IMPORTANT NOTICE

THIS OFFERING IS AVAILABLE ONLY TO INVESTORS WHO ARE NON-US PERSONS AND ADDRESSEES OUTSIDE OF THE US

IMPORTANT: You must read the following before continuing. The following disclaimer applies to the attached Prospectus accessed via internet or otherwise received as a result of such access and you are therefore advised to read this disclaimer page carefully before reading, accessing or making any other use of the attached Prospectus. In accessing the attached Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us as a result of such access.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE IN ANY JURISDICTION WHERE IT IS UNLAWFUL TO DO SO. THE SECURITIES HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE US SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR THE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER JURISDICTION, AND, SUBJECT TO CERTAIN EXCEPTIONS, THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, US PERSONS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT).

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED. FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to review this Prospectus or make an investment decision with respect to the securities described herein, investors must not be a US Person (as defined in Regulation S under the Securities Act). You have been sent the attached Prospectus on the basis that you have confirmed to UBS Investment Bank, being the sender of the attached, (i) that you and any customers that you represent are not US Persons, (ii) that the electronic mail (or e-mail) address to which it has been delivered is not located in the United States of America, its territories and possessions, any State of the United States or the District of Columbia (where "possessions" include Puerto Rico, the US Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands) and (iii) that you consent to delivery by electronic transmission.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. Also, there are restrictions on the distribution of the attached Prospectus and/or the offer or sale of Notes in the member states of the European Economic Area. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Issuer in such jurisdiction. The Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 does not apply.

The Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of UBS Investment Bank, the Syndicate Banks or any person who controls any of them or any director, officer, employee or agent of any of them or affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from UBS Investment Bank, if lawful.

Swiss Life AG

CHF 175,000,000 guaranteed callable subordinated capital securities due 2048

irrevocably guaranteed on a subordinated basis by
Swiss Life Holding AG (the "Bonds")

Issuer:	Swiss Life AG, Zurich, Switzerland (the "**Issuer**").
Guarantor:	Swiss Life Holding AG, Zurich, Switzerland (the "**Guarantor**").
Interest Rate:	The Bonds bear interest on their principal amount (i) at a fixed interest rate of 2.625% per annum from (and including) the Issue Date to (but excluding) the First Call Date, payable for the first time on 25 September 2018 (first short coupon) and thereafter annually in arrears on 25 September in each year, for the last time on the First Call Date, and thereafter (ii) at the Subsequent Fixed Interest Rate for each Subsequent Fixed Interest Rate Period as determined by the Principal Paying Agent in accordance with Condition III 1.2 of the Terms of the Bonds, payable annually in arrears. Each Interest Payment Date is subject to the business day convention set forth in Condition III 6 of the Terms of the Bonds.
Deferral of Interest:	Interest payments on the Bonds are deferrable (i) at the option of the Issuer at all times and (ii) mandatorily upon occurrence of a Solvency Event as further described in Condition III 3 of the Terms of the Bonds, subject to accumulation in accordance with the Terms of the Bonds. Notwithstanding the foregoing, payment of interest will be mandatory on any Compulsory Interest Payment Date.
Assurances:	*Pari passu* clause.
Issue Price:	The Managers have purchased the Bonds at the price of 100.00% of the nominal amount (before commissions).
Placement Price:	The placement price will be fixed in accordance with supply and demand.
Form of Bonds/Delivery:	The Bonds are issued as uncertificated securities (*Wertrechte*) in accordance with article 973c of the Swiss Code of Obligations and, upon registration in the main register (*Hauptregister*), will constitute intermediated securities (*Bucheffekten*); Bondholders are not entitled to request the delivery of individually certificated Bonds.
Denominations:	CHF 5,000 nominal and multiples thereof.
Issue Date:	22 March 2018.
Redemption	If on or prior to 25 September 2048 no Solvency Event has occurred and is continuing, the Issuer shall redeem the Bonds on such date. Bondholders do not have the right to call the Bonds for their redemption. No acceleration remedy exists in case of payment default other than in bankruptcy or insolvency.
Issuer's Call Option	Issuer's call option, for the first time exercisable as of the First Call Date, and thereafter as of any Interest Payment Date. In addition, the Issuer may redeem the Bonds upon occurrence of a Special Redemption Event in accordance with the Terms of the Bonds.
Reopening:	The Issuer reserves the right to reopen the Bonds and increase the aggregate principal amount of the Bonds issued at any time and without prior consultation of or permission of the Bondholders.
Status:	The Bonds constitute direct, unconditional and subordinated obligations of the Issuer.
Security:	Irrevocable guarantee on a subordinated basis pursuant to article 111 of the Swiss Code of Obligations and in accordance with Condition IX of the Terms of the Bonds.
Governing Law and Jurisdiction:	Swiss law, place of jurisdiction will be Zurich.
Selling Restrictions:	In particular United States and U.S. Persons, United Kingdom and European Economic Area.

Listing:	The Bonds have been provisionally admitted to trading on the SIX Swiss Exchange Ltd (the "**SIX Swiss Exchange**") as of 20 March 2018 and application will be made for the Bonds to be listed on the SIX Swiss Exchange (the "**Listing**"). The last trading day is expected to be the second Business Day prior to the relevant redemption date.
Rating:	At issuance, the Bonds are expected to be rated BBB+ by Standard & Poor's.

Joint Lead Managers

Credit Suisse AG	Deutsche Bank AG London Branch, acting through Deutsche Bank AG Zurich Branch	UBS AG

Co-Manager

Zürcher Kantonalbank

Swiss Security No. 40'699'080	ISIN: CH0406990801	Common Code: 178976095

Prospectus dated 20 March 2018

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SELLING RESTRICTIONS

The offering of the Bonds consists of a public offering in Switzerland (the "**Offering**"). The Bonds are not being offered to the public in other jurisdictions outside of Switzerland, such as the United States or member states of the European Economic Area.

General

No action has been or will be taken in any jurisdiction other than Switzerland, by the Issuer or the Managers that would, or is intended to, permit a public offering of the Bonds, or possession or distribution of this prospectus (the "**Prospectus**") or any other offering material, in any country or jurisdiction where action for that purpose is required.

The Bonds are only to be offered or sold by the Managers and any offering material or other communication relating to the distribution of the Bonds is only to be distributed as far as such offer or sale or such distribution is to their knowledge and belief consistent with the applicable law of any territory and the selling restrictions set out above.

Each prospective investor must comply with all applicable laws, rules and regulations in force in any jurisdiction in which it purchases, offers or sells Bonds or possesses or distributes the Prospectus and must obtain any consent, approval or permission required for the purchase, offer or sale by it of the Bonds under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers or sales, and none of the Issuer or the Managers shall have any responsibility therefore.

United States of America and United States Persons

A) The Bonds have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold within the United States of America (the "**United States**") except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

   The Managers have not offered or sold, and will not offer or sell, any Bonds and Guarantee constituting part of their allotment within the United States except in accordance with Rule 903 of Regulation S under the Securities Act.

   Accordingly, none of the Issuer, the Managers and their affiliates nor any persons acting on their behalf have engaged or will engage in any selling efforts directed to the United States with respect to the Bonds.

Terms used in this paragraph have the meanings given to them by Regulation S.

B) The Managers have not entered and will not enter into any contractual arrangement with respect to the distribution or delivery of the Bonds, except with their affiliates or with the prior written consent of the Issuer.

European Economic Area

In relation to each Member State of the European Economic Area ("**EEA**") which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Manager has represented and agreed that it has not offered and will not offer any Bonds to persons in any Member State of the European Economic Area, except that it may offer Bonds in any Member State:

(a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;

(b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the relevant Manager nominated by the Issuer for any such offer; or

(c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds referred to in (a) to (c) above shall require the Issuer or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or to supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression "offer of Bonds" in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression "**Prospectus Directive**" meaning Directive 2003/71/EC (as amended, including by Directive 2010/73/EU) and including any relevant implementing measure in the Relevant Member State.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS: The Bonds, from the date of application of Regulation (EU) No 1286/2014 (the "**PRIIPs Regulation**"), are not intended to be offered, sold or otherwise made available to and, with effect from such date, should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU ("**MiFID II**"); (ii) a customer within the meaning of Directive 2002/92/EC ("**IMD**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently no key information document required by the PRIIPs Regulation for offering or selling the Bonds or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Bonds or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

United Kingdom

Each Manager has represented and agreed that:

(a) 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 Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

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

IMPORTANT INFORMATION

This Prospectus is being issued by Swiss Life AG and Swiss Life Holding AG solely in connection with the Offering and Listing of the Bonds. The information contained in this Prospectus has been provided by Swiss Life AG and Swiss Life Holding AG and by the other sources identified in this Prospectus. No representation or warranty, express or implied, is made by Swiss Life AG and Swiss Life Holding AG or any of their respective affiliates or advisors as to the accuracy or completeness of this information, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by Swiss Life AG and Swiss Life Holding AG.

This Prospectus has been prepared solely for use in connection with the Offering and Listing of the Bonds. This Prospectus does not otherwise constitute an offer to sell, or a solicitation of an offer to buy Bonds and may not be used in any jurisdiction or in any circumstances in which such offer or solicitation or the distribution of the Bonds or this Prospectus is restricted or unlawful. Persons in possession of this Prospectus are required to inform themselves of and observe such restrictions. Swiss Life AG and Swiss Life Holding AG do not accept any responsibility for any violation by any person of any such restrictions. Except as otherwise indicated, this Prospectus speaks as of the date hereof. The delivery of this Prospectus shall, under no circumstances, imply that there has been no change in the affairs of Swiss Life AG and Swiss Life Holding AG or their affiliates or that the information herein is correct as of any date subsequent to the earlier of the date of this Prospectus and any specified date with respect to such information. The business, financial condition, results of operations and prospects of Swiss Life AG and Swiss Life Holding AG may have changed since such dates.

GENERAL INFORMATION

Cautionary note on forward-looking statements

Certain statements contained in this Prospectus are forward-looking. These statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to a historical fact or current fact. Forward-looking statements typically are identified by words or phrases such as "anticipate", "assume", "believe", "continue", "estimate", "target", "expect", "foresee", "intend", "may increase" and "may fluctuate" and similar expressions or by future or conditional verbs such as "will", "should", "would" and "could". These forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Issuer's or the Guarantor's actual results of operations, financial condition, solvency, ratios, liquidity position or prospects to be materially different from any future results of operations, financial condition, solvency ratios, liquidity position or prospects expressed or implied by such statements. Any forward-looking statements are qualified in their entirety by reference to the factors discussed throughout this Prospectus.

Among the key factors that have a direct bearing on the Issuer's, the Guarantor's or the Guarantor's other direct and indirect subsidiaries' (the Issuer, the Guarantor and the Guarantor's other direct and indirect subsidiaries taken as a whole the "**Swiss Life**") results of operations, financial condition, solvency ratios, liquidity position or prospects are:

- instability affecting the global financial system and developments related thereto;
- deterioration in global economic conditions;
- the effect of capital market conditions, including the global credit and equity markets, and the level and volatility of interest rates, credit spreads, equity prices, currency values and other market indices as well as the development of real estate prices on investment assets;
- changes in investment result as a result of changes in investment policy or the changed composition of investment assets, and the impact of the timing of any such changes relative to changes in market conditions;
- uncertainties in valuing assets and liabilities;
- possible inability to realise amounts on sales of assets held on the balance sheet equivalent to their mark-to-market values recorded for accounting purposes;
- the possibility that hedging arrangements may not be effective;
- the lowering, loss of or change in the outlook for one of the financial strength or other ratings of one or more Swiss Life companies, and devel-

opments adversely affecting Swiss Life's ability to achieve improved ratings;

- the ability to maintain sufficient liquidity and access to capital markets, including sufficient liquidity to cover potential recaptures of reinsurance agreements, early calls of debt or debt-like arrangements and collateral calls due to an actual or perceived deterioration of the financial strength or otherwise;
- uncertainties in estimating reserves;
- current, pending and future legislation and regulation including tax and regulatory laws affecting Swiss Life;
- changes in laws and regulations (including tax law and industry requirements or business conduct rules of general applicability) and their interpretation by courts, regulators and other authorities;
- legal actions or regulatory investigations or actions, including those in respect of industry requirements or business conduct rules of general applicability;
- uncertainties in estimating future claims for purposes of financial reporting; in particular the frequency, severity and development of insured claim events;
- mortality, morbidity and longevity assumptions;
- policy renewal and lapse rates;
- extraordinary events affecting clients and other counterparties, such as bankruptcies, liquidations and other credit-related events;
- acts of terrorism and acts of war;
- changes in accounting standards;
- significant investments, acquisitions or dispositions, and any delays, unexpected costs or other issues experienced in connection with any such transactions;
- changing levels of competition; and
- operational factors, including the efficacy of risk management and other internal procedures in managing the foregoing risks.

See "*RISK FACTORS*" for additional details.

These factors are not exhaustive. Because these factors could cause actual results or outcomes to differ materially from those expressed in any forward-looking statements made by or on behalf of Swiss Life, investors should not place undue reliance on any of these forward-looking statements. Further, any forward-looking statement speaks only as of the date of this Prospectus. Except as may be required by applicable law, stock exchange rules or regulations, Swiss Life expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in Swiss Life's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. New factors emerge from time to time, and it is not possible to predict which will arise. In addition, Swiss Life cannot assess the effect of each factor on the business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those described in any forward-looking statement.

Documents incorporated by reference

No documents are incorporated by reference into this Prospectus. No information contained on the Swiss Life web site, or on any other web site, is incorporated herein by reference.

Availability of documents

Copies of the Prospectus are available free of charge from UBS AG, Investment Bank, Swiss Prospectus Switzerland, P.O. Box, CH-8098 Zurich, Switzerland, or may be obtained by telephone (+41 44 239 47 03, voicemail), by fax (+41 44 239 69 14) or by e-mail to swiss-prospectus@ubs.com.

Copies of the consolidated and statutory financial statements of Swiss Life as of and for the year ended 31 December 2017 (including the respective auditor's report and comparative information for the year ended 31 December 2016) can be downloaded from the website www.swisslife.com, currently following the link to Investors & Shareholders, Results & Reports, Results.

Prospectus

This Prospectus is available in English only and provides information about the Issuer, the Guarantor and the Bonds. This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Bonds.

No person has been authorised to give any information or make any representation in connection with the offering of the Bonds other than as stated herein and any other information or representation if given or made should not be relied upon as having been authorised by the Issuer or the Managers. Neither the delivery of this Prospectus, nor the issue of the Bonds or any sale thereof shall, in any circumstances, create any implication that there has been no material adverse change in the affairs of Swiss Life since the date hereof.

Sources of information

Except where market or market share data are otherwise attributed to another source, all market and market share data included in this Prospectus Swiss Life's own estimates. These estimates are based upon Swiss Life's experience in the insurance industry.

Authorisations

The issuance of the Bonds has been authorised by resolutions of the board of directors of the Issuer passed on 26 February 2018. The issuance of the Guarantee has been authorised by resolutions of the board of directors of the Guarantor passed on 26 February 2018.

Type of issuance

Pursuant to a bond purchase agreement between UBS AG, Credit Suisse AG, Deutsche Bank AG London Branch, acting through Deutsche Bank AG Zurich Branch and Zürcher Kantonalbank (collectively the "**Managers**"), the Issuer and the Guarantor (the "**Bond Purchase and Paying Agency Agreement**"), the Managers have severally but not jointly agreed to purchase the Bonds at an issue price of 100% (minus commissions).

Notices

All notices in relation to the Bonds will be published in electronic form on the website of the SIX Swiss Exchange (*www.six-swiss-exchange.com*, where notices are currently published under the address http://*www.six-swiss-exchange.com/bonds/issuers/official_notices/search_en.html*).

Representative

In accordance with Article 43 of the Listing Rules of the SIX Swiss Exchange, UBS AG has been appointed by the Issuer as representative to lodge the listing application with the SIX Swiss Exchange.

No material change

Since the publication date of the latest financial statements as reflected in this Prospectus, there has been no material change in the assets and liabilities, financial position and profits of losses of the Issuer or the Guarantor.

RISK FACTORS

An investment in the Bonds involves risks. Prospective investors of Bonds should carefully consider the following risk factors and the other information in this Prospectus 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 other direct and indirect subsidiaries taken as a whole. Investors may lose all or part of their investment.

The Issuer and the Guarantor believe that the following factors may affect their respective ability to fulfil their respective obligations under the Bonds and the Guarantee. 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 or severity 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 Bonds 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 Bonds, but the Issuer and, under the Guarantee, the Guarantor may be unable to pay interest in connection with the Bonds for other reasons and neither the Issuer nor the Guarantor represents that the statements below regarding the risks of holding the Bonds are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Risks related to Swiss Life

Market and business related risks

Risks from insurance business

Swiss Life maintains reserves for its life insurance business to cover its liabilities. Such insurance reserves depend on various factors, assumptions and uncertainties (see "*Risks associated with Swiss Life's calculations and assumptions*"). While Swiss Life believes its economic risk is reduced by the matching of durations of assets and liabilities under its asset and liability management ("**ALM**"), mandatory, guaranteed or other applicable 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, morbidity, longevity and other biometric 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 other factors, which may cause actual liabilities to differ from estimates. Likewise, annuity reserves may change significantly due to regulatory and legal 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, biometric assumptions or other factors including regulatory changes could adversely affect the extent to which new business may be originated and could have material adverse effects on Swiss Life's business, financial condition and results of operations.

Risks from underwritten reinsurance business

Swiss Life underwrites a reinsurance portfolio. This business is written mainly as retrocessionaire, i.e. customers are usually life reinsurers. Customers as well as underwritten risks are mainly located in North America, the United Kingdom and Continental Europe. Risks underwritten are limited to biometric risks, mainly mortality and longevity. Although a prudent underwriting approach with clear profitability targets and hurdle rates, geographical diversification, diversification across lines of business and an appropriate protection program mitigates these risks and provides for a balanced portfolio, losses could be experienced from a pandemic event, mortality improvements over those assumed in pricing or otherwise and could have material adverse effects on Swiss Life's earnings, capital or solvency position.

Risks from ceded reinsurance

Swiss Life systematically transfers its exposure to certain risks in its life, health and property and casualty insurance business to third parties through reinsurance arrangements. Under these arrangements, other (re)insurers assume a portion of Swiss Life's losses and expenses associated with reported and unreported losses in exchange for a portion of policy premiums.

The availability, amount and cost of reinsurance depend on general market conditions and may vary significantly from time to time. Any decrease in the amount of Swiss Life's ceded reinsurance will increase its risk of losses. When it obtains reinsurance, Swiss Life could still be liable for those transferred risks, in particular if the reinsurer cannot meet its obligations. Accordingly, Swiss Life bears credit risk with respect to its reinsurers and could be faced with their inability or unwillingness to meet their financial obligations when falling due. Although Swiss Life conducts periodic reviews of the financial statements and reputation of its reinsurers, and, when appropriate, requires letters of credit, deposits or other financial collateral to further minimise its exposure to credit risk, reinsurers may become financially unsound by the time they are called upon to pay amounts due.

If the terms and conditions of such reinsurance contracts deteriorate in the future, if certain protection layers are no longer available on the market, or if individual reinsurers should become unable or unwilling to meet their payment obligations when falling due, this could have material adverse effects on Swiss Life's business, financial condition and results of operations.

Risks associated with Swiss Life's calculations and assumptions

Swiss Life's business operations and risk management require complex models under which it needs to properly reflect the value of its business and an adequate allowance for risks associated with it. This includes a continuous assessment of numerous factors, such as the long-term development of interest rates, investment returns, the allocation of investments between equity, fixed income and other asset classes, policyholder interest and crediting rates (some of which are guaranteed) and the overall approach to policyholder participation, mortality, morbidity and longevity rates, policyholder lapses and future expense levels. Swiss Life monitors its actual experience regarding these assumptions and to the extent that it considers that this experience will continue in the longer term it refines its long-term assumptions.

The actuarial practices and assumptions listed above are, among other factors, the basis (i) its "best estimate" actuarial assumptions under the IFRS liability adequacy testing, (ii) capital and other requirements under the Swiss Solvency Test ("**SST**") or Solvency II, (iii) the calculation of insurance premiums and reserves, and (iv) Swiss Life's own pension obligations.

In any of the aforementioned cases Swiss Life needs to rely on its own assumptions and estimates when operating its risk analysis and risk management systems. The assumptions used may differ from actual future developments. Adjustments of such assumptions may have to be made in reaction to revised legal and regulatory requirements, changing financial markets or expected and/or actual future actuarial experience, which may lead to changes in the solvency position as well as the accounting of, and reserves required for, Swiss Life's insurance operations.

Certain risks are non-hedgeable and even with hedgeable risks there is a residual risk that hedging arrangements concluded by Swiss Life do not or only partially cover such risks. Also, Swiss Life could experience that its initial risk assessment, risk allowance or reserves prove to be inadequate at a later stage.

The realisation of any of the aforementioned risks could have material adverse effects on Swiss Life's business, financial condition and results of operations.

Risks associated with the implementation of Swiss Life's strategy

The achievement of Swiss Life's strategic, operational and financial targets remains subject to uncertainty. Whilst the objectives for sustainable 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 partially depends on capital markets conditions, and on the guaranteed and non-guaranteed payments made to policyholders.

Besides the insurance business, Swiss Life aims to generate fee income through its advisory and distribution activities. The ability to generate such income depends on factors including quality of the respective activities, the ability to recruit skilled personnel, reputation and the general economic conditions.

In addition, Swiss Life aims to generate fee income through its third-party asset management business. The ability to generate such income depends on its ability to manage those third-party assets, the quality of the products and services it offers, the performance of the selected investments and of the funds offered, the development of the fixed-income, equity, real estate and infrastructure markets, and the general economic conditions.

Furthermore, mergers, acquisitions, disposals and management re-organisations may result in Swiss Life incurring costs and using considerable management resources. It is also possible that, as a result of any past or future mergers, acquisitions and disposals, Swiss Life may be subject to warranty, indemnity or other claims or to adverse tax or accounting charges.

The realisation of any of the aforementioned risks could have material adverse effects on Swiss Life's business, financial condition and results of operations.

Reputational risk

Reputational risk is the risk of failure to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by Swiss Life, its employees or those with whom it is associated, that might cause stakeholders to form a negative view of Swiss Life. Similarly, public opinion of Swiss Life may be adversely affected by the actual, or perceived, manner in which Swiss Life conducts its business activities, or financial performance, as well as actual or perceived practices in the insurance and financial services industry generally. Modern technologies, in particular, online social media channels and other broadcast tools which facilitate communication with large audiences in short time frames and with minimal costs, may significantly enhance and accelerate the impact of damaging information and allegations. Negative views of stakeholders or negative public opinion may have both financial and non-financial impacts, such as a decrease in the value of the "Swiss Life" brand (see "Risks associated with the failure to maintain the value of the "Swiss Life" brand") and adverse effects on Swiss Life's ability to keep and attract customers and retain motivated staff, and could have material adverse effects on Swiss Life's business, financial condition and results of operations.

Risks associated with the failure to maintain the value of the "Swiss Life" brand

One of the most valuable assets of Swiss Life is the "Swiss Life" brand. The continued strength and recognition of the Swiss Life brand is a key factor in maintaining Swiss Life's competitive position. The Swiss Life brand could be harmed if its public image or reputation were to be tarnished by negative publicity or negative sentiments expressed on social media channels, elsewhere on the Internet or other media, whether or not true, about Swiss Life or the insurance or financial services industry in general, or by a negative perception of Swiss Life's short-term or long-term financial prospects. Failure to maintain the value of the Swiss Life brand could have material adverse effects on Swiss Life's business, financial condition and results of operations.

Risks relating to Swiss Life's owned independent financial advisors and to other distribution partners

Swiss Life's main business areas include life insurance, risk protection, pensions and financial solutions for corporate and private clients. In addition, Swiss Life offers comprehensive and individual advice plus a broad range of own and partner products through owned independent financial advisors and through other distribution partners (such as brokers and banks).

If the performance, competitive position, reputation or environment of Swiss Life's owned independent financial advisors deteriorated significantly, or if a significant number of distribution agreements between Swiss Life's owned independent financial advisors and third parties were terminated, this could have material adverse effects on Swiss Life's business, financial condition and results of operations.

In addition, if a significant number of distribution partners were to terminate their distribution agreements with Swiss Life, or if the terms of such distribution agreements were to change to Swiss Life's detriment, it may lose a material portion of the business provided by such distribution partners. This could have material adverse effects on Swiss Life's business, financial condition and results of operations.

Risks of competition and risks of general distress in the insurance market

Swiss Life operates in selected European and non-European markets and is faced with a competitive environment in these markets. Swiss Life's profitability is generally dependent on the level of demand for its products and services as a whole, and on its ability to control its risk profile and operating costs. While an important factor lies in Swiss Life's ability to offer competitive and attractive products and services, demand and competition in these markets are subject to changes in response to political or regulatory developments, general economic conditions, and other market conditions beyond the control of Swiss Life. As a consequence, Swiss Life may face margin or volume declines in the future.

In addition, individual regional and local competitive factors could in the future change to Swiss Life's disadvantage, significantly intensifying competition in certain regions or countries.

The realisation of any of the aforementioned risks could have material adverse effects on Swiss Life's business, financial condition and results of operations.

In addition, the implementation of Swiss Life's strategy as well as its operational and financial performance depend on the general conditions of the insurance industry. As a consequence, the deterioration of the insurance industry conditions, and in particular of the life insurance industry, for instance, due to sustained low or even negative interest rate levels, a change of the regulatory environment or a general distrust against the industry may have material adverse effects on Swiss Life's business, financial condition and results of operations.

Risks associated with failure to recruit, retain and develop appropriate senior management and skilled personnel

Swiss Life's continued success depends on the retention of key members of its management team and wider employee base. The ability to continue to attract, train, motivate and retain highly qualified and capable professionals is an important element to successfully implement Swiss Life's strategy. If Swiss Life fails to staff its operations appropriately or loses one or more of its key senior executives, and fails to replace them in a satisfactory and timely manner, this could place Swiss Life at a significant competitive disadvantage which could have material adverse effects on Swiss Life's business, financial condition and results of operations.

Political, macro-economic and demographic risks

Swiss Life's future financial condition and results of operations, developments in its business, growth and profitability, and general industry and business conditions applicable to it may be adversely affected by unpredictable political, macro-economic and demographic influences.

For instance, on 23 June 2016 the United Kingdom ("**UK**") held a referendum to decide on the UK's membership of the European Union ("**EU**"). The UK vote was to leave the EU ("**Brexit**"), and negotiations will commence to determine the future terms of the UK's relationship with the EU. The effects of Brexit will, inter alia, depend on any agreement the EU makes with the UK to retain access to the EU markets either during a transitional regime or more permanently.

Further, in light of political and economic conditions in Europe, reflecting, among others, concerns over sovereign debt credit deterioration of certain member states of the EU and the ability of central banks to stimulate economic growth or to reduce and to discontinue the quantitative easing, there is a possibility of other member states exiting the EU which (by itself or in combination with other events) may have systemic effects such as the exit of other member states, a collapse of the Euro or even a total break-up of the EU. Similarly, the default of certain member states on their sovereign debt obligations or the collapse of the banking system in individual member states may have systemic effects including the exit of such member states or the collapse of the Euro and the European banking system with a return to operating in a European business environment of multiple currencies.

Any of these events could lead to a recession with negative GDP growth, unemployment and volatility of currencies. In addition, other macro-economic disruptions can lead to a sudden increase in inflation, which may be followed by surrender rates higher than currently expected or result in a deflationary phase induced by a strong recession, which could harm Swiss Life's ability to achieve the needed investment return and to generate profitable new business.

Any of the foregoing risks could have material adverse effects on Swiss Life's business, financial condition and results of operations.

Risks of fluctuations in the financial markets and changes in general economic conditions

Investment returns are an important part of Swiss Life's overall profitability. Fluctuations in the financial markets, changes in interest rates and credit spreads (see "*Risk of interest rate and credit spread rate changes*"), a lack of pricing transparency, reduced market liquidity, changes in equity, fixed income and commodity prices as well as foreign exchange rates, alone or in combination, could have material adverse effects on Swiss Life's financial condition, results of operations and cash flows. Volatility and fluctuations in the financial markets also impact the costs of hedging, which can result in lower investment returns. Interventions by central banks or the discontinuance thereof may trigger fluctuations in the financial markets or increase volatility. In addition, a default by a major market participant or a significant act of terrorism or other large-scale events 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 could also lead to a chain of defaults that could adversely affect Swiss Life.

Changes in the economic conditions and markets, in particular rising interest rates, could adversely affect the real estate markets, which could have a negative impact on Swiss Life's real estate portfolio. In worsening economic circumstances, which may be driven by global macro-economic developments, domestic economic or political events (e.g. public votes), or other effects, the vacancy rates may increase which reduces the expected future cash inflows from rents accordingly, and hence may lower the valuation of individual properties substantially. Similarly, higher interest rates and an increase in unemployment rates lead to potential defaults of clients and third parties on mortgages.

Fluctuations in stock markets could have an adverse impact on the valuation of Swiss Life's holdings in equities, which could result in a deterioration of Swiss Life's financial position and net income. Declining equity markets may also affect Swiss Life's results of operations, as fees from insurance business on third-party accounts are generally based on the value of the underlying funds, which fluctuate to a large extent with changes in equity markets. Hedges in place with respect to Swiss Life's investments are designed to reduce Swiss Life's economic exposure to declines in asset values but would not prevent an impairment charge in the Issuer's accounts in the event the impairment criteria under the International Financial Reporting Standards ("**IFRS**") were met.

Swiss Life's equity investments are subject, to the extent that they are sold, to the risk that they will be sold for less than their value in Swiss Life's accounts, 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 through its profit and loss accounting.

Swiss Life's strategic shareholdings, participations, and other intangible assets are subject to regular impairment tests, taking into account their operating performance, as well as general economic conditions and forecasts. Potential valuation readjustments could lead to impairment losses adversely affecting Swiss Life's financial results.

For diversification purposes Swiss Life also holds a certain amount of alternative investments in its portfolio, in particular participations in private equity (including infrastructure investments) and hedge funds. Market volatility has impacted and may continue to impact both the level of net investment income from these types of investments and the ability to dispose of such investments on favourable terms or at all.

Any of the risks mentioned above could have material adverse effects on Swiss Life's business, financial condition and results of operations.

Risks of interest rate and credit spread changes

Changes in prevailing capital market interest rates (including changes in the difference between the levels of prevailing short- and long-term rates) may adversely affect Swiss Life's insurance, asset management and corporate results despite the structured approach towards ALM that Swiss Life is pursuing. Over the past several years, movements in both short- and long-term interest rates have affected the level and timing of recognition of gains and losses on securities held in Swiss Life's investment portfolios. An increase in interest rates could substantially decrease the value of Swiss Life's fixed-income portfolio, and any unexpected change in interest rates could materially adversely affect Swiss Life's bond and interest rate derivative positions as well as the investment result. Results of Swiss Life's asset management business may also be affected by movements in interest rates, as management fees are generally based on the value of assets under management, which fluctuates with changes in the level of interest rates.

In addition, Swiss Life has a significant portfolio of contracts with guaranteed investment returns, including endowment and annuity products. If interest rates remain on historically low levels for a long period, Swiss Life could be required to provide additional funds to its insurance subsidiaries to support their obligations in respect of products with higher guaranteed returns, or increase reserves in respect of such products. Swiss Life also has a portfolio of contracts with guaranteed investment returns tied to equity markets.

Swiss Life invests part of its assets in corporate bonds and is therefore exposed to credit spread risk to the extent that a credit spread widening decreases the market value of the corporate bond portfolio. Spread movements may adversely impact the valuation reserves of bonds classified as available for sale, and therefore Swiss Life's solvency position. From an economic perspective, in particular for economic solvency purposes, all corporate bonds are considered at their market value and thus market value changes due to a change in spreads have an impact on Swiss Life's available economic capital. Moreover, the market value of corporate bonds may become difficult to ascertain if markets are less liquid or lack liquidity which may also affect Swiss Life's ability to dispose of such investments on favourable terms or at all.

In addition, Swiss Life invests a part of its assets in government and sovereign bonds and similar instruments. Therefore, Swiss Life is exposed to the risk that credit spread widens, for instance, due to downgrades or possible downgrades of the respective government or sovereign ratings. Government and sovereign credit spread widening leads to a decrease of the market value of the government and sovereign bond portfolio.

Reductions in the investment income below the rates prevailing at the issue date of the policy, or below the regulatory minimum required rates in countries such as Switzerland, Germany and France, would reduce or eliminate the investment margins on the life insurance business written by the Guarantor's life subsidiaries to the extent the duration composition of the assets does not match the duration composition of the insurance obligations they are backing.

Rising interest rates could lead to increased surrenders of policyholders with subsequent impacts on Swiss Life's current year and future profitability.

Any of the aforementioned risks could have material adverse effects on Swiss Life's business, financial condition and results of operations.

