companies as well as large companies and associations, with both standard and customised employee benefit plans covering insurance for employees in respect of retirement, death and disability.

Non-life insurance

In selected markets, Swiss Life offers a range of non-life insurance products, including accident and health, motor vehicle and fire and property insurance, however it does not offer industrial property and casualty products. Non-life premiums are principally generated from the French and Belgian markets, with France accounting for the largest volume of Swiss Life Group's non-life business for the year ended 31 December 2006. All Swiss Life's non-life insurance business is carried out by Swiss Life Group entities that are direct or indirect participations of Swiss Life/Rentenanstalt.

Switzerland

Swiss Life/Rentenanstalt is the largest life insurer in Switzerland in terms of gross written premiums[6]. Life insurance gross written premiums of Swiss Life/Rentenanstalt in Switzerland amounted to CHF 7,611 million in the year ended 31 December 2006 (CHF 7,517 million in 2005). Total reserves of Swiss

[6] *Source: SVV: Swiss Insurance Association*

Life/Rentenanstalt's life insurance business in Switzerland (excluding separate accounts) amounted to approximately CHF 62,400 million as at 31 December 2006.

Products

Swiss Life offers a wide range of life insurance and long-term savings products with risk elements in the Swiss market. The life insurance business is divided into two segments: individual life insurance and group life insurance.

- Individual life insurance

Individual life insurance products consist of pensions and products covering mortality and disability risks and are often combined with savings elements. Premiums can take the form of regular payments or single premiums, while benefits can be paid as regular annuities, a lump sum or a combination of both an annuity and a lump sum. Swiss Life offers a full range of products which use various combinations of these elements.

The technical interest rate currently offered on individual life insurance in Switzerland is 2 per cent. for newly acquired business and around 3 per cent. on average for the existing portfolio. Swiss Life offers two types of unit-linked products: (i) unit-linked products without capital protection. These products do not have any performance guarantee and the policyholders' return is determined solely by reference to the performance of the underlying portfolio; and (ii) unit-linked products with capital protection. These products guarantee a certain level of capital protection, in addition to any returns linked to the performance of the underlying portfolio. The products offered by Swiss Life can be structured to fall within the limits necessary to qualify for tax advantages as part of the "third pillar" (individual pension-related savings scheme) of the Swiss pensions system or can be written without such limitations and tax advantages.

- Group life insurance

In Switzerland, the BVG requires all employers to maintain an occupational pension plan for employees. The law requires the employer to arrange for a pension institution to provide for that occupational pension plan, and Swiss Life offers insurance coverage for such pension institutions. Swiss Life also has a significant group life insurance business which is not regulated by the BVG.

Tariffs may be set on a conventional basis or by reference to the BVG requirements. Tariffs set by reference to the BVG requirements can be reviewed on an annual basis whereas tariffs set on a conventional basis are typically fixed for a longer duration.

BVG products may be offered to cover either the mandatory part or the non-mandatory part of the BVG or, as an integrated solution, to cover both parts. Mandatory BVG products are subject to governmental regulations which require the application of a guaranteed minimum interest rate of 2.5 per cent. and an annuity conversion rate of 7.15 per cent. for women and 7.1 per cent for men who have reached the statutory retirement age in the year 2007. In October 2003, legislation was passed providing for a gradual reduction of the annuity conversion rate to 6.8 per cent. by the beginning of 2014. However, in November 2006, the Swiss Federal Council proposed further a reduction to the annuity conversion rate for the mandatory part of the BVG business to 6.4 per cent. over the next four years.

For the mandatory part, Swiss Life offers a minimum interest rate and annuity conversion rate according to governmental regulations. For the non-mandatory part, Swiss Life applies different conditions, with the minimum interest rate for the year 2007 set at 2.25 per cent and the annuity conversion rate gradually lowered to 5.835 per cent. from 2008 onwards.

Group insurance arrangements may be unit-linked. In particular, pension institutions relying on conventional and BVG pension insurance products may enter into separate account agreements linking a substantial part of the reserves of the pension fund to separately administered investments. Investments under separate account administration are managed in accordance with the investment strategy of the pension institution and the risk of under-performance is borne by the pension institution.

Other products offered by Swiss Life include products provided to semi-autonomous and autonomous pension institutions where only certain risks, not already insured by the pension institutions elsewhere, are covered. Swiss Life also provides tailor-made investment products, with a comparatively larger risk element as compared to the savings element, to large entities with autonomous pension institutions seeking a flexible investment strategy over which they have control. The investment risk of these products lies with the pension institutions.

The category of group insurance products also encompasses a small number of individual insurance products which utilise the technical bases of group insurance products but are aimed at individuals with vested benefits who are leaving an existing pension institution but not joining another, who become self-employed or who have invested their pension funds in their home.

In 2006, total reserves for the group life business of Swiss Life in Switzerland, including insurance policy and claims reserves and policyholder deposits, are divided into approximately 53 per cent. for mandatory BVG business and 47 per cent. for non-mandatory BVG business.

Distribution

Life and non-life insurance products (non-life products provided by corporation partners) are distributed through a variety of well-established channels. Individual life products are primarily distributed through exclusive self-employed tied agents while companies are principally served through insurance consultants. Besides insurance products Swiss Life is also offering investment products such as funds and managed portfolios through its distribution channels. These products are provided by Banca del Gotthardo. Swiss Life's sales force of tied agents and insurance consultants has a strong reputation in Switzerland. For the year ended 31 December 2006, products distributed by tied distribution channels accounted for 83 per cent. of gross premium income (67 per cent. by tied agents and 16 per cent. by insurance consultants). Products are also distributed through banks and insurance brokers. Swiss Life applies a remuneration arrangement for its tied agents which is weighted to encourage an entrepreneurial approach (to increase sales) and a high level of services (to increase customer loyalty).

Customers

Swiss Life's individual life and non-life Swiss insurance business targets private individuals of varying levels of sophistication and wealth. However, the group life insurance business in Switzerland nevertheless remains targeted principally at the pensions institutions of small and medium-sized corporations and to a lesser extent at larger corporations. Smaller companies typically do not establish their own pension institution but are affiliated with a group-based collective pension institution, in which each employer holds its own administrative unit insured by Swiss Life. For medium-sized corporations, which have established half-autonomous pensions institutions where the institution covers certain risks itself, Swiss Life insures the remainder of the risk. For larger corporate customers who have already established an autonomous employee benefits institution, Swiss Life offers customised risk-based, rather than saving, products and modular solutions according to the individual clients' needs.

For such customers, Swiss Life also provides tailor-made investment products with a risk protection element, which include a flexible investment strategy over which the customer has control. The investment risk of these products lies with the pension institutions.

France

In France, Swiss Life France ("SLF") has been operating as a branch of Swiss Life/Rentenanstalt since 1898. Swiss Life Group's companies in France include SLF and a sub-holding called Société Suisse de Participations d'Assurances ("SSPA") which is a subsidiary of SLF. All insurance entities in France (other than SLF) are subsidiaries of the sub-holding SSPA. The main insurance entities in France are the branch office, Swiss Life Assurance Patrimoine, Swiss Life Santé, Swiss Life Aussurances de Biens and Erisa (a joint venture with HSBC). The gross written premiums in 2006 came to CHF 8,204 million (CHF 7,397 million in 2005). SLF offers life and health insurance and also provides property and casualty insurance and financial services to its clients. The main business focus lies in personal insurance (life and health insurance) which accounts for 93 per cent. of the total premium volume in 2006.

Swiss Life's insurance products are distributed by its own sales force, general agents, brokers, independent financial advisors and distribution partnerships with private banks.

In addition to insurance products of SLF, Swiss Life Banque France offers credit and savings products to private and professional customers. The bank also acts as an intermediate in the financial markets on behalf of Swiss Life Asset Management (France) and manages its securities portfolio. The bank had balance sheet assets of CHF 189 million under its management at the end of 2006.

Germany

Swiss Life Group's business in Germany has been operating since 1866 and had gross written premiums amounting to CHF 2,116 million for the year ended 31 December 2006 (CHF 2,061 million in 2005). Swiss Life Germany is a supplier of private and occupational pension solutions and is also well positioned in employee benefits business, supplementary disability insurance and in credit life business. It offers a broad product range to individuals and companies in accordance with new tax legislation, mainly via broker channels. In 2006, Swiss Life established a new credit life insurance company, which is a subsidiary of Swiss Life International Holding AG, Swiss Life Insurance Solutions AG which started its operations on 1 January 2007. The company will take on all of Swiss Life's credit life business and will have a increasingly international focus in its role as product provider, risk carrier, service partner and competence centre.

The Netherlands

Swiss Life Group's business in the Netherlands has been operating since 1901 and had gross written premiums amounting to CHF 1,901 million in the year ended 31 December 2006 (CHF 1,592 million in 2005). Swiss Life Netherlands offers both private and individual clients a comprehensive range of solutions and services for financial planning, pension asset management and mortgages. Swiss Life/Rentenanstalt writes its life insurance business in the Netherlands through its branch office, *ZwitserLeven*.

Belgium

Swiss Life Group's business in Belgium was established in 1955. By the end of June 2006, the activities of the Belgian branch and its subsidiary Zelia S.A. have been merged within a single legal entity under the name of Swiss Life (Belgium) S.A. It accounts for gross written premiums of CHF 742 million for the year ended 31 December 2006 (CHF 754 million in 2005). In Belgium, Swiss Life offers group life business (traditional, deposit and unit-linked), individual life business (traditional and unit-linked products) as well as non-life products (Accident & Health, Property & Casualty) is also offered. The focus of Swiss Life in Belgium is the self-employed business in group segment and the traditional and unit-linked business in individual segment.

Luxembourg

The legal structure of Swiss Life in Luxembourg was reorganised at the end of 2006. Swiss Life (Luxembourg) Compagnie Luxembourgeoise d'Assurances S.A. ("Swiss Life Luxembourg") is now an indirect subsidiary of Swiss Life International Holding AG. Swiss Life Luxembourg offers group business (traditional, capitalisation, deposit administration and unit-linked), individual business without investment risk (dedicated funds, external & internal collective funds) and individual business with investment risk (traditional, capitalisation). The cross-border individual insurance business involving the dedicated funds (insurance wrappers) is performing very strongly and Swiss Life Luxembourg intends to further expand its strong position by collaborating with other banks, brokers and family offices. Swiss Life Luxembourg's gross written premium volume amounted to CHF 841 million in 2006 (CHF 473 million in 2005).

Liechtenstein

Swiss Life (Liechtenstein) AG ("Swiss Life Liechtenstein") is a subsidiary of Swiss Life Holding and was established in 2004. Swiss Life Liechtenstein offers structured life insurance products for high net worth individuals. Swiss Life Liechtenstein's premium volume amounted to CHF 646 million in 2006 (CHF 163 million in 2005).

The Swiss Life Network

In addition to conducting business in individual markets in Europe, Swiss Life also operates the Swiss Life Network, an association of 51 partners in 67 countries. The Swiss Life Network aims to be the preferred partner for multinational clients in the fields of employee benefit solutions worldwide including international pooling, pension schemes and long-term saving solutions.

The Swiss Life Network includes Swiss Life companies as well as leading local life insurers where Swiss Life does not have direct operations, and provides multinational companies with cost-effective, flexible employee benefit solutions and services worldwide.

Risk management and investment policy

Swiss Life is exposed to different categories of risks which can broadly be categorised as quantitative risks and qualitative risks. Quantitative risks include the following categories: (i) financial risks such as market, liquidity and counter-party risks; and (ii) insurance related risks such as mortality, longevity and morbidity. Qualitative risks consist of operational and strategic risks.

Risk management organisation of Swiss Life

As a consequence of Swiss Life's business activities in various European jurisdictions, it is subject to different legal systems and regulations which impose upon the respective operations, amongst other things, minimum capital adequacy requirements and risk management standards. Swiss Life's risk management organisation is designed to ensure compliance with such regulatory frameworks and to enforce Swiss Life's guidelines on risk management, including enforcement of its underwriting, pricing and reserving policies. Swiss Life's risk management organisation is managed principally by the Group Risk Committee (the ''GRC'') at Swiss Life Group. Hans-Juergen Wolter, the Group Chief Risk Officer, heads the GRC organisation. Voting members are all members of the Executive Board. The Group Chief Risk Officer is a non-voting member.

The main duty of the GRC is to implement and adhere to the risk policy, including risk limits and independent risk reports. The GRC proposes the risk and exposure limits, which are subject to approval by the Investment and Risk Committee (''IRC'') of the board of directors of the Swiss Life Group (''Board of Directors''). Within these limits, an asset and liability management (''ALM'') process, which is described below, seeks to ensure an integrated approach to risk management at Swiss Life Group level. Market unit ALCOs (local Asset & Liabilities Committees) in which members of the Group Executive Board are represented, validate the outcome of this ALM process. In addition to the above, Swiss Life Group's Chief Financial Officer is responsible for monitoring the capital adequacy of Swiss Life Group and for assessing Swiss Life Group's risk exposure capacity in accordance with the regulatory capital requirements and Standard & Poor's rating capital requirements.

Each individual market unit has its own risk management organisation which is ultimately monitored by the local Chief Executive Officer and which reports to Swiss Life Group risk management organisation. In particular, each market unit mimics the roles of the committees at Swiss Life Group level. Swiss Life Group makes continuous efforts to strengthen the consolidated supervision of risk management at Swiss Life Group level.

Banca del Gottardo operates its individual risk management processes in accordance with the Swiss Banking regulatory framework by reporting to its board of directors and contributes to Swiss Life Group's risk exposure report to the FOPI.

Processes and methodologies of Swiss Life Group

The main risk management processes are set out below.

Financial risk management

Swiss Life's main risk measurement methodology is based on an economic view which assesses potential decreases in assets and increases in liabilities in terms of market or fair values. Swiss Life's assets and liabilities are exposed to a number of financial and insurance-related risks, which could give rise to reductions in the market value of assets or increases in the market value of liabilities. To quantify the risks inherent in Swiss Life's assets and liabilities, various established risk calculation methods including ''value at risk" assessments are applied. In addition to these methods, stress and sensitivity tests are conducted on a regular basis to measure the impact of possible financial setbacks on the marked-to-market equity.

Actuarial processes

Swiss Life applies different actuarial processes to quantify and control its liability risks, and to monitor regulatory compliance and the implementation of applicable actuarial guidelines with respect to underwriting, pricing and reserving. The methodologies used for such purposes consist of economic profit analyses, a reserve adequacy, technical analyses, solvency monitoring and embedded value calculations.

With the economic profit analyses, the costs of each product are compared with the expected revenues. This is a forward looking method which recognises trends at an early stage so that their impact on the business may be quantified and appropriate measures may be taken.