Currency risks

As a group with international operations, Swiss Life generates a certain portion of its total income and incurs a portion of its expenses in currencies other than CHF, which primarily include EUR, USD, GBP and SGD. Swiss Life prepares its consolidated financial statements in CHF. Swiss Life's expenses and income in a certain currency do not necessarily match for any given period. As a result, unfavourable movements in exchange rates between such currencies and CHF may lead to differences between the costs of Swiss Life's operations and the income generated from them at a different stage. Furthermore, there may be currency mismatches between the policyholder liabilities and the assets backing them.

Fluctuations in the exchange rates of the currencies of the countries in which Swiss Life operates may generally lead to transaction risks and translation risks.

Transaction risk refers to the exchange rate risk associated with the time delay between the entrance and settlement of a contract, while translation risk refers to the risk of a change in value in the currency in which the financial statements are maintained, resulting from the translation of positions in the balance sheet and income statement originally expressed in a foreign currency during the course of consolidation.

Swiss Life may enter into transactions aiming to hedge currency risks. Such transactions may reduce currency risks but may in turn increase other risks such as liquidity risks, counterparty risks and operational risks.

The realisation of any of the aforementioned risks could have material adverse effects on Swiss Life’s business, financial condition and results of operations.

Risks of additional capital needs

Swiss Life’s capital requirements depend on many factors, including its operational results, capital market conditions, developments of biometric bases, the volume of newly generated business, regulatory changes to capital or other requirements such as reserving requirements and other regulatory developments. Swiss Life may be unable to obtain capital in the future or may only obtain it at considerable costs, in particular in case of negative rating actions (see "*Risks of rating downgrades and other negative rating actions*"). This could have material adverse effects on Swiss Life’s business, financial condition and results of operations.

Liquidity and financing risks

Liquidity risk may refer to the risk that the available liquidity is insufficient to meet payment obligations in relation to insurance contracts, in particular resulting from unexpected events or series of events, such as mass surrenders that trigger Swiss Life’s coverage obligations. Swiss Life’s liquidity may also be insufficient to meet payment obligations resulting from investment activities, in particular related to derivative contracts made on collateralised basis, such as those used for hedging activities (in particular, Swiss Life uses such instruments to hedge interest rate risk and foreign exchange risk) and forward contracts.

Unexpected liquidity needs could require Swiss Life to increase its level of indebtedness or to liquidate investments or other assets. If Swiss Life requires liquidity at a time when access to bank funding or capital markets is limited, it may not be able to secure new sources of funding. In particular, Swiss Life’s ability to meet liquidity needs through the incurrence of debt may be limited by constraints on the general availability of credit and the willingness of lenders to lend in case of bank funding, and adverse market conditions in case of capital market debt.

The realisation of any of the aforementioned risks could have material adverse effects on Swiss Life’s liquidity situation, financial condition and results of operations.

Impairment risks

If certain operational and strategic targets cannot be achieved in time, Swiss Life could be faced with impairment losses on its subsidiaries, associates and its other intangible assets. Swiss Life tests goodwill for impairment annually in autumn and whenever there is an indication that the asset might be impaired.

The realisation of any of the aforementioned risks could have material adverse effects on Swiss Life's business, financial condition and results of operations.

Risks of rating downgrades and other negative rating actions

Many of Swiss Life's businesses are dependent on the financial strength and credit ratings assigned to it and its businesses (including outlooks). Therefore, a downgrade in its ratings (or any other negative rating actions such as a change in the outlook) may materially adversely affect relationships with customers and intermediaries, negatively impact sales of its products and increase its cost of borrowing and of reinsurance.

Claims paying ability and financial strength ratings are each a factor in establishing the competitive position of insurers. The financial strength rating of the Issuer has a significant impact on the individual ratings of key subsidiaries. If a rating of certain Swiss Life entities falls below a certain threshold, the respective operating business of these entities or other Swiss Life entities may be significantly affected. A negative rating action with respect to the Guarantor or any of its insurance subsidiaries, including in particular the Issuer as the main operating subsidiary, could, among other things, adversely affect relationships with customers, agents, brokers and other distributors of its products and services, thereby negatively affecting new sales and existing business, and adversely affect its ability to compete in the relevant markets and increase the cost of borrowing. In particular, in those countries where primary distribution of its products is done through independent partners, such as Germany, negative rating actions could adversely impact sales of life insurance and annuity products.

Any negative rating action could also materially adversely affect Swiss Life's cost of raising capital, and could, in addition, give rise to additional financial obligations or accelerate existing financial obligations which are dependent on maintaining specified rating levels. Rating agencies can be expected to continue to monitor Swiss Life's financial strength and claims paying ability, and no assurances can be given that future negative rating actions will not occur, whether due to economic and financial market downturns, changes in Swiss Life's performance, changes in rating agencies' industry views, rating methodologies or criteria, or a combination of such factors.

Counterparty risks

Swiss Life has monetary and securities claims under numerous transactions against reinsurers, brokers and other debtors. Such third-party debtors may not pay or perform under their obligations. These parties include the issuers whose securities are held by Swiss Life, borrowers under loans made, customers, trading counterparties, counterparties under swaps, credit default and other derivative contracts, clearing agents, exchanges, clearing houses and other financial intermediaries. As a result, defaults by one or more of these parties on their obligations due to bankruptcy, lack of liquidity, downturns in the economy or real estate values, operational failure or other reasons, or even rumours about potential defaults by one or more of these parties or regarding the financial services industry generally, could lead to losses or defaults by Swiss Life. In addition, with respect to secured transactions, Swiss Life's credit risk may be exacerbated when the collateral held by it cannot be realised or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure. This could have material adverse effects on Swiss Life's business, financial condition and results of operations.

Operational risks

Operational risk is the risk of loss resulting from inadequate or failed internal processes and systems, people or from external events which adversely impact the operations of Swiss Life (excluding financial risks such as, *inter alia*, financial market risks and counterparty risks). In particular in view of the broad spectrum of operational risks, the realisation of one or more of these risks could damage Swiss Life's reputation and have material adverse effects on its business, financial condition and results of operations.

Risks associated with cyber attacks, data theft, and other forms of criminal manipulation

Cyber attacks directed at Swiss Life and other forms of criminal manipulation could disrupt its businesses, result in the disclosure of confidential information, damage its reputation and have material adverse effects on Swiss Life's business, financial condition and results of operations.

Data theft through unauthorized access to Swiss Life's information systems or physical stealing of files could lead to unintended publication or abuse of confidential client data. This could result in a severe damage of Swiss Life's reputation and have material adverse effects on Swiss Life's business, financial condition and results of operations.

Regulatory, legal and tax-related risks

Risks due to regulatory or legal changes

Swiss Life's businesses are subject to detailed, comprehensive laws and regulations as well as close supervision in all the countries in which it operates. Changes in existing laws and regulations and their interpretation may affect the way in which Swiss Life conducts its business and the products it may offer. Changes in regulations relating to pensions and employment, social security, health insurance, financial services including reinsurance business, taxation, securities products and transactions may necessitate the restructuring of its activities, impose increased costs and thereby, or otherwise, could have material adverse effects on Swiss Life's business, financial condition and results of operations.

In addition, Swiss Life, like many other financial institutions, has come under greater regulatory scrutiny in recent years and expects similar conditions to continue for the foreseeable future. Regulatory agencies have broad administrative powers over many aspects of the financial services business, which may include corporate governance, liquidity, capital adequacy, permitted investments, ethical issues, "know your customer" and anti-money laundering rules, privacy, record keeping, solicitation, marketing and selling practices as well as employee compensation, conduct of business and product governance requirements. Banking, insurance and other financial services laws, regulations and policies currently governing Swiss Life may change at any time in ways which have an adverse effect on its business, and Swiss Life cannot predict the timing or form of any future regulatory or enforcement initiatives in respect thereof. Also, regulators and other supervisory authorities in Switzerland, the EU (including the United Kingdom), Liechtenstein, Singapore, the United States and elsewhere continue to scrutinise payment processing and other transactions under regulations governing matters such as money-laundering, prohibited transactions with countries subject to sanctions, tax evasion and bribery or other anti-corruption measures. Despite Swiss Life's best efforts to comply with applicable regulations, there are a number of risks in areas where applicable regulations may be unclear or where regulators revise their previous guidance or courts overturn previous rulings. Regulators and other authorities have the power to bring administrative, criminal or judicial proceedings against Swiss Life, which could result, among other things, in significant adverse publicity and reputational harm, suspension or revocation of licenses, other operative or financial conditions ("*Auflagen*"), cease-and-desist orders, fines, civil penalties, criminal sanctions and/or other disciplinary actions.

In Switzerland, the Issuer and its Swiss subsidiaries are supervised by the Swiss Financial Market Supervisory Authority FINMA ("**FINMA**"). Foreign insurance subsidiaries of the Guarantor are supervised by their relevant local regulators. In addition, Swiss Life is subject to group supervision of FINMA.

In the EU and Switzerland, reforms have been undertaken to modernise and strengthen the capital requirements of insurance companies and insurance groups. These reforms generally led to an increase in regulatory capital requirements compared to previous solvency regimes (such as Solvency I). In Switzerland, insurers are required to hold sufficient risk bearing capital in order to cover their target capital under the Swiss Solvency Test (SST) which may be more stringent than the corresponding requirements in the EU (Solvency II) and other jurisdictions. This may put Swiss Life at a competitive disadvantage compared with companies based outside of Switzerland.

The risk models used by Swiss Life for the SST have been approved with conditions ("*Auflagen*") by FINMA as of 1 January 2016. Despite such approval, Swiss Life's risk models remain subject to changes FINMA may require which could have material adverse effects on Swiss Life's financial or solvency position.

In Europe, Solvency II has become effective on 1 January 2016 and contains the additional Omnibus II Directive of 16 April 2014. The detailed rules of the Solvency II regime are contained in the finalised Delegated Acts (dated 10 October 2014) adopted by the European Commission and approved by the European Parliament and Council. The European Insurance and Occupational Pensions Authority ("**EIOPA**") has issued technical standards and guidelines, whose overall goal is to ensure the application of a consistent supervisory framework under Solvency II across the EU.

Technical standards, issued by EIOPA and adopted by the European Commission, consist of regulatory and implementing technical standards that concern purely technical matters (no strategic decisions or policy choices) and require the expertise of supervisory experts. Areas covered include, among others, uniform reporting and the exchange of information between supervisory authorities.

Guidelines issued by EIOPA cover, among others, the implementation of certain requirements in the areas of governance, Own Risk and Solvency Assessment (ORSA) and the regulatory reporting.

On 5 June 2015, the European Commission has granted Switzerland full equivalence in all three areas of Solvency II: solvency calculation, group supervision and reinsurance. This decision, which is based on a report by EIOPA, finds the Swiss insurance regulatory regime to be fully equivalent to Solvency II. Equivalence has been granted for an indefinite period.

Since 1 January 2016, annual and quarterly quantitative reporting templates as well as narrative reports, are be submitted to the respective regulators. The first public disclosure required under Solvency II took place in 2017 with the solvency and financial condition report.

The implementation of the SST and Solvency II are subject to ongoing discussions with regulators which could lead to additional capital being required of the Issuer and its subsidiaries or changes to the way in which Swiss Life carries out its business being required, could result in additional expense or a competitive disadvantage vis-à-vis European competitors or could otherwise adversely affect Swiss Life’s financial or solvency position.

Moreover, the regulatory framework of the Swiss financial sector (including insurance undertakings) is currently being revised. By means of several new codified acts and legislative projects, the planned revision of the Insurance Supervision Act ("**ISA**"), the draft Insurance Contract Act ("**ICA**"), the draft Swiss Financial Services Act ("**FinSA**") and the draft Swiss Financial Institutions Act ("**FinIA**"), the draft Swiss Federal Act on Data Protection ("**FADP**") and with initiatives in the area of anti-money laundering, the Swiss lawmaker is responding to international developments and changes with a view to accommodate a compatible level playing field. The FinSA and FinIA are not expected to come into effect before 2019 and the final text of the FinSA and FinIA are still uncertain; however, it is expected that these new legal frameworks and their application by FINMA will not have material adverse effects on Swiss Life’s business and results of operations.

Risks due to legal quote restrictions in Switzerland and similar regulations in other jurisdictions

Some of Swiss Life’s life insurance business is affected by a mandatory profit participation of policyholders (the "**Legal Quote**"), restricting Swiss Life’s ability to allocate surplus to its shareholders and may affect its debt servicing capacity, including the Issuer's ability to meet interest payment obligations under the Bonds, if any. Under certain circumstances, the Legal Quote may affect the profitability of other Swiss Life affiliates that provide services to the insurance life business. The Legal Quote limits Swiss Life's flexibility in a way which, in certain market conditions, could have a negative impact on its future profitability and the value of new and existing business.

The Legal Quote mechanism introduced in 2004 is regularly subject to political and public discussions. There can be no assurance that the current Legal Quote regime will remain unchanged in the future. Unfavourable changes to it or to comparable regulations in other countries in which Swiss Life operates could adversely affect the profitability of Swiss Life.

While Swiss Life 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, the profitability of Swiss Life's BVG business and Swiss Life's ability to maintain and increase its premium volume and market share could both be adversely affected if the levels of, or changes in, either of these rates do not reflect the prevailing economic, market or other conditions relevant for such products.

Risks relating to the sustainability of Swiss Life's BVG business

Swiss Life's life insurance business in Switzerland based on the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (*Bundesgesetz über die berufliche Alters-, Hinterlassenen-und Invalidenvorsorge*, or "**BVG**") is subject to guaranteed minimum interest and annuity conversion rates. 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 Swiss Life's life insurance business in Switzerland, the legally stipulated conversion rate is applied whereas in the non-mandatory part of the BVG business a conversion rate calculated using actuarial assumptions is applied. Guaranteed minimum interest and annuity conversion rates could be imposed by the respective authorities in a manner which may diverge from the rates of return that Swiss Life is able to achieve on its assets. The minimum interest rate is subject to annual changes by the Swiss Federal Council and the annuity conversion rate does 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 is able to achieve on the assets backing such business. Furthermore, the recent popular rejection of the "Altersvorsorge 2020" reform has increased the uncertainty regarding possible timing for the substantial reforms needed on the BVG business.

In addition, while Swiss Life 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.

Failure by Swiss Life to achieve a rate of return on its investments in excess of the statutory guaranteed minimum interest rate could have material adverse effects on Swiss Life's financial condition and results of operations. The same adverse effects could result from changes in mortality, morbidity, longevity and other biometric assumptions, changes in technical interest rates not provided for in the statutory guaranteed annuity conversion rate, and from 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 may be unable to write profitable group life insurance business in Switzerland.

Risks relating to changes in accounting standards

The consolidated financial statements of Swiss Life are prepared in accordance with IFRS. In March 2004, the International Accounting Standards Board ("**IASB**") introduced a framework for reporting insurance contracts ("**IFRS 4**"), described as Phase I, which, except for selected exceptions, essentially allowed the continuation of existing practices for reporting insurance contracts and associated policyholder liabilities that existed before January 2005. In May 2017, IFRS 17 Insurance Contacts was published and replaces IFRS 4 insurance contracts, which currently permits a wide variety of practices. IFRS 17 Insurance Contracts will fundamentally change the accounting by entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary participation features, and will affect the presentation and structure of financial statements. IFRS 17 Insurance Contracts is effective for annual periods beginning on or after 1 January 2021. Swiss Life is currently assessing the impact on its financial statements which will be significant.

In July 2014 the International Accounting Standards Board completed IFRS 9 Financial Instruments. The new standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 covers classification and measurement of financial instruments, impairment of financial assets and hedge accounting. Classification determines how financial assets and financial liabilities are accounted for in financial statements and how they are measured on an ongoing basis. Financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. An expected-loss impairment model is introduced. Under the new model, it is no longer necessary for a credit event to have occurred before an impairment loss is recognized. The new model for hedge accounting aligns accounting treatment more closely with risk management activities. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, an amendment to IFRS 4 was published in September 2016, which provides companies being primarily active in the insurance business with the option to defer the introduction of IFRS 9 until 1 January 2021, at the latest. Swiss Life will make use of such deferral option and continue to apply IAS 39 Financial Instruments: Recognition and Measurement, as its business activities were predominantly connected with insurance on 31 December 2015.

Such changes to IFRS as issued by the International Accounting Standards Board may adversely affect the consolidated results of the Guarantor and its financial condition and may result in changes in the applicable accounting standard.

Furthermore, Swiss Life may consider applying alternative accounting standards (such as, e.g., Swiss GAAP FER) rather than IFRS in the future. Such a change in the applicable accounting standard could have material impacts on the way the consolidated financial position and results of Swiss Life's operations are reported and measured.

Risks of failure to comply with laws and regulations

Swiss Life's business may be negatively affected by adverse publicity, regulatory actions or litigation with respect to Swiss Life, other well-known companies and the financial services industry in general. In particular Swiss Life's different distribution channels in the countries where it operates business (sales personnel, tied agents, brokers, banking channels, owned and independent financial advisors) bear the risk of inefficiencies or litigation that arises from the failure or perceived failure by Swiss Life's sales representatives to comply with legal, regulatory or compliance requirements or their duty of care when advising clients. Legal sanctions, negative publicity and damage to its reputation arising from such failure or perceived failure, financial reporting irregularities involving other large and well-known companies, increasing regulatory and law enforcement scrutiny of "know your customer", anti-money laundering and anti-terrorist-financing procedures and their effectiveness, regulatory investigations of the mutual fund, banking and insurance industries, and litigation that arises from the failure or perceived failure by subsidiaries of the Guarantor to comply with legal, regulatory and compliance requirements, could result in adverse publicity and reputational harm, lead to increased regulatory supervision, affect Swiss Life's ability to attract and retain customers as well as maintain access to the capital markets, result in lawsuits, enforcement actions, fines and penalties or have other adverse effects on Swiss Life in ways that are not predictable.

Litigation risks

Subsidiaries of Swiss Life are involved in legal, arbitration and other formal and informal dispute resolution proceedings both as complainant and respondent.

The outcome of any of such proceedings cannot be determined in advance. Swiss Life is of the opinion that the currently pending proceedings should not have any material detrimental effect on its assets and net income. Nevertheless, this assessment may prove to be inaccurate and therefore could have material adverse effects on Swiss Life's business, financial condition and results of operations.

Swiss Life has been contacted by the American Department of Justice ("**DOJ**") regarding its cross-border business with US clients. As of today, the portfolio with US clients of Swiss Life Liechtenstein and Swiss Life Singapore amounts in the aggregate to approximately CHF 250 million. All insurance contracts have been categorized and been reported pursuant to the FATCA legislation. In the past, the portfolio with US clients amounted to a maximum of approximately CHF 1 billion.

Swiss Life will use the opportunity for dialogue and explain its past cross-border business in cooperation with the US authorities. The outcome of this dialogue cannot be determined in advance.

Currently Swiss Life does not expect any material effect on its business or on its financial position. However it cannot be predicted if such dialogue in the future could have a material adverse effect on its assets and net income, on its business, financial condition and results of operations.

Risks in connection with changes in tax laws

Swiss Life's net income and cash flows are determined to a certain extent by current taxation, regulation and application thereof by tax authorities. In addition, changes to tax laws may affect the attractiveness of certain of Swiss Life's products that currently receive favourable tax treatment. Governments in jurisdictions in which Swiss Life does business may consider changes to tax laws that could adversely affect such existing tax advantages, and if enacted, could result in a significant reduction in the sale of such products. The realisation of any of the aforementioned risks could have material adverse effects on Swiss Life's business, financial condition and results of operations.

Previously common practices and regulations regarding the taxation of companies and individuals are currently under scrutiny and change. The financial crisis has incentivised states to seek new sources of revenue. FATCA, as an example, has imposed significant new burdens on financial institutions regarding the documentation, reporting and potentially withholding of payments to US persons (for further information on FATCA please refer to the section "*SWISS TAXATION*" below). On OECD level, important changes like the automatic exchange of financial account information and the project base erosion and profit shifting (BEPS) have been implemented and/or are currently under consideration. The impact of such changes in practice, which have led to increased costs and the threat of potential fines for non-compliance, are inherently difficult to predict and may lead to significant costs and additional tax burdens for financial institutions such as Swiss Life.

Risks related to the Bonds

Complexity of the Bonds as financial instrument

The Bonds are complex financial instruments and may not be suitable for all investors. Each prospective investor should (i) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Prospectus; (ii) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of the investor's particular financial situation, an investment in the Bonds and the impact the Bonds will have on the investor's overall investment portfolio; (iii) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds and (iv) be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect the investor's investment and the investor's ability to bear the applicable risks.

Before investing in the Bonds, each prospective investor should have understood the Terms of the Bonds thoroughly and be familiar with them and the content of this Prospectus.

The Bonds and the Guarantee are subordinated obligations and will be subordinated to all present and future unsubordinated indebtedness of the Issuer and/or Guarantor

The Bonds and the Guarantee are by their terms subordinated in right of payment to (i) all current and future unsubordinated indebtedness of the Issuer and the Guarantor, in particular claims of creditors who are policyholders and (ii) all current and future claims which are or are expressed to be, subordinated to the claims of policyholders and other unsubordinated creditors of the Issuer and the Guarantor, respectively, except for claims that rank or are expressed to rank, equally with or junior to the claims of the Bondholders under the Bonds.

If any judgment is rendered by any competent court declaring the judicial liquidation of the Issuer or the Guarantor or if the Issuer or the Guarantor is liquidated for any other reason, the rights of payment of the Bondholders shall rank in priority only to any payments to holders of shares of the Issuer or the Guarantor or any other securities issued by the Issuer or the Guarantor which rank or are expressed to rank junior to the claims of the Bondholders. In the event of incomplete payment of unsubordinated creditors, the obligations of the Issuer or the Guarantor in connection with the Bonds will be terminated. The Bonds may pay a higher rate of interest than comparable bonds which are not subordinated, but there is a significant risk that an investor in the Bonds will lose all or some of its investment should the Issuer or the Guarantor become insolvent.

No events of default and limited acceleration rights

There are no events of default in respect of the Bonds and Bondholders are only entitled to claim redemption of the principal amount of the Bonds in case of the Issuer's bankruptcy, dissolution and/or liquidation. Bondholders have limited acceleration rights (as described in Condition VIII of the Terms of the Bonds). In particular, Bondholders are not entitled to file for the opening of bankruptcy proceedings (*Konkursverfahren*) or to make other filings or motions which, if approved, will lead to a redemption of the Bonds. Rights of the Bondholders in bankruptcy proceedings (*Konkursverfahren*) or any form of composition with creditors (*Nachlassverfahren*) in relation to the Issuer are limited.

The Issuer may redeem the Bonds under certain circumstances

Subject to the conditions set out in Condition IV 5 of the Terms of the Bond, in particular, the prior written approval from the Regulator, the Bonds may be redeemed at the option of the Issuer (i) in whole (but not in part) on the First Call Date and on any subsequent Interest Payment Date thereafter; or (ii) in whole (but not in part) at any time after the Issue Date following the occurrence of a Tax Event, a Rating Agency Event or a Regulatory Event (each as defined in Condition IV 3 of the Terms of the Bond), subject to having given not less than 30 (thirty) and not more than 60 (sixty) calendar days' prior notice. There can be no assurance, however, that the Issuer will opt to redeem the Bonds. A change in law or regulation is not required in order for either a Tax Event or a Regulatory Event to occur; such Special Redemption Events may result from other events, including (without limitation) a change in the legal or regulatory status of the Issuer or Swiss Life's structure.

Such redemption options will be exercised at the principal amount of the Bonds together with interest accrued to the date of redemption plus Deferred Interest, if any. During any period when the Issuer may elect to redeem the Bonds, the market value of the relevant Bonds is generally not expected to rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may also be expected to exercise its call option to redeem the Bonds when its cost of borrowing is lower than the interest rate on the Bonds. There can be no assurance that, at the relevant time, Bondholders will be able to reinvest the amounts received upon redemption at a rate that will provide the same return as their investment in the Bonds. Prospective investors should consider reinvestment risk in light of other investments available at that time.

The Issuer may, except in certain limited circumstances, elect to and, in certain circumstances, must defer payment of interest on the Bonds

The Issuer may elect not to pay any interest otherwise scheduled for payment on any Interest Payment Date which does not constitute a Solvency Interest Deferral Date or a Compulsory Interest Payment Date (such date to constitute an "**Optional Interest Payment Date**"), as more fully described in Condition III 2 of the Terms of the Bond. In addition, on any Interest Payment Date in relation to which a Solvency Event has occurred and is continuing at the relevant Reference Date (such date a "**Solvency Interest Deferral Date**"), the Issuer will be required to defer payment of interest, or as the case may be, the relevant Solvency Shortfall, as more fully described in Condition III 3 of the Terms of the Bond.

Any such non-payment will not constitute a default by the Issuer under the Bonds or for any other purpose and shall not give Bondholders or the Principal Paying Agent any right to accelerate the Bonds or make demand under the Guarantee. Any interest not paid on an Optional Interest Payment Date and/or any Solvency Interest Deferral Date will constitute Deferred Interest as established in Condition III 5 of the Terms of the Bond. Deferred Interest does not bear interest and may be paid at the option of the Issuer in whole or in part, subject to the Regulator's approval and no Solvency Event having occurred and being continuing, but will become due in full upon occurrence of certain events, all as more fully described in Condition III 5 of the Terms of the Bond.

Any actual, or anticipated, deferral of any interest payment in accordance with the Terms of the Bonds will likely have an adverse effect on the market price of the Bonds.

While the deferral of interest payment continues, the Issuer is not prohibited from making payments on any instrument ranking senior to the Bonds. In such event, the Bondholders are not entitled to claim immediate payment of the Deferred Interest.

No restriction from issuing further debt or guarantees which rank senior to or pari passu with the Bonds

There is no restriction on the amount of securities that the Issuer or the Guarantor may issue or guarantee that rank senior to or pari passu with the Bonds or to the Guarantee. The issue or guarantee of any securities may reduce the amount recoverable by the Bondholders in a liquidation, dissolution, insolvency, composition or other proceeding for the avoidance of insolvency of, or against, the Issuer or the Guarantor, or may increase the likelihood that the Issuer may elect to defer payments of interest under the Bonds. Consequently, the Bondholders could suffer direct and materially adverse consequences, including the loss of all or part of interest and principal.

Bondholders have no remedies against asset disposals and dividend payments and other distributions by the Issuer or Guarantor

The Terms of the Bonds do not prohibit the Issuer or the Guarantor to dispose of any of its assets nor do the Terms of the Bonds provide for any restrictions in the payment by the Issuer or the Guarantor of dividends in cash or any other manner. The sole consequence of a payment of dividends by the Issuer or the Guarantor is that any interest payment in respect of the Bonds scheduled during the six months period following the declaration of such dividend payment, together with Deferred Interest Payments, if any, may become compulsory under the Terms of the Bonds.

No covenants concerning operations of the Issuer and the Guarantor and no transaction limitations

The Bonds 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 Swiss Life. In the event the Issuer or the Guarantor would enter into such a transaction, Bondholders could be materially and adversely affected.

Substitution and modification of the Terms of the Bonds, or substitution of the Issuer, upon the occurrence of a Special Redemption Event

If a Special Redemption Event has occurred, then the Issuer may, subject to Condition IV 6 of the Terms of the Bond (without any requirement for the consent or approval of the Bondholders) at any time vary the Terms of the Bonds, substitute the Bonds for other securities (which may or may not be regulatory capital securities) or substitute the Issuer so that the relevant event no longer exists after such modification or substitution. Whilst the modified Bonds must have terms not materially less favourable to Bondholders than the Terms of the Bonds as determined by the Issuer in its sole discretion, there can be no assurance that, due to the particular circumstances of each Bondholder, such modified Bonds will be as favourable to each Bondholder in all respects. Moreover, the Issuer may substitute itself in respect of all rights and obligations arising out or in connection with the Bonds with a successor issuer. Whilst, among other conditions, the rights of the Bondholders, as provided in the Bonds and the Guarantee, must not be materially prejudiced, the substitution of the Issuer under the Bonds could have material adverse effects on the Bondholders. The original issuer would not be required to provide a guarantee of the Bonds in such circumstances. See also *"Guarantor is a holding compan*y".

Modification, waivers and substitution

The Swiss Code of Obligations contains provisions for calling meetings of Bondholders to consider matters affecting their interests generally. Subject to approval by the relevant composition authority (*Nachlassbehörde*), these provisions permit defined majorities to bind all Bondholders including Bondholders who did not attend and vote at the relevant meeting and Bondholders who voted in a manner contrary to the majority.

Guarantor is a holding company

Because the Guarantor is a holding company whose primary assets consist of common stock or other equity interests in or amounts due from subsidiaries, its income is primarily derived from those subsidiaries. The subsidiaries of the Guarantor will have no obligation to pay any amount or perform in any respect under the Guarantee. The payment of dividends by many of the Guarantor’s subsidiaries is subject to various solvency requirements and other regulatory restrictions. Restrictions on the ability of the Guarantor’s subsidiaries to pay dividends or to make other cash payments may materially affect its ability to meet its obligations with respect to the Guarantee.

As an equity holder, the Guarantor’s ability to participate in any distribution of assets of any subsidiary is subordinated to the claims of creditors of the subsidiary, except to the extent that any claims the Guarantor may have as a creditor of the subsidiary are judicially recognised. If these sources are not adequate, the Guarantor may be unable to meet its obligations with respect to the Guarantee.

The Bonds are a new issue of securities and there is no assurance that a trading market will develop or that it will be liquid

The Bonds are a new issue of securities by the Issuer and, notwithstanding that the Bonds are listed on the SIX Swiss Exchange, have no established trading market. If an established trading market develops that provides for certain liquidity in the Bonds, there can be no assurance that such liquidity remains available as liquidity and market prices for the Bonds are subject to market and economic conditions and the Issuer's financial condition. Investors may therefore not be able to sell the Bonds at any time and at prices that would provide them with a yield comparable to similar securities that have an established trading market.

Value of the Bonds

The market value of the Bonds will be affected by many factors, most of which are beyond the Issuer's control, such as the perceived creditworthiness (as may be expressed by a rating assigned by a rating agency) of the Issuer, and/or that of the Guarantor, the rating of the Bonds, the solvency situation of the Guarantor or any of its affiliates, and a number of additional factors including market interest and yield rates. The price at which a Bondholder will be able to sell the Bonds may be at a discount, which could be substantial, from the issue price or the purchase price paid by such Bondholder. Furthermore, due to future money depreciation (inflation), the real yield of an investment may be reduced.

Risks relating to the ratings on the Bonds

The ratings of the Bonds may not reflect the potential impact of all risks that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time. Rating agencies may also change their methodologies for rating securities with features similar to the Bonds in the future. If the rating agencies were to change their practices for rating such securities in the future and the ratings of the Bonds were to be subsequently lowered or another negative rating action taken, this may have a negative impact on the market price of the Bonds.

Investors are exposed to risks associated with fixed interest rate securities

A holder of securities with a fixed interest rate is exposed to the risk that the price of such securities falls as a result of increasing market interest rates. While the interest rate of the Bonds is fixed until (and including) the First Call Date and, thereafter, until (and including) the next Subsequent Fixed Interest Payment Date, the interest rates in the capital markets (market interest rates) typically change on a daily basis. As the market interest rate changes, the price of the Bonds changes typically in the opposite direction. If the market interest rate increases, the price of the Bonds would typically fall and if the market interest rate falls, the price of the Bonds would typically increase. Therefore, Bondholders should be aware that movements of the market interest rate can adversely affect the price of the Bonds and can lead to losses if Bondholders sell their Bonds during the period in which the compensation rate of the Bonds is fixed, e.g., prior to the First Call Date.

The interest on the Bonds will reset on each Subsequent Fixed Interest Payment Date

The interest rate on the Bonds will initially be 2.625% per annum. However, the interest rate will be reset on each Subsequent Fixed Interest Payment Date such that from (and including) the First Call Date, the applicable per annum interest rate will be equal to the sum of the applicable 5-year Mid Swap Rate on the relevant Coupon Determination Date immediately preceding the relevant Subsequent Fixed Interest Payment Date and the Initial Margin. The interest rate following any Subsequent Fixed Interest Payment Date may be less than the initial interest rate and/or the interest rate that applies immediately prior such Subsequent Fixed Interest Payment Date, which could affect the amount of any interest payments under the Bonds and thus the market value of the Bonds.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each prospective investor should consult its legal advisors to determine whether and to what extent (i) the Bonds are lawful investments for it, (ii) the Bonds can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Bonds.

Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

No legal and tax advice

Each prospective investor should consult its own advisors as to legal, tax and related aspects of an investment in the Bonds. A Bondholder's effective yield on the Bonds may be diminished by the tax impact on that Bondholder of its investment in the Bonds.

A Bondholder's actual yield on the Bonds may be reduced from the stated yield by transaction costs.

Proposed amendment of the Swiss Federal Withholding Tax Act

On 4 November 2015 the Swiss Federal Council announced a mandate to the Swiss Federal Finance Department to institute a group of experts tasked with the preparation of a new proposal for a reform of the Swiss withholding tax system. The new proposal is expected to include in respect of interest payments the replacement of the existing debtor-based regime by a paying agent-based regime for Swiss withholding tax similar to the one published on 17 December 2014 by the Swiss Federal Council and repealed on 24 June 2015 following the negative outcome of the legislative consultation with Swiss official and private bodies. Under such a new paying agent-based regime, if enacted, a paying agent in Switzerland may be required to deduct Swiss withholding tax on any payments or any securing of payments of interest in respect of the Bonds for the benefit of the beneficial owner of the payment unless certain procedures are complied with to establish that the owner of the Bonds is not an individual resident in Switzerland.

If such a new paying agent-based regime were to be enacted and were to result in the deduction or withholding of the Swiss federal withholding tax by a paying agent in Switzerland on any interest payments in respect of the Bonds, neither the Issuer, nor the Guarantor, nor the Principal Paying Agent, nor any other paying agent or person would, pursuant to the Terms of the Bonds, be obliged to pay additional amounts with respect to the Bonds as a result of the deduction or imposition of such withholding tax.

Payments on or with respect to the Bonds may be subject to U.S. withholding under FATCA

The Issuer and other non-U.S. financial institutions through which payments on the Bonds are made may be required to withhold U.S. tax at a rate of 30 per cent on certain payments made after 31 December 2018 in respect of the Bonds pursuant to the Foreign Account Tax Compliance Act ("**FATCA**") (for further information on FACTA please refer to the section "*SWISS TAXATION*" below).

Whether such withholding tax applies may depend on whether the financial institution through which payments on the Bonds are made has agreed to provide certain information on its account holders pursuant to a FATCA agreement with the U.S. Internal Revenue Service ("**IRS**") and an investor's consent, where necessary, to have its information provided to the IRS. Consequently, subject to certain conditions, a Bondholder may be subject to generally applicable information reporting, and may also be subject to backup withholding requirements with respect to payments made in respect of the Bonds unless the Bondholder complies with certain certification and identification requirements or an exception to the information reporting and backup withholding rules otherwise applies.

If an amount in respect of U.S. withholding tax were to be deducted or withheld from interest, principal or other payments on the Bonds as a result of FATCA, none of the Issuer, the Guarantor, the Principal Paying Agent, or any other paying agent or person would, pursuant to the Terms of the Bonds, be required to pay additional amounts as a result of the deduction or withholding. As a result, investors may receive less interest or principal than expected. Investors thus should consult their own tax advisors on how these rules may apply to payments they receive under the Bonds.

TERMS OF THE BONDS

The terms and conditions (each a "**Condition**", and together the "**Terms of the Bonds**") of the Bonds, issued by Swiss Life AG, and irrevocably guaranteed on a subordinated basis by Swiss Life Holding AG, are established pursuant to the Bond Purchase and Paying Agency Agreement. The Terms of the Bonds govern the rights and obligations of the Issuer, the Guarantor and the Bondholders in relation to the Bonds and are as follows:

I Denomination and form of the Bonds

The Bonds are issued in the aggregate principal amount of CHF 175,000,000 and are divided into Bonds with denominations of CHF 5,000 and multiples thereof.

The Issuer reserves the right to reopen and increase the aggregate principal amount of the Bonds issued at any time and without prior consultation or permission of the Bondholders through the issuance of further bonds which will be fungible with the Bonds (i.e., identical especially in respect of the Terms of the Bonds, security number, final maturity and interest rate).

The Bonds and all rights in connection therewith are issued in uncertificated form in accordance with article 973c OR as uncertificated securities (*Wertrechte*) that will be created by the Issuer by means of a registration in its register of uncertificated securities (*Wertrechtebuch*). Such uncertificated securities (*Wertrechte*) will then be entered into the main register (*Hauptregister*) of the SIX SIS Ltd or any other intermediary in Switzerland recognized for such purposes by the SIX Swiss Exchange (SIX SIS Ltd or any such other intermediary, the "**Intermediary**"). Once the uncertificated securities (*Wertrechte*) are registered in the main register (*Hauptregister*) of the Intermediary and entered into the accounts of one or more participants of the Intermediary, the Bonds will constitute intermediated securities (*Bucheffekten*) (the "**Intermediated Securities**") in accordance with the provisions of the Swiss Federal Intermediated Securities Act (*Bucheffektengesetz*).

Neither the Issuer, nor the Bondholders, nor UBS AG as principal paying agent in respect of the Bonds (the "**Principal Paying Agent**") shall at any time have the right to effect or demand the conversion of the uncertificated securities (*Wertrechte*) into, or the delivery of, a permanent global certificate (*Globalurkunde*) or definitive Bonds (*Wertpapiere*).

So long as the Bonds are in the form of Intermediated Securities, the Bonds may only be transferred or otherwise disposed of in accordance with the provisions of the Swiss Federal Intermediated Securities Act (*Bucheffektengesetz*), i.e., by the entry of the transferred Bonds in a securities account of the transferee.

The records of the Intermediary will determine the number of Bonds held through each participant by the Intermediary. In respect of the Bonds held in the form of Intermediated Securities, the holders of the Bonds (the "**Bondholders**") will be the persons holding the Bonds in a securities account in their own name and for their own account.

II Status of the Bonds

The Bonds constitute direct, subordinated and unsecured obligations of the Issuer and rank *pari passu*, without any preference, among themselves. The claims of the Bondholders rank on a voluntary or involuntary insolvency, winding-up, liquidation, composition (Nachlassverfahren), dissolution (other than pursuant to a merger, consolidation or amalgamation with another entity where the resulting or surviving entity assumes all the obligations of the Issuer in respect of the Bonds) or other similar proceedings of or against the Issuer:

a) after the claims of any Issuer Senior Creditors;

b) *pari passu* with any Parity Instruments; and

c) prior to the claims of the holders of all Junior Instruments.

"**Parity Instruments**" means (i) any preferred or preference shares of the Issuer expressed to rank *pari passu* with the Bonds ("**Parity Shares**"), if any, (ii) the obligations of the Issuer under the loan agreement issued by the Issuer in 1999 between the Issuer, Morgan Guaranty Trust Company of New York and J.P. Morgan Securities Ltd. (private placement), (iii) the obligations of the Issuer under the loan agreement issued by the Issuer in 2012 callable in 2022 with final maturity in 2042 (private placement), (iv) the obligations of the Issuer under the guaranteed perpetual bonds issued by the Issuer in 2012 callable in 2018, (v) the obligations of the Issuer under the guaranteed subordinated perpetual fixed to floating rate loan notes sold by the Issuer to Demeter Investments B.V. in 2015 callable in 2025, (vi) the obligations of the Issuer under the 2016 subordinated perpetual bonds callable in 2021 (vii) the obligations of the Issuer under the 2016 subordinated dated bonds callable in 2026 with final maturity in 2046, (viii) the obligations of the Issuer under the guaranteed subordinated perpetual fixed to floating rate loan notes sold by the Issuer to Elm B.V. in 2016 callable in 2027 and (ix) any of the Issuer's future unsecured and subordinated obligations expressed to rank *pari passu* with the Issuer's obligations under the Bonds.

"**Junior Instruments**" means (i) ordinary shares, (ii) preference shares expressed to rank junior to the Issuer's Parity Shares, and (iii) any other of the Issuer's securities or obligations expressed to rank junior to the Parity Instruments issued directly by it.

"**Issuer Senior Creditors**" means creditors of the Issuer, (i) who are policyholders or other unsubordinated creditors of the Issuer, or (ii) whose claims are, or are expressed to be, subordinated (whether only in the event of the liquidation, dissolution or winding-up of the Issuer or otherwise) to the claims of policyholders and other unsubordinated creditors of the Issuer (including all existing and future unsecured, subordinated obligations of the Issuer (whether actual or contingent), except those whose claims rank, or are expressed to rank, equally with or junior to the claims of the Bondholders under the Bonds.

For the avoidance of doubt, in the event of a voluntary or involuntary insolvency, winding-up, liquidation, composition (*Nachlassverfahren*) dissolution (other than pursuant to a merger, consolidation or amalgamation with another entity where the resulting or surviving entity assumes all the obligations of the Issuer in respect of the Bonds) or other similar proceedings of or against the Issuer no amounts shall be payable in respect of the Bonds until the claims of all unsubordinated and subordinated creditors of the Issuer, the claims of which rank senior to the Bonds, shall have first been satisfied in full.

The subordination provisions of this Condition II are irrevocable.

III Interest

1 Interest rate

1.1 Initial fixed rate

The Bonds will bear interest payable annually in arrears from and including 22 March 2018 (the "**Issue Date**") to but excluding the First Call Date at a rate of 2.625 per cent per annum, payable in arrears for the first time on 25 September 2018 and thereafter annually in arrears on 25 September in each year (each an "**Initial Interest Payment Date**"), for the last time on the First Call Date.

1.2 Subsequent Fixed Interest Rate

As from (and including) the First Call Date, in respect of each successive five-year period (the "**Relevant Five-Year Period**"), the first such period commencing on (and including) 25 September 2028 and ending on (but excluding) the fifth anniversary of that date, unless previously redeemed, the Bonds will bear interest payable annually in arrears on 25 September in each year (each a "**Subsequent Fixed Interest Payment Date**") with the rate of interest being determined on each Coupon Determination Date as the 5-year Mid Swap Rate plus the Initial Margin (the "**Subsequent Fixed Interest Rate**").

"**5-year Mid Swap Rate**" means the 5-year CHF mid market swap rate calculated on the basis of the rates displayed on GOTTEX page "CHF Interest Rate Swaps vs LIBOR" (or such other page as may replace that page on GOTTEX, including, but not limited to, referring to a successor rate of LIBOR, or such other service as may be nominated by the person providing or sponsoring the information appearing there for the purposes of displaying comparable rates) at 11.00 a.m. (CET) on the Coupon Determination Date. If swap rates do not appear on that page, the 5-year Mid Swap Rate shall be determined by the Principal Paying Agent on the basis of (i) quotations provided by the principal office of each of four major banks in the CHF swap market of the rates at which swaps in CHF are offered by it at approximately 11.00 a.m. (CET) on the Coupon Determination

Date to participants in the CHF swap market for the period equal to the Relevant Five-Year Period; and (ii) the arithmetic mean rounded, if necessary, to the nearest 0.00001 (0.000005 being rounded upwards) of such quotations.

"**Coupon Determination Date**" means, in respect of a Relevant Five-Year Period, the 5th (fifth) Business Day prior to 25 September 2028 and each 5th (fifth) Business Day prior to the 1st (first) day of the Relevant Five-Year Period thereafter.

"**Business Day**" means a day (other than a Saturday or Sunday) on which banks are open for business in Zurich.

"**Subsequent Fixed Interest Rate Period**" means the period (i) from (and including) the First Call Date to (but excluding) the next Subsequent Fixed Interest Payment Date or (ii) from (and including) any Subsequent Fixed Interest Payment Date to (but excluding) the next Subsequent Fixed Interest Payment Date.

"**Initial Interest Rate Period**" means the period (i) from (and including) the Issue Date to (but excluding) the next Initial Interest Payment Date or (ii) from (and including) any Initial Interest Payment Date to (but excluding) the next Initial Interest Payment Date.

"**Interest Payment Date**" means an Initial Interest Payment Date or a Subsequent Fixed Interest Payment Date.

"**Interest Period**" means an Initial Interest Rate Period or a Subsequent Fixed Interest Rate Period.

"**Initial Margin**" means 211.3 basis points.

1.3 Determination of Subsequent Fixed Interest Rate and Subsequent Fixed Interest Rate Amount

The Principal Paying Agent will, as soon as practicable after the determination of the Subsequent Fixed Interest Rate in relation to each Subsequent Fixed Interest Rate Period, calculate the amount of interest (the "**Subsequent Fixed Interest Rate Amount**") payable in respect of each Bond with a denomination of CHF 5,000 for such Subsequent Fixed Interest Rate Period on the basis of a year of 360 days with twelve 30-day months (30/360 basis).

1.4 Publication of Subsequent Fixed Interest Rate and Subsequent Fixed Interest Rate Amount

The Principal Paying Agent shall cause the Subsequent Fixed Interest Rate and the Subsequent Fixed Interest Rate Amount and the relative Subsequent Fixed Interest Payment Date (i) to be notified to the Issuer, the Guarantor and to the SIX Swiss Exchange or other relevant authority on which the Bonds are at the relevant time listed, and (ii) to be published in accordance with Condition X as soon as practicable after their determination, and in no event later than the 5th (fifth) Business Day thereafter. The Subsequent Fixed Interest Rate Amount and Subsequent Fixed Interest Payment Date 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 relevant Subsequent Fixed Interest Rate Period.

1.5 Notifications

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition III 1 by the Principal Paying Agent shall be final and binding on the Issuer, the Guarantor and all Bondholders and (in the absence of default, bad faith or manifest error) no liability to the Issuer, the Guarantor or Bondholders shall attach to the Principal Paying Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions under this Condition III 1.

2 Optional deferral of interest payments

The Issuer will have the right to defer interest payments on the Bonds, in whole but not in part, on an Interest Payment Date should it be an Optional Interest Payment Date by giving notice to the Bondholders and the Principal Paying Agent in accordance with Condition X not less than 3 (three) Business Days prior to the relevant Optional Interest Payment Date. An "**Optional Interest Payment Date**" will be deemed to be occurring on any Interest Payment Date which does not constitute a Solvency Interest Deferral Date or a Compulsory Interest Payment Date. A notice given by the Issuer according to this Condition III 2 shall no longer have any effect, if the Interest Payment Date falling after such notice is a Compulsory Interest Payment Date.

3 Solvency deferral of interest

A "**Solvency Interest Deferral Date**" will occur if, in respect of an Interest Payment Date or a redemption date, a Solvency Event has occurred and is continuing on the relevant Reference Date. In such case 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.

If the Issuer is required to defer interest in accordance with this Condition III 3, it will, without prejudice to its deferral obligations, give notice to the Bondholders and the Principal Paying Agent in accordance with Condition X, not less than 3 (three) Business Days prior to such Solvency Interest Deferral Date of the amount of the relevant interest payment that shall be deferred.

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

A "**Solvency Event**" shall occur if:

a) the Issuer or Swiss Life group does not have appropriate funds to cover the Required Solvency Margin, or the amount of such funds would, as a result of a full or partial interest payment (including, for the avoidance of doubt, Deferred Interest) or redemption payment or repurchase, respectively, that would otherwise be due, be or become less than the Required Solvency Margin; or

b) the Issuer is unable to pay its debts owed to Issuer Senior Creditors as they fall due; or

c) the Assets of the Issuer do not exceed its Liabilities (other than liabilities to persons who are not Issuer Senior Creditors); or

d) FINMA has given (and not withdrawn) notice to the Issuer or the Guarantor that it has determined, in view of the financial and/or capital position of the relevant entity, that in accordance with Applicable Regulations at that time, the Issuer must take specified action in relation to payments on the Bonds.

Applicable Regulations" means the regulatory capital requirements mandatorily applicable to the Issuer or Swiss Life group at such time including, but not limited to, insurance regulatory law (for group solvency or single solvency purposes, as applicable) and/or generally recognised administrative practice, if any, of FINMA.

"**Assets**" means the unconsolidated total assets (*Umlauf- und Anlagevermögen*) 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.

"**FINMA**" means the Swiss Financial Market Supervisory Authority (FINMA) or such other agency that, from time to time, assumes or performs the function that is performed by FINMA as at the Issue Date.

"**Liabilities**" means the unconsolidated total liabilities (*Fremdkapital*) 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.

"**Required Solvency Margin**" means the required solvency margin in accordance with the provisions of Applicable Regulations, which is used by FINMA, inter alia, in determining whether deferral of interest is required under Applicable Regulations.

"**Solvency Shortfall**" means the portion of the interest amount (including, for the avoidance of doubt, Deferred Interest), which, if paid when otherwise due under the Terms of the Bonds, would cause a Solvency Event to occur or be continuing.

4 Compulsory payment of interest

Interest will be mandatorily due and payable in full on any Compulsory Interest Payment Date.

A "**Compulsory Interest Payment Date**" means each Interest Payment Date prior to which, at any time during a period of six (6) months, a Compulsory Interest Payment Event occurred; provided, however, that (i) no Solvency Event has occurred and is continuing as of such Interest Payment Date and (ii) no Solvency Event would occur as a result of any payment of the relevant interest amount (including, for the avoidance of doubt, any Deferred Interest) on such Interest Payment Date (in which case the Issuer will only be required to pay the relevant interest amount other than the Solvency Shortfall).

A "**Compulsory Interest Payment Event**" will occur if:

a) either the Issuer or the Guarantor has declared any dividend or other distribution (including for the avoidance of doubt, any nominal value reduction of the Guarantor's ordinary shares but not including a dividend made solely through the issuance of new shares) or has paid interest (or arrears thereof) on or in respect of any Junior Instruments and/or Parity Instruments excluding any declaration of a distribution or any interest payment (i) that is made intra-group; or (ii) that was itself mandatory under the terms and conditions of such Parity Instrument or Junior Instrument; or (iii) made in connection with any employee compensation arrangement so long as the dividend or distribution is itself either a Parity Instrument or Junior Instrument or if a derivative, where the deliverable is either a Parity Instrument or a Junior Instrument; or

b) 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 or the Guarantor unless that redemption, repurchase or repayment was (i) made by way of a direct exchange into new Parity Instruments and/or Junior Instruments in an amount which is no more than the amount of the Parity Instruments or Junior Instruments; or (ii) made in connection with a distribution resulting from a nominal value reduction of the Guarantor's ordinary shares; or (iii) made in connection with any employee compensation arrangement; or (iv) was itself mandatory under the terms and conditions of such Parity Instrument or Junior Instrument.

Notwithstanding the provisions above, should the occurrence of the Compulsory Interest Payment Event under section (a) or (b) be in relation to a Parity Instrument, it will only be a Compulsory Interest Payment Event to the extent that it does not in itself cause a Regulatory Event.

5 Satisfaction of Deferred Interest

Interest deferred by the Issuer on an Optional Interest Payment Date or a Solvency Interest Deferral Date will constitute "**Deferred Interest**".

Deferred Interest may at the option of the Issuer be paid in whole or in part, at any time, on giving 10 (ten) Business Days' notice to the Bondholders and the Principal Paying Agent in accordance with Condition X, subject to (i) FINMA's approval if such approval is required in accordance with Applicable Regulations at that time and (ii) no Solvency Event having occurred and which is continuing on the 10^{th} (tenth) Business Day preceding the payment date of such Deferred Interest and (iii) such payment not causing a Solvency Event to occur (in which case the Issuer may only pay an amount other than the Solvency Shortfall). However, Deferred Interest shall become due and payable in full upon any of the following events:

a) the occurrence of a Compulsory Interest Payment Date following the deferral of interest;

b) any Optional Redemption or Special Early Redemption of the Bonds;

c) a decree or order being made by a court or agency or supervisory authority in Switzerland having jurisdiction in respect of the same, or a resolution being passed, for the opening of bankruptcy proceedings, dissolution (other than pursuant to a merger, consolidation or amalgamation with another entity where the resulting or surviving entity assumes all the obligations of the Issuer in respect of the Bonds), liquidation or winding-up of the Issuer; and

d) the occurrence of the next Optional Interest Payment Date upon which the Issuer elects to make an Interest Payment.

Notwithstanding the above, Deferred Interest which becomes due and payable pursuant to sections (a) and (d) is in any case subject to no Solvency Event having occurred and which is continuing and such payment not causing a Solvency Event to occur (in which case the Issuer may only pay an amount other than the Solvency Shortfall) and may further be subject to FINMA approval if such approval is required in accordance with Applicable Regulations at that time.

For the avoidance of doubt, any amount paid to Bondholders on a Solvency Interest Deferral Date will not lead to a required satisfaction of all Deferred Interest. Deferred Interest shall not itself bear interest.

6 Calculation of interest

If any Interest Payment Date falls on a day which is not a Business Day, the relevant payment will be made on the immediately following Business Day. Bondholders shall not be entitled to demand additional interest or any other payment in respect of such delay.

If the amount of interest for an Interest Period is to be calculated for a period of less than 1 (one) year, it shall be calculated on the basis of the number of days elapsed in the relevant interest calculation period divided by 360, the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months (30/360 basis).

Interest will cease to accrue on the Bonds from the date of its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue at the relevant interest rate until the day on which all sums due in respect of the Bonds up to (but excluding) that day are received by or on behalf of the relevant Bondholder.

IV Redemption

1 Redemption at maturity

Unless previously redeemed, exchanged or purchased and cancelled in accordance with the Conditions, the Issuer shall redeem the Bonds (in whole but not in part), in cash, at their principal amount together with any accrued but unpaid interest up to (but excluding) the Final Maturity Date and any Deferred Interest on the Final Maturity Date. The Bonds shall not be redeemed, except in accordance with this Condition IV.

The "**Final Maturity Date**" means:

a) if, on or prior to the Scheduled Maturity Date, none of the circumstances described in section (b) below has occurred, the Scheduled Maturity Date; or

b) if, on or prior the Scheduled Maturity Date, a Solvency Event has occurred and is continuing (as evidenced by the absence of any public statement by the Issuer that the Solvency Event has been cured) and FINMA has not given its consent to the redemption of the Bonds on the Scheduled Maturity Date, the Interest Payment Date immediately following the day on which the Solvency Event has ceased to continue and FINMA has given its consent to the redemption of the Bonds.

The "**Scheduled Maturity Date**" means 25 September 2048.

2 Optional redemption

Subject to Condition IV 5, the Issuer may redeem the Bonds (in whole but not in part) at the Early Redemption Amount on 25 September 2028 (the "**First Call Date**"), or on any Interest Payment Date thereafter subject to having given not less than 30 (thirty), and not more than 60 (sixty), calendar days’ prior notice to the Principal Paying Agent and the Bondholders (each such redemption an "**Optional Redemption**").

The appropriate redemption notice is a notice given by the Issuer to the Principal Paying Agent and the Bondholders in accordance with Condition X. The notice shall be irrevocable and shall specify the Interest Payment Date on which the Bonds are to be redeemed.

3 Special Early Redemption

If at any time after the Issue Date a Tax Event, a Rating Agency Event or a Regulatory Event (each a "**Special Redemption Event**" and together the "**Special Redemption Events**") occurs, the Issuer may, subject to Condition IV 5, call and redeem the Bonds (in whole but not in part) at the Early Redemption Amount subject to having given not less than 30 (thirty), and not more than 60 (sixty), calendar days' prior notice to the Principal Paying Agent and the Bondholders (which notice shall be irrevocable and shall specify the date fixed for redemption) in accordance with Condition X (each such redemption a "**Special Early Redemption**").

No Special Early Redemption will apply in respect of a Rating Agency Event if at any time any application of the right to redeem would result in a Regulatory Event.

A "**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 Bonds, and this cannot be avoided by the Issuer taking such reasonable measures as it (acting in good faith) deems appropriate.

A "**Rating Agency Event**" means at any time, as a consequence of a change on or after the Issue Date in the rating methodology of a Rating Agency, or interpretation of such methodology, in relation to the equity content of securities (such as the Bonds), the equity content, in the reasonable opinion of the Issuer, assigned to the Bonds as of the date of such is lower than the equity content previously assigned by such Rating Agency at or around the Issue Date or when such equity content was assigned at the first time (as applicable).

A "**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) FINMA states that the Bonds are no longer eligible, in whole or in part, to qualify as lower additional capital (*unteres ergänzendes Kapital*) pursuant to Art. 49 in connection with Art. 22a, 22b and 47 of the SPICO, and no longer, in whole or in part, fulfil the requirements for such category, or equivalent thereof, for group or solo solvency purposes; or

b) FINMA issues further guidance (by way of law, ordinance, regulation or a published interpretation thereof) in relation to instruments qualifying under Art. 22a, 22b and 47 of the SPICO or any Future Regulations are implemented for group or solo solvency purposes, and following which FINMA states that such guidance or such implementation of the Future Regulations has an adverse regulatory capital implication for the Issuer in relation to the Bonds.

"**Future Regulations**" means the solvency margin, regulatory capital or capital adequacy regulations (if any) which may be introduced in Switzerland and which are applicable to the Issuer and/or the Guarantor, which would set out the requirements to be satisfied by financial instruments in order that they be eligible to be included in Tier 2 Capital.

"**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 from time to time.

"**Tier 2 Capital**" means all items classified as tier two capital (*ergänzendes Kapital*) of the Issuer or the Guarantor as defined in the rules and regulations of FINMA at the time of issuance, comprising upper additional capital (*oberes ergänzendes Kapital*) and lower additional capital (*unteres ergänzendes Kapital*).

"**Early Redemption Amount**" means the aggregate principal amount of the Bonds outstanding on the relevant redemption date plus accrued interest to but excluding the redemption date plus Deferred Interest, if any.

"**Rating Agency**" means Standard & Poor's Credit Market Services Europe Limited, a subsidiary of S&P Global Inc. ("**S&P**") or such other nationally recognized credit rating agency that, from time to time, assumes or performs the function that is performed by S&P as at the Issue Date.

4 Purchase of Bonds

Subject to Condition IV 5, the Issuer, the Guarantor or any other member of the Swiss Life group may at any time (subject to mandatory provisions of law) purchase Bonds in the open market or otherwise at any price. Such acquired Bonds may be cancelled, held or resold.

5 Conditions for redemption and repurchases

Any redemption or repurchase of the Bonds by the Issuer, the Guarantor or any other member of the Swiss Life group is subject to:

a) the Issuer obtaining prior written consent of FINMA with such notice period as required under the Applicable Regulations at that time;

b) no Solvency Event having occurred and is continuing and such redemption or repurchase not causing a Solvency Event to occur; and

c) in case of (i) a Special Early Redemption or (ii) a repurchase, that occurs, in each case, within five years after the Issue Date, such redemption or repurchase being funded out of the proceeds of a new issuance of capital of at least the same quality of the Bonds (at least Tier 2 Capital) and being otherwise permitted under the Applicable Regulations at that time.

6 Substitution and modification; substitution of the Issuer

If any Special Redemption Event has occurred and is continuing, the Issuer may at any time, without the consent or approval of the Bondholders, substitute all (but not less than all) of the Bonds, or modify the Terms of the Bonds.

Any substitution or modification of the Bonds is conditional on the substituting securities:

a) having terms that are not less favourable to the Bondholders than the Terms of the Bonds in any material way;

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 a "**New Issuer**") with a guarantee by the Guarantor, such that Bondholders have the same material rights and claims as provided by the Bonds and the Guarantee; and

c) ranking or expressed to rank at least equal to the Bonds and featuring the same tenor, denomination, interest rate (including applicable margins), interest payment dates and first call date as the Bonds.

In addition, any substitution or modification is subject to (i) the substitution or modification not affecting the rights to accrued interest and Deferred Interest, if any, unless specifically agreed otherwise; (ii) the prior written notice (if such notice is required to be given pursuant to Applicable Regulations) by the Issuer to, and receiving no objection from, the FINMA; (iii) the substitution or modification not itself giving rise to a change in any published rating of the Bonds in effect at such time, it being understood that the Issuer shall (1) in case of a substitution of the Bonds or the Issuer obtain prior written consent of the Rating Agency and (2) give written notice to the Rating Agency of any modification of the Bonds; (iv) the substitution or modification not triggering the right to effectuate a Special Redemption Event; and (v) certification by two 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 on which the Bonds are then listed or admitted for trading.

V Payments

The amounts required for the payment of interest (after deduction of the then applicable Swiss federal withholding tax and/or after deduction of any other present or future tax or charge, if any, of whatsoever nature required by applicable law to be made) and the principal amount and any other payments in cash to be made under these Terms of the Bonds on the Bonds will be made available in good time in freely disposable CHF, which will be placed at the free disposal of the Principal Paying Agent in Switzerland.

Upon receipt of the funds in Switzerland and under the same conditions as received, the Principal Paying Agent will arrange for payment to the Bondholders.

The Issuer undertakes that payments shall be made in freely disposable CHF without collection cost to the Bondholders, and, unless otherwise provided for by applicable law, without any restrictions and whatever the circumstances may be, irrespective of nationality, residence or domicile of the Bondholders and without requiring any affidavit or the fulfilment of any other formality, at the counters of UBS AG.

The receipt by the Principal Paying Agent of funds in CHF in Switzerland from the Issuer shall release the Issuer from its obligations under the Bonds to the extent of amounts received by the Principal Paying Agent.

VI Taxation

All payments of interest on the Bonds are subject to the deduction of the Swiss federal withholding tax (*Verrechnungssteuer*), currently levied at the rate of 35%. Prospective Bondholders should consult their tax advisors on any consequences of any Swiss or foreign tax (e.g. on personal income) if an investment in the Bonds is pursued.

All payments in respect of the Bonds are, regardless of the Swiss federal withholding tax on interest, subject to any withholding or deduction for, or on account of, any present or future taxes, duties or charges of whatsoever nature that the Issuer or the Principal Paying Agent or any other agent or person is required by applicable law to make (if any). In that event, neither the Issuer nor the Principal Paying Agent nor any other agent or person will be obliged to make any additional payments to the Bondholders in respect of such withholding or deduction.

VII No set-off rights

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

VIII Events of default/acceleration

There will be no events of default in respect of the Bonds. In case of the Issuer's failure to discharge its payment obligations relating to interest under the Terms of the Bonds, Bondholders shall have no right to claim or enforce an early redemption of the Bonds. In particular, Bondholders shall not be entitled, and hereby waive any statutory right conferred to them, to file for the opening of bankruptcy proceedings (*Konkursbegehren*) pursuant to Art. 166 of the Swiss Bankruptcy Code (*Bundesgesetz über Schuldbetreibung und Konkurs*) or to make other filings or motions which, if approved, will lead to a redemption of the Bonds. However, the Bonds shall become immediately due and payable, together with accrued interest thereon, if any, and Deferred Interest, if any, to the date of payment, following a decree or order being made by FINMA, or a resolution being passed, for the opening of bankruptcy proceedings, the dissolution (other than pursuant to a merger, consolidation or amalgamation with another entity where the resulting or surviving entity assumes all the obligations of the Issuer in respect of the Bonds), liquidation or winding-up of the Issuer.

IX Subordinated guarantee

As security for the Bonds, the Guarantor has issued the following irrevocable Guarantee:

"**GUARANTEE**

(in the meaning of Article 111 CO, the "**Guarantee**")

1. Being informed that Swiss Life AG, General-Guisan-Quai 40, CH-8002 Zurich, Switzerland (the "**Issuer**"), issued and sold guaranteed callable subordinated capital securities due 2048 (the "**Bonds**") in the aggregate principal amount of CHF 175,000,000, Swiss Life Holding AG, General-Guisan-Quai 40, CH-8002 Zurich, Switzerland (the "**Guarantor**"), herewith irrevocably, but on a subordinated basis in accordance with subsection (2) below, guarantees to the holders of the Bonds (the "**Bondholders**") in accordance with Article 111 CO, irrespective of the validity of the Bonds, the Bond Purchase and Paying Agency Agreement and waiving all rights of objection and defence arising from the Bonds and the Bond Purchase and Paying Agency Agreement, the due payment of the amounts (including but not limited to, principal and interest) expressed to be due and payable by the Issuer under and pursuant to the terms and conditions of the Bonds. Accordingly, the Guarantor agrees to pay or deliver to UBS AG in its capacity as principal paying agent in respect of the Bonds (the "**Principal Paying Agent**"), on behalf of the Bondholders, within 7 (seven) calendar days after the receipt by the Guarantor of Principal Paying Agent's first written demand for payment and its confirmation in writing that an amount has become due and payable under clause VIII of the terms of the Bonds which is equivalent to the amount claimed under this Guarantee and has remained unpaid on the due date.

2. This Guarantee will constitute a direct, subordinated and unsecured obligation of the Guarantor and rank *pari passu*, without any preference, among such obligations. The claims of the Bondholders under this Guarantee rank on a voluntary or involuntary insolvency, winding-up, liquidation, composition (*Nachlassverfahren*), dissolution (other than pursuant to a merger,

consolidation or amalgamation with another entity where the resulting or surviving entity assumes all the obligations of the Guarantor in respect of the Guarantee) or other similar proceedings of or against the Guarantor:

a) after the claims of any Guarantor Senior Creditors;

b) *pari passu* with any other existing or future direct, subordinated and unsecured obligations of the Guarantor which whether now or in the future are expressed to rank *pari passu* with the claims of the Bondholders under this Guarantee (the "**Parity Obligations**"); and

c) prior to the claims of the holders of all classes of issued shares in the share capital of the Guarantor and any other securities issued by the Guarantor or the Issuer expressed to rank junior to the claims of the Bondholders under this Guarantee.

"**Guarantor Senior Creditors**" means creditors of the Guarantor (i) who are unsubordinated creditors of the Guarantor, or (ii) whose claims are, or are expressed to be, subordinated (whether only in the event of the liquidation, composition (*Nachlassverfahren*), dissolution or winding-up of the Guarantor or otherwise) to the claims of other unsubordinated creditors of the Guarantor (including all existing and future unsecured, subordinated obligations of the Guarantor (whether actual or contingent)), except those whose claims rank, or are expressed to rank, equally with or junior to the claims of the Bondholders under this Guarantee.

The subordination provisions set out above are irrevocable. The Guarantor may not create or permit to exist any charge or other interest over its assets to secure the obligations of the Guarantor in respect of this Guarantee.