The Chief Actuary's Report provides a wide range of actuarial information such as the technical analysis, assessments on the adequacy of the reserves and specific product information to name but a few. In general, the market units are requested by national law to provide an Actuarial Report according to the principles of their local regulators. In addition to these local reports, Swiss Life compiles a Chief Actuary's Report on group level. In essence, that report is based on the data and information included in the local Actuarial Reports. The consolidated Chief Actuary's Report provides the Group Chief Actuary with all the relevant actuarial information on a group level. Furthermore, according to the revised Insurance Supervision Act, the Chief Actuary's Report must also be presented to the Executive Board. Another actuarial process calculates the solvency margin, which is calculated separately for each business entity within Swiss Life and then monitored by local regulatory authorities as well as the FOPI, acting as Swiss Life Group's regulator.

The embedded value together with corresponding sensitivities are calculated on a regular basis by the actuarial department of each market unit and consolidated at Swiss Life level by the Chief Financial Officer. The sensitivity calculations serve to monitor the degree of risks to which Swiss Life is exposed with respect to long term investment returns, mortality rates, surrender rates and exposure levels. Both the embedded value calculations of the market units as well as the consolidated figures are reviewed by an external expert and Swiss Life Group numbers are made available to the public semi-annually.

Asset and liability management

Swiss Life's ALM process is conducted at Swiss Life Group level, as part of an integrated ALM procedure carried out across all functions within Swiss Life Group: investment, finance, actuarial and marketing. The ALM process focuses on value creation throughout these functions by:

- Managing assets and liabilities from an economic point of view. This means that assets as well as liabilities are marked-to-market. Such view may lead to different results in the valuation of, in particular, the liabilities (for example, under IFRS accounting rules, liabilities are currently not marked-to-market).
- Optimising risk/return profile.
- Ensuring that external constraints are accounted for (regulatory requirements, solvency, local and IFRS accounting, liquidity needs, rating agency requirements).

The implementation of the ALM process which focuses on the relevant market units has the following three targets:

- Asset Allocation: The aim is to position the asset allocation with regard to life insurance liabilities, so as to ensure that economic risk capital consumption is consistent with Swiss Life Group's risk appetite. In order to achieve this goal, the risk limits approved by the Investment and Risk Committee, which are derived by factoring in an adequate buffer within the available risk capital, are further broken down to optimise the overall risk/return profile. The three main objectives pursued in the determination of Asset Allocation are the limitation of sensitivity to interest rate variations in the liabilities' respective currencies, the coverage of all liabilities including bonus payments, and the strengthening of shareholders' equity. These objectives are achieved through an active steering of the duration gap between assets and liabilities, as well as through taking advantage of diversification benefits by investing in different asset classes.

- Crediting Policy: The crediting policy ensures that bonuses paid to policyholders are consistent with Swiss Life Group's balance sheet needs and investment returns in order to ensure long term profitability, and balances competitive pressure and shareholders' expectations.
- Product Design Principles: The product design principles ensure that the profitability of all products is sustainable and that new product developments are based on economic principles.

For existing business, given the contractual and regulatory constraints, the reserves should be adequate at all times not only in line with the regulatory requirements, but also with internal estimations for specific risk types, taking into consideration the exposure to embedded options.

For new business, this means that in addition to the points described for in-force business, the product parameters should be adjusted in order to achieve a positive cost, risk and net interest result. An adequate capital charge is required for each product.

Investment policy, strategic asset allocation and hedging guidelines

The investments of Swiss Life Group include cash, bonds, loans, real estate, mortgages, hedge funds, equities and alternative investments. In line with ALM, Swiss Life Group endeavours to invest its assets to match its liabilities. Hence, the asset portfolio is primarily composed of fixed income instruments.

Swiss Life Group uses derivatives within the strict limits set by the applicable insurance legislation and by internal guidelines. Therefore, derivatives are mainly used to protect Swiss Life Group's balance sheet and income statement, in particular its exposure to equities, interest rates and foreign exchange exposures. Equity derivatives utilised by Swiss Life Group include index futures and option strategies. In order to manage duration Swiss Life Group uses swaps, swaptions and bond futures. Swiss Life Group applies hedge accounting on swaps to avoid volatility on the income statement. Currency forwards are used to manage foreign exchange risk. To profit from short term market views, derivatives are also used to enhance returns on the existing portfolio.

Solvency

The writing of insurance business is a regulated activity in each of the jurisdictions in which Swiss Life operates. In Switzerland, Swiss Life is subject to regulatory review by the Swiss regulator, the FOPI. In addition, Swiss Life's subsidiaries and its branches are regulated by the corresponding supervising authority in the respective country.

In each jurisdiction where Swiss Life operates, the regulator seeks to ensure that insurers such as Swiss Life meet their obligations by, amongst other duties, reviewing the financial condition of their insurance writing entities. In the European Union, the common framework for assessing the financial condition of insurance companies, including solvency, is outlined in the European Union Directive concerning life assurance (2002/83/EC). In Switzerland, the framework for assessing the financial condition of insurance companies is similar to this European Union Directive.

The rules for calculating solvency in the European Union and Switzerland stipulate that an insurance company must maintain an available solvency margin which is higher than the required solvency margin. For life insurance companies in the European Union, the required solvency margin is in principle a minimum solvency margin which is generally calculated as the sum of 4 per cent. of insurance reserves plus 1 per cent. of separate account reserves plus 0.3 per cent. of the sum at risk under insurance policies. The required solvency margin for non-life insurers in the European Union is in principle the greater of 16 per cent. of gross written premiums for the year or 23 per cent. of a three-year average for claims. Substantially similar minimum capital requirements are applicable for life and non-life insurance companies operating in Switzerland.

In each jurisdiction where Swiss Life operates, the available solvency margin consists mainly of the sum of the paid-up share capital, the free and statutory reserves, the profit and loss brought forward and other additional elements. These elements are consistent with Article 27 of the European Union Directive 2002/83/EC. All these components of the available solvency margin are calculated on a national statutory basis. There are some differences between European countries regarding the allowed additional elements. The regulator also specifies the valuation basis for the liabilities, typically resulting in a conservative assessment of potential liabilities. The ratio of the available solvency margin to the required solvency margin is commonly referred to as the statutory solvency ratio ("SSR").

Insurers are expected to maintain an SSR of at least 100 per cent., with most reporting ratios significantly above 100 per cent. If an insurer's SSR falls below 100 per cent. the regulator is expected to work with the company to take action, which may include closing the insurer to new business or other remedial action to ensure the protection of existing policy holders. Swiss Life Holding will provide subordinated loans or other forms of capital to support the solvency of its subsidiaries and branches to the extent necessary to meet national regulatory requirements. For example, Swiss Life Holding has subordinated loans outstanding in the amount of EUR 62 million (including indirect loans of EUR 22 million through Swiss Life/Rentenanstalt) relating to the operations in Belgium.

In Switzerland, the FOPI takes an approach similar to that of the regulators in the European Union. In addition to the statutory equity, the Swiss regulator allows other elements permitted by the European Union Directive 2002/83/EC be used to build up available solvency margin. Such elements include hybrid capital and subordinated loans, additional zillmerisation, unrealised capital gains of some asset classes resulting from the difference between the market value and the statutory book value, and part of the provisions for future policyholder profit participation. The regulator deducts from this amount the intangible assets accounted for in the statutory equity.

As reported in its 2005 FOPI solvency report, Swiss Life/Rentenanstalt accounted for total available solvency margin of CHF 11,813 million compared to required solvency margin of CHF 4,598 million as of the year ended 31 December 2005, resulting in a solvency ratio of 257 per cent.

As of 31 December 2005, all subsidiaries in the jurisdictions where Swiss Life Group operated reported statutory solvency margins in excess of minimum solvency requirements.

Based on a decree issued by the FOPI as of 30 September 2006 Swiss Life Group, as a financial services group active in insurance, banking and asset management, is subject to consolidated supervision in Switzerland. The consolidated supervision is exercised by the FOPI as lead regulator in Switzerland and the Swiss Federal Banking Comission ("FBC") as sub-coordinator for Swiss Life Group's banking and securities dealers' subsidiaries. Pursuant to the European Union Directives 1998/78/EC and 2002/87/EC Swiss Life Group is considered a European financial conglomerate. The adjusted eligible equity for Swiss Life Group is calculated in accordance with the above two Directives on the basis of its consolidated accounts. The adjusted SSR, which includes the banking activities, was 211 per cent. as 31 December 2005.

Swiss life and non-life insurers must maintain tied assets (*gebundenes Vermögen*), in order to secure the actual and contingent liabilities arising out of insurance policies.

On the non-life side, the amount required for the tied assets must correspond to the premiums carried forward, provisions for actual and contingent liabilities and certain other components. As for the life business, the tied assets essentially mirror the mathematical reserves (*Deckungskapital*). The calculation of the tied assets must be submitted to the FOPI within three months following the end of each business year.

Swiss Solvency Test

In 2003, the FOPI launched a project named Swiss Solvency Test ("SST"). Its aim is to establish a framework for prudential supervision of insurance companies, much in line with the Solvency II initiative. The SST is based on a 3-Pillar framework. Pillar one focuses on the quantitative requirements such as the valuation of assets and liabilities and the risk capital. Pillar two concentrates on supervisory activities including a focus upon the company's internal risk management processes. Pillar three addresses supervisory reporting and public disclosure of financial and other information. At the heart of the SST lies an economic risk based approach to solvency requirement. This requires market-consistent valuation of assets and liabilities. With the implementation of the revised Insurance Supervision Act, as of 1 January 2006, it is mandatory for all large Swiss insurance undertakings such as Swiss Life to submit a SST report to the FOPI documenting its calculations and assumptions. FOPI will use such reports to determine the final version of the SST.

Information technology

Swiss Life has functional IT management structures and processes in place in order to enable the establishment of pan-European technology and risk management standards. Subsidiaries and branches in markets and core countries have independent IT departments, most of which currently cover the whole range of IT activities from development to operations. In order to improve efficiency and quality and at the same time reduce the complexity of its IT infrastructures, Swiss Life is running several strategic initiatives, among them the development of a new group life platform and the consolidation of the various individual life platforms in Switzerland as well as the establishment of a pan-European platform for universal life/unit linked business.

Processes for the comprehensive management of operational risks in respect of IT are being enhanced. An internal framework for the regular reporting of operational risks to Swiss Life Group risk office is established. All IT processes are periodically audited by corporate internal audit in accordance with standards customary in the market.

Real Estate owned and used by Swiss Life

Swiss Life has its headquarters in Zurich at General-Guisan-Quai 40.

As at 31 December 2006, the principal operating properties owned or leased by Swiss Life, which are in Switzerland unless otherwise stated, were as follows:

Location	Type of facility/use	Leased/ owned	Approximate area (m2)
Zurich, General-Guisan-Quai 40	Offices	Owned	24,500
Zurich, Seestrasse 353	Offices	Owned	5,500
Zurich, Lavaterstrasse 76	Offices	Owned	1,250
Zurich, Grubenstrasse	Offices	Owned	44,000
Zurich, Räffelstrasse 10	Offices/Depot	Owned	6,500
Zurich, Räffelstrasse 12	Offices/Depot	Owned	15,050
Zurich, Räffelstrasse 20	Offices	Owned	2,800
Lausanne, Avenue de Rumine 13	Offices	Owned	5,700
Lausanne, Av. du Théàtre 1	Offices	Owned	4,100
Lugano, Via Simen 14a	Offices	Owned	9,600
Geneva, Rue de Rive 12-14	Offices	Owned	2,700
Paris, France, 86 Boulevard Haussmann	Offices	Owned	9,950
Munich, Germany, Berliner Strasse 85	Offices	Owned	8,000
Amstelveen, The Netherlands, Burgemeester Rijnderslaan 7	Offices	Owned	14,400
Brussels, Belgium, 38 Avenue Fonsny	Offices	Owned	6,000

Interruption of business activities

Swiss Life Group has adopted precautionary measures in the event of the interruption of vital business functions due to natural disasters, catastrophic events and other events over which it has no control such as fire, earthquake, terrorist attacks, war, floods and epidemics. If a catastrophic event occurs, a crisis committee (*Krisenstab*) consisting of pre-determined members will convene with the purpose of ensuring that Swiss Life Group reacts to any catastrophic event in a way that minimises any interruption to the business.

The crisis committee investigates the origin, and assesses the effects of, potentially catastrophic events and is responsible for identifying and implementing adequate countermeasures. The crisis committee is supported by several sub-committees, which are responsible, for matters including taking emergency measures, gathering information and the resumption of business.

Major acquisitions and disposals

In accordance with the redefined strategy (outlined in ''Swiss Life Group Banking''), Banca del Gottardo announced in November 2005 the sale of Banque du Gothard (Monaco) to Banque Jacob Safra (Suisse) SA, headquartered in Geneva. The closing of the transaction took place on 28 February 2006.

Banca del Gottardo also sold 100 per cent. of the share capital of Dreieck Industrie Leasing AG to Fortis, a Belgian-Dutch financial services group, that was announced in January 2006. Dreieck Industrie Leasing AG is a specialist in asset-backed financing solutions. With its 44 employees Dreieck Industrie Leasing AG has in recent years successfully developed into the third-largest leasing company in Switzerland. In 2005, Dreieck Industrie Leasing AG managed a total leasing volume of CHF 879 million and signed new contracts worth CHF 524 million. The closing of this transaction took place on 27 January 2006.

In line with its strategy Swiss Life withdrew from the Italian insurance market by selling both of its Italian insurance subsidiaries, Swiss Life (Italia) and Swiss Life (Italia) Infortuni e Malattie – which with a staff of 21 generated around CHF 20 million in gross premium income in 2005 – to the Italian banking group bancApulia in August 2006. Swiss Life will continue to offer global employee benefits solutions to its major international clients in Italy via the Swiss Life Network.

In December 2006, Swiss Life announced the acquisition of CapitalLeben, a non-listed, autonomous company domiciled in Liechtenstein. CapitalLeben is active in the market for structured life insurance solutions and provides tailor-made private insuring concepts via a network of banks, asset managers, legal experts and tax advisors to optimally combine individual asset management with attractive pension planning from both a tax and legal perspective. CapitalLeben is well positioned with customers from Germany, Austria and Italy. Swiss Life and CapitalLeben have a comparable business model, similar products and complementary areas of geographic focus. Through the acquisition Swiss Life, with its companies in Liechtenstein and Luxembourg, becomes one of the leading providers of structured life insurance products for high net worth individuals. At a later date, a merger of CapitalLeben with Swiss Life Liechtenstein is planned.