3. Payments under this Guarantee shall be made in Swiss francs. The receipt by the Principal Paying Agent of funds in Swiss francs in Switzerland from the Guarantor shall release the Guarantor from its obligations under this Guarantee to the extent of amounts received by the Principal Paying Agent.

4. This 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 Principal Paying Agent or any Bondholder from time to time and shall continue in full force and effect notwithstanding any judgement or order against the Issuer and/or the Guarantor. However, when enforcing the Guarantee Bondholders shall not be entitled, and hereby waive any statutory right conferred to them, to file for the opening of bankruptcy proceedings (*Konkursbegehren*) pursuant to Art. 166 of the Swiss Bankruptcy Code (*Bundesgesetz über Schuldbetreibung und Konkurs*) or to make other filings or motions which, if approved, will have similar effects on the Guarantor.

5. This Guarantee is governed by Swiss law.

6. Any dispute in connection with this Guarantee which may arise between the Principal Paying Agent, the Guarantor and/or the Bondholders shall be submitted to the exclusive jurisdiction of the courts of the city of Zurich, Switzerland, and, if permitted, the Commercial Court of the Canton of Zurich, Switzerland."

The Principal Paying Agent undertakes to call on the Guarantee and to claim from the Guarantor pursuant to the Guarantee any due but unpaid amount, each in accordance with the Guarantee. Upon receipt, the Principal Paying Agent undertakes to forward such amount to the Bondholders, who waive all rights of set off with respect to such Bondholders. The Guarantor shall be liable to pay to the Principal Paying Agent all reasonable costs and expenses related to the collection of said amount, including court fees and reasonable legal fees.

X Notices

All notices to Bondholders regarding the Bonds shall be published by the Principal Paying Agent in accordance with the applicable regulations of the SIX Swiss Exchange and shall be valid as soon as published on the website of the SIX Swiss Exchange (*www.six-swiss-exchange.com*, where notices are currently published under the address http://*www.six-swiss-exchange.com/bonds/issuers/official_notices/search_en.html*).

XI Listing

The Issuer will use its reasonable efforts to have the Bonds listed on the SIX Swiss Exchange and to maintain such listing during the whole life of the Bonds (the last trading day will be the second Business Day prior to the date on which the Bonds will be fully redeemed).

XII Prescription

Claims against the Issuer in respect of Bonds will become void unless presented for payment within a period of presently 10 (ten) years (in the case of the principal) and within 5 (five) years (in the case of interest) from the appropriate relevant due date, by virtue of the statute of limitations of Swiss law.

XIII Governing law and jurisdiction

The form, construction and interpretation of the Bonds shall be subject to and governed by Swiss law.

Any dispute which might arise between Bondholders on the one hand and the Issuer on the other hand in connection with the Bonds shall be submitted to the exclusive jurisdiction of the courts of the city of Zurich, Switzerland, and, if permitted, the Commercial Court of the Canton of Zurich, Switzerland.

XIV Amendments

The Principal Paying Agent may, without the consent of the Bondholders, agree to any modification or arrangement of the Terms of the Bonds which, in the opinion of the Principal Paying Agent, is of a formal, minor or technical nature or is made to correct a manifest error.

XV Severability

If at any time any one or more of the provisions of the Terms of the Bonds is or becomes unlawful, invalid, illegal or unenforceable in any respect under any law, the validity, legality and enforceability of the remaining provisions shall not be in any way affected or impaired thereby.

USE OF PROCEEDS

The net proceeds of the Offering are expected to be approximately CHF 173,951,250 after deduction of commissions, fees and estimated expenses. The Issuer will use the net cash proceeds of the Offering for general corporate purposes including future refinancing of outstanding debt instruments in accordance with applicable laws and regulations.

INFORMATION ON THE ISSUER

Company name, legal form, registered office, duration, incorporation and notices

Swiss Life AG is a stock corporation (*Aktiengesellschaft*) pursuant to articles 620 et seq. of the Swiss Code of Obligations incorporated under the laws of Switzerland for an unlimited duration with its registered office at General-Guisan-Quai 40, 8002 Zurich, Switzerland. It was incorporated on 4 September 1883 (date of registration). According to article 16 of the Issuer's articles of incorporation, announcements and notifications of the Issuer are made in the in the Swiss Official Commercial Gazette.

Business purpose

According to article 2.1 of the Issuer's articles of incorporation, the business purpose of the Issuer is to provide solutions in the area of life insurance in Switzerland and abroad, in particular with a focus on retirement plans and security, risk mitigation and wealth formation.

Registration

The Issuer is registered with the commercial register of the Canton of Zurich under company registration number CHE-105.928.677.

Financial statements and auditors

The financial statements of the Issuer for the years ended 31 December 2017 and 2016 have been audited by PricewaterhouseCoopers Ltd, Birchstrasse 160, CH-8050 Zurich, registered with and supervised by the Federal Audit Oversight Authority (register no. 500003), as independent auditor. The Issuer does currently not publicly disclose its own financial statements.

Share capital

As per 31 December 2017, the share capital of the Issuer amounts to CHF 587,350,000 divided into 11,747,000 fully paid-in registered shares with a nominal value of CHF 50 each.

As per 31 December 2017, the Issuer has no authorised or conditional share capital.

Conversion and option rights

As per 31 December 2017, no options, participation rights or convertible bond issues of the Issuer are outstanding.

Own equity securities

As per 31 December 2017, neither the Issuer nor any of its subsidiaries held any shares in the Issuer.

Group structure and business operations

The Issuer is a member of Swiss Life whose group structure (including board of directors and corporate executive board) and business operations are described below under "*DESCRIPTION OF SWISS LIFE*".

INFORMATION ON THE GUARANTOR

Company name, legal form, registered office, duration, incorporation and notices

Swiss Life Holding AG is a stock corporation (*Aktiengesellschaft*) pursuant to articles 620 et seq. of the Swiss Code of Obligations incorporated under the laws of Switzerland for an unlimited duration with its registered office c/o Swiss Life AG, General-Guisan-Quai 40, 8002 Zurich, Switzerland. It was incorporated on 17 September 2002 (date of registration). According to article 25 of the Guarantor's articles of incorporation, announcements and notifications of the Guarantor are made in the in the Swiss Official Commercial Gazette.

Business purpose

According to article 2 of the Guarantor's articles of incorporation, the business purpose of the Guarantor is the holding, acquisition and sale of participations in the insurance and financial services sectors, both in Switzerland and abroad. The Guarantor may hold interests in any kinds of business enterprises and may finance, establish or acquire such business enterprises.

Registration

The Guarantor is registered with the commercial register of the Canton of Zurich under company registration number CHE-109.910.989.

Financial statements and auditors

The consolidated and statutory financial statements of Swiss Life as of and for the years ended 31 December 2017 and 2016 have been audited by PricewaterhouseCoopers Ltd, Birchstrasse 160, CH-8050 Zurich, registered with and supervised by the Federal Audit Oversight Authority (register no. 500003), as independent auditor.

Share capital

As per 31 December 2017, the share capital of the Guarantor amounts to CHF 174,537,840.60 divided into 34,223,106 fully paid-in registered shares with a nominal value of CHF 5.10 each.

As per 31 December 2017, the Guarantor does not have an authorised share capital.

The share capital of the Guarantor may be increased by a maximum amount of CHF 19,675,534.80 by the issuance of up to 3,857,948 registered shares with a nominal value of CHF 5.10 each as a consequence of the exercise of conversion and/or option rights granted in connection with existing or future convertible option or similar bonds by the Guarantor or companies belonging to Swiss Life.

Conversion and option rights

As of 31 December 2017, no option, participation rights or convertible bond issues of the Guarantor are outstanding.

Own equity securities

As of 31 December 2017, members of Swiss Life held 131,201 shares in the Guarantor (equalling approximately 0.4% of the Guarantor's outstanding share capital and voting rights); all shares were held by the Guarantor itself.

Group structure and business operations

The Guarantor is a member of Swiss Life whose group structure (including board of directors and corporate executive board) and business operations are described below under "*DESCRIPTION OF SWISS LIFE*".

DESCRIPTION OF SWISS LIFE

Swiss Life is one of Europe's leading comprehensive life and pensions and financial solutions providers with core markets in Switzerland, France and Germany. Its main business areas include life insurance, risk, pensions and financial solutions for private and corporate clients, independent financial advisory and asset management. Swiss Life distributes its products through its own sales force and distribution partners such as brokers and banks.

In Switzerland, Swiss Life is the largest life insurance provider in terms of gross written premiums. In France, in addition to its life insurance business, Swiss Life also offers health and protection as well as property and casualty insurance solutions. In Germany, Swiss Life focuses on life and disability coverage. In addition to its core markets, Swiss Life provides multinational corporations with employee benefits solutions and high net worth individuals with structured life and pensions products through its international division.

Swiss Life's owned financial advisors (Swiss Life Select, tecis, Horbach, Deutsche Proventus and Chase de Vere advisors) choose products for customers from a large universe of products from the market.

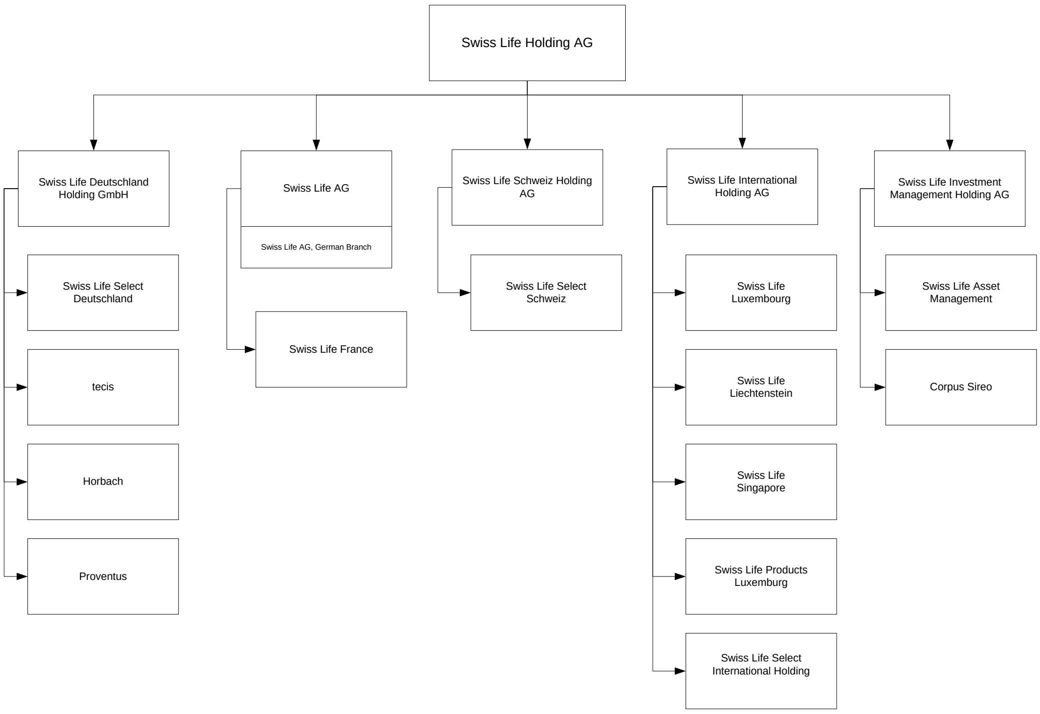
Swiss Life Asset Managers offers institutional and private investors access to investment services and products and provides and actively manages a broad range of investment solutions in the fixed income, real estate, equity, infrastructure and balanced asset classes.

As of 31 December 2017, Swiss Life employed a workforce of around 8,000 FTE's and approximately 5,000 certified financial advisors. Total gross written premiums, policy fees and policyholder deposits for the year ended 31 December 2017 amounted to about CHF 18.6 billion (2016: about CHF 17.4 billion).

Group structure

The Issuer was founded in 1857 as Schweizerische Rentenanstalt. As of 31 December 2017, Swiss Life comprised over 200 companies in 14 countries. The Guarantor is the holding company of Swiss Life and its shares (SLHN) are listed on the SIX Swiss Exchange.

In simplified form, the legal structure of Swiss Life as per 31 December 2017 can be summarised as follows:



The majority of Swiss Life's insurance activities are carried out by the Issuer, either directly, through branch offices or through its subsidiaries and associates.

Strategy

In November 2015, Swiss Life announced its strategic group-wide programme for the three-year-period 2016-2018. The programme "Swiss Life 2018" builds on the results of the successful preceding programme "Swiss Life 2015" that set the scene to increase the profitability and efficiency, as well as the resilience of the Swiss Life business model. The targets under the Swiss Life 2018 programme include a return on equity in the range of 8 to 10% (adjusted for unrealised gains / losses in fixed interest investments).

The four "Swiss Life 2018" strategic thrusts are:

1) Quality of earnings and earnings growth
   Swiss Life strives to strengthen the quality of its earnings and to generate most of its earnings growth through an increased fee result with a view to protect the resilience of the business model in a low interest rate environment.
   At the same time, Swiss Life strives to defend the risk result over the course of the three-year-period 2016-2018.
   With its disciplined ALM process, Swiss Life aims to keep the savings result at least stable over the 2016-2018 period.
   Moreover, Swiss Life seeks to further improve the value of new business by disciplined margin and product management.

2) Operational efficiency
   Swiss Life plans to finance additional investments in growth and digitalisation through additional cost savings. Swiss Life plans to achieve these cost savings by implementing a number of initiatives related to optimisation of systems, IT and other overhead expenses as well as through enhancement and digitalisation of processes.

3) Capital, cash and dividend
   Capital management remains paramount in an environment of increasing macroeconomic and regulatory uncertainties. Swiss Life will continue its disciplined capital management to safeguard its financial strength and to protect its solvency whilst striving to remit sufficient cash to the holding company in order to support the dividend pay-out.

4) Customer centricity and advice
   Swiss Life strives to further develop the multi-local business model to be able to quickly respond to local key trends in the insurance industry. Swiss Life will invest in advice and digitalisation initiatives to support customer centricity at the local business divisions.

With its "Swiss Life 2018" programme, Swiss Life believes it is prepared to meet trends in the insurance industry, which is key to capture the market potential. Firstly, the insurance industry has been facing increased regulatory pressure on capitalization and profitability, as well as from pension reforms in Switzerland and health reforms in France. Swiss Life addresses these trends by adjusting product and service offerings. Secondly, the socio-economic environment will continue to be challenging, with low interest rates on the one hand and a longer life expectation on the other hand. A longer life with a greater demand for self-determined financial control will provide new opportunities. Swiss Life expects to see an increasing demand for insurance solutions for individual and group life customers. Thirdly, Swiss Life expects changing customer behaviour with customers being better informed and possibly less loyal on average. Swiss Life will therefore continue to invest in digitalisation and automatisation to address that development.

Business divisions

Swiss Life Switzerland

Swiss Life Switzerland is a comprehensive life and pensions and financial solutions provider, and the leading provider in the individual life insurance and occupational pensions sector with over 1.3 million customers.

Individual life insurance

Swiss Life Switzerland's individual life insurance business targets a wide range of private clients. Individual life insurance products consist of pensions as well as products covering mortality and disability risks that are often combined with savings elements. Swiss Life Switzerland offers a full range of products that use various combinations of these elements. It offers traditional life insurance products, characterised by guaranteed benefits, as well as unit-linked products (with or without capital protection). The products offered by Swiss Life Switzerland 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

The group life insurance business in Switzerland targets pension institutions of small and medium-sized but also larger corporations. In Switzerland, the BVG requires employers to maintain an occupational pension plan for employees and to arrange for a pension institution to provide for that occupational pension plan. Swiss Life Switzerland also offers BVG products to cover either the mandatory part or the non-mandatory part of the BVG or, as an integrated solution, to cover both parts.

Other products offered by Swiss Life Switzerland 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 Switzerland also provides tailor-made investment products to large entities with autonomous pension institutions seeking a flexible investment strategy. 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 real estate for own usage.

Swiss Life Switzerland aims to offer to its clients a full-range of insurance solutions also including tailored products and services that reflect a customer's individual risk tolerance. Swiss Life Switzerland complements its full insurance contracts by pension solutions without traditional guarantees which allows tailored investment strategies for small and medium-sized companies. In addition, Swiss Life Switzerland offers services to pension funds and larger corporations on a fee basis.

Distribution

Swiss Life Switzerland offers broad access to its clients via its multichannel strategy. As of 31 December 2017, its own distribution force in its home market comprised approximately 1,300 Swiss Life and Swiss Life Select advisors at 60 locations. Insurance advisors are specialists in life insurance and pensions solutions for corporate and private clients. They also provide to their clients partner products such as savings solutions, property insurance and healthcare insurance. Real estate specialists offer advisory and broker services related to the purchase of residential property. Swiss Life Select advisors choose suitable products for customers from the market according to the Best Select approach.

Independent distribution partners, i.e. brokers and banks, plus online and direct channels, complete the distribution network of Swiss Life Switzerland.

Swiss Life France

Swiss Life France operates multiple lines of business in order to provide to its clients comprehensive wealth planning (savings and wealth development, pension planning, private banking, asset management and property and casualty insurance) and personal protection (health, death & disability, credit life). Its offerings for individual and group clients are distributed by its own sales force, brokers, independent financial advisors and distribution partnerships with banks. The typical client base, particularly for its wealth planning offerings, are affluent- and high-net worth individuals.

Swiss Life Banque Privée (a subsidiary of Swiss Life France) supports the positioning in wealth planning and also acts as an intermediary in the financial markets on behalf of Swiss Life Asset Management (France), as well as custodian of the latter's investment portfolio and for Swiss Life France's insurance entities.

Swiss Life Germany

Swiss Life Germany is a financial advisory and insurance company.

Under the Swiss Life brand, Swiss Life Germany offers to private and corporate clients innovative insurance products and services in pensions saving and financial security. Core competencies are occupational disability insurance, occupational pensions, care insurance and modern guarantee concepts.

Distribution is organised via cooperation with brokers, independent financial advisors and banks as well as the owned financial advisors in Germany: Swiss Life Select, HORBACH, tecis and Deutsche Proventus. These brands stand for holistic and individual financial advice. The advisory approach enables customers to make an informed choice from a range of suitable solutions offered by selected product partners.

Swiss Life International

Swiss Life International comprises business with international high net worth individuals (Global Private Wealth), multinational corporates (Global Employee Benefits) and financial advisors.

Global Private Wealth offers structured life and pension solutions to high net worth individuals in Europe and Asia through its insurance carriers in Luxembourg, Singapore and Liechtenstein. Global Employee Benefits provides employee benefit solutions to multinational corporations through the Swiss Life Network, and offers local and international products through its insurance carrier in Luxembourg. The owned financial advisors Swiss Life Select in Austria and the Czech Republic as well as Chase de Vere in the UK offer customised pension, risk and investment advice to retail and affluent clients.

Swiss Life Asset Managers

Swiss Life Asset Managers manage assets from both Swiss Life's insurance operations and from third-party investors, including its own and third-party real estate portfolios. In the past years, Swiss Life Asset Managers has substantially increased its third-party business and now strives to pursue its growth path under the "Swiss Life 2018" programme.

Together with CORPUS SIREO, a fully owned real estate asset management service provider in Germany, Swiss Life Asset Managers positions itself as a leading European real estate manager with about CHF 81 billion in real estate under management and administration.

Risk management

Overview

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

Risk management is a key component of Swiss Life's management process. The respective committees of the corporate executive board and the board of directors continually monitor and take decisions in the area of risk management; these are then incorporated into the annual planning process. On the one hand, they comprise qualitative assessments of strategic risks, as well as the evaluation of operational risks and the internal control system (ICS). On the other hand, they also cover quantitative elements, such as risk appetite at group level, risk budgeting for the insurance units and Asset Liability Management's investment strategy. The board of directors uses a solvency ratio limit to determine Swiss Life's risk appetite. Limits for the financial risks taken by the individual business units are based on local regulatory provisions and risk appetite at group level, and are used to determine their investment objectives.

Quantitative risk management

The risk capacity and risk appetite of Swiss Life's insurance operations are primarily defined based on economic principles. To control and limit exposure to risks, capital and exposure limits are defined. These limits include considerations on overall market risk capital, credit risk capital and, more specifically, interest rate risk capital and credit spread risk capital as well as net equity and foreign currency exposure. The main objective of the ALM process is to ensure that the Swiss Life'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 activity: the determination of the strategic asset allocation and of the risk capital and exposure sublimits.

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

Strategic risk management

Swiss Life uses a structured process to ensure that strategic risks are dealt with adequately in what continues to be a very challenging economic environment. Swiss Life incorporates all the information on risks and corresponding earnings opportunities in its strategic decisions as part of its strategic risk management process. An understanding of the interplay of individual risks is essential in order to take due account of the factors influencing risks during strategy development and address them accordingly.

Operational risk management and internal control system

Operational risk management at Swiss Life includes the methods and processes used for the identification, assessment, and steering or avoidance of operational risks. Operational risk management defines operational risk as the danger that losses may result from shortcomings or failures stemming from internal processes, people, systems or external events. Information security, and thus the guarantee of confidentiality, availability and integrity of data, is an integral part of operational risk management. Swiss Life's internal control system consists of the entirety of procedures, methods and measures prescribed by the board of directors and the corporate executive board to ensure the orderly conduct of business. The focus is on the reliability of financial reporting, the effectiveness of business processes and compliance with laws and regulations issued to protect the company's assets.

Recent developments

For information on recent developments with respect to Swiss Life see the 2017 consolidated financial statements (audited) of Swiss Life as reflected in this Prospectus.

Litigation

Except as disclosed in this Prospectus, neither the Issuer nor the Guarantor is involved in any court, arbitral and administrative proceedings which have material detrimental effect on its assets or profits, nor is the Issuer or the Guarantor aware of any such proceedings threatened against it.

Board of directors and corporate executive board of the Issuer and the Guarantor

The respective articles of incorporation provide that the board of directors of the Issuer must consist of at least seven but not more than 14 members and that the board of directors of the Guarantor must consist of at least five but not more than 14 members. Members of the board of directors of the Guarantor are elected by the general meeting of shareholders on an individual basis for a one-year period. The term of office of members of the board of directors of the Issuer is three years. The term of one year is deemed to signify the period from one annual general meeting up to and including the next. Members whose terms of office are expiring are eligible to stand for immediate re-election.

The board of directors is ultimately responsible for the Issuer's and the Guarantor's strategy and policies and for the supervision of its management. The board of directors establishes the strategic, accounting, organisational and financing policies to be followed by the management of the Issuer and the Guarantor, it appoints the executive officers and authorised signatories of the Issuer and the Guarantor and supervises the operations of the Issuer and the Guarantor.

Furthermore, the board of directors is entrusted with the preparation of shareholders' meetings and with the carrying out of shareholders' resolutions. The board of directors has, in accordance with the articles of incorporation and pursuant to written by-laws, delegated the conduct of business operations to the corporate executive board, which remains under its control and supervision. Pursuant to the by-laws, the board of directors has established the following committees: (i) the chairman's and corporate governance committee; (ii) the investment and risk committee; (iii) the audit committee; and (iv) the compensation committee. The board of directors can establish additional special committees for specific duties.

The Issuer and the Guarantor currently have a board of directors of 11 members, all of which are non-executive board members. Resolutions of the board of directors are adopted with a majority of votes cast. In the event of deadlock, the chairman has the deciding vote. Resolutions may also be adopted by way of written consent (circular resolution).

The members of the board of directors are as follows:

Board of directors of the Issuer and the Guarantor

Name	Main function	Year appointed
Rolf Dörig	Chairman	2008
Gerold Bührer	1st Vice Chairman	2002[1]
Frank Schnewlin	Vice Chairman	2009
Henry Peter	Member	2006
Franziska Tschudi Sauber	Member	2003
Damir Filipovic	Member	2011
Ueli Dietiker	Member	2013
Frank W. Keuper	Member	2013
Klaus Tschütscher	Member	2013
Adrienne Corboud Fumagalli	Member	2014
Stefan Loacker	Member	2017

The business address of the members of the board of directors is at c/o Swiss Life AG, General-Guisan-Quai 40, CH-8002 Zurich.

Corporate executive board of the Issuer and the Guarantor

Name	Position
Patrick Frost	Group Chief Executive Officer
Thomas Buess	Group Chief Financial Officer
Stefan Mächler	Group Chief Investment Officer
Markus Leibundgut	Chief Executive Officer Switzerland
Charles Relecom	Chief Executive Officer France
Jörg Arnold	Chief Executive Officer Germany
Nils Frowein	Chief Executive Officer International

The business address of the members of the corporate executive board is at c/o Swiss Life AG, General-Guisan-Quai 40, CH-8002 Zurich.

1 Member of the board of directors of the Issuer since 2000; Mr. Bührer will not seek re-election at the next annual general meetings of the shareholders due to his reaching the mandatory retirement age, and the boards of directors proposes to elect Mr. Martin Schmid as new member of the boards of directors.

SWISS TAXATION

General

This following summary describes the principal tax consequences under the laws of Switzerland of the acquisition, ownership and disposal of the Bonds. 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. Modifications of the applicable legal regulations and/or changes in interpretation may require a re-evaluation of the tax consequences.

The summary below is not a substitute for legal or tax advice sought by interested parties. Bondholders or prospective Bondholders are thus advised to consult their own tax advisors 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 the Bonds and receiving interest, principal or other payments under the Bonds.

Income tax

Bonds held by non-Swiss resident Bondholders

Payments of interest (including an original issue discount or a repayment premium, if any) by the Issuer with regard to the Bonds and repayment of principal to, and gain realised on the sale or redemption of the Bonds by a Bondholder who is not a resident of Switzerland and who during the relevant taxation year has not engaged in a trade or business through a permanent establishment or a fixed place of business in Switzerland to which the Bonds are attributable and who is not subject to income taxation in Switzerland for any other reason will not be subject to any Swiss federal, cantonal or communal income tax.

Bonds held by Swiss resident Bondholders as private assets (Privatvermögen)

Individuals who reside in Switzerland and who hold the Bonds as private assets are required to include all payments of interest (including an original issue discount or a repayment premium, if any) with regard to the Bonds by the Issuer, in their personal income tax return and will be taxable on any net taxable income (including the payments of interest with regard to the Bonds) for the relevant tax period.

Swiss resident Bondholders who sell or otherwise dispose of privately held Bonds realise either a tax-free private capital gain or a non-tax-deductible capital loss.

Bonds held as Swiss business assets (Geschäftsvermögen)

Individuals who hold the Bonds as part of their business in Switzerland and Swiss-resident corporate taxpayers and corporate taxpayers residing abroad holding the Bonds as part of a permanent establishment or fixed place of business in Switzerland are in general taxed according to Swiss statutory accounting principles (*Massgeblichkeitsprinzip*) for purposes of Swiss federal, cantonal and municipal income taxes. All payments of interest and any capital gains or losses realised on the sale or redemption of the Bonds must be recognised in the income statement of the Bondholders for the respective tax period and the net taxable earnings will be subject to Swiss federal, cantonal and municipal income taxes.

The same taxation treatment applies to Swiss resident individuals who, for income tax purposes, qualify as so-called professional securities dealers (*gewerbsmässige Wertschriftenhändler*) for reasons of, inter alia, frequent dealings and leveraged transactions in securities.

Swiss withholding tax

Current law

Payments of interest (including an original issue discount or a repayment premium, if any) by the Issuer with regard to the Bonds will be subject to Swiss withholding tax (*Verrechnungssteuer*) at the applicable rate, currently 35%, and the Issuer will be required to withhold such tax at such rate from any payments of interest under the Bonds. Any repayment of the principal amount of the Bonds is exempt from Swiss withholding tax.

Swiss resident beneficiaries of taxable interest with regard to the Bonds are entitled to full subsequent relief of the Swiss withholding tax, either through tax refund or through credit against underlying income tax liability, if they duly report the underlying income in their tax returns or financial statements used for tax purposes, as the case may be. The same holds true for foreign resident investors who hold the Bonds through a permanent business establishment in Switzerland, as defined for tax purposes. Other non-Swiss resident beneficiaries of interest with regards to the Bonds may be entitled to a partial or full refund of the Swiss withholding tax withheld in accordance with any applicable double taxation convention between Switzerland and the beneficiary's country of tax residence.

Proposed reform

On 4 November 2015 the Swiss Federal Council announced a mandate to the Swiss Federal Finance Department to institute a group of experts tasked with the preparation of a new proposal for a reform of the Swiss withholding tax system. The new proposal is expected to include in respect of interest payments the replacement of the existing debtor-based regime by a paying agent-based regime for Swiss withholding tax similar to the one published on 17 December 2014 by the Swiss Federal Council and repealed on 24 June 2015 following the negative outcome of the legislative consultation with Swiss official and private bodies. Under such a new paying agent-based regime, if enacted, a paying agent in Switzerland may be required to deduct Swiss withholding tax on any payments or any securing of payments of interest in respect of the Bonds for the benefit of the beneficial owner of the payment unless certain procedures are complied with to establish that the owner of the Bonds is not an individual resident in Switzerland.

Stamp taxes

The issue and redemption of the Bonds by the Issuer are not subject to the Swiss federal issuance stamp tax (*Emissionsabgabe*). A sale or transfer of the Bonds may, however, be subject to the Swiss transfer stamp duty (*Umsatzabgabe*) of 0.15% if such transfer or sale is made by or through the intermediary of a securities dealer resident in Switzerland or Liechtenstein, as defined in the Swiss Stamp Tax Act (*Bundesgesetz über die Stempelabgaben*), and no exception applies. In addition, the sale or transfer of the Bonds by or through a member of the SIX Swiss Exchange may be subject to a stock exchange levy.

Automatic exchange of information in tax matters

On 19 November 2014, Switzerland signed the Multilateral Competent Authority Agreement (the "**MCAA**"). The MCAA is based on Article 6 of the OECD/Council of Europe administrative assistance convention and is intended to ensure the uniform implementation of Automatic Exchange of Information (the "**AEOI**"). The Federal Act on the International Automatic Exchange of Information in Tax Matters (the "**AEOI Act**") entered into force on 1 January 2017. The AEOI Act is the legal basis for the implementation of the AEOI standard in Switzerland.

The AEOI is being introduced in Switzerland through bilateral agreements or multilateral agreements. The agreements have, and will be, concluded on the basis of guaranteed reciprocity, compliance with the principle of speciality (i.e. the information exchanged may only be used to assess and levy taxes (and for criminal tax proceedings)) and adequate data protection.

Based on such multilateral or bilateral agreements and the implementing laws of Switzerland, Switzerland will begin to collect data in respect of financial assets, including, as the case may be, Bonds, held in, and income derived thereon and credited to, accounts or deposits with a paying agent in Switzerland for the benefit of individuals resident in a EU member state or in a treaty state from, depending on the effectiveness date of the agreement, 2017 or 2018, as the case may be, and begin to exchange it from 2018 or 2019.

Foreign Account Tax Compliance Act (FATCA)

Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 impose a new reporting regime and potentially a 30% withholding tax with regard to certain payments to (i) any non-U.S. financial institution (a "foreign financial institution", or "**FFI**" (as defined by FATCA)) that does not become a "Participating FFI" by entering into an agreement with the IRS to provide the IRS with certain information in respect of its account holders and investors or is not otherwise exempt from or in deemed compliance with FATCA and (ii) any investor (unless otherwise exempt from FATCA) that does not provide information sufficient to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of the Issuer (a "**Recalcitrant Holder**"). The Issuer is classified as an FFI and the Guarantor may be classified as an FFI.

The United States and a number of other jurisdictions have entered into intergovernmental agreements to facilitate the implementation of FATCA (each, an "**IGA**"). Pursuant to FATCA and the "Model 1" and "Model 2" IGAs released by the United States, an FFI in an IGA signatory country could be treated as a "**Reporting FI**" not subject to withholding under FATCA on any payments it receives. Further, an FFI in an IGA jurisdiction generally would not be required to withhold under FATCA or an IGA (or any law implementing an IGA) (any such withholding being "**FATCA Withholding**") from payments it makes. Under each Model IGA, a Reporting FI would still be required to report certain information in respect of its account holders and investors to its home government or to the IRS.

The United States and Switzerland have entered into the U.S.-Switzerland IGA based largely on the "Model 2". The agreement between Switzerland and the United States on cooperation to simplify the implementation of FATCA (the "**FATCA Agreement**") entered into force on 2 June 2014. The Swiss Federal Council brought the corresponding implementing act into force on 30 June 2014. The administrative burden associated with the implementation of FATCA will be reduced by the FATCA Agreement, as it makes provision for reductions in the administrative burden for Swiss financial institutions.

On 8 October 2014, the Swiss Federal Council approved a mandate for negotiations with the United States in order to switch to a "Model 1" IGA under which the relevant information is sent to the Swiss Federal Tax Administration, which in turn provides the information to the U.S. tax authorities.

If the Issuer and Guarantor are treated as Reporting FIs pursuant to the U.S.-Switzerland IGA they do not anticipate that they will be obliged to deduct any FATCA Withholding on payments they make. There can be no assurance, however, that the Issuer and Guarantor will be treated as Reporting FIs, or that they would not be required to deduct FATCA Withholding from payments they make in the future. Accordingly, the Issuer, the Guarantor and/or any financial institution through which payments on the Bonds are made, may be required to withhold FATCA Withholding if (i) any FFI through or to which payment on such Bonds is made is not a Participating FFI, a Reporting FI, or otherwise exempt from or in deemed compliance with FATCA or (ii) an investor is a Recalcitrant Holder.

If a FATCA Withholding were to be deducted or withheld from interest, principal or other payments on the Bonds as a result of FATCA, none of the Issuer, the Guarantor, the Principal Paying Agent, or any other paying agent or person would, pursuant to the Terms of the Bonds, be required to pay additional amounts as a result of such deduction or withholding.

FATCA is particularly complex. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospec-

tive investors should consult their tax advisors on how these rules may apply to the Issuer and to payments they may receive in connection with the Bonds.

RESPONSIBILITY STATEMENT

The Issuer and the Guarantor accept responsibility for all information contained in this Prospectus and have taken reasonable care to ensure that the facts stated herein are true and accurate in all material respects and that there are no other material facts, the omission of which would make any statement herein misleading, whether of fact or opinion.

Zurich, 20 March 2018

Swiss Life AG

Zurich, 20 March 2018

Swiss Life Holding AG

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Consolidated financial statements of Swiss Life as of and for the year ended 31 December 2017 including the respective auditor's report and comparative information for the year ended 31 December 2016 (audited).

Statutory financial statements of the Guarantor as of and for the year ended 31 December 2017 including the respective auditor's report and comparative information for the year ended 31 December 2016 (audited).

Consolidated Financial Statements

Consolidated Statement of Income

Consolidated statement of income for the years ended 31 December

In CHF million

	Notes	2017	2016
INCOME			
Premiums earned on insurance contracts		**12 100**	12 402
Premiums earned on investment contracts with discretionary participation		**849**	985
Premiums ceded to reinsurers		**–157**	–159
Net earned premiums	7	**12 791**	13 228
Policy fees earned on insurance contracts		**17**	19
Policy fees earned on investment and unit-linked contracts		**296**	261
Net earned policy fees	7	**313**	280
Commission income	8	**1 156**	1 071
Investment income	5, 8	**4 270**	4 285
Net gains/losses on financial assets	5, 8	**651**	425
Net gains/losses on financial instruments at fair value through profit or loss	5, 8	**–1 181**	–420
Net gains/losses on investment property	5, 14	**651**	763
Share of profit or loss of associates	5, 15	**3**	9
Other income	8	**113**	143
TOTAL INCOME		**18 769**	19 784
EXPENSES			
Benefits and claims under insurance contracts		**–12 392**	–13 149
Benefits and claims under investment contracts with discretionary participation		**–867**	–1 009
Benefits and claims recovered from reinsurers		**70**	94
Net insurance benefits and claims	8	**–13 189**	–14 064
Policyholder participation		**–949**	–1 325
Interest expense	8	**–144**	–162
Commission expense	8	**–959**	–842
Employee benefits expense	8	**–961**	–907
Depreciation and amortisation expense	8	**–399**	–503
Impairment of property and equipment and intangible assets	16, 17	**0**	–7
Other expenses	8	**–691**	–583
TOTAL EXPENSES		**–17 292**	–18 393
PROFIT FROM OPERATIONS		**1 476**	1 391
Borrowing costs		**–156**	–176
PROFIT BEFORE INCOME TAX		**1 320**	1 215
Income tax expense	24	**–308**	–289
NET PROFIT		**1 013**	926
Net profit attributable to			
equity holders of Swiss Life Holding		**1 007**	922
non-controlling interests		**6**	4
NET PROFIT		**1 013**	926
Earnings per share attributable to equity holders of Swiss Life Holding			
Basic earnings per share (in CHF)	6	**30.98**	28.92
Diluted earnings per share (in CHF)	6	**29.63**	27.27

Consolidated Statement of Comprehensive Income

Consolidated statement of comprehensive income for the years ended 31 December

In CHF million

	Notes	2017	2016
NET PROFIT		**1 013**	926
OTHER COMPREHENSIVE INCOME			
ITEMS THAT MAY BE RECLASSIFIED TO THE INCOME STATEMENT			
Exchange differences on translating foreign operations		**230**	38
Net investment hedges		**89**	–85
Financial assets available for sale		**902**	2 598
Cash flow hedges		**–8**	35
Financial assets reclassified to loans		**15**	45
Share of other comprehensive income of associates		**0**	0
Adjustments relating to items that may be reclassified:			
Policyholder participation		**–402**	–1 466
Shadow accounting		**–17**	–68
Income tax		**–141**	–214
TOTAL	26	**668**	883
ITEMS THAT WILL NOT BE RECLASSIFIED TO THE INCOME STATEMENT			
Revaluation surplus on investment property		**11**	–2
Remeasurements on defined benefit pension liability		**59**	–190
Adjustments relating to items that will not be reclassified:			
Policyholder participation		**–27**	118
Shadow accounting		**0**	0
Income tax		**–7**	15
TOTAL	26	**37**	–59
NET OTHER COMPREHENSIVE INCOME		**705**	824
TOTAL NET COMPREHENSIVE INCOME		**1 718**	1 750
Total net comprehensive income attributable to			
equity holders of Swiss Life Holding		**1 708**	1 746
non-controlling interests		**10**	3
TOTAL NET COMPREHENSIVE INCOME		**1 718**	1 750

Consolidated Balance Sheet

Consolidated balance sheet

In CHF million	Notes	31.12.2017	reclassified 31.12.2016	reclassified 01.01.2016
ASSETS				
Cash and cash equivalents		**6 611**	7 333	5 296
Derivatives	9, 31	**1 675**	1 885	2 113
Assets held for sale		**52**	12	4
Financial assets at fair value through profit or loss	10	**40 228**	34 931	33 590
Financial assets available for sale	11	**104 922**	100 256	96 026
Loans and receivables	13, 30	**22 974**	23 955	24 232
Financial assets pledged as collateral	12, 33	**3 601**	2 942	2 109
Investment property	14	**27 946**	23 801	21 557
Investments in associates	15	**163**	93	67
Reinsurance assets		**529**	500	478
Property and equipment	16	**404**	383	407
Intangible assets including intangible insurance assets	17	**2 931**	2 717	2 840
Current income tax assets		**36**	41	17
Deferred income tax assets	24	**40**	39	47
Other assets	18	**688**	844	471
TOTAL ASSETS		**212 800**	199 731	189 252

Consolidated balance sheet

In CHF million	Notes	31.12.2017	reclassified 31.12.2016	reclassified 01.01.2016
LIABILITIES AND EQUITY				
LIABILITIES				
Derivatives	9, 31	**1 619**	1 648	989
Liabilities associated with assets held for sale		**3**	–	–
Investment and unit-linked contracts	19	**41 756**	36 920	36 730
Borrowings	20, 30	**3 577**	4 524	3 800
Other financial liabilities	21, 30	**15 574**	15 303	13 058
Insurance liabilities	22	**116 844**	110 935	108 157
Policyholder participation liabilities		**13 050**	12 043	10 065
Employee benefit liabilities	23	**1 986**	2 068	1 976
Current income tax liabilities		**153**	122	104
Deferred income tax liabilities	24	**2 216**	1 998	1 720
Provisions	25	**74**	75	101
Other liabilities	18	**366**	355	293
TOTAL LIABILITIES		**197 218**	185 992	176 994
EQUITY				
Share capital		**175**	164	164
Share premium		**803**	745	1 022
Treasury shares		**–26**	–37	–49
Accumulated other comprehensive income	26	**3 374**	2 673	1 849
Retained earnings		**11 169**	10 113	9 191
TOTAL SHAREHOLDERS' EQUITY		**15 495**	13 657	12 177
Non-controlling interests		**88**	82	81
TOTAL EQUITY		**15 583**	13 739	12 258
TOTAL LIABILITIES AND EQUITY		**212 800**	199 731	189 252

Consolidated Statement of Cash Flows

Consolidated statement of cash flows for the years ended 31 December

In CHF million

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Premiums, policy fees and deposits received, net of reinsurance	**15 522**	15 380
Benefits and claims paid, net of reinsurance	**–13 413**	–13 157
Interest received	**3 274**	3 339
Dividends received	**484**	504
Commissions received	**1 067**	1 108
Rentals received	**1 041**	941
Interest paid	**–23**	–28
Commissions, employee benefit and other payments	**–2 600**	–2 874
Net cash flows from		
derivatives	**–1 184**	444
financial instruments at fair value through profit or loss	**–879**	–869
financial assets available for sale	**–1 696**	–2 370
loans	**1 817**	496
investment property	**–3 222**	–1 553
deposits	**180**	1 260
other operating assets and liabilities	**70**	–564
Income taxes paid	**–196**	–213
TOTAL NET CASH FLOWS FROM OPERATING ACTIVITIES	**244**	1 846

Consolidated statement of cash flows for the years ended 31 December

In CHF million

	Notes	2017	2016
TOTAL NET CASH FLOWS FROM OPERATING ACTIVITIES		**244**	1 846
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments in associates		**–3**	–26
Sales of investments in associates		**–**	1
Dividends received from associates		**4**	1
Purchases of property and equipment		**–31**	–19
Sales of property and equipment		**5**	3
Purchases of computer software and other intangible assets		**–14**	–14
Acquisitions of subsidiaries, net of cash and cash equivalents	28	**–16**	–17
Disposals of subsidiaries, net of cash and cash equivalents	28	**101**	–
TOTAL NET CASH FLOWS FROM INVESTING ACTIVITIES		**47**	–69
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of debt instruments		**–**	1 240
Repurchase of debt instruments	20	**–1**	–
Redemption of debt instruments	20	**–631**	–502
Distribution out of capital contribution reserve		**–356**	–271
Sales of treasury shares		**0**	0
Purchases of non-controlling interests		**–**	–2
Reduction in capital relating to non-controlling interests		**–2**	–
Borrowing costs paid		**–159**	–155
Dividends paid to non-controlling interests		**–3**	–1
TOTAL NET CASH FLOWS FROM FINANCING ACTIVITIES		**–1 151**	310
TOTAL CHANGE IN CASH AND CASH EQUIVALENTS		**–860**	2 087
Cash and cash equivalents as at 1 January		**7 333**	5 296
Classification as assets held for sale		**0**	–
Foreign currency differences		**138**	–49
Total change in cash and cash equivalents		**–860**	2 087
CASH AND CASH EQUIVALENTS AS AT END OF PERIOD		**6 611**	7 333
COMPONENTS OF CASH AND CASH EQUIVALENTS			
Cash on hand and demand deposits		**3 703**	4 758
Cash equivalents		**79**	86
Cash and cash equivalents for the account and risk of the Swiss Life Group's customers		**2 829**	2 489
TOTAL CASH AND CASH EQUIVALENTS AS AT END OF PERIOD		**6 611**	7 333

Consolidated Statement of Changes in Equity

Consolidated statement of changes in equity for the year ended 31 December 2017

In CHF million	Notes	Share capital	Share premium	Treasury shares	Accumulated other comprehen-sive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
Balance as at 1 January		164	745	–37	2 673	10 113	13 657	82	13 739
Total net comprehensive income	26	–	–	–	701	1 007	1 708	10	1 718
Distribution out of capital contribution reserve	1	–	–356	–	–	–	–356	–	–356
Conversion of convertible debt	20	11	416	–	–	50	477	–	477
Equity-settled share-based payments		–	9	–	–	–	9	–	9
Sales of treasury shares		–	0	0	–	–	0	–	0
Allocation of treasury shares under equity compensation plans		–	–12	12	–	–	–	–	–
Disposals of subsidiaries		–	–	–	–	–	–	–10	–10
Reduction in capital		–	–	–	–	–	–	–2	–2
In-kind contributions from non-controlling interests		–	–	–	–	–	–	11	11
Dividends		–	–	–	–	–	–	–3	–3
BALANCE AS AT END OF PERIOD		175	803	–26	3 374	11 169	15 495	88	15 583

Consolidated statement of changes in equity for the year ended 31 December 2016

In CHF million	Notes	Share capital	Share premium	Treasury shares	Accumulated other comprehen-sive income	Retained earnings	Total shareholders' equity	Non-controlling interests	Total equity
Balance as at 1 January		164	1 022	–49	1 849	9 191	12 177	81	12 258
Total net comprehensive income	26	–	–	–	824	922	1 746	3	1 750
Distribution out of capital contribution reserve		–	–271	–	–	–	–271	–	–271
Conversion of convertible debt	20	0	0	–	–	–	0	–	0
Equity-settled share-based payments		–	9	–	–	–	9	–	9
Purchases of treasury shares		–	–	–3	–	–	–3	–	–3
Sales of treasury shares		–	0	0	–	–	0	–	0
Allocation of treasury shares under equity compensation plans		–	–15	15	–	–	–	–	–
Changes in ownership interest in subsidiaries		–	–	–	–	–1	–1	–1	–2
Dividends		–	–	–	–	–	–	–1	–1
BALANCE AS AT END OF PERIOD		164	745	–37	2 673	10 113	13 657	82	13 739

Notes to the Consolidated Financial Statements
1 General Information

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

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

Distribution out of capital contribution reserve

For the 2016 financial year, a distribution was made to the shareholders of Swiss Life Holding Ltd (hereinafter referred to as "Swiss Life Holding") from the capital contribution reserve instead of a dividend payment from profit. This amounted to CHF 356 million (CHF 11.00 per registered share) and was paid in the first half of 2017.

Approval of financial statements

On 13 March 2018, the Board of Directors approved the annual financial statements and the financial report and authorised them for issue. The financial report, therefore, only reflects events up to that date.

2 Summary of Significant Accounting Policies

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

2.1 Basis of preparation

The consolidated financial statements of Swiss Life have been prepared in accordance 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.

Figures may not add up exactly due to rounding.

2.2 Changes in accounting policies

The Swiss Life Group adopted the amendments to IAS 7 Statement of Cash Flows as at 1 January 2017. The amendments improve the information provided to users of financial statements about an entity's financing activities. A reconciliation between the opening and closing balances of liabilities arising from financing is provided in Note 20.

Other new or amended standards or interpretations did not have an impact on the consolidated financial statements.

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

Costs of CHF 77 million relating to inventory property was reclassified from other income to other expenses in order to achieve gross presentation. Interest expense from mortgage loans of CHF 2 million was reclassified from borrowing costs to interest expense in order to improve consistency in the presentation of financing activities. The consolidated statement of income for 2016 was adjusted for both effects.

As at 1 January 2016, mortgage loans of CHF 278 million (31.12.2016: CHF 103 million) were reclassified from borrowings to other financial liabilities in order to improve consistency in the presentation of financing activities. The consolidated balance sheets as at 1 January and 31 December 2016 were adjusted accordingly.

2.4 Consolidation principles

The Group's consolidated financial statements include the assets, liabilities, income and expenses of Swiss Life Holding and its subsidiaries. A subsidiary is an entity over which Swiss Life Holding has control. Control is achieved if Swiss Life Holding has the power over the subsidiary, is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to use its power to affect its returns. Subsidiaries are consolidated from the date on which effective control is obtained. All intercompany balances, transactions and unrealised gains on such transactions have been eliminated. Unrealised losses have been eliminated unless the transaction provides evidence of an impairment of the asset transferred. A listing of the Group's significant subsidiaries is set out in note 34. The financial effect of acquisitions and disposals of subsidiaries is shown in note 28. Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions.

The Swiss Life Group acts as a fund manager for various investment funds. In order to determine if the Group controls an investment fund, aggregate economic interest (including performance fees, if any) is taken into account. Third-party rights to remove the fund manager without cause (kick-out rights) are also taken into account.

Associates for which the Group has significant influence are accounted for using the equity method. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those decisions. The investment is initially recognised at cost and subsequently adjusted to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. The Group's share of net income is included from the date on which significant influence begins until the date on which significant influence ceases. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. The carrying amount includes goodwill on the acquisition.

The Group has elected to measure certain associates held by venture capital entities and investment-linked insurance funds at fair value through profit or loss, as permitted by IAS 28 Investments in Associates and Joint Ventures. Changes in the fair value of such investments are included in net gains/losses on financial instruments at fair value through profit or loss.

A listing of the Group's principal associates is shown in note 15.

Non-controlling interest is the part of profit or loss and net assets of a subsidiary attributable to equity interest that is not controlled, directly or indirectly, through subsidiaries by the parent. The amount of non-controlling interest comprises the proportion of the net fair value of the identifiable assets, liabilities and contingent liabilities not attributable, directly or indirectly, to the parent at the date of the original acquisition, goodwill attributable to non-controlling interest, if any, and the proportion of changes in equity not attributable, directly or indirectly, to the parent since the date of acquisition. Summarised financial information of subsidiaries with material non-controlling interests is set out in note 26.

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

	31.12.2017	31.12.2016	Average 2017	Average 2016
1 British pound (GBP)	**1.3167**	1.2557	**1.2688**	1.3353
1 Czech koruna (CZK)	**0.0458**	0.0397	**0.0421**	0.0403
1 Euro (EUR)	**1.1704**	1.0728	**1.1124**	1.0904
1 Singapore dollar (SGD)	**0.7284**	0.7031	**0.7132**	0.7135
1 US dollar (USD)	**0.9736**	1.0172	**0.9847**	0.9852

Foreign currency translation

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

Foreign currency transactions

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

2.6 Cash and cash equivalents

Cash amounts represent cash on hand and demand deposits. Cash equivalents are primarily short-term highly liquid investments with an original maturity of 90 days or less. Cash and cash equivalents include cash and cash equivalents for the account and risk of the Swiss Life Group's customers.

2.7 Derivatives

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

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

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

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

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

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

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

2.8 Financial assets

“Regular way” purchases and sales of financial assets are recorded on the trade date. The amortisation of premiums and discounts is computed using the effective interest method and is recognised in profit or loss as an adjustment of yield. Dividends are recorded as investment income 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 designated as at fair value through profit or loss. Financial assets are irrevocably designated as such on initial recognition in the following instances:

- Financial assets backing insurance liabilities and liabilities arising from investment contracts for the account and risk of the Swiss Life Group’s customers (contracts with unit-linked features, separate accounts, private placement life insurance) in order to avoid measurement inconsistencies with the corresponding liabilities.
- Certain equity instruments with a quoted price in an active market which are managed on a fair value basis.
- Certain financial assets with embedded derivatives which otherwise would have to be separated.
- Certain financial assets and financial liabilities where a measurement or recognition inconsistency can be avoided (“accounting mismatch”) that would otherwise arise from measuring those assets or liabilities or recognising the gains and losses on them on different bases.

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, loans and receivables or if they are not designated as at fair value through profit or loss. Gains and losses arising from fair value changes, being the difference between fair value and cost/amortised cost, are reported in other comprehensive income. On disposal of an AFS investment, the cumulative gain or loss is transferred from other comprehensive income to profit or loss for the period. Gains and losses on disposal are determined using the average cost method.

Loans and receivables

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

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

Financial assets pledged as collateral

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

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

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

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

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

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

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

Financial assets carried at fair value (available for sale)

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

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

Impairment losses are presented in the income statement as part of net gains and losses on financial assets.

2.10 Investment property

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

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

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

Investment property is carried at fair value and changes in fair values are recognised in profit or loss. 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 once every three years. Rental income is recognised on a straight-line basis over the lease term. The fair value of an investment property is measured based on its highest and best use. The highest and best use of an investment property takes into account the use of the asset that is physically possible, legally permissible and financially feasible.

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

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

If an item of property and equipment becomes an investment property because its use has changed, the positive difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in other comprehensive income as a revaluation surplus. However, to the extent a fair value gain reverses a previous impairment loss, the gain is recognised in profit or loss. 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 revaluation surplus included in other comprehensive income is transferred to retained earnings; the transfer is not made through profit or loss.

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 measurement 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. By 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 at a later date are classified as insurance from inception unless the Group remains free to price the insurance premium at a later date. In this case, the contract is classified as insurance when the insurance premiums are specified. A contract that qualifies as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire.

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

Investment contracts with and without discretionary participation features

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

Recognition and measurement principles

Subject to certain limitations, the Group uses its existing accounting policies for the recognition and measurement of insurance contracts and investment contracts with discretionary participation features that it issues (including related deferred acquisition costs and related intangible assets) and reinsurance contracts that it holds. The existing accounting policies for recognition and measurement have primarily been based on the requirements of the Generally Accepted Accounting Principles in the United States (status of US GAAP as of the first application of IFRS 4 Phase I).

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 in other comprehensive income.

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

IFRS 4 Insurance Contracts is silent on the measurement of the amounts identified as DPF. This topic will be addressed in IFRS 17 Insurance Contracts, effective from 1 January 2021. Cash flows to policyholders that vary depending on returns on underlying items are included in the measurement of insurance liabilities. If these cash flows are substantial, a modification of the general measurement model in IFRS 17 Insurance Contracts applies ("variable fee approach" for direct participating contracts).

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

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

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

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

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

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

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

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

France
In life insurance business, 85% of the net investment returns less 100% of the minimum guaranteed interest on the policyholder account and 90% of any other results are allocated to the policyholders as a minimum.

Germany
A minimum of 90% of the net investment returns less 100% of the minimum guaranteed interest on the policyholder account (“interest result”), a minimum of 90% of the risk result and a minimum of 50% of the positive other result including exenses/costs are allocated to the policyholder. A negative investment result can be offset with positive other profit sources.

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

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

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

Income and related expenses from insurance contracts and investment contracts with discretionary participation features
Premiums from traditional life insurance contracts are recognised when due from the policyholder. Insurance liabilities are established in order to recognise future benefits and expenses. Benefits are recognised as an expense when due.

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

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

Insurance liabilities and liabilities from investment contracts with discretionary participation features

Future life policyholder benefit liabilities

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

Policyholder deposits

For investment-type contracts, savings premiums collected are reported as deposits (deposit accounting). The liabilities relating to these contracts comprise the accumulation of deposits received plus interest credited less expenses, insurance charges and withdrawals.

Liability adequacy test

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

Liabilities for claims and claim settlement costs

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

Embedded options and guarantees in insurance contracts

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

Reinsurance

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

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

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

Separate account/unit-linked contracts/private placement life insurance

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

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

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

Assets associated with separate account/unit-linked contracts and private placement life insurance are included in financial assets designated as at fair value through profit or loss, derivatives and cash and cash equivalents. The related income and gains or 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. 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 2.17 Intangible assets).

Administrative and surrender charges are included in policy fee income.

2.12 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 the cost of assets 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 profit or loss.

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

2.13 Inventory property

Inventory property comprises land and buildings that are intended for sale in the ordinary course of business or in the process of construction or development for such a sale, primarily property acquired with a view to subsequent disposal in the near future or for development and resale. Such property is included in other assets.

Inventory property is measured at the lower of cost and net realisable value. Acquisition costs comprise the purchase price and other costs directly attributable to the acquisition of the property (notary fees etc.). Construction costs include costs directly related to the process of construction of a property. Construction and other related costs are included in inventory property until disposal.

The estimated net realisable value is the proceeds expected to be realised from the sale in the ordinary course of business, less estimated costs to be incurred for renovation, refurbishment and disposal.

Revenue from sales is recognised when construction is complete and legal title to the property has been transferred to the buyer. Revenue and related costs of sales are presented in other income as net income on property development.

2.14 Leases

Operating lease

The Group primarily enters into operating leases for the rental of equipment and property. 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 and sales of investment fund units. Such revenue is recognised when earned, i.e. when the services are rendered.

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

2.16 Commission income and expense

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

Costs primarily comprise commissions paid to independent financial advisors, fees for asset management and other (advisory) services.

2.17 Intangible assets

Present value of future profits (PVP) arising from acquired insurance contracts and investment contracts with discretionary participation features

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

PVP is amortised in proportion to gross profits or gross margins over the effective life of the acquired contracts, which generally ranges from 20 to 30 years. Realised gains/losses are thereby taken into account as well as gains/losses recognised in other comprehensive income (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 other comprehensive income and is also reflected in the amount of PVP in the balance sheet ("shadow accounting").

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

Deferred acquisition costs (DAC)

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

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

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

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

When DAC is amortised in proportion to gross profits or gross margins on the acquired contracts, realised gains/losses are taken into account as well as gains/losses recognised in other comprehensive income (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 other comprehensive income 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 profit or loss.

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

Deferred origination costs (DOC)

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

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

Goodwill

The Group's acquisitions of other companies are accounted for under the acquisition method.

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

For the purpose of impairment testing, goodwill is allocated to cash-generating units. Goodwill is tested for impairment annually and whenever there is an indication that the unit may be impaired. Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed in subsequent periods.

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

Negative goodwill is immediately recognised in profit and loss.

Customer relationships

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

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.

Brands and other

Brands and other intangible assets with a definite useful life of generally 5 to 20 years are amortised using the straight-line method over their useful lives.

2.18 Impairment of non-financial assets

For non-financial assets the recoverable amount is measured as the higher of the fair value less costs of disposal and its value in use. Fair value less costs of disposal is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, less the costs of disposal. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit from its continuing use.

Impairment losses and reversals on non-financial assets are recognised in profit or loss.

2.19 Income taxes

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

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

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

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

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

2.20 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.

2.21 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.

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 profit or loss over the period of the borrowings.

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

Debt instruments with embedded conversion options to a fixed number of shares of the Group are separated into a debt and an equity component. The difference between the proceeds and fair value of the debt component at issuance is recorded in equity. The fair value of the debt component 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 insurance and investment contract deposits and other financial liabilities.

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

Financial liabilities at fair value through profit or loss 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 where the insurance benefits are linked to unit values of investment funds or relate to private placement life insurance.
- Financial liabilities related to assets measured at fair value in order to reduce or eliminate a measurement or recognition inconsistency.
- Financial liabilities with embedded derivatives.

Financial liabilities relating to non-controlling interests in investment funds are measured at fair value and changes in fair value are recognised in profit or loss.

2.22 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 defined benefit costs are determined at each balance sheet date by a qualified actuary using the Projected Unit Credit Method.

The amount recognised in the consolidated balance sheet represents the present value of the defined benefit obligations reduced by the fair value of plan assets. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Remeasurements, comprising actuarial gains and losses, the effect of the changes of the asset ceiling and the return on plan assets (excluding interest) are reflected immediately in the consolidated balance sheet and in other comprehensive income in the period in which they occur. Such remeasurements recognised in other comprehensive income will subsequently not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit asset or liability. Defined benefit costs comprise service costs and net interest expense, which are presented in the income statement under employee benefits expense.

Insurance contracts issued to a defined benefit pension plan covering own employees have generally been eliminated. However, certain assets relating to these plans qualify as plan assets and are therefore not eliminated.

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

Healthcare benefits

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

Share-based payments

The Group operates equity-settled, share-based compensation plans. The fair value of the employee services received in exchange for the grant of the shares is recognised in profit or loss 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.

2.23 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.

2.24 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.

2.25 Earnings per share

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

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

2.26 Offsetting

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

2.27 Forthcoming changes in accounting policies

In February 2018, the International Accounting Standards Board issued amendments to IAS 19 Employee Benefits. The amendments require a company to use updated assumptions from the remeasurement of the defined benefit asset/liability due to an amendment, curtailment or settlement of a plan. The updated assumptions are used to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. The amendments are effective on 1 January 2019. The Swiss Life Group is currently not affected by the amendments.

In December 2017, the IASB issued their annual cycle of improvements to IFRS, annual improvements to IFRS Standards 2015–2017 Cycle. The amendments cover IFRS 3 Business Combinations and IFRS 11 Joint Arrangements – previously held interest in a joint operation, IAS 12 Income Taxes – income tax consequences of payments on financial instruments classified as equity and IAS 23 Borrowing Costs – borrowing costs eligible for capitalisation. The amendments are effective for annual periods beginning on or after 1 January 2019. The Swiss Life Group is currently not affected by the amendments.

In October 2017, amendments to IAS 28 Investments in Associates and Joint Ventures were issued. The amendments "Long-term Interests in Associates and Joint Ventures" clarify that IFRS 9 Financial Instruments should be applied to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. An entity shall apply the amendments for annual periods beginning on or after 1 January 2019. As the Swiss Life Group will apply the temporary exemption from IFRS 9 Financial Instruments in accordance with IFRS 4 Insurance Contracts, the Group is not required to apply the amendments retrospectively. The Swiss Life Group is currently not affected by the amendments.

In October 2017, the International Accounting Standards Board issued Prepayment Features with Negative Compensation (amendments to IFRS 9 Financial Instruments) to address the concerns about how IFRS 9 Financial Instruments classifies particular prepayable financial assets. Prepayment Features with Negative Compensation amends the existing requirements in IFRS 9 Financial Instruments regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant, i.e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. In addition, an aspect of the accounting for financial liabilities following a modification was clarified (in the Basis for Conclusions). An entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange. The amendments will be effective for annual periods beginning on or after 1 January 2019. However, as set out below, the Swiss Life Group will defer the application of IFRS 9 and continue to apply IAS 39 Financial Instruments: Recognition and Measurement, as its activities were predominantly connected with insurance on 31 December 2015.

In June 2017, IFRIC 23 Uncertainty over Income Tax Treatments was issued. The Interpretation clarifies how to apply the recognition and measurement requirements when there is uncertainty over income tax treatments. IFRIC 23 Uncertainty over Income Tax Treatments is applicable for annual periods beginning on or after 1 January 2019. The Swiss Life Group does not expect a material impact of the amendments on its financial statements.

In May 2017, IFRS 17 Insurance Contacts was published and replaces IFRS 4 insurance contracts, which currently permits a wide variety of practices. IFRS 17 Insurance Contracts will fundamentally change the accounting by entities that issue insurance contracts, reinsurance contracts and investment contracts with discretionary participation features. IFRS 17 Insurance Contracts requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin (“CSM”) representing the unearned profit of the contract. The standard provides a simplified approach for certain liabilities. At initial recognition, insurance contracts are grouped into contracts of similar risks which are managed together and further into three groups of profitability, whereby each group is limited to contracts written in one year. Changes in cash flows related to future services should be recognised against the CSM, which cannot be negative, so any excess is recognised in profit or loss. To reflect the service provided, the CSM is released to profit or loss in each period on the basis of passage of time. IFRS 17 Insurance Contracts provides an accounting policy choice to recognise the impact of changes in discount rates and other assumptions that relate to financial risks either in profit or loss or in other comprehensive income. The variable-fee approach is required for insurance contracts that specify a link between payments to the policyholder and the returns on underlying items. Requirements in IFRS 17 Insurance Contracts align the presentation of revenue with other industries. Revenue is allocated to periods in proportion to the value of expected coverage and other services that the insurer provides in the period, and claims are presented when incurred. The disclosure requirements are more detailed than currently required under IFRS 4. On transition to IFRS 17 Insurance Contracts, an entity applies the standard retrospectively to groups of insurance contracts, unless it is impracticable, in which case there is a choice between a modified retrospective approach and the fair value approach. IFRS 17 Insurance Contracts is effective for annual periods beginning on or after 1 January 2021. The Swiss Life Group is currently assessing the impact on its financial statements, which will be significant.

In December 2016, Annual Improvements to IFRS Standards 2014–2016 Cycle was published. The amendments to IFRS 12 Disclosure of Interests in Other Entities clarify that an entity is not required to disclose summarised financial information for interests classified as held for sale. However, the other disclosure requirements in IFRS 12 apply to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. The Swiss Life Group currently does not have any interests in entities classified as held for sale. An entity shall apply those amendments retrospectively for annual periods beginning on or after 1 January 2017. Additionally, amendments to IAS 28 Investments in Associates and Joint Ventures were issued which clarify that a venture capital organisation, or a mutual fund, unit trust and similar entities may elect, at initial recognition, to measure investments in an associate or joint venture at fair value through profit or loss separately for each associate or joint venture. An entity shall apply those amendments retrospectively for annual periods beginning on or after 1 January 2018.

In December 2016, IFRIC 22 Foreign Currency Transactions and Advance Consideration was issued. This Interpretation addresses how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. The date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. An entity shall apply this Interpretation for annual reporting periods beginning on or after 1 January 2018. The Swiss Life Group is currently not affected by such transactions.

In December 2016, the International Accounting Standards Board issued amendments to IAS 40 Investment Property. The amendments clarify that an entity shall transfer a property to or from investment property when, and only when, there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. An entity shall apply those amendments for annual periods beginning on or after 1 January 2018. The Swiss Life Group will apply the new requirements.

In September 2016, the International Accounting Standards Board published amendments to IFRS 4 Insurance Contracts "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts". The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing the replacement standard that the Board is developing for IFRS 4. The amendments introduce an overlay approach which will give all companies that issue insurance contracts the option to recognise in other comprehensive income the volatility that could arise when IFRS 9 is applied before the new insurance contracts standard is issued. The amendments also include a deferral approach which will give companies whose activities are predominantly connected with insurance an optional temporary exemption from applying IFRS 9. Such a deferral is available until the new insurance contracts standard comes into effect, but it cannot be used after 1 January 2021. The Swiss Life Group has assessed that its activities were predominantly connected with insurance on 31 December 2015 (i.e. at the date required by the amendments) and will defer the application of IFRS 9 and continue to apply IAS 39 Financial Instruments: Recognition and Measurement.