Information about Swiss Life/Rentenanstalt and Swiss Life Holding

Swiss Life/Rentenanstalt is the main operating company through which Swiss Life Group's insurance activities are carried out. It was established in 1857 as a cooperative society and was converted into a public limited company, incorporated in Switzerland, in 1997. As at 31 December 2006, Swiss Life/Rentenanstalt had an issued and paid-up share capital of CHF 587,350,000.

Swiss Life Holding was incorporated in Switzerland in 2002 as a public limited company and had an issued and paid-up share capital of CHF 1,384,827,029 as at 31 December 2006.

Board of Directors and Corporate Executive Board

Swiss Life/Rentenanstalt

According to Swiss Life/Rentenanstalt's Articles of Association, the Board of Directors shall consist of no less than 7 and no more than 14 members elected by the General Meeting of Shareholders, usually for a period of 3 years. Members whose term of office has expired shall be immediately eligible for re-election.

Swiss Life Holding

According to Swiss Life Holding's Articles of Association, the Board of Directors shall consist of no less than 5 and no more than 14 members elected by the General Meeting of Shareholders, usually for a period of 3 years. Members whose term of office has expired shall be immediately eligible for re-election.

Composition of Boards

Swiss Life/Rentenanstalt and Swiss Life Holding have the same directors and the composition of their respective Board of Directors and Corporate Executive Boards are as follows:

Board of Directors of Swiss Life Group

Names	Position	Principal Outside Activities
Bruno Gehrig	Chairman	Vice Chairman and Independent Lead Director, Roche Holding Ltd.
Gerold Bührer	Vice Chairman	Economic Consultant, National Councillor. Chairman, economiesuisse
Volker Bremkamp	Member	Managing Director, BMB Bremkamp Management- und Beteiligungs-GmbH
Paul Embrechts	Member	Professor of mathematics, Swiss Federal Institute of Technology (ETH) in Zurich
Rudolf Kellenberger	Member	Advisor in the insurance sector
Henry Peter	Member	Partner, Peter • Bernasconi & Partners
Peter Quadri	Member	Management and technology consultant
Pierfranco Riva	Member	Partner, Felder Riva Soldati
Franziska Tschudi	Member	Chief Executive Officer and Managing Director, WICOR Holding AG

Corporate Executive Board

Names	Position
Rolf Dörig	Group Chief Executive Officer (Group CEO)
Bruno Pfister	Chief Executive Officer International (CEO International)
Paul Müller	Chief Executive Officer Switzerland (CEO Switzerland)
Reto Himmel	Group Chief Technology & Operations Officer (Group CTO)
Thomas Müller	Group Chief Financial Officer (Group CFO)
Patrick Frost	Group Chief Investment Officer (Group CIO)

The business address for all of the persons listed above is Swiss Life, General-Guisan-Quai 40, CH-8002, Zurich, Switzerland.

No conflict of interests exist between the private interests or other duties of any of the persons listed above, and their duties to Swiss Life Group, Swiss Life Holding or to Swiss Life/Rentenanstalt.

Auditors

The consolidated financial statements as at, and for the years ended, 31 December 2005 and 2006 of the Swiss Life Group, which are incorporated by reference in this Information Memorandum, have been audited by PricewaterhouseCoopers AG, Birchstrasse 160, CH-8050 Zurich, Switzerland, as stated in their report appearing herein, who are a member of the Swiss Institute of Certified Accountants and Tax Consultants.

Major Shareholders

Swiss Life Holding is the sole shareholder of Swiss Life/Rentenanstalt, and can (subject to any regulatory constraints or considerations) control Swiss Life/Rentenanstalt by exercising its votes in a general meeting. As of 23 March 2007, no shareholder had notified Swiss Life Holding, in accordance with Article 20 of the Swiss Stock Exchange Act, that it held (alone or in concert with third parties) 5 per cent. or more of Swiss Life Holding's share capital and voting rights.

Litigation

Swiss Life Group is involved in various legal actions and claims for which adequate provision has been made. In the opinion of the management, none of the pending legal actions or claims will have a significant effect on Swiss Life Group's financial position or profitability. There has been no significant effect, as a result of litigation, on the financial profit or profitability of Swiss Life Group during the past 12 months.

Recent developments

As discussed under the section ''Major Acquisitions and Disposals'', Swiss Life sold its Italian insurance operations to bancApulia in August 2006. The sale was completed on 30 January 2007 after receipt of the approvals from the relevant authorities.

Further, Swiss Life's acquisition of CapitalLeben in Liechtenstein, which was announced in December 2006, was completed on 27 March 2007 after approval was received from the relevant authorities.

On 27 March 2007, Swiss Life announced the sale of its entire (50 per cent. and 1 share) shareholding in Erisa to HSBC, the current minority shareholder. Subject to the approval of the relevant authorities, it is expected that the sale will be finalised in the second half of 2007.

TAXATION

Swiss Tax Disclosure

General

The following summary does not purport to address all tax consequences of the acquisition, ownership and disposal of Loan Notes, and does not take into account the specific circumstances of any particular investor. This summary is based on the tax laws, regulations and regulatory practices of Switzerland and a tax ruling with the Swiss federal tax administration as in effect on the date hereof, which are subject to change (or subject to changes in interpretation), possibly with retroactive effect.

Loan Noteholders or prospective Loan Noteholders are advised to consult their own tax advisers in light of their particular circumstances as to the Swiss tax laws, regulations and regulatory practices that could be relevant for them in connection with acquiring, owning and disposing of Loan Notes and receiving interest, principal or other payments on the Loan Notes and the consequences of such events under the tax laws, regulations and regulatory practices of Switzerland.

Issuance Stamp Tax, Withholding Tax and Securities Turnover Tax

Under the conditions that the aggregate number of Loan Noteholders under the Loan Notes which are not Qualifying Banks (as defined in the Conditions) will not at any time exceed ten and the aggregate number of our lenders (including Loan Noteholders) which are not Qualifying Banks (as defined in the Conditions) under all outstanding loans (including intra-Group), facilities and/or private placements (including under the Loan Notes) will not at any time exceed twenty, the issuance of the Loan Notes will neither be a taxable event for purposes of the Swiss Issuance Stamp Tax (*Emissionsabgabe*) nor for purposes of the Swiss Securities Turnover Tax (*Umsatzabgabe*). Subject to the same limitations, payments on the Loan Notes will not be subject to the Swiss Withholding Tax (*Verrechnungssteuer*), and dealings in the Loan Notes after issuance will not be subject to the Swiss Securities Turnover Tax. The Conditions require all Loan Noteholders and us to comply at all times with such limitations on lenders that are not Qualifying Banks (as defined in the Conditions).

Swiss Federal, Cantonal and Communal Income Taxation

Non-Resident Loan Noteholders

Payments under the Loan Notes to a Loan Noteholder who is not resident in Switzerland for tax purposes, and who, during the relevant taxation year, has not engaged in a trade or business through a permanent establishment or fixed place of business in Switzerland for tax purposes, and who is not subject to corporate or individual income taxation in Switzerland for any other reason will not be subject to any Swiss federal, cantonal or communal income tax, capital tax or wealth tax.

Resident Loan Noteholders and Loan Noteholders with a Trade or Business in Switzerland

Loan Noteholders who hold Loan Notes as part of a trade or business in Switzerland for tax purposes, in the case of residents abroad carried on a permanent establishment or a fixed place of business, are required to recognise payments on the Loan Notes and capital gains or losses realised on the disposal of Loan Notes in their income statement for the respective taxation period and are subject to Swiss federal, cantonal and communal corporate or individual income tax, as the case may be, on any net taxable income (including payments on the Loan Notes and capital gains or losses realised on the disposal of Loan Notes) for such taxation period. The same taxation treatment also applies to Swiss-resident private individuals who, for income tax purposes, are classified as "professional securities dealers" for reasons of, *inter alia,* frequent dealing, or leveraged investments, in securities.

Private individuals resident in Switzerland and holding Loan Notes as part of their private fortune, are required to include interest payments (but not repayment of principal) on the Loan Notes in their personal income tax return and are subject to Swiss federal, cantonal and communal income tax on any net taxable income (including the interest payments (but not repayment of principal) on the Loan Notes) for the relevant taxation period. For private individuals capital gains resulting from the disposal of Loan Notes are not subject to Swiss federal, cantonal and communal income tax; this is also the case for accrued interest. Capital losses are not tax-deductible. Swiss resident private individuals who hold the Loan Notes as part of their private fortune are required to report their Loan Notes as part of their taxable wealth and will be subject to cantonal and communal wealth tax, provided that their net taxable wealth (including the Loan Notes) exceeds applicable allowances or levels.

CONSOLIDATED FINANCIAL STATEMENTS

The following financial information of the Swiss Life Group for the years ended 31 December 2006 (including the notes thereto and the auditors' reports) is Swiss Life Group's audited consolidated financial statements as extracted from Swiss Life Group's annual accounts.

Consolidated Statement of Income

Consolidated statement of income for the years ended 31 December

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

Consolidated Balance Sheet

Consolidated balance sheet

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

Consolidated balance sheet

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

Consolidated Statement of Cash Flow

Consolidated statement of cash flow for the years ended 31 December

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

Consolidated statement of cash flow for the years ended 31 December

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

Consolidated Statement of Changes in Equity

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

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

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

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

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1 General Information

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

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

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

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

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

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

2 Summary of Significant Accounting Policies

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

2.1 Basis of preparation

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

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

2.2 Changes in accounting policies

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

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

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

2 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (continued)

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

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

2.4 Consolidation principles

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

2.5 Foreign currency translation and transactions

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

Foreign currency exchange rates

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

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

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

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

2 Summary of Significant Accounting Policies (continued)

2.6 Cash and cash equivalents

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

2.7 Derivatives

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

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (continued)

2.8 Financial assets

"Regular way" purchases and sales of financial assets are recorded on the trade date. The amortisation of premiums and discounts on investments is computed using the effective interest method and is recognised in income as an adjustment of yield. Dividends are recorded as revenue on the ex-dividend date. Interest income is recognised on an accrual basis.

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

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

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

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

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (continued)

2.9 Impairment of financial assets

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (continued)

2.10 Investment property

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

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

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

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

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

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

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

2.11 Insurance operations

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

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

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

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

2 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

2 Summary of Significant Accounting Policies (continued)

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

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

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

All other business: No "legal quote".

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

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

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

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

Non-discretionary participation features Certain policyholder participation systems do not satisfy the criteria for discretionary participation features. These policyholder bonuses might be guaranteed elements. Some policyholder bonuses are based on benchmark interest rates which are credited to the policyholders. For certain products, policyholder bonuses are based on the development of biometric parameters such as mortality and morbidity. These policyholder bonuses are allocated based on the risk result of the contracts involved. The amount and timing of these bonuses are not subject to management discretion and are accrued to the policyholders' liabilities based on the relevant contractual terms and conditions.

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

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

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

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

2 Summary of Significant Accounting Policies (continued)

Insurance liabilities and liabilities from investment contracts with discretionary participation features

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

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

If the actual results show that the carrying amount of the insurance liabilities together with anticipated future revenues (less related deferred acquisition costs (DAC) and related intangible assets) are not adequate to meet the future obligations and to recover the unamortised DAC or intangible assets, the entire deficiency is recognised in profit or loss, initially by reducing the unamortised DAC or intangible assets and subsequently by increasing the insurance liabilities. The liability adequacy test is performed at each reporting date in accordance with a loss recognition test considering current estimates of future cash flows including those resulting from embedded options and guarantees.

Policyholder deposits For investment contracts with discretionary participation, savings premiums collected are reported as deposits (deposit accounting). The liabilities relating to these contracts are not calculated actuarially; they move in line with premiums paid by the policyholders plus interest credited less expenses and mortality charges and withdrawals.

Liabilities for claims and claim settlement costs
Liabilities for unpaid claims and claim settlement costs are for future payment obligations under insurance claims for which normally either the amount of benefits to be paid or the date when payments must be made is not yet fixed. They include claims reported at the balance sheet date, claims incurred but not yet reported and claim settlement expenses. Liabilities for unpaid claims and claim settlement costs are calculated at the estimated amount considered necessary to settle future claims in full, using actuarial methods. These methods are continually reviewed and updated. Claim reserves are not discounted except for claims with determinable and fixed payment terms.

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

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

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

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

2 Summary of Significant Accounting Policies (continued)

2.12 Separate account/unit-linked contracts

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

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

Assets associated with separate account/unit-linked contracts are included in financial assets designated as at fair value through profit or loss, investment property, derivatives and cash and cash equivalents. The related income and gains and losses are included in the income statement under the respective line items. The Group has allocated on a rational basis the proportion of acquisition costs related to the insurance and deposit components, respectively. The accounting policy for deferred acquisition costs applies to the portion of acquisition costs associated with the insurance component and the policy for deferred origination costs applies to the other portion (see 2.16 Intangible assets).

Administrative and surrender charges are included in policy fee income.

2.13 Property and equipment

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

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

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

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

2 Summary of Significant Accounting Policies (continued)

2.14 Leases

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

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

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

2.15 Investment management

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

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

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

2 Summary of Significant Accounting Policies (continued)

2.16 Intangible assets

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

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

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

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

Negative goodwill is immediately recognised in profit and loss.

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

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

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

2 Summary of Significant Accounting Policies (continued)

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

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

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

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

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

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

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

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

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

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

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

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly associated with identifiable software products controlled by the Group, and that will probably generate future economic benefits, are capitalised. Direct costs include the software development team’s employee costs.

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

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

2 Summary of Significant Accounting Policies (continued)

2.17 Impairment of non-financial assets

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

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

2.18 Income taxes

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

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

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

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

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

2 Summary of Significant Accounting Policies (continued)

2.19 Assets held for sale and associated liabilities

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

2.20 Financial liabilities

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

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

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

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

Borrowings Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

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

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

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

2 Summary of Significant Accounting Policies (continued)

2.21 Employee benefits

Post-employment benefits The Swiss Life Group provides post-employment benefits under two types of arrangement: defined benefit plans and defined contribution plans. The assets of these plans are generally held separately from the Group's general assets in trustee-administered funds. Defined benefit plan contributions are based upon regulatory requirements and/or plan terms. The Group's defined benefit obligations and the related service costs are determined at each balance sheet date by a qualified actuary, using the Projected Unit Credit Method.

The amount recognised in the balance sheet represents the present value of the defined benefit obligations, reduced by the fair value of plan assets and adjusted for unrecognised actuarial gains and losses and unrecognised past service costs. The recognition of a resulting asset is limited to the total of any cumulative unrecognised net actuarial losses and past service costs or the present value of any future refunds from the plans or reductions in future contributions to the plans, if lower.