In June 2016, the International Accounting Standards Board issued amendments to IFRS 2 Share-based Payment in which they clarify how to account for certain types of share-based payment transactions. The clarifications relate to vesting and non-vesting conditions of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations and a modification to the terms and conditions of a share-based payment that changes classification from cash-settled to equity-settled. The amendments are applicable to annual periods beginning on or after 1 January 2018. The adoption of the amendment will not have a material impact on Swiss Life Group's financial statements.

In April 2016, amendments to IFRS 15 Revenue from Contracts with Customers were issued by the International Accounting Standards Board. The amendments clarify how to identify a performance obligation in a contract, how to determine whether a company is a principal or an agent and how to determine whether revenue from granting a licence should be recognised at a point in time or over time. The amendments are effective for annual periods beginning on or after 1 January 2018. The adoption of the amendment will not have a material impact on Swiss Life Group's financial statements.

In January 2016, IFRS 16 Leasing was issued by the International Accounting Standards Board. The new standard eliminates the classification of leases as either operating leases or finance leases for lessees. Instead all leases are treated in a way similar to finance leases, applying the current standard IAS 17 Leases. The new Standard brings leases on-balance sheet for lessees, the effect being that reported assets and liabilities increase. IFRS 16 Leases replaces the straight-line operating lease expense with a depreciation charge for the lease asset and an interest expense on the lease liability. This change aligns the lease expense treatment for all leases. As a practical expedient, short-term and low-value leases are exempt from this treatment. The exemption permits a lessee to account for qualifying leases in the same manner as existing operating leases (IAS 17 Leases). For lessors, the accounting treatment from IAS 17 Leases is substantially carried forward. The new standard is effective for annual periods beginning on or after 1 January 2019. The Swiss Life Group is currently analysing the effect of the adoption of IFRS 16 on its financial statements.

In September 2014 the International Accounting Standards Board published amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures. The amendments relate to sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments apply prospectively for annual periods beginning on a date to be determined by the International Accounting Standards Board.

In July 2014 the International Accounting Standards Board completed IFRS 9 Financial Instruments. The new standard replaces IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 covers classification and measurement of financial instruments, impairment of financial assets and hedge accounting. Classification determines how financial assets and financial liabilities are accounted for in financial statements and how they are measured on an ongoing basis. Financial assets are classified on the basis of the business model within which they are held and their contractual cash flow characteristics. An expected-loss impairment model is introduced. Under the new model, it is no longer necessary for a credit event to have occurred before an impairment loss is recognised. The new model for hedge accounting aligns accounting treatment more closely with risk management activities. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, as set out above, the Swiss Life Group will defer the application of IFRS 9 and continue to apply IAS 39 Financial Instruments: Recognition and Measurement, as its activities were predominantly connected with insurance on 31 December 2015.

IFRS 15 Revenue from Contracts with Customers was published in May 2014. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also introduces disclosure requirements that provide comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. IFRS 15 is effective for annual periods beginning on or after 1 January 2018. The adoption of the amendment will not have a material impact on Swiss Life Group's financial statements.

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

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards (Annual Improvements to IFRS Standards 2014–2016 Cycle): Deletion of short-term exemptions for first-time adopters.

3 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

Estimates and judgements in applying fair value measurement to financial instruments and investment property are described in note 30.

Impairment of available-for-sale debt instruments and loans and receivables

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

The carrying amounts of available-for-sale debt securities and loans and receivables are set out in notes 11, 12 and 13.

Impairment of available-for-sale equity instruments

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

The carrying amount of available-for-sale equity instruments is set out in note 11.

Insurance liabilities

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

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

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

Mortality and longevity

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

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

In France, life annuities in payment are reserved using the regulatory tables TGH05/TGF05 and non-life annuities in payment are reserved with the regulatory table TD 88/90.

In Germany, mortality tables provided by the German Actuarial Association are in use. They are verified periodically by the Association and updated, if necessary. Best estimate assumptions are deduced from these generally accepted tables.

In Luxembourg, mortality tables are updated when significant changes arise.

Morbidity and disability

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

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

In France, individual and group disability annuities are reserved using tables certified by an independent actuary.

In Germany, disability insurance products for the group life business are based on tables of the German Actuarial Association, which are reviewed periodically. New disability insurance products for the individual life business are developed in close collaboration with reinsurance companies, which evaluate pricing and valuation assumptions for disability and morbidity on statistics provided by the database of reinsurance pool results. Furthermore, own company records and occupation classes are considered. Similar to the disability insurance products for the individual life business, assumptions for pricing and valuation of nursing care insurance products are acquired in cooperation with reinsurance companies. In particular, best estimate assumptions are considered with respect to claims experience.

In Luxembourg, pricing reflects industry tables and own company records.

Policyholder options

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

Expenses and inflation

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

In France, 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.

In Germany, expenses are divided into the following cost categories based on German regulation: acquisition costs, administration costs, regulatory costs and asset management expenses. They are subdivided into recurring and non-recurring costs. All recurring costs except asset management expenses are allocated to the different lines of business and transformed into cost parameters. An assumption on future inflation is applied to all cost parameters in euro.

In Luxembourg, expense allocation is based on an activity-based cost methodology. Recurring costs are subdivided into the following main cost categories: acquisition costs, administration costs and asset management costs, which are allocated by lines of business.

Investment returns

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

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

The carrying amount of insurance liabilities is set out in note 22.

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 17.

The carrying amount of goodwill is set out in note 17.

Defined benefit liabilities

The Swiss Life Group uses certain assumptions relating to the calculation of the defined benefit liabilities. These assumptions comprise future salary increases and future pension increases, which have been derived from estimates based on past experience. Assumptions are also made for mortality, employee turnover and discount rates. In determining the discount rate, the Swiss Life Group takes into account published rates of well-known external providers. The discount rates reflect the expected timing of benefit payments under the plans and are based on a yield curve approach.

The carrying amounts of defined benefit liabilities and the assumptions are set out in note 23.

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.

The carrying amounts of deferred income tax assets and liabilities are set out in note 24.

Provisions

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

The carrying amount of provisions is set out in note 25.

4 Segment Information

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

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

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

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

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

- Switzerland
- France
- Germany
- International
- Asset Managers
- Other

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

"International" comprises the cross-border insurance operations in Liechtenstein, Luxembourg and Singapore, the Swiss Life Select units operating in Austria and the Czech Republic, as well as Chase de Vere operating in the United Kingdom.

Non-life operations involve operations in France and mainly include property and casualty, liability and motor insurance, accident and health insurance and payment protection insurance.

"Asset Managers" 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, as well as payment protection insurance.

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

Statement of income for the year ended 31 December 2017

In CHF million	Switzerland	France	Germany	International	Asset Managers	Other	Total before eliminations	Eliminations	Total
INCOME									
Premiums earned on insurance contracts	8 155	2 748	1 167	48	–	0	12 118	–19	12 100
Premiums earned on investment contracts with discretionary participation	849	–	–	–	–	–	849	–	849
Premiums ceded to reinsurers	–8	–117	–43	–8	–	–	–176	18	–157
Net earned premiums	8 997	2 631	1 125	39	–	0	12 792	0	12 791
Policy fees earned on insurance contracts	3	7	8	0	–	–	17	–	17
Policy fees earned on investment and unit-linked contracts	39	169	6	82	–	–	296	0	296
Net earned policy fees	42	175	14	82	–	–	313	0	313
Commission income	187	116	386	142	645	5	1 482	–327	1 156
Investment income	2 988	609	600	33	2	41	4 272	–2	4 270
Net gains/losses on financial assets	780	–39	–86	–19	–1	16	651	–	651
Net gains/losses on financial instruments at fair value through profit or loss	–1 434	35	246	9	–1	–36	–1 181	0	–1 181
Net gains/losses on investment property	450	164	37	–	–	–	651	–	651
Share of profit or loss of associates	0	3	–	–	–1	–	3	–	3
Other income	–97	1	8	14	179	0	105	9	113
TOTAL INCOME	11 913	3 695	2 329	301	824	26	19 089	–320	18 769
of which intersegment	12	2	–8	–3	309	8	320	–320	
EXPENSES									
Benefits and claims under insurance contracts	–9 047	–2 223	–1 114	–12	–	0	–12 395	3	–12 392
Benefits and claims under investment contracts with discretionary participation	–867	–	–	–	–	–	–867	–	–867
Benefits and claims recovered from reinsurers	2	52	19	0	–	0	73	–3	70
Net insurance benefits and claims	–9 911	–2 171	–1 095	–12	–	0	–13 189	0	–13 189
Policyholder participation	–229	–209	–491	–20	–	–	–949	0	–949
Interest expense	–26	–92	–16	–15	–2	0	–151	7	–144
Commission expense	–405	–408	–285	–101	–67	–2	–1 268	309	–959
Employee benefits expense	–281	–195	–140	–57	–243	–1	–918	0	–917
Depreciation and amortisation expense	–87	–213	–81	–5	–12	0	–399	–	–399
Impairment of property and equipment and intangible assets	0	–	–	–	–	–	0	–	0
Other expenses	–145	–144	–70	–40	–242	–30	–670	3	–667
TOTAL EXPENSES	–11 084	–3 434	–2 177	–250	–566	–33	–17 544	320	–17 224
of which intersegment	–200	–3	–48	0	–61	–8	–320	320	
SEGMENT RESULT	829	261	153	51	258	–7	1 545	–	1 545
Unallocated corporate costs									–68
PROFIT FROM OPERATIONS									1 476
Borrowing costs									–156
Income tax expense									–308
NET PROFIT									1 013
Additions to non-current assets	2 417	547	637	37	11	–	3 649	–	3 649

Statement of income for the year ended 31 December 2016

In CHF million	Switzer-land	France	Germany	Inter-national	Asset Managers	Other	Total before elimi-nations	Elimi-nations	Total
INCOME									
Premiums earned on insurance contracts	8 607	2 601	1 168	49	–	0	12 425	–23	12 402
Premiums earned on investment contracts with discretionary participation	985	–	–	–	–	–	985	–	985
Premiums ceded to reinsurers	–8	–124	–39	–10	–	0	–181	23	–159
Net earned premiums	9 584	2 477	1 128	40	–	0	13 229	0	13 228
Policy fees earned on insurance contracts	6	8	5	0	–	–	19	–	19
Policy fees earned on investment and unit-linked contracts	36	140	5	79	–	–	261	0	261
Net earned policy fees	43	148	10	79	–	–	280	0	280
Commission income	190	84	368	134	591	6	1 373	–302	1 071
Investment income	2 984	628	609	32	1	34	4 288	–3	4 285
Net gains/losses on financial assets	180	23	222	0	0	0	425	–	425
Net gains/losses on financial instruments at fair value through profit or loss	–374	3	–23	2	0	–28	–420	–	–420
Net gains/losses on investment property	557	121	86	–	–	–1	763	–	763
Share of profit or loss of associates	1	4	–	–	4	–	9	–	9
Other income	91	1	3	2	56	3	155	–12	143
TOTAL INCOME	13 255	3 489	2 403	288	651	14	20 101	–317	19 784
of which intersegment	41	–1	–9	–5	283	8	317	–317	
EXPENSES									
Benefits and claims under insurance contracts	–10 002	–1 836	–1 298	–26	–	0	–13 163	14	–13 149
Benefits and claims under investment contracts with discretionary participation	–1 009	–	–	–	–	–	–1 009	–	–1 009
Benefits and claims recovered from reinsurers	4	77	20	7	–	0	108	–14	94
Net insurance benefits and claims	–11 007	–1 759	–1 278	–20	–	0	–14 064	0	–14 064
Policyholder participation	–463	–493	–366	–12	–	–	–1 334	9	–1 325
Interest expense	–40	–97	–13	–15	–2	0	–168	6	–162
Commission expense	–397	–328	–267	–97	–49	0	–1 138	296	–842
Employee benefits expense	–270	–184	–130	–55	–215	–9	–862	1	–861
Depreciation and amortisation expense	–94	–242	–151	–5	–11	–1	–503	–	–503
Impairment of property and equipment and intangible assets	–	–	–	–4	–	–3	–7	–	–7
Other expenses	–174	–142	–74	–36	–131	–11	–568	5	–563
TOTAL EXPENSES	–12 446	–3 245	–2 278	–244	–408	–24	–18 644	317	–18 327
of which intersegment	–220	–7	–43	–5	–33	–9	–317	317	
SEGMENT RESULT	810	244	125	45	243	–10	1 457	–	1 457
Unallocated corporate costs									–66
PROFIT FROM OPERATIONS									1 391
Borrowing costs									–176
Income tax expense									–289
NET PROFIT									926
Additions to non-current assets	1 249	190	139	11	34	–	1 624	–	1 624

Balance sheet as at 31 December 2017

In CHF million	Switzer-land	France	Germany	Inter-national	Asset Managers	Other	Total before elimi-nations	Elimi-nations	Total
ASSETS									
Cash and cash equivalents	2 099	1 040	430	2 862	132	47	6 611	–	6 611
Derivatives	1 404	209	88	–	–	7	1 708	–33	1 675
Assets held for sale	37	5	5	–	4	–	52	–	52
Financial assets at fair value through profit or loss	6 609	14 009	1 627	17 983	0	–	40 228	–	40 228
Financial assets available for sale	72 716	19 411	9 573	1 528	28	1 664	104 922	–	104 922
Loans and receivables	13 717	2 807	7 425	108	334	1 964	26 355	–3 380	22 974
Financial assets pledged as collateral	2 214	1 344	–	–	–	42	3 601	–	3 601
Investment property	22 635	2 762	2 545	–	4	–	27 946	–	27 946
Investments in associates	36	103	21	0	3	–	163	–	163
Reinsurance assets	32	282	104	117	–	–	535	–6	529
Property and equipment	209	48	135	6	7	–	404	–	404
Intangible assets including intangible insurance assets	644	368	1 443	266	210	0	2 931	–	2 931
Other assets	539	36	12	6	263	3	859	–171	688
SEGMENT ASSETS	122 891	42 425	23 409	22 877	986	3 727	216 314	–3 590	212 724
Income tax assets									76
TOTAL ASSETS									212 800
LIABILITIES AND EQUITY									
LIABILITIES									
Derivatives	1 520	40	35	–	–	56	1 652	–33	1 619
Liabilities associated with assets held for sale	–	–	–	–	3	–	3	–	3
Investment and unit-linked contracts	6 897	12 201	948	21 709	–	–	41 756	0	41 756
Other financial liabilities	9 095	5 661	1 239	264	260	304	16 823	–1 248	15 574
Insurance liabilities	81 347	18 251	17 078	203	–	0	116 878	–35	116 844
Policyholder participation liabilities	7 255	3 370	2 387	37	–	–	13 050	0	13 050
Employee benefit liabilities	1 576	81	217	13	100	–	1 986	–	1 986
Provisions	30	11	10	8	7	8	74	–	74
Other liabilities	178	124	46	8	7	5	368	–1	366
SEGMENT LIABILITIES	107 899	39 739	21 962	22 241	376	373	192 590	–1 318	191 272
Borrowings									3 577
Income tax liabilities									2 369
EQUITY									15 583
TOTAL LIABILITIES AND EQUITY									212 800

Balance sheet as at 31 December 2016

In CHF million	Switzer-land	France	Germany	Inter-national	Asset Managers	Other	Total before elimi-nations	Elimi-nations	Total
ASSETS									
Cash and cash equivalents	2 627	1 563	252	2 581	188	123	7 333	–	7 333
Derivatives	1 613	255	42	–	–	7	1 917	–32	1 885
Assets held for sale	–	–	–	–	–	12	12	–	12
Financial assets at fair value through profit or loss	5 990	11 873	1 389	15 678	–	–	34 931	–	34 931
Financial assets available for sale	72 318	17 332	7 849	1 318	49	1 388	100 256	–	100 256
Loans and receivables	14 690	2 283	7 970	85	244	1 714	26 986	–3 031	23 955
Financial assets pledged as collateral	1 428	1 515	–	–	–	–	2 942	–	2 942
Investment property	19 896	2 162	1 743	–	–	–	23 801	–	23 801
Investments in associates	6	81	0	–	5	0	93	–	93
Reinsurance assets	33	278	84	112	–	0	506	–6	500
Property and equipment	213	35	129	3	4	0	383	–	383
Intangible assets including intangible insurance assets	621	372	1 292	231	202	0	2 717	–	2 717
Other assets	641	46	1	4	284	2	979	–135	844
SEGMENT ASSETS	120 076	37 796	20 750	20 011	977	3 246	202 855	–3 204	199 652
Income tax assets									80
TOTAL ASSETS									199 731
LIABILITIES AND EQUITY									
LIABILITIES									
Derivatives	1 474	52	105	–	–	49	1 680	–32	1 648
Investment and unit-linked contracts	6 491	10 618	795	19 017	–	–	36 921	0	36 920
Other financial liabilities	8 329	6 467	876	182	297	206	16 358	–1 056	15 303
Insurance liabilities	80 229	14 939	15 600	198	–	0	110 966	–32	110 935
Policyholder participation liabilities	6 979	3 155	1 889	21	–	–	12 044	0	12 043
Employee benefit liabilities	1 694	71	194	12	96	–	2 068	–	2 068
Provisions	15	11	20	20	8	1	75	–	75
Other liabilities	179	122	41	7	6	3	357	–3	355
SEGMENT LIABILITIES	105 389	35 436	19 521	19 457	407	260	180 470	–1 123	179 347
Borrowings									4 524
Income tax liabilities									2 120
EQUITY									13 739
TOTAL LIABILITIES AND EQUITY									199 731

Premiums and policy fees from external customers

In CHF million	Net earned premiums		Net earned policy fees	
	2017	2016	2017	2016
LIFE				
Individual life	3 403	3 335	300	268
Group life	9 032	9 549	14	11
TOTAL LIFE	12 435	12 883	313	280
NON-LIFE				
Accident and health	11	11	–	–
Property, casualty and other	345	334	–	–
TOTAL NON-LIFE	356	345	–	–
TOTAL	12 791	13 228	313	280

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

In CHF million	Total income		Non-current assets	
	2017	2016	31.12.2017	31.12.2016
Switzerland	11 910	13 176	22 113	20 222
France	3 734	3 515	3 255	2 539
Germany	2 610	2 566	3 159	2 537
Liechtenstein	25	28	152	151
Luxembourg	297	322	910	21
Belgium	5	–	90	–
Other countries	188	176	139	103
TOTAL	18 769	19 784	29 819	25 573

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

Information about major customers

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

5 Risk Management Policies and Procedures

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

Risks must be identified, assessed, managed and monitored locally and aggregated at Group level. Monthly reports covering interest rate risk, equity and real estate price risk, currency risk, credit risk and insurance risk are prepared by the local insurance units and consolidated at Swiss Life Ltd level and at Group level. Strategic and operational risks are assessed and reported on an annual basis.

The risk appetite is defined by the Board of Directors and expressed as an SST ratio limit. Furthermore, it is allocated by the Group Risk Committee of the Corporate Executive Board to the largest operations in the insurance business. These limits at unit level are used as a framework for the asset and liability management process, the objective of which is to define a strategic asset allocation. From this strategic asset allocation a scenario-based expected return is calculated, which forms the basis for the Group's mid-term planning.

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

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

Since the Group's core business is insurance, its risk management is in line with the two main regulatory solvency frameworks in Switzerland (SST) and throughout Europe (Solvency II). In addition to general governance aspects and extensive reporting requirements, this includes an annual Own Risk and Solvency Assessment (ORSA) on Group level covering a comprehensive risk assessment as well as the integration of risk and solvency aspects in the overall management of the Swiss Life Group.

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

5.1 Risk budgeting and limit setting

The risk capacity and the determination of the risk appetite of the Swiss Life Group and its insurance operations as outlined above are primarily defined based on economic principles. As a result, 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 by direct observation of market values or with another appropriate discount rate. The available economic capital is defined as the difference of the economic value of the assets compared to liabilities. The available economic 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 decision on the risk appetite for each insurance operation rests with the Corporate Executive Board.

To control and limit exposure to risks, capital and exposure limits are defined. They include overall market risk capital, credit risk capital and, more specifically, interest rate risk capital and credit spread risk capital as well as net equity and foreign currency exposure.

5.2 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 activity: the determination of the strategic asset allocation and of the risk capital and exposure sublimits.

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

Compliance with external constraints

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

Depending on the regulatory framework in which the Swiss Life Group's insurance operations evolve, the asset portfolios might need to be split to reflect the various 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. Insurance companies are generally obliged to hold tied assets in view of claims arising from insurance contracts. Special rules apply to investments in tied assets. They specify the eligible asset classes as well as requirements to be met in terms of investment organisation and processes.

Strategic asset allocation

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

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

Distribution policy

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

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

Product design

The targets of risk management are supported by product management principles. Product design defines among other things 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 support each individual product generating a sufficient contribution margin. To ensure that the Group's principles are observed, guidelines and directives on product management and underwriting are in place. Since the Group's insurance entities operate in a number of different countries, the local regulatory constraints may have an impact on the business units' product range. These constraints must always be observed.

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

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

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

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

In CHF million

	31.12.2017	31.12.2016
Cash and cash equivalents	**2 830**	2 489
Derivatives	**0**	0
Financial assets at fair value through profit or loss		
Debt securities	**6 647**	5 738
Equity securities	**4 588**	4 113
Investment funds	**21 586**	17 626
Other	**3**	2
TOTAL ASSETS FOR THE ACCOUNT AND RISK OF THE SWISS LIFE GROUP'S CUSTOMERS	**35 654**	29 968

Liabilities linked to assets for the account and risk of the Swiss Life Group's customers

In CHF million

	Notes	31.12.2017	31.12.2016
Unit-linked contracts	19	**25 130**	21 948
Investment contracts	19	**4 875**	4 192
Insurance liabilities	22	**5 462**	3 692
TOTAL LIABILITIES LINKED TO ASSETS FOR THE ACCOUNT AND RISK OF THE SWISS LIFE GROUP'S CUSTOMERS		**35 466**	29 833

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		Assets and liabilities for the account and risk of the Swiss Life Group		Assets and liabilities for the account and risk of the Swiss Life Group's customers		Total	
	Notes	2017	2016	2017	2016	2017	2016
Investment income	8	**4 270**	4 285	**–**	–	**4 270**	4 285
Net gains/losses on financial assets	8	**659**	426	**–8**	–2	**651**	425
Net gains/losses on financial instruments at fair value through profit or loss	8	**–1 192**	–433	**11**	13	**–1 181**	–420
Net gains/losses on investment property		**651**	763	**–**	–	**651**	763
Share of profit or loss of associates		**3**	9	**–**	–	**3**	9
FINANCIAL RESULT		**4 391**	5 051	**4**	11	**4 395**	5 062

5.4 Financial risk management objectives and policies

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

The risk budgeting and limit setting described above ensure that the corresponding risks remain under control. The market risk capital, interest rate risk capital, credit spread risk capital and credit risk capital limits, as well as exposure limits for currencies and net equity for each large insurance operation, are defined based on the risk appetite per operation.

Interest rate risk relating to financial instruments and insurance contracts

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

Interest-sensitive insurance liabilities

In CHF million

	CHF	EUR	Other	Total
CARRYING AMOUNTS AS AT 31 DECEMBER 2017				
Minimum guaranteed interest rate 0 – < 2%	**44 363**	**6 989**	**10**	**51 362**
Minimum guaranteed interest rate 2 – < 3%	**8 584**	**6 229**	**20**	**14 833**
Minimum guaranteed interest rate 3 – < 4%	**19 047**	**6 022**	**21**	**25 090**
Minimum guaranteed interest rate 4 – < 5%	**65**	**6 112**	**22**	**6 199**
Minimum guaranteed interest rate 5 – < 6%	**–**	**–**	**2**	**2**
TOTAL INTEREST-SENSITIVE INSURANCE LIABILITIES	**72 060**	**25 352**	**74**	**97 486**
Insurance liabilities with no minimum guaranteed interest rate				**13 896**
Insurance liabilities linked to assets for the account and risk of the Swiss Life Group's customers				**5 462**
TOTAL INSURANCE LIABILITIES				**116 844**

CARRYING AMOUNTS AS AT 31 DECEMBER 2016				
Minimum guaranteed interest rate 0 – < 2%	42 019	6 159	10	48 187
Minimum guaranteed interest rate 2 – < 3%	8 851	5 576	22	14 449
Minimum guaranteed interest rate 3 – < 4%	20 112	5 751	24	25 887
Minimum guaranteed interest rate 4 – < 5%	67	5 773	24	5 864
Minimum guaranteed interest rate 5 – < 6%	–	–	2	2
TOTAL INTEREST-SENSITIVE INSURANCE LIABILITIES	71 049	23 258	82	94 390
Insurance liabilities with no minimum guaranteed interest rate				12 853
Insurance liabilities linked to assets for the account and risk of the Swiss Life Group's customers				3 692
TOTAL INSURANCE LIABILITIES				110 935

Some life insurance products with a savings component and investment contracts are subject to minimum guaranteed interest rates. The guaranteed rate differs according to the type of contract. In Switzerland for instance the minimum guaranteed interest rate for the occupational pensions segment (mandatory BVG savings account) stood at 1.00% in 2017 and 2018 (2016: 1.25%).

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

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

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

Spread risk

Spread risk arises from bond investments when the counterparties are not considered risk free. The market value of these bonds corresponds to the discounting of the agreed payment flows with an interest rate curve composed of the base interest rate curve and a spread curve. The spread curve is defined by the counterparty's credit quality and the risk aversion of the capital market actors. Spreads increase markedly during capital market crises, leading to a significant decrease in the bond portfolio's market value.

Swiss Life monitors spread risks through exposure limits as outlined in relation to the credit risk and described below.

Equity price risk

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

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

A portion of Swiss Life's investment portfolio comprises investments in funds which hold securities issued by non-public companies (private equity, infrastructure, hedge funds). 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.

Real estate price risk

Due to the long-term nature of its liabilities, Swiss Life invests in direct residential, commercial and mixed-use property investments. In addition to direct investments, Swiss Life invests in real estate funds and real estate companies.

In building and maintaining its real estate portfolio, Swiss Life ensures adequate diversification in terms of use, location and geography.

Credit risk

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

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

To reduce the credit exposure relating to derivatives a collateral management process is in place. Contractually all outstanding positions must be fully collateralised if they reach a very low agreed minimum transfer amount. The collateral is called daily. Counterparties for derivative transactions, over-the-counter and exchange-traded, have to be approved by both the Group Chief Risk Officer and the Group Chief Investment Officer. The minimum rating for a counterparty is generally A– (Standard & Poor's or equivalent) for the Swiss Life Group's insurance operations. During periods of market turmoil reliance on ratings is of limited value; therefore an additional qualitative and quantitative counterparty monitoring process has been established to allow for immediate proactive measures.

Counterparty risk is primarily managed by counterparty exposure limits and diversification in a broad debtor universe. The specific credit risk is managed through the holding of credit default swaps or credit default swap indices and options on credit default swap indices. A credit default swap provides insurance to the debt holder against a default of the debt issuer. It is traded over-the-counter and itself underlies the collateral management process described above. The credit default swap index is a hedge on credit risk of a basket of counterparties and is an over-the-counter derivative. A put option on a credit default swap index provides protection against adverse credit spread movements in the underlying basket of counterparties, and is traded over-the-counter.

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

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

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

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

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

Maximum exposure to credit risk

In CHF million	For the account and risk of the Swiss Life Group		For the account and risk of the Swiss Life Group's customers		Total	
	31.12.2017	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
DEBT SECURITIES						
Debt securities at fair value through profit or loss	**545**	581	**6 647**	5 738	**7 192**	6 319
Debt securities available for sale	**87 446**	85 895	**–**	–	**87 446**	85 895
Debt securities pledged as collateral	**3 601**	2 942	**–**	–	**3 601**	2 942
Debt securities classified as loans	**2 202**	3 443	**–**	–	**2 202**	3 443
TOTAL DEBT SECURITIES	**93 794**	92 861	**6 647**	5 738	**100 440**	98 599
LOANS AND RECEIVABLES						
Senior loans available for sale	**2 649**	2 058	**–**	–	**2 649**	2 058
Mortgages	**8 134**	7 573	**–**	–	**8 134**	7 573
Corporate and other loans	**2 216**	2 120	**–**	–	**2 216**	2 120
Note loans	**6 061**	6 461	**–**	–	**6 061**	6 461
Receivables	**4 361**	4 358	**–**	–	**4 361**	4 358
TOTAL LOANS AND RECEIVABLES	**23 421**	22 570	**–**	–	**23 421**	22 570
OTHER ASSETS						
Cash and cash equivalents	**3 782**	4 844	**2 830**	2 489	**6 611**	7 333
Derivatives	**1 675**	1 885	**0**	0	**1 675**	1 885
Reinsurance assets	**529**	500	**–**	–	**529**	500
TOTAL OTHER ASSETS	**5 986**	7 229	**2 830**	2 489	**8 815**	9 718
UNRECOGNISED ITEMS						
Financial guarantees	**53**	28	**–**	–	**53**	28
Loan commitments	**231**	208	**–**	–	**231**	208
TOTAL UNRECOGNISED ITEMS	**284**	236	**–**	–	**284**	236
TOTAL EXPOSURE TO CREDIT RISK	**123 484**	122 897	**9 476**	8 227	**132 960**	131 124

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

Credit risk mitigation – collateral held and other credit enhancements as at 31 December 2017

In CHF million	Debt securities	Loans and receivables	Cash and cash equivalents	Derivatives (assets)	Reinsurance assets	Financial guarantees and loan commitments	Total
SECURED BY							
Cash collateral	–	13	–	866	157	–	1 036
Securities collateral	–	621	–	–	303	58	982
Mortgage collateral	8 807	10 337	–	–	–	200	19 343
Other collateral	–	2 854	–	–	–	–	2 854
Guarantees	602	327	369	–	–	–	1 298
Netting agreements	–	1 428	–	392	1	–	1 820
TOTAL SECURED	9 408	15 580	369	1 258	460	257	27 333
UNSECURED							
Governments and supranationals	49 423	3 624	48	–	–	–	53 094
Corporates	34 734	1 163	3 365	417	69	27	39 775
Other	228	3 054	–	–	–	–	3 283
TOTAL UNSECURED	84 385	7 841	3 413	417	69	27	96 151
TOTAL	93 794	23 421	3 782	1 675	529	284	123 484

Credit risk mitigation – collateral held and other credit enhancements as at 31 December 2016

In CHF million	Debt securities	Loans and receivables	Cash and cash equivalents	Derivatives (assets)	Reinsurance assets	Financial guarantees and loan commitments	Total
SECURED BY							
Cash collateral	–	1	–	1 119	136	–	1 256
Securities collateral	–	487	–	–	294	63	844
Mortgage collateral	8 929	9 611	–	–	–	171	18 712
Other collateral	–	2 260	–	–	–	–	2 260
Guarantees	578	537	335	–	–	–	1 450
Netting agreements	–	1 471	–	354	1	–	1 826
TOTAL SECURED	9 507	14 367	335	1 474	430	234	26 347
UNSECURED							
Governments and supranationals	48 524	3 986	771	–	–	–	53 282
Corporates	34 715	1 113	3 737	411	70	2	40 048
Other	116	3 104	–	–	–	–	3 219
TOTAL UNSECURED	83 355	8 203	4 509	411	70	2	96 549
TOTAL	92 861	22 570	4 844	1 885	500	236	122 897

To mitigate specific credit risk, the Group purchases credit risk protection in the form of credit default swaps and credit default swap indices. As at 31 December 2017, these derivative contracts provided a notional principal protection of CHF 3894 million (2016: CHF 4554 million).

Exposure to credit risk of debt instruments – credit rating by class as at 31 December 2017

In CHF million

	AAA	AA	A	BBB	Below BBB	Impaired	Total
DEBT SECURITIES							
Supranationals	2 678	868	18	–	–	–	3 565
Governments	18 436	19 794	2 759	1 337	90	–	42 417
Sovereigns	328	867	774	1 401	70	–	3 441
Covered/guaranteed	8 009	972	344	83	–	–	9 408
Corporates	585	3 311	12 802	16 727	1 310	0	34 734
Other	40	21	126	18	23	–	228
TOTAL DEBT SECURITIES	30 078	25 834	16 823	19 566	1 494	0	93 794
MORTGAGES							
Commercial	–	–	2 613	–	–	0	2 613
Residential	–	–	5 499	7	12	2	5 520
TOTAL MORTGAGES	–	–	8 112	7	12	2	8 134
OTHER LOANS AND RECEIVABLES							
Governments and supranationals	1 553	1 742	228	99	1	–	3 624
Corporates	1 533	818	1 604	2 071	1 859	22	7 907
Other	3	17	78	3 574	67	19	3 757
TOTAL OTHER LOANS AND RECEIVABLES	3 088	2 578	1 910	5 744	1 927	41	15 287

Exposure to credit risk of debt instruments – credit rating by class as at 31 December 2016

In CHF million

	AAA	AA	A	BBB	Below BBB	Impaired	Total
DEBT SECURITIES							
Supranationals	2 306	647	19	33	–	–	3 005
Governments	19 540	19 347	2 318	830	233	–	42 268
Sovereigns	239	875	768	1 252	118	–	3 251
Covered/guaranteed	8 109	972	331	95	–	–	9 507
Corporates	577	3 723	13 908	14 598	1 909	0	34 715
Other	–	58	33	16	8	–	116
TOTAL DEBT SECURITIES	30 772	25 622	17 375	16 824	2 268	0	92 861
MORTGAGES							
Commercial	–	–	2 558	–	–	1	2 558
Residential	–	–	4 997	10	6	2	5 015
TOTAL MORTGAGES	–	–	7 554	10	6	3	7 573
OTHER LOANS AND RECEIVABLES							
Governments and supranationals	1 924	1 841	122	86	3	–	3 976
Corporates	1 315	649	1 426	2 281	1 667	1	7 339
Other	2	15	10	3 564	75	15	3 681
TOTAL OTHER LOANS AND RECEIVABLES	3 242	2 505	1 558	5 931	1 745	16	14 997

Financial assets past due (not impaired) – age analysis

In CHF million	Up to 3 months		3–6 months		6–12 months		More than 1 year		Total	
	31.12.2017	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
MORTGAGES										
Residential	**10**	10	**7**	2	**2**	1	**5**	3	**25**	17
TOTAL	**10**	10	**7**	2	**2**	1	**5**	3	**25**	17
OTHER LOANS AND RECEIVABLES										
Governments and supranationals	**0**	–	**0**	–	**0**	–	**–**	–	**0**	–
Corporates	**18**	–	**0**	–	**–**	–	**–**	–	**18**	–
Other	**64**	19	**2**	3	**7**	6	**5**	10	**78**	38
TOTAL	**82**	19	**2**	3	**7**	6	**5**	10	**96**	38

Financial assets individually determined as impaired

In CHF million	Gross amount		Impairment losses		Carrying amount	
	31.12.2017	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
DEBT SECURITIES						
Corporates	**30**	31	**–30**	–31	**0**	0
TOTAL	**30**	31	**–30**	–31	**0**	0
MORTGAGES						
Commercial	**1**	1	**0**	0	**0**	1
Residential	**2**	2	**0**	0	**2**	2
TOTAL	**3**	3	**–1**	–1	**2**	3
OTHER LOANS AND RECEIVABLES						
Corporates	**38**	1	**–16**	0	**22**	1
Other	**31**	26	**–12**	–11	**19**	15
TOTAL	**69**	26	**–28**	–11	**41**	16

Financial assets individually determined as impaired – impairment loss allowance for the year 2017

In CHF million	Balance as at 1 January	Impairment losses/ reversals	Write-offs and disposals	Foreign currency translation differences	Balance as at end of period
DEBT SECURITIES					
Corporates	**31**	**–1**	**0**	**0**	**30**
TOTAL	**31**	**–1**	**0**	**0**	**30**
MORTGAGES					
Commercial	**0**	**0**	**–**	**–**	**0**
Residential	**0**	**0**	**0**	**–**	**0**
TOTAL	**1**	**0**	**0**	**–**	**1**
OTHER LOANS AND RECEIVABLES					
Corporates	**0**	**16**	**0**	**0**	**16**
Other	**11**	**1**	**0**	**1**	**12**
TOTAL	**11**	**17**	**0**	**1**	**28**

Financial assets individually determined as impaired – impairment loss allowance for the year 2016

In CHF million	Balance as at 1 January	Impairment losses/ reversals	Write-offs and disposals	Foreign currency translation differences	Balance as at end of period
DEBT SECURITIES					
Corporates	63	2	–34	0	31
TOTAL	63	2	–34	0	31
MORTGAGES					
Commercial	0	0	–	–	0
Residential	0	0	0	–	0
TOTAL	0	0	0	–	1
OTHER LOANS AND RECEIVABLES					
Corporates	0	0	0	0	0
Other	11	0	0	0	11
TOTAL	11	0	0	0	11

The criteria used for the assessment of financial assets for impairment are described in note 2.9.

Exposure to credit risk of other assets

In CHF million

	AAA	AA	A	BBB	Below BBB	Total
CREDIT RATING AS AT 31 DECEMBER 2017						
Cash and cash equivalents	**85**	**1 369**	**2 052**	**172**	**105**	**3 782**
Derivatives	**268**	**451**	**884**	**72**	**0**	**1 675**
Reinsurance assets	**–**	**302**	**191**	**36**	**–**	**529**
TOTAL	**353**	**2 121**	**3 127**	**281**	**105**	**5 986**
CREDIT RATING AS AT 31 DECEMBER 2016						
Cash and cash equivalents	781	1 874	1 956	234	0	4 844
Derivatives	334	650	758	143	–	1 885
Reinsurance assets	–	283	179	38	–	500
TOTAL	1 115	2 807	2 893	414	0	7 229

At 31 December 2017 and 2016, no reinsurance assets were past due or impaired.

Exposure to credit risk of unrecognised items

In CHF million

	AAA	AA	A	BBB	Below BBB	Total
CREDIT RATING AS AT 31 DECEMBER 2017						
Financial guarantees	**–**	**–**	**2**	**51**	**–**	**53**
Loan commitments	**–**	**–**	**200**	**32**	**–**	**231**
TOTAL	**–**	**–**	**202**	**82**	**–**	**284**
CREDIT RATING AS AT 31 DECEMBER 2016						
Financial guarantees	–	–	2	26	–	28
Loan commitments	–	–	171	37	–	208
TOTAL	–	–	173	63	–	236

Currency risk

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

The following table shows the Group's sensitivity of monetary items to foreign currency exchange rate fluctuations.

1 % decrease in rate

In CHF million	Gain (+)/loss (–)[1]	
	2017	2016
EUR/CHF	2	–1
USD/CHF	–22	–5
GBP/CHF	0	0
CAD/CHF	–1	–1

[1] before policyholder and income tax effect

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

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

The balance sheet currency exposure is to a large extent hedged using foreign currency derivatives. Hedging is done on an overall basis for monetary and non-monetary items.

Liquidity risk

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

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

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

The liquidity analysis of financial liabilities and commitments is based on undiscounted cash flows by remaining contractual maturities, whereas insurance and policyholder participation liabilities are analysed by estimated timing of net cash outflows. Cash outflows of derivative liabilities designated as cash flow hedging instruments are analysed on the basis of expected settlement dates for forward starting swaps, and on the basis of contractual maturity for forward starting bonds. The analysis is made for amounts for the account and risk of the Swiss Life Group.

Exposure to liquidity risk as at 31 December 2017

In CHF million	Cash flows							Carrying amount
	Up to 1 month	1–3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total	
FINANCIAL LIABILITIES								
Derivatives designated as cash flow hedges	–	10	139	728	45	468	1 390	135
Investment contracts with discretionary participation	24	43	246	2 752	1 882	6 626	11 574	11 574
Investment contracts without discretionary participation	0	0	0	0	0	177	177	177
Borrowings	0	0	437	1 817	2 233	–	4 487	3 577
Other financial liabilities	5 258	1 440	4 050	1 230	197	357	12 533	12 230[1]
TOTAL	5 283	1 492	4 873	6 527	4 358	7 628	30 161	27 693
INSURANCE AND POLICYHOLDER PARTICIPATION LIABILITIES								
Insurance liabilities	363	357	3 456	9 150	16 100	81 955	111 382	111 382
Policyholder participation liabilities	129	182	4 351	6 161	133	2 094	13 050	13 050
TOTAL	491	539	7 808	15 311	16 233	84 049	124 431	124 431
GUARANTEES AND COMMITMENTS								
Financial guarantees	26	–	0	27	–	–	53	–
Loan commitments	40	70	114	7	1	0	231	–
Capital commitments	1 288	–	25	108	–	–	1 421	–
TOTAL	1 354	70	139	142	1	0	1 705	–

[1] excluding non-controlling interests in investment funds and accrued interest

Exposure to liquidity risk as at 31 December 2016

In CHF million	Cash flows							Carrying amount
	Up to 1 month	1–3 months	3–12 months	1–5 years	5–10 years	More than 10 years	Total	
FINANCIAL LIABILITIES								
Derivatives designated as cash flow hedges	–	–	212	579	36	375	1 203	94
Investment contracts with discretionary participation	22	39	210	2 436	1 714	6 159	10 580	10 580
Investment contracts without discretionary participation	0	0	0	0	0	200	200	200
Borrowings	0	0	801	2 147	1 964	673	5 584	4 524
Other financial liabilities	5 422	1 215	4 126	428	479	360	12 031	11 934[1]
TOTAL	5 444	1 254	5 350	5 590	4 192	7 767	29 598	27 332
INSURANCE AND POLICYHOLDER PARTICIPATION LIABILITIES								
Insurance liabilities	309	329	3 251	8 646	15 350	79 358	107 243	107 243
Policyholder participation liabilities	104	168	4 225	5 752	85	1 709	12 043	12 043
TOTAL	413	497	7 475	14 398	15 435	81 067	119 286	119 286
GUARANTEES AND COMMITMENTS								
Financial guarantees	26	–	0	2	–	–	28	–
Loan commitments	33	54	104	17	0	1	208	–
Capital commitments	1 291	0	11	103	–	–	1 404	–
TOTAL	1 350	54	115	122	0	1	1 641	–

[1] excluding non-controlling interests in investment funds and accrued interest

Current and non-current assets and liabilities

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

In CHF million	Current		Non-current		For the account and risk of the Swiss Life Group's customers		Total	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
ASSETS								
Cash and cash equivalents	3 782	4 844	–	–	2 830	2 489	6 611	7 333
Derivatives	528	483	1 146	1 402	0	0	1 675	1 885
Assets held for sale	52	12	–	–	–	–	52	12
Financial assets at fair value through profit or loss	3 542	3 969	3 862	3 483	32 824	27 479	40 228	34 931
Financial assets available for sale	7 734	8 801	97 188	91 454	–	–	104 922	100 256
Loans and receivables	7 000	7 649	15 974	16 307	–	–	22 974	23 955
Financial assets pledged as collateral	–	16	3 601	2 926	–	–	3 601	2 942
Investment property	–	–	27 946	23 801	–	–	27 946	23 801
Investments in associates	–	–	163	93	–	–	163	93
Reinsurance assets	298	318	231	183	–	–	529	500
Property and equipment	–	–	404	383	–	–	404	383
Intangible assets including intangible insurance assets	–	–	2 931	2 717	–	–	2 931	2 717
Current income tax assets	36	41	–	–	–	–	36	41
Deferred income tax assets	–	–	40	39	–	–	40	39
Other assets	257	276	431	568	–	–	688	844
TOTAL ASSETS	23 229	26 408	153 917	143 355	35 654	29 968	212 800	199 731
LIABILITIES								
Derivatives	815	869	804	780	–	–	1 619	1 648
Liabilities associated with assets held for sale	3	–	–	–	–	–	3	–
Investment and unit-linked contracts	314	272	11 438	10 509	30 005	26 140	41 756	36 920
Borrowings	300	633	3 277	3 891	–	–	3 577	4 524
Other financial liabilities	10 946	11 000	4 629	4 303	–	–	15 574	15 303
Insurance liabilities	4 176	3 888	107 206	103 354	5 462	3 692	116 844	110 935
Policyholder participation liabilities	4 662	4 498	8 388	7 546	–	–	13 050	12 043
Employee benefit liabilities	159	144	1 828	1 923	–	–	1 986	2 068
Current income tax liabilities	153	122	–	–	–	–	153	122
Deferred income tax liabilities	–	–	2 216	1 998	–	–	2 216	1 998
Provisions	25	20	49	56	–	–	74	75
Other liabilities	344	334	22	20	–	–	366	355
TOTAL LIABILITIES	21 896	21 779	139 855	134 380	35 466	29 833	197 218	185 992

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

Hedging strategies involve hedge accounting in accordance with International Financial Reporting Standards as well as "economic hedging". "Economic hedges" comprise derivatives in combination with financial assets and financial liabilities which have a common risk factor and give rise to opposite changes in fair value that tend to offset each other.

5.5 Insurance risk management objectives and policies

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

Nature of insurance risk

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

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

The nature of insurance risk can be summarised as follows.

Mortality and longevity

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

The Swiss occupational pensions (BVG) segment of the group life insurance business in Switzerland is a significant part of the Group's overall life insurance business. The BVG business provides an example of a minimum return guarantee. The guarantee takes the form of the right to convert an assured sum into a life annuity at a guaranteed conversion rate: The prevalent annuity conversion rate for the mandatory part of the BVG business is set at 6.8% for men (retirement age 65) and 6.8% for women (retirement age 64).

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

Annuities payable per annum by type of annuity – individual life

In CHF million

	31.12.2017	31.12.2016
Life annuities – in payment	**589**	566
Life annuities – deferred	**484**	491
Annuities certain – in payment	**6**	6
Annuities certain – deferred	**38**	39
Disability income and other annuities – in payment	**247**	221
Disability income and other annuities – deferred	**7 348**	6 877
TOTAL INDIVIDUAL LIFE	**8 711**	8 200

Annuities payable per annum by type of annuity – group life

In CHF million

	31.12.2017	31.12.2016
Retirement annuities – in payment	**974**	910
Retirement annuities – deferred	**428**	379
Survivors' annuities – in payment	**144**	138
Survivors' annuities – deferred	**2 628**	2 677
Disability income and other annuities – in payment	**390**	310
Disability income and other annuities – deferred	**15 582**	15 460
TOTAL GROUP LIFE	**20 146**	19 874

Life benefits insured by type of insurance – individual life

In CHF million

	31.12.2017	31.12.2016
Whole life and term life	**33 423**	30 586
Disability lump-sum payment	**26**	26
Other	**236**	412
TOTAL INDIVIDUAL LIFE	**33 685**	31 024

Life benefits insured by type of insurance – group life

In CHF million

	31.12.2017	31.12.2016
Term life	**58 051**	53 444
Disability lump-sum payment	**709**	473
Other	**1 644**	1 296
TOTAL GROUP LIFE	**60 404**	55 213

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

Embedded options
The ability of a policyholder to pay reduced or no future premiums under a contract, to terminate the contract completely or to exercise a guaranteed annuity option means that the insurer's liability is also subject to policyholder behaviour to a certain extent. On the assumption that a certain group of policyholders will make decisions rationally, overall insurance risk can be aggravated by such behaviour. For example, it is conceivable 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 contributing to an increasing trend in the expected mortality of policyholders, as the portfolio of insurance contracts is reduced due to surrender.

Underwriting strategy

Underwriting is the process of selecting and classifying insurable risks. The underwriting strategy attempts to ensure that the risks underwritten are profitable and 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 adequate for 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 similar levels of risk. Both processes must be conducted objectively and consistently. The Group sets limits for the acceptance of insurance coverage arising from new and renewal business. Medical selection is part of the Group's underwriting procedures, whereby premiums are charged to reflect the health condition and family medical history of the applicants. The limits relate to sums at risk, maximum insured losses or present value of premiums at the contract or insured person level. Depending on the type of business and the limit exceeded, the new or renewed contract must be approved by the corresponding risk committee or senior management. Contracts exceeding the set limits are tested individually for profitability according to predefined procedures before approval. Certain contracts which include specific risks relating to derivatives or demographic risk factors for which no reliable data is available must be submitted for approval irrespective of the amount of coverage offered. Insurance coverage exceeding set limits is subject to regular internal reporting requirements. Additionally, the underwriting practices must be 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 or the application may be rejected.

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

Non-life

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

Claims arising from the accident and health business primarily cover refunds for medical treatment, daily allowances in the case of sick leave, annuities and long-term medical care. The factors that could increase the overall liabilities in health insurance are the increase in the claim frequency due to an increase in the average age of the insured persons and negative economic and social factors. The insurance liabilities arising from accident and health insurance contracts must consider outstanding claims and claims incurred but not reported (IBNR). A large part of the insurance liabilities arising from these contracts relates to IBNR, and experience shows that health insurance contracts are sensitive to late reporting of claims in both number of claims and amounts.

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

Development of claims under non-life insurance contracts

In CHF million	Estimate of ultimate claim costs by year of loss occurrence										
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Total
At end of year of loss occurrence	345	392	323	311	303	335	342	296	267	297	n/a
1 year later	387	373	369	362	330	361	346	322	331	–	n/a
2 years later	310	320	314	324	331	296	309	322	–	–	n/a
3 years later	275	293	286	336	285	281	324	–	–	–	n/a
4 years later	259	276	301	300	276	299	–	–	–	–	n/a
5 years later	242	297	265	293	297	–	–	–	–	–	n/a
6 years later	232	263	257	313	–	–	–	–	–	–	n/a
7 years later	225	253	279	–	–	–	–	–	–	–	n/a
8 years later	221	280	–	–	–	–	–	–	–	–	n/a
9 years later	241	–	–	–	–	–	–	–	–	–	n/a
CURRENT ESTIMATE OF CUMULATIVE CLAIMS	241	280	279	313	297	299	324	322	331	297	2 983
Cumulative payments to date	–224	–254	–253	–255	–242	–247	–244	–223	–195	–126	–2 264
LIABILITIES BEFORE DISCOUNTING	17	26	26	58	54	52	80	99	136	171	720
Effect of discounting	–	–	–	–	–	–	–	–	–	–	–
LIABILITIES FOR THE CURRENT AND 9 PREVIOUS YEARS	17	26	26	58	54	52	80	99	136	171	720
Liabilities for prior years											204
TOTAL GROSS CLAIMS UNDER NON-LIFE INSURANCE CONTRACTS											924

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

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

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

Reinsurance

Reinsurance is used to limit the Group's exposure to insurance risk. This does not, however, discharge the Group's liability as a primary insurer, and, if a reinsurer fails to pay a claim, the Group remains liable for the payments to the policyholder. A loss allowance would be recognised for any estimated unrecoverable reinsurance.

In addition, the Group holds substantial collateral under related reinsurance agreements in the form of deposited funds and securities. Amounts recoverable from reinsurers are estimated in a manner consistent with the assumptions used for the underlying policy benefits and are presented in the balance sheet as a component of the reinsurance assets.

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

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

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

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

Approximately 1.2% in terms of earned insurance premiums was ceded as at 31 December 2017 (2016: 1.2%).

5.6 Strategic risk management

Swiss Life uses a structured process to ensure that strategic risks are dealt with adequately in what continues to be a very challenging economic environment. In its strategic risk management process, Swiss Life incorporates all the information on risks and corresponding return characteristics in its strategic decisions. An understanding of the interplay of individual risks is essential in order to take due account of the factors influencing risks during strategy development and address them accordingly.

5.7 Operational risk management and internal control system

Operational risk management at Swiss Life includes the methods and processes used for the identification, assessment and steering or avoidance of operational risks. Operational risk management defines operational risk as the danger that losses may result from shortcomings or failures stemming from internal processes, people, systems or external events. Reliability of information and ensuring confidentiality, availability and integrity of data are an integral part of operational risk management. Swiss Life's internal control system consists of the entirety of procedures, methods and measures prescribed by the Board of Directors and the Corporate Executive Board to ensure the orderly conduct of business. The focus is on the reliability of financial reporting, the effectiveness of business processes and compliance with laws and regulations issued to protect the company's assets.

5.8 Risk concentrations

Asset allocation shows a concentration of bonds. The remaining investments are mainly distributed among property, equities and mortgages.

In addition to asset allocation, the main exposures are at counterparty level.

5.9 Applied instruments for risk minimisation

Reinsurance

The Group assumes and/or cedes reinsurance risks during the normal course of business. For reasons of diversification, some risks are ceded and others are assumed.

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

Derivative financial market instruments

Derivatives held for risk management purposes primarily comprise derivatives sharing a risk with other financial instruments and lead to opposite changes in fair value, which normally cancel each other out (economic hedges), although the cancellation effect is not always simultaneous.

The Group defines risk categories for risk management in connection with derivatives transactions and monitors those risk positions. Price risks for derivatives and their underlying instruments are managed according to the risk limits defined by management for the purchase or sale of instruments or closing of positions. The risks arise through open positions in interest rates, currencies and equity capital instruments dependent on general and specific market movements.

5.10 Sensitivity analysis

The Swiss Life Group has in the past used market consistent embedded value (MCEV) information for its sensitivity analysis with regard to insurance risk and market risk. Due to the reduced focus, MCEV can no longer be used for this purpose. Therefore, effective from 2017, the sensitivity analysis is based on how IFRS profit or loss and other comprehensive income would have been affected if changes in the relevant risk variables that were reasonably possible at the end of the reporting period had occurred.

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

At 31 December 2017, if interest rates had been 50 basis points higher, profit or loss would have been CHF 25 million lower (2016: CHF 5 million) and other comprehensive income would have been CHF 1407 million lower (2016: CHF 1449 million). If interest rates had been 50 basis points lower, profit or loss would have been CHF 47 million higher (2016: CHF 20 million) and other comprehensive income would have been CHF 1588 million higher (2016: CHF 1653 million). These impacts are net after policyholder and tax. The sensitivity includes financial assets as well as insurance liabilities. “Investment funds – debt” and investment funds with substantial investment in debt instruments are included in the analysis. This sensitivity measures the impact of a parallel shift of the bond interest rates at the closing date.

At 31 December 2017, if equity prices had been higher by 10%, profit or loss would have been CHF 379 million lower (2016: CHF 315 million) and other comprehensive income would have been CHF 651 million higher (2016: CHF 733 million). If equity prices had been lower by 10%, profit or loss would have been CHF 343 million higher (2016: CHF 218 million) and other comprehensive income would have been CHF 602 million lower (2016: CHF 727 million). These impacts are gross before policyholder and tax. This sensitivity measures the impact of an increase/decrease in the market value of equities (incl. hedge funds and private equity) at the closing date. Investment funds with substantial investment in equities are included in the analysis, as are hedging effects.

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

At 31 December 2017, if mortality rates for life assurance had been higher by 5%, profit or loss would have been CHF 1 million lower (2016: CHF 1 million). This sensitivity measures the impact of an increase in the mortality rates in life assurance, e.g. endowments and term life insurance products where the net amount at risk is positive. If mortality rates for the annuity business had been lower by 5%, profit or loss would have been CHF 4 million lower (2016: CHF 4 million). This sensitivity concerns annuities in payment and future annuities. Whether policies are affected already during the savings accumulation period might depend on technical implementation issues, e.g. whether the accumulation and annuity phases are driven by the same mortality table. These impacts are net after policyholder and tax.

At 31 December 2017, if morbidity rates had been higher by 5%, profit or loss would have been CHF 20 million lower (2016: CHF 15 million). If morbidity rates had been lower by 5%, profit or loss would have been CHF 20 million higher (2016: CHF 15 million). These impacts are net after policyholder and tax.

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

6 Earnings per Share

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

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

In CHF million (if not noted otherwise)

	2017	2016
BASIC EARNINGS PER SHARE		
Net result attributable to equity holders of Swiss Life Holding	**1 007**	922
Weighted average number of shares outstanding	**32 502 204**	31 879 422
BASIC EARNINGS PER SHARE FOR THE NET RESULT ATTRIBUTABLE TO EQUITY HOLDERS OF SWISS LIFE HOLDING (IN CHF)	**30.98**	28.92
DILUTED EARNINGS PER SHARE		
Net result attributable to equity holders of Swiss Life Holding	**1 007**	922
Elimination of interest expense on convertible bonds	**6**	7
RESULT USED TO DETERMINE DILUTED EARNINGS PER SHARE	**1 013**	929
Weighted average number of shares outstanding	**32 502 204**	31 879 422
Adjustments (number of shares)		
Assumed conversion of convertible bonds	**1 570 409**	2 100 018
Equity compensation plans	**97 296**	101 154
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING FOR DILUTED EARNINGS PER SHARE	**34 169 909**	34 080 594
DILUTED EARNINGS PER SHARE FOR THE NET RESULT ATTRIBUTABLE TO EQUITY HOLDERS OF SWISS LIFE HOLDING (IN CHF)	**29.63**	27.27

7 Premiums, Policy Fees and Deposits Received

Written premiums

In CHF million

	2017	2016
Direct	12 614	13 032
Assumed	331	352
GROSS WRITTEN PREMIUMS	12 946	13 384
Ceded	–157	–159
NET WRITTEN PREMIUMS	12 788	13 225

Earned premiums

In CHF million

	2017	2016
Direct	12 619	13 037
Assumed	329	351
GROSS EARNED PREMIUMS	12 949	13 387
Ceded	–157	–159
NET EARNED PREMIUMS	12 791	13 228

Written policy fees

In CHF million

	2017	2016
Direct	321	281
GROSS WRITTEN POLICY FEES	321	281
Ceded	0	–
NET WRITTEN POLICY FEES	321	281

Earned policy fees

In CHF million

	2017	2016
Direct	**313**	280
GROSS EARNED POLICY FEES	**313**	280
Ceded	**0**	–
NET EARNED POLICY FEES	**313**	280

Under the accounting principles adopted, deposits received under insurance and investment contracts for which deposit accounting is used are not recognised as income:

In CHF million

	2017	2016
Gross written premiums and policy fees	**13 267**	13 665
Deposits received under insurance and investment contracts	**5 298**	3 701
GROSS WRITTEN PREMIUMS, POLICY FEES AND DEPOSITS RECEIVED	**18 565**	17 366

8 Details of Certain Items in the Consolidated Statement of Income

Commission income

In CHF million

	2017	2016
Brokerage commissions	**549**	530
Asset management commissions	**369**	354
Other commissions and fees	**237**	187
TOTAL COMMISSION INCOME	**1 156**	1 071

Investment income

In CHF million

	Notes	2017	2016
Interest income on financial assets available for sale		**2 533**	2 554
Interest income on loans and receivables		**563**	659
Other interest income		**24**	5
Dividend income on financial assets available for sale		**357**	398
Net income on investment property		**793**	669
TOTAL INVESTMENT INCOME	5	**4 270**	4 285

Net gains/losses on financial assets

In CHF million

	Notes	2017	2016
Sale of			
financial assets available for sale		**532**	504
loans		**161**	103
Net gains/losses from sales		**693**	607
Impairment losses on			
debt instruments available for sale		**–16**	–2
equity instruments available for sale		**–23**	–60
loans and receivables		**–5**	–3
Impairment losses on financial assets		**–45**	–65
Foreign currency gains/losses		**4**	–118
TOTAL NET GAINS/LOSSES ON FINANCIAL ASSETS	5	**651**	425

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

In CHF million

	Notes	2017	2016
Currency derivatives		–526	–382
Interest rate derivatives		–56	–1
Equity derivatives		–756	–171
Other derivatives		–70	–22
Financial assets designated as at fair value through profit or loss [1]		235	182
Associates at fair value through profit or loss [1]		0	–
Investment contracts without discretionary participation		40	1
Non-controlling interests in investment funds		–58	–40
Other financial liabilities		–1	–1
Assets for the account and risk of the Swiss Life Group's customers [1]		1 076	747
Liabilities linked to assets for the account and risk of the Swiss Life Group's customers		–1 065	–734
TOTAL NET GAINS/LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	5	–1 181	–420

[1] includes interest and dividend income of CHF 145 million (2016: CHF 119 million).

Other income

In CHF million

	2017	2016
Realised gains/losses on sales of subsidiaries and other assets	47	0
Revenue from sale of inventory property	212	99
Net gains on repurchased financial liabilities	0	–
Other foreign currency gains/losses	–176	21
Other	30	23
TOTAL OTHER INCOME	113	143

Net insurance benefits and claims

In CHF million

	2017	2016
Benefits and claims under insurance contracts		
Life benefits and claims paid, gross	10 408	10 239
Change in liability for future life policyholder benefits, gross	1 768	2 699
Non-life claims paid, gross	220	221
Change in reserve for non-life claims, gross	–4	–10
Benefits and claims recovered from reinsurers	–70	–94
Net benefits and claims under insurance contracts	12 322	13 055
Benefits and claims under investment contracts with discretionary participation		
Life benefits and claims paid, gross	673	611
Change in liability for future life policyholder benefits, gross	194	398
Benefits and claims recovered from reinsurers	–	–
Net benefits and claims under investment contracts with discretionary participation	867	1 009
TOTAL NET INSURANCE BENEFITS AND CLAIMS	13 189	14 064

Interest expense

In CHF million

	Notes	2017	2016
Interest expense on deposits		13	18
Negative interest on repurchase agreements		–22	–12
Interest expense on due to banks		18	8
Interest expense on investment contracts		77	77
Interest expense on deposits under insurance contracts	22	46	52
Other interest expense		12	19
TOTAL INTEREST EXPENSE		144	162

Commission expense

In CHF million

	2017	2016
Insurance agent and broker commissions	790	725
Asset management and banking commissions	76	69
Other commissions and fees	92	48
TOTAL COMMISSION EXPENSE	959	842

Employee benefits expense

In CHF million

	Notes	2017	2016
Wages and salaries		676	623
Social security		136	127
Defined benefit plans	23	92	102
Defined contribution plans		1	1
Other employee benefits		57	54
TOTAL EMPLOYEE BENEFITS EXPENSE		961	907

Depreciation and amortisation expense

In CHF million

	Notes	2017	2016
Depreciation of property and equipment	16	**24**	24
Amortisation of present value of future profits (PVP)	17	**0**	3
Amortisation of deferred acquisition costs (DAC)	17	**336**	437
Amortisation of deferred origination costs (DOC)	17	**9**	10
Amortisation of other intangible assets	17	**29**	28
TOTAL DEPRECIATION AND AMORTISATION EXPENSE		**399**	503

Other expenses

In CHF million

	2017	2016
Marketing and advertising	**50**	55
Information technology and systems	**93**	88
Rental, maintenance and repair	**69**	66
Professional services	**172**	167
Cost of inventory property sold	**169**	79
Premium taxes and other non-income taxes	**60**	54
Other	**78**	75
TOTAL OTHER EXPENSES	**691**	583

9 Derivatives and Hedge Accounting

In CHF million	Notes	Fair value assets 31.12.2017	Fair value assets 31.12.2016	Fair value liabilities 31.12.2017	Fair value liabilities 31.12.2016	Notional amount/exposure 31.12.2017	Notional amount/exposure 31.12.2016
CURRENCY DERIVATIVES							
Forward contracts		**264**	334	**686**	660	**44 918**	46 314
Futures		**1**	1	**0**	0	**84**	85
Options (over-the-counter)		**90**	8	**69**	132	**5 682**	1 785
Other		**3**	–	**–**	–	**447**	–
TOTAL CURRENCY DERIVATIVES		**358**	342	**755**	792	**51 131**	48 184
INTEREST RATE DERIVATIVES							
Forward contracts		**92**	142	**2**	11	**827**	767
Swaps		**1 003**	1 239	**676**	700	**40 217**	37 026
Futures		**3**	0	**–**	0	**406**	25
Options (over-the-counter)		**3**	31	**–**	–	**289**	285
Other		**1**	–	**–**	–	**1**	–
TOTAL INTEREST RATE DERIVATIVES		**1 102**	1 413	**678**	711	**41 741**	38 104
EQUITY/INDEX DERIVATIVES							
Futures		**23**	13	**57**	71	**6 032**	4 495
Options (over-the-counter)		**0**	1	**–**	–	**277**	8
Options (exchange-traded)		**118**	100	**–**	6	**575**	346
Other		**73**	17	**3**	1	**899**	1 362
TOTAL EQUITY/INDEX DERIVATIVES		**215**	130	**60**	78	**7 782**	6 210
OTHER DERIVATIVES							
Credit derivatives		**–**	–	**126**	66	**3 122**	3 740
TOTAL OTHER DERIVATIVES		**–**	–	**126**	66	**3 122**	3 740
DERIVATIVES FOR THE ACCOUNT AND RISK OF THE SWISS LIFE GROUP'S CUSTOMERS	5	**0**	0	**–**	–	**0**	0
TOTAL DERIVATIVES		**1 675**	1 885	**1 619**	1 648	**103 776**	96 238
of which derivatives designated and accounted for as hedging instruments							
Derivatives designated as fair value hedges		**162**	97	**101**	113	**14 103**	11 746
Derivatives designated as cash flow hedges		**304**	444	**135**	94	**5 222**	3 922
Derivatives designated as net investment hedges		**19**	5	**14**	19	**2 057**	2 057

Derivatives held for risk management

Derivatives held for risk management primarily comprise derivatives that share a risk with other financial instruments and give rise to opposite changes in fair value that tend to offset each other ("economic hedges"). The timing of the offset does not match in all cases.

To manage the risks associated with derivative activity, the Group establishes and monitors exposure and risk limits. Exposure to price risk on both derivatives and their underlyings is managed in accordance with risk limits set by risk committees for buying or selling instruments or closing out positions. The risks arise from open positions in interest rates, currencies and equity instruments, all of which are exposed to general and specific market movements.