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

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

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

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

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

2.22 Provisions and contingent liabilities

Provisions are liabilities with uncertainties as to the amount or timing of payments. Provisions are recognised if there is a present obligation that probably requires an outflow of resources and a reliable estimate can be made at the balance sheet date and be measured on a best-estimate basis. Contingent liabilities are disclosed in the Notes if there is a possible obligation or a present obligation that may, but probably will not, require an outflow of resources or the amount of the obligation cannot be measured with sufficient reliability.

2.23 Treasury shares

Treasury shares are presented in the consolidated balance sheet as a deduction from equity and are recorded at cost. The difference between the purchase price and the sales proceeds is included in share premium.

2.24 Earnings per share

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

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

2 Summary of Significant Accounting Policies (continued)

2.25 Offsetting

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

2.26 Forthcoming changes in accounting policies

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

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

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

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

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

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

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

3 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Fair value of financial instruments

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

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

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

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

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

Fair value of non-financial instruments

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

Impairment of available-for-sale equity instruments

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

Insurance liabilities

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

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

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

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

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

Mortality and longevity

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

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

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

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

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

Morbidity and disability

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

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

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

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

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

Surrender

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

Policyholder options

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

Expense base and inflation

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

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

Investment returns

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

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

Impairment of goodwill

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

Defined benefit liabilities

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

The assumptions are set out in note 25.

Income taxes

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

Provisions

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

4 Segment Information

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

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

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

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

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

4 Segment Information (continued)

Statement of income for the year ended 31 December 2006

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

4 Segment Information (continued)

Statement of income for the year ended 31 December 2005

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

4 Segment Information (continued)

Balance sheet as at 31 December 2006

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

4 Segment Information (continued)

Balance sheet as at 31 December 2005

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

4 Segment Information (continued)

Geographical segments

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

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

5 Details of Insurance Segment

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

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

5 Details of Insurance Segment (continued)

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

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

6 Risk Management Policies and Procedures

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

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

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

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

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

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

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

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

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

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

6 Risk Management Policies and Procedures (continued)

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

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

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

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

6 Risk Management Policies and Procedures (continued)

6.2 Risk budgeting and limit setting

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

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

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

6.3 Asset and liability management (ALM)

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

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

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

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

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

The liabilities are largely predefined in terms of amount and timing of the payments and the associated assumptions are regularly reviewed. The corresponding asset portfolios mainly comprise fixed-income instruments. This way, the impact of interest rate fluctuations and the risk capital consumption are strategically minimised, thus ensuring that the policyholders receive the benefits they were promised.

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

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

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

6 Risk Management Policies and Procedures (continued)

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

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

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

6.4 Financial risk management objectives and policies

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

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

Insurance liabilities with embedded derivatives not separated and fair valued

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

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

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

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

6 Risk Management Policies and Procedures (continued)

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

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

Average effective interest rates

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

6 Risk Management Policies and Procedures (continued)

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

Interest sensitivity of insurance liabilities

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

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

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

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

6 Risk Management Policies and Procedures (continued)

Exposure to interest rate risk

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

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

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

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

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

6 Risk Management Policies and Procedures (continued)

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

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

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

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

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

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

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

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

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

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

6 Risk Management Policies and Procedures (continued)

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

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

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

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

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

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

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

6 Risk Management Policies and Procedures (continued)

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

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

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

6 Risk Management Policies and Procedures (continued)

Exposure to currency risk

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

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

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

6 Risk Management Policies and Procedures (continued)

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

Exposure to liquidity risk

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

6 Risk Management Policies and Procedures (continued)

6.5 Insurance risk management objectives and policies

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

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

Insurance risks are regularly reported to the Group Risk Committee.

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

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

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

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

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

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

6 Risk Management Policies and Procedures (continued)

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

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

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

The nature of insurance risk can be summarised as follows:

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

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

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

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

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

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

6 Risk Management Policies and Procedures (continued)

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

Annuities payable per annum by type of annuity – individual life

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

Annuities payable per annum by type of annuity – group life

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

Life benefits insured by type of insurance – individual life

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

Life benefits insured by type of insurance – group life

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

6 Risk Management Policies and Procedures (continued)

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

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

Development of claims under non-life insurance contracts

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

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

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

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

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

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

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

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

6 Risk Management Policies and Procedures (continued)

history of the applicants. The limits relate to sums at risk, maximum insured losses or present value of premiums at the contract or insured person level. Depending on the type of business and the limit exceeded, the new or renewed contract must be approved by a specific investment and risk committee or senior management. Contracts exceeding the set limits must be tested for profitability according to predefined procedures before approval. Certain contracts which include specific risks relating to derivatives or demographic risk factors for which no reliable data is available must be submitted for approval irrespective of the amount of coverage offered. Insurance risks exceeding set limits are subject to regular internal reporting requirements. Additionally, it must be ensured that the underwriting practices are in line with local laws.

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

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

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

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

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

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

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

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

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

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

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

6 Risk Management Policies and Procedures (continued)

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

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

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

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

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

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

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

6.6 Banca del Gottardo

Asset and liability management (ALM)

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

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

Financial risks

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

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

6 Risk Management Policies and Procedures (continued)

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

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

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

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

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

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

6 Risk Management Policies and Procedures (continued)

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

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

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

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

7 Earnings per Share

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

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

Earnings per share

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

8 Premiums, Policy Fees and Deposits Received

Written premiums

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

Earned premiums

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

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

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

9 Details of Certain Items in the Consolidated Statement of Income

Asset management and other commission income

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

Investment income

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

Net gains/losses on financial assets

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

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

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

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

Other income

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

Net insurance benefits and claims

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

Interest expense

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

Commission expense

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

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

Employee benefits expense

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

Other expenses

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

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

10 Insurance and Other Receivables and Payables

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Insurance receivables and other receivables

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

Insurance payables and other payables

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

11 Derivatives

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

11 Derivatives (continued)

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

Derivatives held for trading Derivatives held for trading primarily comprise:

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

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

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

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

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

Derivatives designated as fair value hedges

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

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

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

11 Derivatives (continued)

Derivatives designated as cash flow hedges

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

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

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

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

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

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

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

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

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

13 Financial Assets Available for Sale

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

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

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

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

14 Loans

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

Allowance for loan losses

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

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

Interest income accrued on impaired loans was CHF 12 million as of 31 December 2006 (2005: CHF 8 million). The Group's loan portfolio is monitored closely through the review of information such as debt service, annual reports and assessments. This information is evaluated in light of current economic conditions and other factors such as diversification of the property portfolio. This evaluation is part of the regular review to determine whether the allowance for potential loan losses is warranted. Management believes that the allowance for loan losses is sufficient. However, management cannot predict with assurance the impact of future economic circumstances or how the mortgage and real estate portfolios would be affected by various economic circumstances.

Finance lease receivables

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

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

15 Financial Assets Held to Maturity

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

16 Investment Property

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

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

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

17 Investments in Associates

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

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

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

Investments in associates: summarised financial information

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

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

18 Property and Equipment

Property and equipment for the year ended 31 December 2006

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

18 Property and Equipment (continued)

Property and equipment for the year ended 31 December 2005

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

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

19 Intangible Assets

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

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

19 Intangible Assets (continued)

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

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

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

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

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

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

19 Intangible Assets (continued)

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

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

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

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

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

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

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

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

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

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

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

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

20 Other Assets and Liabilities

Other assets

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

Other liabilities

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

21 Investment Contracts

Investment contracts

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

Investment contracts with discretionary participation with deposit accounting

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

21 Investment Contracts (continued)

Investment contracts with discretionary participation with actuarial valuation

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

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

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

For traditional contracts in the life insurance business, future life policy benefit liabilities are determined by using the net-level-premium method on the basis of actuarial assumptions as to mortality, persistency, expenses and investment return, including a margin for adverse deviation. For participating contracts where the contribution principle applies to the allocation of the policyholder bonus, future life policy benefit liabilities are determined by using the net-level-premium method on the basis of appropriate mortality and interest rate assumptions.

These amounts primarily relate to contracts issued in Switzerland and France.

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

22 Deposits

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

23 Borrowings

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

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

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

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

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

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

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

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

23 Borrowings (continued)

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

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

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

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

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

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

Subordinated debt

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

23 Borrowings (continued)

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

Amounts in CHF million					**31.12.06**	31.12.05
Issuer/instrument	Currency	Interest rate	Year of issue	Maturity	**Carrying amount**	Carrying amount
Banca del Gottardo – medium-term notes[1)]	CHF	2.000%	n. a.	n. a.	**10**	6
Swiss Life Insurance Finance Ltd. – guaranteed bonds	EUR	4.375%	2004	2008	**480**	464
Total					**490**	470

1) Medium-term notes are fixed-rate debentures issued continuously by Banca del Gottardo on demand with a maturity of 2 to 8 years.
As at 31 December 2006, the average interest rate was 2.0% (2005: 1.9%) and the average remaining time to maturity 25 months (2005: 33 months).

Due to banks Due to banks outstanding as at 31 December are repayable as follows:

In CHF million	**31.12.2006**	31.12.2005
On demand and within 1 year	**1 491**	1 001
After 1 year up to 5 years	**88**	96
After 5 years	**–**	–
Total	**1 579**	1 097

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

Amounts in CHF million			**31.12.2006**	31.12.2005
Currency	Interest rate	Maturity	**Carrying amount**	Carrying amount
CHF	4.050%	2006	**–**	16
CHF	3.160%	2009	**47**	48
CHF	3.050%	2010	**41**	42
Total			**88**	106

Finance lease obligations

In CHF million	**31.12.2006**	31.12.2005	**31.12.2006**	31.12.2005
	Minimum lease payments	Minimum lease payments	**Present value of minimum lease payments**	Present value of minimum lease payments
Not later than 1 year	**6**	6	**6**	5
Later than 1 year and not later than 5 years	**5**	12	**4**	11
Later than 5 years	**–**	–	**–**	–
Total	**11**	18	**10**	16
Future finance charges	***1***	*2*		

24 Insurance Liabilities and Reinsurance Assets

In CHF million	31.12.06	31.12.05	31.12.06	31.12.05	31.12.06	31.12.05
	Gross	Gross	**Reinsurance assets**	Reinsurance assets	**Net**	Net
Claims under non-life insurance contracts	**1 440**	1 386	**243**	239	**1 197**	1 147
Claims under life insurance contracts	**7 773**	7 887	**122**	133	**7 651**	7 754
Unearned premiums	**193**	197	**4**	4	**189**	193
Future life policyholder benefits	**93 121**	90 731	**600**	547	**92 521**	90 184
Deposits under insurance contracts	**6 708**	6 340	**–**	–	**6 708**	6 340
Total insurance liabilities and reinsurance assets	**109 235**	106 541	**969**	923	**108 266**	105 618
of which for the account and risk of the Swiss Life Group's customers						
Future life policyholder benefits	***1 322***	*1 506*				
Deposits under insurance contracts	***354***	*280*				

Future life policyholder benefits

In CHF million	2006	2005
Balance as at 1 January	**90 731**	86 114
Acquisition of insurance portfolio	**–**	2 841
Savings premiums	**9 036**	8 475
Accretion of interest	**2 701**	2 645
Claims incurred, benefits paid and surrenders	**–9 680**	–10 111
Effect of changes in actuarial assumptions and other movements	**–824**	418
Foreign currency translation differences	**1 157**	349
Balance as at 31 December	**93 121**	90 731

Deposits under insurance contracts

In CHF million	2006	2005
Balance as at 1 January	**6 340**	6 353
Deposits received	**870**	781
Interest credited	**192**	192
Participating bonuses	**64**	90
Policy fees and insurance charges	**–76**	–80
Deposits released for payments on death, surrender and other terminations during the year	**–765**	–951
Other movements	**–76**	–86
Foreign currency translation differences	**159**	41
Balance as at 31 December	**6 708**	6 340

Insurance liabilities with and without discretionary participation

In CHF million	31.12.2006	31.12.2005
Insurance liabilities with discretionary participation	**98 044**	96 982
Insurance liabilities without discretionary participation	**11 191**	9 559
Total insurance liabilities	**109 235**	106 541

24 Insurance Liabilities and Reinsurance Assets (continued)

Claims under non-life insurance contracts

In CHF million	2006	2005
As at 1 January		
Gross claims under non-life insurance contracts	**1 386**	2 083
Less: reinsurance recoverable	**–239**	–355
Net claims under non-life insurance contracts	**1 147**	1 728
Claims and claim settlement costs incurred		
Reporting period	**470**	704
Prior reporting periods	**–57**	–142
Total claims and claim settlement costs incurred	**413**	562
Claims and claim settlement costs paid		
Reporting period	**–203**	–160
Prior reporting periods	**–199**	–386
Total claims and claim settlement costs paid	**–402**	–546
Acquisitions and disposals of companies and insurance business	**0**	–605
Foreign currency translation differences	**39**	8
As at 31 December		
Net claims under non-life insurance contracts	**1 197**	1 147
Plus: reinsurance recoverable	**243**	239
Total gross claims under non-life insurance contracts	**1 440**	1 386

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

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

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

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

The valuation of other long-duration contracts is also based on the net-level-premium method with actuarial assumptions as to mortality, persistency, expenses and investment returns including provisions for adverse deviation.

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

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

25 Employee Benefits

Defined benefit plans Employees are covered under various funded and unfunded pension plans. When a third party will reimburse some or all of the expenditure for employee benefits and the rights to reimbursement do not qualify as plan assets, they are treated as a separate asset rather than as a deduction from the obligation. In all other respects the treatment is the same as for plan assets. Participation in the various plans is based either on completion of a specific period of continuous service or on the date of hire. Benefits are based on the employee's credited years of service and average compensation in the years preceding retirement. Annual funding requirements are determined based on actuarial methods or local requirements.

Due to the requirements of IFRS 4 Insurance Contracts in combination with IAS 19 Employee Benefits, insurance contracts issued to defined benefit plans covering own employees are eliminated. These plans are typically partially funded as certain plan assets relating to these plans are not required to be eliminated.

The net asset/liability position does not incorporate any reimbursement rights.

The major part of the defined benefit liability arises from plans covering employees in Switzerland. The primary benefit of those plans is an old-age pension paid out after reaching retirement age. The amount of the pension is defined in relation to final salary and depends on completion of years of service (including years of service purchased by the employee with transferred funds from plans of former employers). There are options for early retirement (with reduction of the pension amount determined with actuarial methods) and for choosing to receive a lump-sum payment instead of a pension. Other benefits comprise widows'/orphans' pensions in case of death as well as disability pensions (if disabled before retirement age). The plans are funded by the employer through ordinary contributions determined with actuarial methods where, under Swiss law, a part (generally less than 50% of the total contribution) is deducted from the employee's gross salary. Further funding comprises mandatory transfers of funds made by new employees from plans of former employers, discretionary contributions by employees (within plan restrictions) and the earnings on the plan assets.

The increase in plan assets primarily relates to the restructuring of the pension fund in Germany. These plan assets consist of a qualifying insurance policy included in other plan assets.

The contributions expected to be paid for the year ending 31 December 2007 are CHF 72 million.

Amounts recognised in the consolidated balance sheet

In CHF million	Notes	**31.12.2006**	31.12.2005
Present value of wholly and partly funded obligations		**–2 625**	–2 554
Fair value of plan assets		**496**	302
Present value of unfunded obligations		**–440**	–383
Unrecognised actuarial gains (–)/losses (+)		**194**	209
Unrecognised past service cost		**–7**	–9
Unrecognised asset		**–**	–
Net defined benefit asset (+)/liability (–)		**–2 382**	–2 435
The net asset/liability consists of			
gross defined benefit liabilities		**–2 535**	–2 558
gross defined benefit assets	20	**153**	123
Employee benefit liabilities consist of			
gross defined benefit liabilities		**–2 535**	–2 558
other employee benefit liabilities		**–26**	–18
Total employee benefit liabilities		**–2 561**	–2 576

25 Employee Benefits (continued)

Amounts recognised in the consolidated statement of income

In CHF million	Notes	2006	2005
Current service cost		**103**	100
Interest cost		**98**	96
Expected return on plan assets		**–15**	–9
Expected return on reimbursement rights		**–**	–
Net actuarial gains (–)/losses (+)		**2**	3
Past service cost		**–1**	2
Change in unrecognised asset		**–**	–
Employee contributions		**–32**	–8
Effect of curtailments or settlements		**–6**	–53
Total defined benefit expense	9	**149**	131
Actual return on plan assets		***–58***	*–58*
Actual return on reimbursement rights		**–**	–

25 Employee Benefits (continued)

Defined benefit plans

In CHF million	2006	2005
Changes in the present value of the defined benefit obligation		
Balance as at 1 January	**–2 937**	–2 871
Current service cost	**–103**	–100
Interest cost	**–98**	–96
Contributions by plan participants	**–117**	–97
Actuarial gains (+)/losses (–)	**–53**	–67
Benefits paid	**244**	187
Past service cost	**0**	–6
Curtailments and settlements	**15**	116
Acquisition and disposal of subsidiaries	**1**	2
Foreign currency translation differences	**–17**	–5
Balance as at 31 December	**–3 065**	–2 937
Changes in the fair value of plan assets		
Balance as at 1 January	**302**	219
Expected return on plan assets	**15**	9
Actuarial gains (+)/losses (–)	**43**	49
Contributions by the employer	**131**	41
Contributions by plan participants	**13**	4
Benefits paid	**–1**	–6
Curtailments and settlements	**–8**	–14
Acquisition and disposal of subsidiaries	**–**	0
Foreign currency translation differences	**1**	0
Balance as at 31 December	**496**	302
Categories of plan assets		
Equity instruments	**203**	250
Debt instruments	**166**	15
Property	**–**	–
Other assets	**127**	37
Total plan assets	**496**	302
Plan assets include		
own equity instruments	**129**	100
own debt instruments	**–**	–
property occupied by the Group	**–**	–
other assets used by the Group	**–**	–
Historical information		
Present value of defined benefit obligation	**–3 065**	–2 937
Fair value of plan assets	**496**	302
Difference	**–2 569**	–2 635
Experience adjustments on plan liabilities	**–57**	–67
Experience adjustments on plan assets	**43**	49

25 Employee Benefits (continued)

Principal actuarial assumptions (weighted averages)

	31.12.2006	31.12.2005
Discount rate	**3.4%**	3.5%
Expected rate of return on plan assets	**4.1%**	3.9%
Expected rate of return on reimbursement rights	**n. a.**	n. a.
Future salary increases	**1.8%**	2.0%
Future pension increases	**1.0%**	0.9%

Number of employees The Group had 8693 full-time equivalents as at 31 December 2006 (2005: 8979).

Defined contribution pension plans Certain subsidiaries sponsor various defined contribution plans. Participation in the various plans is based either on completion of a specific period of continuous service or on the date of hire. The plans stipulate contributions by both employers and employees. The Group's expenses under these plans amounted to CHF 3 million in 2006 (2005: CHF 5 million).

Other long-term employee benefits The liability for long-term employee benefits amounted to CHF 12 million as at 31 December 2006 (2005: CHF 12 million). It relates to part-time employment contracts prior to retirement and to profit-sharing arrangements for certain employees.

Termination benefits The termination benefit liability totalling CHF 14 million for the year ending 31 December 2006 (2005: CHF 6 million) arose as a result of early retirements and voluntary redundancies.

Equity compensation plans In 2005, a share-based payment programme was established which gives the members of the Corporate Executive Board and senior employees the right to receive a certain number of Swiss Life Holding shares (performance share units, PSUs) after three years of service, if certain conditions are fulfilled. The number of the shares allocated depends on two criteria. One criterion is the performance of the share price of the Swiss Life Holding share during the vesting period of three years. The other criterion is the performance of the share price of the Swiss Life Holding share during the vesting period of three years compared to the performance of the Dow Jones STOXX 600 Insurance Index. The number of PSUs can increase no more than by a factor of 1.5 or drop by 0.5, within three years, depending on how the criteria develop.

In 2005, the number of PSUs granted under this programme amounted to 67 412 (balance after reduction in par value). Due to the reduction in par value of the Swiss Life Holding shares in 2005, the number of PSUs granted was adjusted using the Eurex R factor of 0.978284. The fair value at the measurement date amounted to CHF 159.66. The date of grant was 1 April 2005.

In 2006, the number of PSUs granted under this programme amounted to 46 651 (balance after reduction in par value). Due to the reduction in par value of the Swiss Life Holding shares in 2006, the number of PSUs granted was adjusted using the Eurex R factor of 0.9965. The fair value at the measurement date amounted to CHF 252.56. The date of grant was 1 April 2006.

The Group determines the fair value of the PSUs granted for each programme at the grant date. The fair value was determined using the Black-Scholes formula and Monte Carlo simulations. The associated expense during the vesting period is recognised under employee benefits expense with a corresponding increase in share premium. The expense recognised for 2006 totalled CHF 5 million (2005: CHF 4 million).

25 Employee Benefits (continued)

Share-based payment programmes (performance share units)

Number of performance share units	Balance as at 1 January	Issued	Reduction in par value	Balance after reduction in par value	Employee departures	Vested	Balance as at 31 December
2006							
Granted in 2005	**66 131**	**–**	**220**	**66 351**	**–9 965**	**–**	**56 386**
Granted in 2006	**–**	**46 470**	**181**	**46 651**	**–1 193**	**–**	**45 458**
2005							
Granted in 2005	–	65 938	1 474	67 412	–1 281	–	66 131

Share options The Group offered share options to directors and managers in Switzerland and abroad. No new share options have been allocated since 2003.

Due to the reduction in par value of the Swiss Life Holding shares in 2006, the number and the exercise price of shares under option granted in prior years were adjusted using the Eurex R factor of 0.9965. Due to the reduction in par value of the Swiss Life Holding shares in 2005, the number and the exercise price of shares under option granted in prior years were adjusted using the Eurex R factor of 0.978284. The intrinsic value of the outstanding share options (issued in 2002) was CHF 81.15 as at 31 December 2006 (2005: CHF 12.80). The outstanding share options issued in 2001 did not have an intrinsic value as at 31 December 2005. The exercise price of the outstanding share options at the end of the period was CHF 224.10 (2005: range from CHF 224.10, adjusted using the Eurex R factor of 0.9965, to CHF 686.50). The weighted average remaining contractual life of the outstanding share options at the end of the period was 180 days (2005: 336 days). The number of options exercisable at the end of 2006 amounted to 88 055 (2005: 277 079).

Number of shares under option

Amounts in CHF	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
	Number of shares 1)	Number of shares 1)	**Exercise date**	Exercise date	**Expiry date**	Expiry date	**Weighted average exercise price 2)**	Weighted average exercise price 2)
As at 1 January	**277 079**	277 079					**468**	468
Granted/issued	**–**	–	**–**	–	**–**	–	**–**	–
Exercised	**–42 791**	–	**–**	–	**–**	–	**224**	–
Lapsed	**–146 233**	–	**–**	–	**31.05.06**	–	**687**	–
As at 31 December	**88 055**	277 079					**224**	468

1) Number of shares adjusted due to reduction in par value of Swiss Life Holding shares in accordance with Eurex rules

2) Exercise price adjusted due to reduction in par value of Swiss Life Holding shares in accordance with Eurex rules

Other benefits The Swiss Life Group maintains incentive programmes for certain management and other employees. Related expenses in 2006 were CHF 12 million (2005: CHF 15 million).

26 Income Taxes

Income tax expense

In CHF million	2006	2005
Current tax expense		
Current tax of the current period	**216**	151
Adjustments for current tax of prior periods	**–133**	–25
Total current tax expense	**83**	126
Deferred tax expense		
Origination and reversal of temporary differences	**44**	–193
Changes in tax rates	**1**	46
Total deferred tax expense	**45**	–147
Total income tax expense	**128**	–21

Based on a ruling by the Dutch tax administration, Swiss Life was able to reduce its tax liability by CHF 159 million (2005: CHF 82 million). Due to a change in the French tax legislation with regard to taxation of shareholdings, tax expenses were reduced by CHF 31 million (2005: CHF 116 million).

In connection with the restructuring of the real estate management business, the Swiss Life Group realised in 2005 a tax benefit of CHF 18 million. Additionally, due to the reduction of the tax base in the real estate business, a tax benefit totalling CHF 23 million was realised in 2005.

The expected weighted-average tax rate for the Group was 30.9% in 2006 (2005: 29.2%). This rate was derived by obtaining a weighted average of the expected income tax rates in the various jurisdictions in which the Group operates. The increase of the weighted-average tax rate is due to the geographical allocation of the profits and the different tax rates in these jurisdictions. The actual income tax expenses differ from the expected amounts as follows:

Actual and expected income tax

In CHF million	2006	2005
Expected income tax expense	**335**	249
Increase/reduction in taxes resulting from		
tax-exempt interest	**–9**	–14
tax-exempt dividends	**–12**	–3
other non-taxable income	**–236**	–297
non-deductible expenses	**61**	78
other income taxes (incl. withholding taxes)	**0**	5
unrecognised tax losses/credits	**8**	31
use of previously unrecognised tax losses/credits	**–7**	–83
other	**–12**	13
Actual income tax expense	**128**	–21

26 Income Taxes (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority. 171

Deferred income tax assets and liabilities

In CHF million	31.12.2006 Deferred tax assets	31.12.2005 Deferred tax assets	31.12.2006 Deferred tax liabilities	31.12.2005 Deferred tax liabilities
Financial assets	**92**	108	**365**	800
Investment property	**4**	3	**412**	419
Intangible assets	**40**	117	**263**	236
Property and equipment	**33**	33	**0**	1
Financial liabilities	**44**	51	**9**	13
Insurance liabilities	**74**	113	**110**	94
Employee benefits	**29**	22	**48**	28
Deferred income	**79**	78	**1**	2
Other	**15**	13	**26**	43
Tax losses and tax credits	**69**	77		
Deferred income tax assets/liabilities	**479**	615	**1 234**	1 636
Valuation allowance	**–16**	–36		
Offset	**–369**	–500	**–369**	–500
Total deferred income tax assets/liabilities	**94**	79	**865**	1 136

The movements in net deferred income tax assets/liabilities during the period were as follows:

Net deferred income tax assets and liabilities

In CHF million	Balance as at 1 January	Recognised in income	Recognised in equity	Disposals and foreign currency translation differences	Balance as at 31 December
Movements by type of temporary difference during the year 2006					
Financial assets	**–692**	**24**	**398**	**–3**	**–273**
Investment property	**–416**	**9**	**0**	**–1**	**–408**
Intangible assets	**–119**	**–43**	**–60**	**–1**	**–223**
Property and equipment	**32**	**1**	**–**	**0**	**33**
Financial liabilities	**38**	**–1**	**–2**	**0**	**35**
Insurance liabilities	**19**	**–54**	**–1**	**0**	**–36**
Employee benefits	**–6**	**–13**	**–**	**0**	**–19**
Deferred income	**76**	**1**	**1**	**0**	**78**
Other	**–30**	**19**	**–**	**0**	**–11**
Tax losses and tax credits	**77**	**–8**	**–**	**0**	**69**
Valuation allowance	**–36**	**20**	**–**	**0**	**–16**
Net deferred income tax assets/liabilities	**–1 057**	**–45**	**336**	**–5**	**–771**
Movements in total temporary differences during the year 2005					
Net deferred income tax assets/liabilities	–1 125	147	–105	26	–1 057

26 Income Taxes (continued)

Deferred tax liabilities have not been established for withholding taxes and other taxes that would be payable on the unremitted income of certain subsidiaries, as such amounts are always retained.

Deferred tax assets are recognised for tax-loss carryforwards and unused tax credits only to the extent that realisation of the related tax benefit is probable. Swiss tax assets are calculated in accordance with cantonal and communal tax legislation. The uncertainty of the recoverability of tax losses and tax credits is taken into account in establishing the valuation allowance. For the following tax-loss carryforwards and tax credits, which will expire as follows, no deferred tax asset has been recognised as at 31 December:

Unrecognised tax losses and tax credits

In CHF million	2006	2005
2007	1	0
2008	0	1
2009	1	1
Thereafter	78	120
Total	**80**	122

27 Provisions

In CHF million			2006	2005
	Restructuring	Other	Total	Total
Balance as at 1 January	93	119	212	193
Additional provisions during the reporting period	19	50	69	189
Amounts used during the reporting period	–27	–43	–70	–123
Unused amounts reversed during the reporting period	0	–8	–8	–29
Transfer to liabilities associated with assets held for sale	–	–	–	–18
Effect of acquisitions and disposals	–	–3	–3	–
Foreign currency translation differences	1	1	2	0
Balance as at 31 December	**86**	**116**	**202**	212

Restructuring costs In 2006, CHF 19 million provisions for restructuring programmes were primarily set up at Banca del Gottardo and in Germany.

In 2005, a provision totalling CHF 72 million relating to the restructuring programme of «La Suisse» in Switzerland was set up. As at 31 December 2006 the remaining provision amounted to CHF 23 million and CHF 12 million was used during the period (2005: CHF 37 million). The provision primarily relates to redundancy programmes and onerous contracts. The outflow of the remaining amounts is expected within the next one to two years.

In 2005, additional provisions relating to restructuring programmes and termination benefits totalling CHF 50 million for employees were set up in Switzerland and in Germany with an expected outflow of benefits within the next two years.

28 Equity

Share capital As approved by the shareholders at the General Meeting of Swiss Life Holding (SLH) on 9 May 2006, a reduction in par value of CHF 5 per registered SLH share was effected in 2006 (2005: CHF 4 per registered share). The payout took place at the beginning of August 2006 and led to a reduction in the share capital of SLH of CHF 169 million (2005: CHF 135 million).

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

As at 31 December 2006, the share capital of SLH consisted of 33 776 269 fully-paid shares with a par value of CHF 41 each. In exercising voting rights, no shareholder can collect more than 10% of the total share capital directly or indirectly in respect of own shares or shares they represent. As at 31 December 2005, SLH had 33 776 078 registered shares with a par value of CHF 46 per share. Conditional share capital was CHF 150 374 511 as at 31 December 2006 (2005: CHF 168 721 652).

Share premium Share premium comprises additional paid-in capital in excess of the par value (net of transaction costs), gains/losses on own equity instruments, equity compensation benefits and equity elements of convertible debt.

Due to the reduction in par value of CHF 5 per registered SLH share in 2006 (2005: CHF 4 per registered SLH share), an amount of CHF 2 million was credited to share premium in respect of treasury shares (2005: CHF 9 million).

Number of shares The following table shows the development of SLH shares issued and treasury shares held by the Swiss Life Group during the period:

Number of shares	**2006**	2005
Shares issued		
Balance as at 1 January	**33 776 078**	33 775 818
Issuance of shares	**–**	–
Reduction in shares	**–**	–
Conversion of convertible debt	**191**	260
Balance as at 31 December	**33 776 269**	33 776 078
Treasury shares		
Balance as at 1 January	**261 713**	2 237 059
Conversion of MCS	**–**	–1 978 005
Purchases of treasury shares	**644 170**	718 685
Sales of treasury shares	**–570 366**	–716 026
Balance as at 31 December	**335 517**	261 713

Gains and losses recognised directly in equity Gains/losses recognised directly in equity comprise fair value changes of available-for-sale investments, revaluation surpluses on the transfer of owner-occupied property to investment property and the effective portion of the gain or loss on hedging derivatives in qualifying cash flow hedges. These amounts are net of certain policyholder bonuses and other policyholder liabilities and deferred acquisition costs, deferred income taxes and minority interests.

28 Equity (continued)

Gains and losses recognised directly in equity for the year ended 31 December 2006

In CHF million	Notes	Financial assets available for sale	Cash flow hedges	Other	Total
Gross gains and losses					
Balance as at 1 January		**5 878**	**–13**	**138**	**6 003**
Change during the period					
Gains/losses on financial instruments	11	**–3 020**	**4**	**–**	**–3 016**
Revaluation surplus on owner-occupied property transferred to investment property	18	**–**	**–**	**4**	**4**
Share of gains/losses of associates		**–**	**–**	**0**	**0**
Gains/losses on assets held for sale		**–**	**–**	**–**	**–**
Revaluation surplus on step acquisitions		**–**	**–**	**–**	**–**
Gains/losses transferred to the income statement	9, 11	**–721**	**5**	**–**	**–716**
Impairment losses transferred to the income statement	9	**14**	**–**	**–**	**14**
Effect of disposal of subsidiaries		**–**	**–**	**1**	**1**
Foreign currency translation differences		**92**	**–**	**3**	**95**
Balance as at 31 December		**2 243**	**–4**	**146**	**2 385**
Adjustments for income tax and other items					
Balance as at 1 January					**–4 818**
Changes in amounts attributable to					
income tax					**336**
deferred acquisition costs and present value of future profits					**318**
policyholder bonuses and other policyholder liabilities					**2 163**
effect of disposal of subsidiaries					**0**
foreign currency translation differences					**–87**
minority interest					**8**
Balance as at 31 December					**–2 080**
Total gains and losses, net of income tax and other items					**305**

28 Equity (continued)

Gains and losses recognised directly in equity for the year ended 31 December 2005

In CHF million	Notes	Financial assets available for sale	Cash flow hedges	Other	Total
Gross gains and losses					
Balance as at 1 January		4 508	–23	134	4 619
Change during the period					
Gains/losses on financial instruments	11	3 081	6	–	3 087
Revaluation surplus on owner-occupied property transferred to investment property	18	–	–	4	4
Share of gains/losses of associates		–	–	0	0
Gains/losses on assets held for sale		–	–	–1	–1
Gains/losses transferred to the income statement	9, 11	–1 803	4	–	–1 799
Impairment losses transferred to the income statement	9	64	–	–	64
Foreign currency translation differences		28	–	1	29
Balance as at 31 December		5 878	–13	138	6 003
Adjustments for income tax and other items					
Balance as at 1 January					–3 729
Changes in amounts attributable to					
income tax					–105
deferred acquisition costs and present value of future profits					–123
policyholder bonuses and other policyholder liabilities					–833
foreign currency translation differences					–25
minority interest					–3
Balance as at 31 December					–4 818
Total gains and losses, net of income tax and other items					1 185

Foreign currency translation differences Foreign currency translation differences comprise the resulting differences arising on the translation of assets, liabilities, income and expenses of Group entities denominated in foreign currencies into Swiss francs.

Retained earnings Retained earnings comprise accumulated retained earnings of the Group entities which have not been distributed to the shareholders. The distribution of profit is subject to restrictions in the various jurisdictions where the Group entities are located.

The Group's insurance subsidiaries are subject to regulatory restrictions on the amount of dividends, cash loans and advances which can be remitted to the Group. Certain foreign jurisdictions have restrictions that allow the payment of dividends but may cause a delay in their remittance. Dividends payable are not accrued until they have been ratified at the General Meeting.

Maturity of mandatory convertible securities (MCS I) On 19 December 2005, the mandatory convertible securities (MCS I, 2002–2005) matured and the liability component totalling CHF 250 million was reclassified to share premium. As a result, the number of treasury shares decreased by 1 978 005.

Reserving and regulatory requirements The Group's insurance entities must set aside sufficient reserves to meet their long-term obligations. The Group Chief Actuary is responsible for the assessment of the financial impact of the Group's insurance business practices. The Group is subject to the regulatory and solvency supervision of the Swiss Federal Office of Private Insurance (FOPI), as well as to the local regulatory supervision in all jurisdictions in which it is active.

29 Core Capital

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In CHF million	Notes	**31.12.2006**	31.12.2005
Equity		**7 851**	7 953
Hybrid capital instruments	23	**1 739**	1 689
Deferred Group-related funds		**5 171**	6 979
Total core capital		**14 761**	16 621

The Group's capital performs several important functions, such as funding future growth and providing a protective cushion for shareholders and policyholders, as well as hedging future risks. The defined Group core capital includes equity, certain liabilities with equity characteristics (hybrid capital instruments) and deferred Group-related funds (theoretical policyholder participation in surplus under consideration of additional DAC amortisation and deferred taxes).

30 Acquisitions and Disposals of Subsidiaries

Assets and liabilities from acquisitions and disposals

In CHF million	**2006**	2005	**2006**	2005
	Acquisitions	Acquisitions	**Disposals**	Disposals
Cash and cash equivalents	**1**	2	**143**	0
Insurance receivables and other receivables	**0**	1	**41**	7
Derivatives (assets)	**–**	–	**19**	–
Financial assets at fair value through profit or loss	**–**	–	**0**	–
Financial assets available for sale	**–**	–	**478**	–
Loans	**1**	–	**1 774**	4
Financial assets held to maturity	**–**	–	**0**	–
Investment property	**–**	–	**79**	3
Investments in associates	**–**	–	**0**	–
Reinsurance assets	**–**	–	**21**	–
Property and equipment	**0**	0	**7**	0
Customer relationships and other intangible assets	**2**	0	**47**	–
Other assets	**1**	–	**3**	0
Insurance payables and other payables	**–1**	–1	**–35**	–2
Derivatives (liabilities)	**–**	–	**–8**	–
Financial liabilities at fair value through profit or loss	**–**	–	**0**	–
Investment contracts	**–**	–	**0**	–
Deposits	**–**	–	**–1 495**	–
Borrowings	**–1**	–	**–548**	–
Insurance liabilities	**–**	–	**–236**	–
Employee benefit liabilities	**–**	0	**–1**	0
Provisions	**–**	–	**–21**	–
Other liabilities	**0**	–	**–40**	0
Minority interest	**–**	–1	**1**	0
Net assets acquired/net assets disposed of	**3**	1	**229**	12
Transfer from/to associates	**–**	1	**–**	–
Gains/losses recognised directly in equity	**–**	–	**0**	–
Foreign currency translation differences	**–**	–	**14**	0
Gain (+)/loss (–) on disposals			**44**	6
Cash used for acquisitions (–)/received from disposals (+)	**–3**	0	**262**	18
Consideration not yet received in cash			**25**	–
Payment in kind			**–**	–
Total purchase consideration/disposal consideration	**–3**	0	**287**	18
Cash used for acquisitions (–)/received from disposals (+)	**–3**	0	**262**	18
Cash and cash equivalents acquired (+)/disposed of (–)	**1**	2	**–143**	0
Net cash outflow (–)/inflow (+) from acquisitions/disposals	**–2**	2	**119**	18

The Swiss Life Group acquired in December 2006 an insurance broker in Belgium. The acquisition cost amounted to CHF 3 million.

The Italian insurance operations were sold in December 2006. The sales price amounted to CHF 25 million and the loss realised on the sale totalled CHF 11 million.

In February 2006, the Swiss Life Group sold Banca del Gottardo (Monaco). The sales price amounted to CHF 146 million and the gain realised on the sale was CHF 23 million.

In January 2006, Dreieck Industrie Leasing was sold. The sales price amounted to CHF 97 million and the gain realised on the sale was CHF 27 million.

30 Acquisitions and Disposals of Subsidiaries (continued)

Additionally, a real estate company in Belgium and a service company in Switzerland were sold in January 2006. The sales prices of these transactions amounted to CHF 19 million in total. The gain realised on the sales amounted to CHF 5 million.

In 2005, the Swiss Life Group sold a real estate company in Belgium and Gottardo A.E.P.E.Y., Athens, a subsidiary of Banca del Gottardo. The sales prices of these transactions amounted to CHF 18 million in total. The gain realised on the sales amounted to CHF 6 million.

In 2005, the Swiss Life Group acquired an additional 24.1% of the shares of Swiss Life Partner AG, Munich.

31 Acquisition of Insurance Portfolio

In CHF million	2005
Cash and cash equivalents	11
Insurance receivables and other receivables	195
Financial assets at fair value through profit or loss	10
Financial assets available for sale	2 105
Loans	871
Present value of future profits on acquired insurance portfolio	45
Total assets acquired	3 237
Insurance payables and other payables	113
Insurance liabilities	3 104
Other liabilities	20
Total liabilities acquired	3 237

In 2005, the Swiss Life Group took on the group life portfolio of Vaudoise.

32 Assets Held for Sale and Associated Liabilities

In CHF million	**31.12.06**	31.12.05	**31.12.06**	31.12.05	**31.12.06**	31.12.05
	Disposal groups	Disposal groups	**Non-current assets**	Non-current assets	**Total**	Total
Assets held for sale	–	1 395	**14**	14	**14**	1 409
Liabilities associated with assets held for sale	–	1 734	–	–	–	1 734

Non-current assets held for sale as at 31 December 2006 consist of foreclosed property.

In November 2005, the Swiss Life Group announced the sale of Banca del Gottardo (Monaco). The sale was approved by the regulator and was effective in the first half of 2006. In January 2006, the Swiss Life Group announced the sale of Dreieck Industrie Leasing which was also effective in the first six months of 2006. The group of assets to be disposed of and the liabilities directly associated with those assets (disposal group) were presented separately in the balance sheet as at 31 December 2005 under assets held for sale and liabilities associated with assets held for sale.

33 Related Party Transactions

Consolidated statement of income

In CHF million	2006				2005
	Associates	Key management personnel	Other	Total	Total
Investment income	**1**	**–**	**5**	**6**	8
Net gains/losses on financial instruments at fair value through profit or loss	**–**	**–**	**19**	**19**	53
Asset management and other commission income	**–**	**–**	**–**	**–**	1
Interest expense	**0**	**–**	**0**	**0**	0
Employee benefits expense	**–**	**14**	**–**	**14**	11
Other expenses	**47**	**–**	**1**	**48**	2

Consolidated balance sheet

Amounts in CHF million	31.12.06				31.12.05
	Associates	Key management personnel	Other	Total	Total
Financial assets	**–**	**–**	**289**	**289**	452
Loans	**24**	**–**	**6**	**30**	32
Deposits	**0**	**–**	**8**	**8**	11
Other liabilities	**–**	**–**	**–**	**–**	0
SLH shares issued to key management under equity compensation plans (number)	**–**	**8 432**	**–**	**8 432**	8 442

Key management compensation

In CHF million	31.12.2006	31.12.2005
Short-term employee benefits	**10**	9
Post-employment benefits	**1**	1
Other long-term benefits	**–**	–
Termination benefits	**–**	–
Equity-settled share-based payments	**3**	1
Total	**14**	11

Sales to and purchases from related parties are made at normal market prices. Outstanding balances at year-end are unsecured and settlement is made in cash. There have been no guarantees provided or received for any related party receivables. For the year ended 31 December 2006, no provisions have been made for doubtful debts in respect of the amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Key management comprises the members of the Board of Directors of Swiss Life Holding and the members of the Corporate Executive Board of Swiss Life Holding. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Swiss Life Group, directly or indirectly.

Financial assets associated with other related parties primarily comprise interest in a participation in Germany in which the Group has a certain influence. It consists of strategic investments in a German bank conglomerate.

34 Assets under Management

In CHF million	31.12.2006	31.12.2005
On-balance-sheet assets		
Cash and cash equivalents	**7 621**	14 170
Derivatives	**859**	777
Financial assets at fair value through profit or loss	**29 437**	23 653
Debt securities available for sale	**81 633**	70 833
Money market instruments and loans available for sale	**105**	38
Equity securities available for sale	**5 488**	3 987
Investment funds available for sale	**787**	370
Private equity available for sale	**129**	139
Hedge funds available for sale	**4 713**	4 216
Other financial assets available for sale	**61**	448
Loans	**28 883**	30 280
Financial assets held to maturity	**4 090**	4 256
Financial assets pledged as collateral	**124**	1 232
Investment property	**11 816**	11 439
Investments in associates	**75**	76
Total on-balance-sheet assets	**175 821**	165 914
Plus fair value adjustments of assets reported at amortised cost		
Financial assets held to maturity	**103**	276
Loans	**496**	1 275
Minus externally managed on-balance-sheet assets		
Assets under unit-linked business	**–2 625**	–1 548
Externally managed alternative investments	**–5 190**	–5 246
Externally managed other assets	**–736**	–670
Total on-balance-sheet assets managed by the enterprise	**167 869**	160 001
Third-party off-balance-sheet assets	**37 621**	47 629
Total assets under management	**205 490**	207 630

Assets under management are taken to comprise:

- assets stated as investments in the balance sheet and cash and cash equivalents
- assets included in the balance sheet for the account and risk of the Swiss Life Group's customers (separate account/unit-linked investments)
- assets managed for third parties by the Group
- minus assets managed by third parties and alternative investments managed by third parties

35 Fair Value of Financial Instruments Not at Fair Value in the Balance Sheet

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented in the Group's balance sheet at fair value as at 31 December: 181

In CHF million	Notes	**31.12.2006 Carrying amount**	31.12.2005 Carrying amount	**31.12.2006 Fair value**	31.12.2005 Fair value
Assets					
Loans	14	**28 883**	30 280	**29 379**	31 555
Financial assets held to maturity	15	**4 090**	4 256	**4 193**	4 532
Liabilities					
Deposits	22	**7 356**	6 419	**7 356**	6 419
Investment contracts without discretionary participation	21	**586**	888	**586**	888
Borrowings	23	**6 139**	4 750	**6 180**	4 868
Financial guarantees		**1**	8	**1**	8

36 Commitments and Contingencies

In CHF million	**31.12.2006**	31.12.2005
Guarantees and letters of credit	**424**	415
Documentary credits	**31**	40
Commitments to extend credit	**230**	316
Capital commitments	**658**	138
Private equity commitments	**59**	92
Operating lease commitments	**123**	91
Other contingencies and commitments	**61**	17
Total	**1 586**	1 109

Future minimum lease payments under non-cancellable operating leases – lessee

In CHF million	**31.12.2006**	31.12.2005
Not later than 1 year	**53**	18
Later than 1 year and not later than 5 years	**57**	54
Later than 5 years	**13**	19
Total	**123**	91
Expected future minimum sublease payments	***9***	*10*

Guarantees and letters of credit The Group has issued financial guarantees and transaction-related guarantees and similar instruments. Financial guarantees provide for specified payments to be made to reimburse the holder for a loss incurred in the event that a client fails to make payment when due. Transaction-related guarantees such as performance bonds and bid bonds protect the holder against loss in the event of non-performance of a contract. Irrevocable letters of credit and surety bonds have been issued to secure certain reinsurance contracts.

With the sale of the life business in the UK, representations and warranties have been agreed with the buyer which limit the exposure for the Swiss Life Group in respect of time and amount with regard to arising claims and taxes. In relation to mis-selling, it has been agreed that in case of specified events with a material financial impact on the OB Fund of the former Swiss Life UK life business, the financial consequences will be shared between the Swiss Life Group and the buyer according to a clear set of rules which limit the impact on the Swiss Life Group with regard to time (five years) and amount (GBP 31.5 million).

36 Commitments and Contingencies (continued)

Commitments to extend credit The Group has also entered into irrevocable commitments to extend credit in the form of loans and other instruments. They represent undrawn credit lines which are available to clients to secure their liquidity needs. With respect to credit risk, these commitments are contingent upon clients maintaining certain credit standards, and the Group monitors its exposure on a regular basis.

The total amount of credit commitments includes commitments to lend at fixed rates which expose the Group to interest rate risk. These commitments are entered into for restricted periods of time. As at 31 December 2006, committed principal amounts stood at EUR 33 million and CHF 114 million (2005: EUR 72 million and CHF 110 million). The periods for which these commitments were made extend from one month to six years, and the range of committed interest rates is 2.3% to 6.8%.

Capital commitments The Group had commitments to purchase investments of CHF 340 million (excluding private equity) as at 31 December 2006 (2005: CHF 86 million). Contractual obligations to purchase or construct investment property amounted to CHF 318 million as at 31 December 2006 (2005: CHF 52 million). Commitments for the acquisition of property and equipment amounted to CHF 0.1 million as at 31 December 2006 (2005: CHF 0.1 million).

Private equity commitments Private equity commitments represent unfunded commitments to make investments in direct private equity or private equity funds. Such commitments do not involve credit or market risk, as the Group purchases investments at market value at the time the commitments are invoked.

Operating lease commitments The Group has entered into various operating leases as a lessee. Rental expenses recognised in income for these items totalled CHF 46 million for the year ending 31 December 2006 (2005: CHF 72 million). Minimum lease payments totalled CHF 46 million in 2006 (2005: CHF 73 million), while contingent rents totalled CHF 0.03 million in 2006 (2005: CHF 0.03 million). Sublease payments received in 2006 amounted to CHF 0.4 million (2005: CHF 1 million).

Other contingencies and commitments Contractual obligations for repairs and maintenance of investment property amounted to CHF 57 million as at 31 December 2006, which are included in this line item (2005: CHF 17 million).

Legal proceedings The Group is involved in various legal proceedings, claims and litigation generally relating to its insurance operations. The outcome of such current legal proceedings, claims and litigation could have a material effect on operating results or cash flows when resolved in a future period. However, in the opinion of the management these matters are adequately provided for as at the balance sheet date.

The Group has received notices from various tax authorities asserting deficiencies in taxes for various years. The Group believes that it has meritorious legal defences to those purported deficiencies and believes that the ultimate outcome of the cases will not result in a material impact on the Group's consolidated results, operations or financial position.

37 Collateral

Carrying amount of assets pledged as collateral

In CHF million	31.12.2006	31.12.2005
Securities under repurchase and securities lending transactions [1]	**4 167**	1 389
Securities under other transactions	**472**	241
Other financial assets	**–**	–
Investment property	**102**	122
Property and equipment	**–**	–
Other	**–**	–
Financial assets pledged as collateral for contingent liabilities	**–**	–
Total	**4 741**	1 752
1) of which can be sold or repledged by transferee	***124***	*1 232*

Fair value of collateral held which can be sold or repledged

In CHF million	31.12.2006	31.12.2005
Securities under repurchase agreements, securities borrowing and lending arrangements	**4 495**	3 403
Securities under derivative and other transactions	**25**	–
Total	**4 520**	3 403
of which sold or repledged		
With obligation to return	***1 606***	*835*
No obligation to return	***–***	*–*

38 Future Minimum Lease Payments under Non-Cancellable Operating Leases – Lessor

In CHF million	31.12.2006	31.12.2005
Not later than 1 year	**141**	125
Later than 1 year and not later than 5 years	**416**	350
Later than 5 years	**634**	484
Total	**1 191**	959
Contingent rents recognised in income	***4***	*0*

Leased assets where the Group is a lessor primarily relate to investment property leased to third parties under operating leases.

39 Reclassifications in the Consolidated Statement of Income and Consolidated Balance Sheet

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Reclassifications in the statement of income for the year ended 31 December 2005

In CHF million	As disclosed	Reclas-sification	Reclassified
Fees from investment and unit-linked contracts	–	280	
Policy fees earned on investment and unit-linked contracts			280
Fee income	774	–280	
Asset management and other commission income			494
Insurance benefits, claims and claim settlement costs	–14 184	240	
Benefits and claims under insurance contracts			–13 944
Benefits and claims under investment contracts with discretionary participation	–	–240	
Benefits and claims under investment contracts with discretionary participation			–240
Commission expense	–1 055	–37	
Commission expense			–1 092
Other expenses	–830	37	
Other expenses			–793

39 Reclassifications in the Consolidated Statement of Income and Consolidated Balance Sheet (continued)

Reclassifications in the balance sheet as at 31 December 2005

In CHF million	As disclosed	Reclas-sification	Reclassified
Insurance payables and other payables	4 455	–362	
Insurance payables and other payables			4 093
Financial liabilities at fair value through profit or loss	6 919	–89	
Financial liabilities at fair value through profit or loss			6 830
Investment contracts with discretionary participation	23 652	977	
Investment contracts			24 629
Investment contracts and deposits at amortised cost	7 307	–888	
Deposits			6 419
Borrowings	4 388	362	
Borrowings			4 750
Insurance liabilities	106 909	–368	
Insurance liabilities			106 541
Discretionary participation liabilities	7 714	368	
Policyholder participation liabilities			8 082
Defined benefit liabilities	2 558	18	
Employee benefit liabilities			2 576
Other liabilities	506	–18	
Other liabilities			488

In order to present policy fees earned on investment and unit-linked contracts separately, policy fees earned on investment and unit-linked contracts totalling CHF 280 million, which were previously included in fee income, are now presented in a separate line item.

Benefits and claims under investment contracts with discretionary participation totalling CHF 240 million which were previously carried under insurance benefits, claims and claim settlement costs are now presented separately.

Certain expenses totalling CHF 37 million relating to asset management were reclassified from other expenses to commission expense.

Bank overdrafts totalling CHF 362 million were reclassified from insurance payables and other payables to borrowings.

In order to present liabilities arising from investment contracts separately, financial liabilities at fair value through profit or loss amounting to CHF 89 million and liabilities measured at amortised cost amounting to CHF 888 million were reclassified to investment contracts.

39 Reclassifications in the Consolidated Statement of Income and Consolidated Balance Sheet (continued)

186 Non-discretionary policyholder bonuses and other liabilities totalling CHF 368 million were reclassified from insurance liabilities to policyholder participation liabilities in order to present policyholder participation liabilities separately.

In order to present employee benefit liabilities separately, liabilities relating to other employee benefits amounting to CHF 18 million were reclassified from other liabilities to employee benefit liabilities.

These reclassifications were also reflected in the consolidated statement of cash flow for the year ended 31 December2005.

40 Events after the Balance Sheet Date

The Swiss Life Group announced the acquisition of CapitalLeben, a company headquartered in Liechtenstein, which specialises in structured life insurance solutions. The acquisition is subject to regulatory approval, which is expected in the first quarter of 2007.

The Swiss Life Group has agreed to sell its majority stakes in ERISA, Paris, and ERISA IARD, Paris, to HSBC, the current minority shareholder. The closing is subject to regulatory approval and is expected in the second half of 2007.

41 Significant Subsidiaries and Associates

	Segment [1]	Consolidation period	Group share	Direct share	Method of consolidation	Currency	Authorised share capital in 1000
Switzerland							
Adamant, Basel	–	until 29.03.2006	–	–	equity	CHF	250
Adroit Investment, Zürich	Insurance		100.0%	100.0%	full	CHF	5 000
Adroit Private Equity, Zürich	Insurance		100.0%	100.0%	full	CHF	5 000
Banca del Gottardo, Lugano	Banking		100.0%	100.0%	full	CHF	70 000
B-Source, Lugano	–	from 01.07.2005	37.0%	37.0%	equity	CHF	2 400
Dreieck Equipment Leasing, Zürich	–	until 27.01.2006	–	–	full	CHF	100
Dreieck Fiduciaria, Lugano	Banking		100.0%	100.0%	full	CHF	500
Dreieck Industrie Leasing, Lausanne	–	until 27.01.2006	–	–	full	CHF	15 000
Eaux-Vives 2000, Zürich	Insurance		100.0%	100.0%	full	CHF	1 000
Eaux-Vives Office, Zürich	Insurance		100.0%	100.0%	full	CHF	100
Gottardo Investments SA, Lugano	–	from 12.08.2005 until 11.12.2006	–	–	full	CHF	30 000
Kuhn & Seal, Nyon	–	until 23.01.2006	–	–	full	CHF	100
«La Suisse» Accidents, Lausanne	–	until 05.12.2005	–	–	full	CHF	50 000
«La Suisse» Vie, Lausanne	–	until 23.11.2005	–	–	full	CHF	24 000
Livit, Zürich	IM		100.0%	100.0%	full	CHF	3 000
Livolsi e Associati Private, Lugano	–	from 10.05.2005	40.0%	40.0%	equity	CHF	1 000
Long Term Strategy in liquidation, Zug	Other		100.0%	100.0%	full	CHF	2 000
Neue Warenhaus AG, Zürich	Insurance		100.0%	100.0%	full	CHF	5 000
Oscar Weber AG, Zürich	Insurance		100.0%	100.0%	full	CHF	5 000
Parking de Bellefontaine, Lausanne	–		38.3%	38.3%	equity	CHF	800
Pendia Associates, Zürich	–	until 23.01.2006	–	–	full	CHF	500
Rentenanstalt Holding, Zürich	Other		100.0%	100.0%	full	CHF	25 000
Swiss Life Asset Management, Zürich	IM		100.0%	100.0%	full	CHF	250
Swiss Life Capital Holding, Zürich	Other		100.0%	100.0%	full	CHF	5 514
Swiss Life Funds AG, Lugano	IM		100.0%	100.0%	full	CHF	20 000
Swiss Life Funds Business, Zürich	IM		100.0%	100.0%	full	CHF	250
Swiss Life General Partners in liquidation, Zürich	Other		100.0%	100.0%	full	CHF	100
Swiss Life Holding, Zürich	Other		–	–	full	CHF	1 384 827
Swiss Life Institutional Funds – SLIF 14, Lugano	–	until 24.05.2006	–	–	full	–	–
Swiss Life Intellectual Property Management AG, Zürich	Other	from 20.12.2005	100.0%	100.0%	full	CHF	250
Swiss Life International Holding AG, Zürich	Other	from 12.06.2006	100.0%	100.0%	full	CHF	1 000
Swiss Life Investment Management Holding, Zürich	IM	from 06.04.2005	100.0%	100.0%	full	CHF	50 000
Swiss Life (Liechtenstein) Services, Vaduz, Branch Zürich	Insurance	from 11.05.2005	–	–	full	–	–
Swiss Life Pension Services, Zürich	Insurance		100.0%	100.0%	full	CHF	250
Swiss Life Private Equity Partners, Zürich	IM		100.0%	100.0%	full	CHF	250
Swiss Life Property Management, Zürich	IM	from 24.03.2005	100.0%	100.0%	full	CHF	250
Swiss Life Real Estate Management Holding, Zürich	–	from 17.06.2005 until 25.08.2005	–	–	full	CHF	13 473
Swiss Life/Rentenanstalt, Zürich	Insurance		100.0%	100.0%	full	CHF	587 350
Swiss Life Selection, Zürich	Banking		100.0%	100.0%	full	CHF	250
Swissville Centers, Zürich	Insurance		100.0%	100.0%	full	CHF	2 500
Swissville Centers Holding, Zürich	Insurance		100.0%	100.0%	full	CHF	7 100

1) Segment (IM = Investment Management)

41 Significant Subsidiaries and Associates (continued)

	Segment [1]	Consolidation period		Group share	Direct share	Method of consolidation	Currency	Authorised share capital in 1000
Switzerland (continued)								
Adamant, Basel	–	until	29.03.2006	–	–	equity	CHF	250
Swissville Commerce, Zürich	Insurance			100.0%	100.0%	full	CHF	150 900
Swissville Commerce Holding, Zürich	Insurance			100.0%	100.0%	full	CHF	147 100
Swissville Europe Holding, Zürich	Insurance			100.0%	100.0%	full	CHF	11 500
Swissville Private, Zürich	–	until	30.06.2006	–	–	full	CHF	50 000
Swissville Private Holding, Zürich	–	until	30.06.2006	–	–	full	CHF	50 000
Technopark Immobilien, Zürich	–			33.3%	33.3%	equity	CHF	40 000
Ultrafin, Lugano	–	until	22.11.2005	–	–	full	CHF	5 000
Liechtenstein								
LGT Swiss Life Non Traditional Advisers, Vaduz	–			43.4%	43.4%	equity	CHF	1 000
Swiss Life (Liechtenstein), Vaduz	Insurance			100.0%	100.0%	full	CHF	5 000
Swiss Life (Liechtenstein) Services, Vaduz	Insurance	from	15.04.2005	100.0%	100.0%	full	CHF	100
France								
AGAMI, Lille	Insurance			100.0%	100.0%	full	EUR	500
Carte Blanche Partenaires, Paris	Insurance			94.6%	95.1%	full	EUR	2 300
Carte Blanche TP, Paris	–			43.6%	44.0%	equity	EUR	40
CEAT, Paris	Insurance			100.0%	100.0%	full	EUR	2 400
CEGEMA, Villeneuve-Loubet	Insurance			50.6%	50.6%	full	EUR	300
Crédit et services financiers (CRESERFI), Paris	–			33.4%	33.4%	equity	EUR	56 407
ERISA, Paris	Insurance			50.0%	50.0%	full	EUR	115 000
ERISA IARD, Paris	Insurance			50.0%	50.0%	full	EUR	7 500
Garantie Assistance, Paris	Insurance			99.5%	100.0%	full	EUR	1 850
GSD Gestion, Paris	–			25.0%	25.0%	equity	EUR	400
Oudart, Paris	Banking			100.0%	100.0%	full	EUR	5 500
Oudart Gestion, Paris	Banking			100.0%	100.0%	full	EUR	1 000
Oudart Patrimoine, Paris	Banking			100.0%	100.0%	full	EUR	38
Premium Consulting SAS, Paris	–			20.0%	20.0%	equity	EUR	40
SCI DYNAPIERRE, Paris	Insurance			99.5%	100.0%	full	EUR	7 317
SCI ERISA IMMO 1, Paris	Insurance			50.0%	100.0%	full	EUR	51 200
SCI Paris Dammartin, Roubaix	–	until	25.12.2005	–	–	full	EUR	15
Société suisse de gestion immobilière, Paris	–	until	19.12.2005	–	–	full	EUR	22 860
Société suisse de participations d'assurance, Paris	Insurance			100.0%	100.0%	full	EUR	678 353
Société suisse vie, Paris (branch Swiss Life/Rentenanstalt)	Insurance			–	–	full	–	–
Swiss Life Asset Management (France), Paris	Insurance			100.0%	100.0%	full	EUR	3 000
Swiss Life Assurance et Patrimoine, Paris	Insurance			99.5%	99.9%	full	EUR	75 000
Swiss Life Assurances de Biens, Paris	Insurance			100.0%	100.0%	full	EUR	110 850
Swiss Life Banque, Paris	Banking			100.0%	100.0%	full	EUR	20 000
Swiss Life Prévoyance et Santé, Paris	Insurance			99.2%	99.2%	full	EUR	150 000

1) Segment (IM = Investment Management)

41 Significant Subsidiaries and Associates (continued)

	Segment [1]	Consolidation period	Group share	Direct share	Method of consolidation	Currency	Authorised share capital in 1000
Germany							
Aareal Holding Verwaltungsgesellschaft mbH, Düsseldorf	–		20.4%	20.4%	equity	EUR	25
DEPFA Holding Verwaltungsgesellschaft mbH, Düsseldorf	–		20.4%	20.4%	equity	EUR	539
Financial Solutions, München	Insurance		100.0%	100.0%	full	EUR	200
Münchner Tor, München	Insurance		100.0%	100.0%	full	EUR	59 435
Renum, München	–	until 19.01.2005	–	–	full	EUR	250
Schweizerische Rentenanstalt, München (branch Swiss Life/Rentenanstalt)	Insurance		–	–	full	–	–
Schweizer Leben Pensions Management, München	Insurance		100.0%	100.0%	full	EUR	150
Seko, München	Insurance		90.0%	90.0%	full	EUR	30
Sepis, München	Insurance		100.0%	100.0%	full	EUR	30
Swiss Life Asset Management, Unterföhring	Insurance		100.0%	100.0%	full	EUR	5 250
Swiss Life Asset Management GmbH, München	Insurance	from 14.12.2006	100.0%	100.0%	full	EUR	1 000
Swiss Life Beteiligungs GmbH, München	Insurance		100.0%	100.0%	full	EUR	25
Swiss Life Beteiligungs-GmbH & Co. Grundstücksverwaltung KG, München	Insurance	from 10.06.2005	100.0%	100.0%	full	EUR	50
Swiss Life Cooperations, München	Insurance	from 27.01.2005	100.0%	100.0%	full	EUR	100
Swiss Life Grundstücksmanagement, München	Insurance		100.0%	100.0%	full	EUR	26
Swiss Life Insurance Solutions AG, München	Insurance	from 04.10.2006	100.0%	100.0%	full	EUR	7 500
Swiss Life Partner AG, München	Insurance		83.8%	83.8%	full	EUR	7 000
Swiss Life Partner Service und Finanzvermittlung, München	Insurance		100.0%	100.0%	full	EUR	1 800
Swiss Life Partner Vertriebs GmbH, Hamburg	–		50.0%	50.0%	equity	EUR	77
Swiss Life Pensionsfonds, München	Insurance		100.0%	100.0%	full	EUR	3 000
Swiss Life Pensionskasse, München	Insurance		100.0%	100.0%	full	EUR	3 000
Verwaltung Swiss Life Partner Vertriebs GmbH, Hamburg	–		50.0%	50.0%	equity	EUR	26
Netherlands							
Swiss Life Asset Management (Nederland), Amstelveen	Insurance		100.0%	100.0%	full	EUR	250
Zwitserleven, Amstelveen (branch Swiss Life/Rentenanstalt)	Insurance		–	–	full	–	–
Zwitserleven Vermogensbeheer, Amstelveen	Insurance		100.0%	100.0%	full	EUR	2 269

1) Segment (IM = Investment Management)

41 Significant Subsidiaries and Associates (continued)

	Segment 1)	Consolidation period	Group share	Direct share	Method of consolidation	Currency	Authorised share capital in 1000
Belgium							
AIA Pool, Sint-Jans-Molenbeek	–		13.0%	13.0%	equity	EUR	19
Bureau Maron, Verviers	Insurance	from 21.12.2006	100.0%	100.0%	full	EUR	20
Demoisy & Cie, Montigny le Tilleul	–		25.0%	25.0%	equity	EUR	31
European District Properties Three, Sint Stevens Woluwe	–		50.0%	50.0%	equity	EUR	62
Swiss Life Asset Management (Belgium), Bruxelles	IM		100.0%	100.0%	full	EUR	500
Swiss Life Belgium SA, Bruxelles	Insurance		100.0%	100.0%	full	EUR	88 074
Swiss Life Immo-Commerce (Belgium), Bruxelles	–	until 25.02.2005	–	–	full	EUR	9 965
Swiss Life Immo-Cross Roads, Bruxelles	Insurance		100.0%	100.0%	full	EUR	64
Swiss Life Immo-Midi (Belgium), Bruxelles	Insurance		100.0%	100.0%	full	EUR	2 200
Swiss Life Immo-Techno Center I, Bruxelles	Insurance		100.0%	100.0%	full	EUR	868
Swiss Life Information Systems, Sint-Gillis	Insurance		100.0%	100.0%	full	EUR	62
Swiss Life Invest (Belgium), Bruxelles	Insurance		100.0%	100.0%	full	EUR	646
Swissville Europe (Belgium), Bruxelles	–	until 25.01.2006	–	–	full	EUR	8 087
ZELIA, Bruxelles	–	until 01.01.2006	–	–	full	EUR	32 227
Luxembourg							
Banque du Gothard (Luxembourg), Luxembourg	Banking		100.0%	100.0%	full	CHF	14 000
Esofac, Luxembourg	–		30.0%	30.0%	equity	EUR	125
Gotam Fund Management Company, Luxembourg	Banking		100.0%	100.0%	full	EUR	125
Gotam Umbrella Fund (Lux) Advisory Company, Luxembourg	Banking		100.0%	100.0%	full	CHF	200
Gottardo Equity Fund (Lux) Management, Luxembourg	Banking		100.0%	100.0%	full	CHF	200
Gottardo Strategy Fund Management, Luxembourg	Banking		100.0%	100.0%	full	CHF	200
Heralux, Luxembourg	Insurance		99.2%	100.0%	full	EUR	1 250
SB-Gotthard I Fund Management, Luxembourg	Banking		100.0%	100.0%	full	CHF	650
SLGB Management, Luxembourg	Insurance		100.0%	100.0%	full	EUR	125
Swiss Life (Luxembourg), Strassen	Insurance		100.0%	100.0%	full	EUR	15 000
Swiss Life Asset Management Holding, Strassen	IM		100.0%	100.0%	full	CHF	8 380
Swiss Life Funds (Lux) Management (formerly Swiss Life Multi Funds (Luxembourg) Management), Luxembourg	IM		100.0%	100.0%	full	CHF	200
Swiss Life Immo-Arlon, Strassen	Insurance		100.0%	100.0%	full	EUR	1 000
Swiss Life Invest Luxembourg, Strassen	Insurance	from 04.12.2006	100.0%	100.0%	full	EUR	35 000
Swiss Life Participations Luxembourg, Strassen	Insurance	from 21.12.2006	100.0%	100.0%	full	EUR	70 000
United Kingdom							
Alpine Holdings, St. Peter Port, Guernsey	–	until 15.08.2006	–	–	full	USD	600
Integer Investment PCC Limited Cell 7, St. Peter Port, Guernsey	–	until 28.02.2006	–	–	full	CHF	0
Spain							
Gottardo Gestión, SGIIC, Madrid	Banking	from 07.02.2005	100.0%	100.0%	full	EUR	868
Gottardo Inversiones Financieras, Madrid	Banking		100.0%	100.0%	full	EUR	1 667
Gottardo Patrimonios, Madrid	Banking	from 25.05.2005	100.0%	100.0%	full	EUR	650

1) Segment (IM = Investment Management)

41 Significant Subsidiaries and Associates (continued)

	Segment 1)	Consolidation period	Group share	Direct share	Method of consolidation	Currency	Authorised share capital in 1000
Italy							
Banca del Gottardo Italia, Bergamo	Banking		71.0%	71.0%	full	EUR	50 000
Fafid, Milano	Banking		95.0%	95.0%	full	EUR	150
Gottardo Asset Management SGR, Milano	Banking		96.4%	96.4%	full	EUR	2 050
Swiss Life (Italia), Milano	–	until 31.12.2006	–	–	full	EUR	5 170
Swiss Life (Italia) Infortuni e Malattie, Milano	–	until 31.12.2006	–	–	full	EUR	2 500
Bahamas							
Alpine Services Ltd., Nassau	Banking	from 01.01.2006	100.0%	100.0%	full	USD	10
Gottardo Trust Company, Nassau	Banking		100.0%	100.0%	full	USD	3 000
British Virgin Islands							
Swiss Life Finance, Tortola	–	until 22.11.2005	–	–	full	USD	50
Cayman Islands							
Adroit Investment (Offshore), Grand Cayman	Insurance		100.0%	100.0%	full	CHF	0
						EUR	0
Adroit Private Equity (Offshore), Grand Cayman	Insurance		100.0%	100.0%	full	CHF	0
						USD	0
Swiss Life Cayman Finance, Grand Cayman	–	until 06.09.2006	–	–	full	CHF	0
						USD	50
Swiss Life Financial Services, Grand Cayman	Other		100.0%	100.0%	full	CHF	50
Swiss Life Insurance Finance, Grand Cayman	Other		100.0%	100.0%	full	EUR	5
Swiss Life Private Equity Partners (Cayman), Grand Cayman	–	until 31.03.2006	–	–	full	CHF	60
Greece							
Gottardo A.E.P.E.Y., Athens	–	until 22.04.2005	–	–	full	EUR	1 600
Second Pillar, Athens	–		25.0%	25.0%	equity	EUR	60
Monaco							
Banque du Gothard (Monaco), Monaco	–	until 28.02.2006	–	–	full	EUR	40 000
Financial Strategy (Sam), Monaco	–	until 27.09.2005	–	–	equity	EUR	750
Gothard Gestion Monaco, Monaco	–	until 28.02.2006	–	–	full	EUR	160
Gottim Sam, Monaco	–	until 28.02.2006	–	–	full	EUR	150
Podium Sam, Monaco	–		30.0%	30.0%	equity	EUR	150
Netherlands Antilles							
N.V. Pensioen ESC, Willemstad	Insurance		100.0%	100.0%	full	ANG	1 000

1) Segment (IM = Investment Management)

Report of the Group Auditors

Report of the Group Auditors
to the General Meeting of
Swiss Life Holding
Zurich

As auditors of the Group, we have audited the consolidated financial statements (consolidated statement of income, consolidated balance sheet, consolidated statement of cash flow, consolidated statement of changes in equity and notes to the consolidated financial statements; pages 79 to 191) of Swiss Life Group for the year ended 31 December 2006.

These consolidated financial statements are the responsibility of the Board of Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We confirm that we meet the legal requirements concerning professional qualification and independence.

Our audit was conducted in accordance with Swiss Auditing Standards and with the International Standards on Auditing, which require that an audit be planned and performed to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. We have examined on a test basis evidence supporting the amounts and disclosures in the consolidated financial statements. We have also assessed the accounting principles used, significant estimates made and the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Peter Lüssi   Daniel Häfeli
Auditor in charge

Zurich, 26 March 2007

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