Derivatives designated and accounted for as hedging instruments

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

Derivatives designated as fair value hedges as at 31 December 2017

In CHF million	Fair value		Notional amount	Hedging instruments		Hedged items	
	Assets	Liabilities		Gains	Losses	Gains	Losses
Interest rate risk							
Interest rate swaps to hedge bond portfolios	**123**	**94**	**8 526**	**69**	**78**	**78**	**69**
Foreign currency risk							
Currency forwards to hedge non-monetary investments	**40**	**7**	**5 577**	**311**	**350**	**350**	**311**
TOTAL DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES	**162**	**101**	**14 103**	**379**	**428**	**428**	**379**

Derivatives designated as fair value hedges as at 31 December 2016

In CHF million	Fair value		Notional amount	Hedging instruments		Hedged items	
	Assets	Liabilities		Gains	Losses	Gains	Losses
Interest rate risk							
Interest rate swaps to hedge bond portfolios	83	86	7 536	92	72	75	93
Foreign currency risk							
Currency forwards to hedge non-monetary investments	14	27	4 210	370	232	232	370
TOTAL DERIVATIVES DESIGNATED AS FAIR VALUE HEDGES	97	113	11 746	462	304	307	462

The Swiss Life Group used interest rate swaps to hedge available-for-sale fixed-rate bonds and bonds classified as loans in Swiss francs, euro, British pounds and US dollars against changes in the fair value attributable to interest rate risk. The nominal amount of these bonds as at 31 December 2017 was CHF 8.2 billion (2016: CHF 7.0 billion).

Forward contracts are used as hedging instruments to protect non-monetary investments against adverse movements in euro, British pound, US dollar and Canadian dollar exchange rates. Such investments include equity securities, hedge funds and investment funds (equity funds, real estate funds and corporate loan funds).

Foreign currency debt designated as fair value hedge

In CHF million (if not noted otherwise)	Fair value	Nominal amount	Hedging instruments		Hedged items	
		EUR	Gains	Losses	Gains	Losses
AS AT 31 DECEMBER 2017						
Foreign currency borrowing to hedge currency risk of non-monetary investments	**96**	**82**	**–**	**–8**	**8**	**–**
AS AT 31 DECEMBER 2016						
Foreign currency borrowing to hedge currency risk of non-monetary investments	238	225	7	–2	2	–7

In 2017 and 2016, hybrid debt denominated in euro was used to protect non-monetary investments (hedge funds, equity securities and real estate funds) against adverse movements in euro exchange rates.

Derivatives designated as cash flow hedges as at 31 December 2017

In CHF million (if not noted otherwise)	Fair value		Contract/ notional amount	Fair value gains (+)/losses (–)		Hedged cash flows	
	Assets	Liabilities		Effective portion recognised in other comprehensive income	Ineffective portion recognised in profit or loss	Years expected to occur	Years expected to affect profit or loss
INTEREST RATE RISK							
Forward starting swaps/bonds							
Swiss franc	**197**	**68**	**2 090**	**–22**	**–**	**2018–2026**	**2018–2043**
Euro	**107**	**67**	**3 132**	**–1**	**–**	**2018–2022**	**2018–2041**
Total interest rate risk	**304**	**135**	**5 222**	**–23**	**–**	**n/a**	**n/a**
TOTAL DERIVATIVES DESIGNATED AS CASH FLOW HEDGES	**304**	**135**	**5 222**	**–23**	**–**	**n/a**	**n/a**

Derivatives designated as cash flow hedges as at 31 December 2016

In CHF million (if not noted otherwise)	Fair value		Contract/ notional amount	Fair value gains (+)/losses (–)		Hedged cash flows	
	Assets	Liabilities		Effective portion recognised in other comprehen-sive income	Ineffective portion recognised in profit or loss	Years expected to occur	Years expected to affect profit or loss
INTEREST RATE RISK							
Forward starting swaps/bonds							
Swiss franc	291	60	2 565	14	–	2017–2026	2017–2047
Euro	153	35	1 357	52	–	2017–2021	2017–2047
Total interest rate risk	444	94	3 922	66	–	n/a	n/a
TOTAL DERIVATIVES DESIGNATED AS CASH FLOW HEDGES	444	94	3 922	66	–	n/a	n/a

In 2017 and 2016, the Group used forward starting swaps and forward starting bonds to hedge the exposure to variability in interest cash flows arising on the highly probable purchase of bonds in order to achieve an adequate yield level for reinvestments.

In 2017, a gain of CHF 23 million was reclassified from other comprehensive income to profit or loss (2016: gain of CHF 26 million), of which CHF 25 million were included in investment income (2016: CHF 17 million), and CHF 2 million (loss) in net gains/losses on financial assets (2016: gain of CHF 9 million).

Derivatives designated as net investment hedges of foreign operations

In CHF million	Fair value		Contract/ notional amount	Fair value gains (+)/losses (–)	
	Assets	Liabilities		Effective portion recognised in other comprehen-sive income	Ineffective portion recognised in profit or loss
AS AT 31 DECEMBER 2017					
Currency forwards	**19**	**14**	**2 057**	**89**	**–**
TOTAL DERIVATIVES DESIGNATED AS NET INVESTMENT HEDGES	**19**	**14**	**2 057**	**89**	**–**
AS AT 31 DECEMBER 2016					
Currency forwards	5	19	2 057	–85	–
TOTAL DERIVATIVES DESIGNATED AS NET INVESTMENT HEDGES	5	19	2 057	–85	–

In 2017, investments in senior secured loan funds of USD 2211 million (2016: USD 2104 million) and investments in real estate funds of EUR 320 milllion (2016: nil) were hedged.

10 Financial Assets at Fair Value through Profit or Loss

In CHF million

	Notes	31.12.2017	31.12.2016
Debt securities		545	581
Equity securities		11	9
Investment funds – debt		2 444	3 214
Investment funds – equity		852	683
Investment funds – balanced		392	266
Real estate funds		1 433	1 514
Infrastructure investments		1 723	1 179
Private equity and hedge funds		4	6
Financial assets for the account and risk of the Swiss Life Group’s customers	5	32 824	27 479
TOTAL FINANCIAL ASSETS DESIGNATED AS AT FAIR VALUE THROUGH PROFIT OR LOSS		40 228	34 931

11 Financial Assets Available for Sale

In CHF million	Cost/amortised cost		Net unrealised gains/losses		Fair value (carrying amount)	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Debt securities	**77 097**	75 488	**10 349**	10 407	**87 446**	85 895
Senior secured loans	**2 652**	2 033	**–4**	25	**2 649**	2 058
Equity securities	**6 283**	4 657	**1 448**	727	**7 731**	5 384
Investment funds – debt	**3 680**	3 570	**72**	109	**3 752**	3 679
Investment funds – equity	**1 937**	1 575	**419**	175	**2 356**	1 751
Investment funds – balanced	**18**	17	**0**	0	**18**	16
Real estate funds	**406**	814	**7**	36	**413**	850
Private equity	**332**	376	**162**	173	**494**	550
Hedge funds	**41**	48	**23**	26	**64**	74
TOTAL FINANCIAL ASSETS AVAILABLE FOR SALE	**92 447**	88 578	**12 475**	11 677	**104 922**	100 256

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

12 Financial Assets Pledged as Collateral

In CHF million	Carrying amount	
	31.12.2017	31.12.2016
Debt securities reclassified from financial assets available for sale	**3 601**	2 942
TOTAL DEBT SECURITIES PLEDGED AS COLLATERAL	**3 601**	2 942
TOTAL FINANCIAL ASSETS PLEDGED AS COLLATERAL	**3 601**	2 942

Financial assets that have been sold under a repurchase agreement or lent under an agreement to return them are not derecognised when all the risks and rewards of ownership are retained substantially by the Swiss Life Group. If the transferee has the right to sell or repledge the financial assets given as collateral, they are reclassified in the balance sheet as financial assets pledged at their respective carrying amounts.

13 Loans and Receivables

In CHF million		Gross amount		Allowance for impairment losses		Cost/amortised cost (carrying amount)	
	Notes	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
LOANS							
Mortgages		**8 148**	7 587	**–15**	–14	**8 134**	7 573
Corporate and other loans		**2 221**	2 124	**–4**	–4	**2 216**	2 120
Note loans		**6 061**	6 461	**–**	–	**6 061**	6 461
Debt securities previously classified as available for sale		**1 932**	3 008	**–**	–	**1 932**	3 008
Other debt securities classified as loans		**270**	435	**–**	–	**270**	435
TOTAL LOANS	30	**18 632**	19 615	**–19**	–18	**18 613**	19 597
RECEIVABLES							
Insurance receivables		**1 518**	1 362	**–21**	–21	**1 496**	1 341
Reinsurance receivables		**320**	297	**–**	–	**320**	297
Accrued income		**1 502**	1 481	**–**	–	**1 502**	1 481
Settlement accounts		**419**	743	**–**	–	**419**	743
Other receivables		**629**	499	**–5**	–2	**624**	496
TOTAL RECEIVABLES	30	**4 387**	4 382	**–26**	–24	**4 361**	4 358
TOTAL LOANS AND RECEIVABLES		**23 020**	23 997	**–45**	–42	**22 974**	23 955

Allowance for impairment losses

In CHF million	Individual evaluation of impairment		Collective evaluation of impairment		Total	
	2017	2016	2017	2016	2017	2016
LOANS						
Balance as at 1 January	**5**	4	**14**	12	**18**	16
Impairment losses/reversals	**0**	0	**1**	2	**1**	3
Write-offs and disposals	**0**	0	**–**	–	**0**	0
Foreign currency translation differences	**0**	0	**–**	–	**0**	0
BALANCE AS AT END OF PERIOD	**5**	5	**14**	14	**19**	18
RECEIVABLES						
Balance as at 1 January	**7**	7	**17**	20	**24**	28
Impairment losses/reversals	**0**	0	**4**	1	**4**	0
Write-offs and disposals	**0**	0	**–4**	–4	**–4**	–4
Foreign currency translation differences	**1**	0	**1**	0	**2**	0
BALANCE AS AT END OF PERIOD	**8**	7	**18**	17	**26**	24
TOTAL ALLOWANCE FOR IMPAIRMENT LOSSES	**13**	11	**33**	30	**45**	42

Interest income accrued on impaired loans was CHF 0.04 million as at 31 December 2017 (2016: CHF 0.02 million). The Group's loan portfolio is monitored closely through the review of information such as debt service, annual reports and assessments. This information is evaluated in light of current economic conditions and other factors, such as diversification of the property portfolio. This evaluation is part of the regular review to determine whether the allowance for potential loan losses is warranted. Management believes that the allowance for loan losses is sufficient. However, management cannot predict with assurance the impact of future economic circumstances or how the mortgage and real estate portfolios would be affected by various economic circumstances.

As at 1 July 2008, certain financial assets were reclassified from financial assets available for sale to loans due to the disappearance of an active market. The financial assets reclassified primarily consist of corporate debt instruments and debt instruments relating to emerging markets. The fair value as at 1 July 2008 of the financial assets reclassified amounted to CHF 14 966 million. At the date of reclassification the effective interest rate ranged from 0.8% to 9.7%, and the amount of cash flows expected to be recovered was estimated at CHF 32 658 million. In 2008, unrealised losses of CHF 740 million were recognised in other comprehensive income in respect of these assets.

Further details with regard to the financial assets reclassified are as follows.

Debt securities previously classified as available for sale

In CHF million

	2017	2016
Carrying amount as at 31 December	**1 932**	3 008
Fair value as at 31 December	**2 323**	3 409
Gains (+)/losses (–) that would have been recognised in other comprehensive income if the assets had not been reclassified (before policyholder and income tax effect)	**5**	30
Gains (+)/losses (–) recognised in profit or loss (including impairment)	**–1**	13
Interest income	**142**	200

14 Investment Property

In CHF million

	2017	2016
Balance as at 1 January	**23 801**	21 557
Additions	**3 437**	1 428
Capitalised subsequent expenditure	**126**	127
Classification as assets held for sale and other disposals	**–522**	–3
Gains/losses from fair value adjustments	**651**	763
Transfers to inventory property	**–**	–19
Foreign currency translation differences	**453**	–52
BALANCE AS AT END OF PERIOD	**27 946**	23 801
of which pledged as security for mortgage loans	**506**	152
Investment property consists of		
completed investment property	**27 103**	23 262
investment property under construction	**843**	539
TOTAL INVESTMENT PROPERTY	**27 946**	23 801

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

Rental income from investment property was CHF 1018 million for the period ended 31 December 2017 (2016: CHF 920 million). Operating expenses arising from investment property that generated rental income amounted to CHF 225 million for the period ended 31 December 2017 (2016: CHF 251 million).

The future minimum rental payments to be received under non-cancellable operating leases were as follows.

In CHF million

	31.12.2017	31.12.2016
Not later than 1 year	**483**	594
Later than 1 year and not later than 5 years	**1 444**	1 284
Later than 5 years	**1 297**	1 008
TOTAL	**3 224**	2 886
Contingent rents recognised in profit or loss	**1**	0

15 Investments in Associates

Summarised financial information for the year 2017

Amounts in CHF million	Ownership interest	Carrying amount	Dividends received	Share of profit or loss	Share of other comprehensive income	Share of total comprehensive income
EQUITY METHOD ASSOCIATES						
Crédit et services financiers (CRESERFI), Paris	**33.4%**	**50**	**0**	**2**	**–**	**2**
Groupe Assuristance, Paris	**34.0%**	**15**	**2**	**2**	**–**	**2**
Other associates	**n/a**	**13**	**2**	**0**	**–**	**0**
TOTAL	**n/a**	**77**	**4**	**3**	**–**	**3**
ASSOCIATES AT FAIR VALUE THROUGH PROFIT OR LOSS						
Agrippa Quartier GmbH, Heusenstamm	**38.1%**	**51**	**–**	**n/a**	**n/a**	**n/a**
SCI Tour LM, Marseille	**33.3%**	**34**	**–**	**n/a**	**n/a**	**n/a**
Other associates	**n/a**	**1**	**–**	**n/a**	**n/a**	**n/a**
TOTAL	**n/a**	**86**	**–**	**n/a**	**n/a**	**n/a**

Summarised financial information for the year 2016

Amounts in CHF million	Ownership interest	Carrying amount	Dividends received	Share of profit or loss	Share of other comprehensive income	Share of total comprehensive income
EQUITY METHOD ASSOCIATES						
Crédit et services financiers (CRESERFI), Paris	33.4%	44	1	2	–	2
Groupe Assuristance, Paris	34.0%	14	–	2	–	2
Other associates	n/a	12	0	5	–	5
TOTAL	n/a	70	1	9	–	9
ASSOCIATES AT FAIR VALUE THROUGH PROFIT OR LOSS						
SCI Tour LM, Marseille	33.3%	22	–	n/a	n/a	n/a
Other associates	n/a	0	–	n/a	n/a	n/a
TOTAL	n/a	23	–	n/a	n/a	n/a

Summarised financial information relating to material associates was as follows.

Amounts in CHF million	Crédit et services financiers (CRESERFI), Paris		Groupe Assuristance Paris		SCI Tour LM Marseille		Agrippa Quartier GmbH Heusenstamm	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
SUMMARISED FINANCIAL INFORMATION								
Current assets	**190**	171	**44**	32	**6**	7	**4**	–
Non-current assets	**12**	12	**37**	38	**195**	98	**142**	–
Current liabilities	**–14**	–12	**–36**	–27	**–61**	–16	**–3**	–
Non-current liabilities	**–42**	–38	**–1**	–1	**–117**	–23	**–41**	–
Revenue	**35**	36	**52**	52	**–**	–	**5**	–
Profit or loss	**3**	4	**5**	7	**–6**	–	**4**	–
Total comprehensive income	**3**	4	**5**	7	**–6**	–	**4**	–
RECONCILIATION								
Net assets	**146**	132	**43**	41	**n/a**	n/a	**n/a**	n/a
Ownership interest	**33.4%**	33.4%	**34.0%**	34.0%	**n/a**	n/a	**n/a**	n/a
Share of net assets (carrying amount)	**50**	44	**15**	14	**n/a**	n/a	**n/a**	n/a

Due to loss of control in 2017 and retention of a significant interest, Agrippa Quartier GmbH & Co. Geschlossene InvKG, Heusenstamm, is accounted for as an investment in associates.

SCI Tour LM, Marseille, a real estate company, was acquired in 2016.

16 Property and Equipment

Property and equipment for the year 2017

In CHF million

	Notes	Land and buildings	Furniture and fixtures	Hardware	Other equipment	Total
COST						
Balance as at 1 January		539	51	58	27	676
Additions		12	8	9	5	34
Additions from business combinations	28	–	–	0	–	0
Disposals [1]		–	–1	–6	0	–8
Foreign currency translation differences		16	3	3	2	24
BALANCE AS AT END OF PERIOD		567	61	63	34	725
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance as at 1 January		–196	–35	–48	–14	–293
Depreciation		–12	–5	–5	–2	–24
Impairment losses		–	–	0	–	0
Disposals [1]		–	0	3	0	4
Foreign currency translation differences		–3	–2	–2	–1	–8
BALANCE AS AT END OF PERIOD		–211	–41	–53	–17	–321
TOTAL PROPERTY AND EQUIPMENT AS AT END OF PERIOD		356	20	11	17	404
of which assets held under a finance lease		–	–	0	–	0

[1] includes elimination of fully depreciated assets

Property and equipment for the year 2016

In CHF million

	Notes	Land and buildings	Furniture and fixtures	Hardware	Other equipment	Total
COST						
Balance as at 1 January		553	51	60	26	690
Additions		3	6	6	4	19
Additions from business combinations	28	–	0	–	0	0
Disposals [1]		–15	–4	–7	–3	–29
Foreign currency translation differences		–2	–1	–1	0	–4
BALANCE AS AT END OF PERIOD		539	51	58	27	676
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
Balance as at 1 January		–186	–34	–48	–15	–283
Depreciation		–12	–4	–6	–2	–24
Impairment losses		–3	–	–	–	–3
Disposals [1]		5	2	5	2	15
Foreign currency translation differences		0	1	1	0	2
BALANCE AS AT END OF PERIOD		–196	–35	–48	–14	–293
TOTAL PROPERTY AND EQUIPMENT AS AT END OF PERIOD		344	16	10	13	383
of which assets held under a finance lease		–	–	0	–	0

[1] includes elimination of fully depreciated assets

No borrowing costs were capitalised in property and equipment in 2017 and 2016.

17 Intangible Assets including Intangible Insurance Assets

In CHF million

	31.12.2017	31.12.2016
Intangible insurance assets	**1 482**	1 343
Other intangible assets	**1 449**	1 374
TOTAL INTANGIBLE ASSETS	**2 931**	2 717

Intangible insurance assets

In CHF million	Present value of future profits from acquired insurance portfolios (PVP)		Deferred acquisition costs (DAC)		Deferred origination costs (DOC)		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Balance as at 1 January	**9**	12	**1 319**	1 431	**15**	21	**1 343**	1 464
Additions	**–**	–	**405**	400	**14**	5	**419**	405
Amortisation	**0**	–3	**–336**	–437	**–9**	–10	**–346**	–451
Effect of shadow accounting	**0**	0	**–16**	–65	**–**	–	**–16**	–65
Disposals	**–**	0	**–**	–	**–**	–	**–**	0
Foreign currency translation differences	**1**	0	**81**	–11	**1**	0	**82**	–11
BALANCE AS AT END OF PERIOD	**9**	9	**1 453**	1 319	**20**	15	**1 482**	1 343

Present value of future profits (PVP)

The present value of future profits relates to portfolios of insurance contracts and investment contracts with discretionary participation acquired in a business combination or transfer of portfolios. It relates to contracts acquired in Germany and is amortised in proportion to gross profits or margins over the effective life of the acquired insurance and investment contracts.

Deferred acquisition costs (DAC)

Certain acquisition costs relating to new and renewed insurance contracts and investment contracts with discretionary participation are deferred.

Deferred origination costs (DOC)

These costs are recoverable and are directly attributable to securing the right to investment management services within investment contract policies. They relate to contracts in Switzerland, Luxembourg and Singapore.

Other intangible assets for the year 2017

In CHF million

	Notes	Goodwill	Customer relationships	Computer software	Brands and other	Total
COST						
Balance as at 1 January		**1 754**	**147**	**188**	**22**	**2 110**
Additions		**–**	**0**	**14**	**1**	**15**
Additions from business combinations	28	**23**	**–**	**–**	**–**	**23**
Disposals [1]		**–**	**–**	**–3**	**–**	**–3**
Foreign currency translation differences		**88**	**10**	**16**	**2**	**116**
BALANCE AS AT END OF PERIOD		**1 865**	**157**	**215**	**25**	**2 262**
ACCUMULATED AMORTISATION AND IMPAIRMENT						
Balance as at 1 January		**–516**	**–76**	**–143**	**0**	**–736**
Amortisation		**–**	**–13**	**–15**	**0**	**–29**
Disposals [1]		**–**	**–**	**2**	**–**	**2**
Foreign currency translation differences		**–31**	**–5**	**–13**	**0**	**–49**
BALANCE AS AT END OF PERIOD		**–547**	**–95**	**–170**	**–1**	**–812**
TOTAL OTHER INTANGIBLE ASSETS AS AT END OF PERIOD		**1 318**	**62**	**46**	**24**	**1 449**

[1] includes elimination of fully amortised/impaired assets

Other intangible assets for the year 2016

In CHF million

	Notes	Goodwill	Customer relationships	Computer software	Brands and other	Total
COST						
Balance as at 1 January		1 754	136	181	21	2 092
Additions		–	0	13	0	14
Additions from business combinations	28	17	13	–	1	31
Additions from internal software development		–	–	0	–	0
Disposals [1]		–	–2	–4	–	–6
Foreign currency translation differences		–17	–1	–3	0	–21
BALANCE AS AT END OF PERIOD		1 754	147	188	22	2 110
ACCUMULATED AMORTISATION AND IMPAIRMENT						
Balance as at 1 January		–520	–66	–130	0	–716
Amortisation		–	–13	–15	0	–28
Impairment losses		–	–	–4	–	–4
Disposals [1]		–	2	4	–	5
Foreign currency translation differences		4	1	2	0	7
BALANCE AS AT END OF PERIOD		–516	–76	–143	0	–736
TOTAL OTHER INTANGIBLE ASSETS AS AT END OF PERIOD		1 238	70	44	22	1 374

[1] includes elimination of fully amortised/impaired assets

Goodwill

Goodwill represents the excess of the fair value of the consideration transferred and the amount of any non-controlling interest recognised, if applicable, over the fair value of the assets and liabilities recognised at the date of acquisition. Goodwill includes amounts relating to both the Swiss Life Group's interest and the non-controlling interest in the business acquired in the case where non-controlling interest is measured at fair value. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on associates is included in the carrying amount of the investment.

In October 2017, the Swiss Life Group acquired Medical Money Management Ltd., Liverpool. The goodwill relating to this acquisition amounted to CHF 23 million and has been allocated to the "International" segment.

The acquisition of MAYFAIR CAPITAL INVESTMENT MANAGEMENT LIMITED, London, in November 2016 led to the recognition of goodwill of CHF 17 million. The goodwill has been allocated to the "Asset Managers" segment.

Goodwill relating to Lloyd Continental has been allocated to the "France" segment. Goodwill relating to CapitalLeben has been allocated to the "International" segment. Goodwill relating to Corpus Sireo has been allocated to the "Asset Managers" segment. Of the goodwill relating to other acquisitions, CHF 21 million (31.12.2016: CHF 18 million) have been allocated to the "France" segment, CHF 26 million (31.12.2016: CHF 25 million) to the "Asset Managers" segment and CHF 23 million to the International segment as at 31 December 2017.

The calculations relating to the recoverable amounts, which have been determined on a value-in-use basis, use cash flow projections based on financial budgets approved by management. The projection covers a three-year period for Lloyd Continental and Corpus Sireo. Due to the duration of the insurance and investment contracts a five-year period was used for CapitalLeben. The calculations for Lloyd Continental, Corpus Sireo and CapitalLeben are based on present values that traditionally use a single set of estimated cash flows and a single discount rate.

In CHF million	Lloyd Continental		CapitalLeben		Corpus Sireo		Other	
	31.12.2017	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
Net carrying amount of goodwill	**287**	287	**149**	149	**113**	104	**70**	43
KEY ASSUMPTIONS USED FOR IMPAIRMENT TESTS								
Growth rate	**2.0%**	2.0%	**1.0%**	1.0%	**2.0%**	2.0%	**2.0%**	2.0%
Discount rate	**9.0%**	8.3%	**6.4%**	6.4%	**8.5%**	7.9%	**8.2–9.0%**	8.1–8.3%

The discount rates used for the value-in-use calculations are based on weighted average cost of capital (WACC) derived from the Capital Asset Pricing Model. Peer group comparisons and the beta of the Swiss Life Group are used for determining the beta used in the calculation. Capital structure reflected in the WACC calculation is in line with the actual and target capital structure of the Swiss Life Group.

The growth rates reflect the long-term inflation expectations of the International Monetary Fund for Switzerland and Liechtenstein and of the European Central Bank for the euro zone.

Goodwill relating to “Swiss Life Select” (acquisitions of AWD Holding AG and Deutsche Proventus AG) has been allocated to the “Switzerland”, “Germany” and “International” segments. The recoverable amounts have been determined on a value-in-use basis and use cash flow projections based on financial budgets approved by management. The projection covers a three-year period for Switzerland, Germany and International (AT/CEE, UK). The calculations are based on present values that traditionally use a single set of estimated cash flows and a single discount rate. The key assumptions used for the impairment testing on the carrying amount of goodwill are as follows.

Goodwill relating to Swiss Life Select

In CHF million	Switzerland		Germany		International		Total	
	31.12.2017	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
Net carrying amount of goodwill	**152**	152	**472**	433	**75**	70	**699**	655
KEY ASSUMPTIONS USED FOR IMPAIRMENT TESTS								
Growth rate	**1.0%**	1.0%	**2.0%**	2.0%	**2.0%**	2.0%	**n/a**	n/a
Discount rate	**6.9%**	6.9%	**8.5%**	7.9%	**8.2%**	7.6%	**n/a**	n/a

Customer relationships

The acquisition of MAYFAIR CAPITAL INVESTMENT MANAGEMENT LIMITED, London, in November 2016 led to the recognition of customer relationships of CHF 13 million.

As at 31 December 2017, customer relationships comprise customer relationships relating to Swiss Life Select: CHF 3 million (31.12.2016: CHF 4 million), which were allocated to the “Switzerland” segment. The “France” segment comprises customer relationships of CHF 13 million (31.12.2016: CHF 15 million) and the “Asset Managers” segment of CHF 45 million (31.12.2016: CHF 51 million). Customer relationships were included in the impairment test of the respective cash-generating unit.

Brands and other

Comprises the brands Corpus Sireo and Mayfair.

18 Other Assets and Liabilities

Other assets

In CHF million

	31.12.2017	31.12.2016
Deferred charges and prepaid expenses	**64**	68
Employee benefit assets	**63**	59
Inventory property [1]	**424**	619
VAT and other tax receivables	**129**	90
Sundry assets	**8**	7
TOTAL OTHER ASSETS	**688**	844

[1] of which CHF 291 million pledged as security for loans (2016: CHF 295 million)

Other liabilities

In CHF million

	31.12.2017	31.12.2016
Deferred income	**218**	209
VAT and other tax payables	**147**	143
Sundry liabilities	**1**	2
TOTAL OTHER LIABILITIES	**366**	355

19 Investment and Unit-Linked Contracts

In CHF million		Gross		Ceded		Net	
	Notes	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Unit-linked contracts	30	**25 130**	21 948	**–**	–	**25 130**	21 948
Investment contracts with discretionary participation features (DPF)		**16 243**	14 642	**130**	105	**16 113**	14 537
Investment contracts without DPF at fair value through profit or loss	30	**383**	330	**–**	–	**383**	330
Investment contracts without DPF at amortised cost	30	**0**	0	**–**	–	**0**	0
TOTAL INVESTMENT AND UNIT-LINKED CONTRACTS		**41 756**	36 920	**130**	105	**41 626**	36 815
of which for the account and risk of the Swiss Life Group's customers							
unit-linked contracts	5	**25 130**	21 948	**–**	–	**25 130**	21 948
investment contracts	5	**4 875**	4 192	**–**	–	**4 875**	4 192

Unit-linked contracts

In CHF million	2017	2016
Balance as at 1 January	**21 948**	22 615
Deposits received	**3 016**	1 973
Fair value changes	**564**	406
Policy fees and other charges	**–110**	–103
Deposits released	**–1 648**	–2 779
Other movements	**25**	–24
Reclassifications	**21**	26
Foreign currency translation differences	**1 314**	–167
BALANCE AS AT END OF PERIOD	**25 130**	21 948

Investment contracts with discretionary participation – gross

In CHF million	2017	2016
Balance as at 1 January	**14 642**	13 762
Premiums and deposits received	**3 296**	2 905
Interest and bonuses credited	**244**	274
Policy fees and other charges	**–171**	–143
Liabilities released for payments on death, surrender and other terminations	**–2 007**	–1 725
Effect of changes in actuarial assumptions and other movements	**522**	333
Reclassifications	**–1 295**	–625
Foreign currency translation differences	**1 013**	–139
BALANCE AS AT END OF PERIOD	**16 243**	14 642

Investment contracts without discretionary participation – gross

In CHF million

	2017	2016
Balance as at 1 January	**330**	352
Deposits received	**93**	25
Fair value changes	**–29**	–4
Interest and bonuses credited	**0**	0
Policy fees and other charges	**–2**	–1
Deposits released	**–25**	–28
Other movements	**0**	0
Reclassifications	**–1**	–12
Foreign currency translation differences	**15**	–1
BALANCE AS AT END OF PERIOD	**383**	330

In the case of contracts that do not have significant insurance risk but contain discretionary participation features, the Swiss Life Group primarily bases its accounting policies on the requirements of the Generally Accepted Accounting Principles in the United States (status of US GAAP as of the first application of IFRS 4 Phase I).

In the case of traditional contracts in the life insurance business, future life policy benefit liabilities are determined by using the net-level-premium method on the basis of actuarial assumptions as to mortality, persistency, expenses and investment return, including a margin for adverse deviation. For participating contracts where the contribution principle applies to the allocation of the policyholder bonus, future life policy benefit liabilities are determined by using the net-level-premium method on the basis of appropriate mortality and interest rate assumptions. These amounts relate to contracts issued in Switzerland.

Certain contracts that do not contain significant insurance risk and do not have discretionary participation features are carried at amortised cost or fair value.

20 Borrowings

In CHF million

	Notes	31.12.2017	31.12.2016
Hybrid debt		3 152	3 633
Convertible debt		–	467
Senior bonds		424	423
Other		1	1
TOTAL BORROWINGS	30	3 577	4 524

Reconciliation of liabilities arising from financing activities for the year 2017

In CHF million

	Hybrid debt	Convertible debt	Senior bonds	Other	Total
Balance as at 1 January	3 633	467	423	1	4 524
Cash flows					
Repurchases	–	–1	–	–	–1
Redemptions	–631	0	–	0	–631
Non-cash changes					
Premium/discount amortisation	4	6	0	0	11
Conversions and other changes	–	–473	–	–	–473
Foreign currency translation differences	147	–	–	0	148
BALANCE AS AT END OF PERIOD	3 152	–	424	1	3 577

Hybrid debt

On 27 September 2016, ELM B.V., a Dutch repackaging vehicle, issued EUR 600 million in fixed to floating rate subordinated perpetual notes (at an issue price of 99.707%) secured by loan notes granted to Swiss Life Ltd, which are guaranteed by Swiss Life Holding. Swiss Life Ltd may repay the loan notes in full on 19 May 2027 or on any interest payment date thereafter, upon notice and subject to the consent of the Swiss Financial Market Supervisory Authority. The interest has been fixed at 4.50% p.a. until 19 May 2027. If the notes are not redeemed on 19 May 2027, the interest will be the aggregate of the three-month Euribor and a margin of 5.10% p.a.

On 24 March 2016, Swiss Life Ltd issued subordinated dated callable bonds in the amount of CHF 150 million. The bonds are guaranteed by Swiss Life Holding, have their maturity date on 24 September 2046 and are first callable on 24 September 2026 or at each interest payment date thereafter at the option of the issuer, upon notice and subject to the consent of the Swiss Financial Market Supervisory Authority. The interest has been fixed at 4.375% p.a. until 24 September 2026. If the bonds are not redeemed on 24 September 2026, the interest resets at a rate fixed for the subsequent five years, consisting of the aggregate of the then-prevailing five-year CHF swap rate and the initial margin of 4.538% p.a.

On 24 March 2016, Swiss Life Ltd issued subordinated perpetual callable bonds in the amount of CHF 450 million. The bonds are guaranteed by Swiss Life Holding, have no fixed maturity date and are first callable on 24 September 2021 or at each interest payment date thereafter at the option of the issuer, upon notice and subject to the consent of the Swiss Financial Market Supervisory Authority. The interest has been fixed at 3.75% p.a. until 24 September 2021. If the bonds are not redeemed on 24 September 2021, the interest resets at a rate fixed for the subsequent five years, consisting of the aggregate of the then-prevailing five-year CHF swap rate and the initial margin of 4.392% p.a.

On 16 June 2015, Demeter Investments B.V., a Dutch repackaging vehicle, issued EUR 750 million in fixed to floating rate subordinated perpetual notes (at an issue price of 99.105 %) secured by loan notes granted to Swiss Life Ltd, which are guaranteed by Swiss Life Holding. Swiss Life Ltd may repay the loan notes in full on 16 June 2025 or on any interest payment date thereafter, upon notice and subject to the consent of the Swiss Financial Market Supervisory Authority. The interest has been fixed at 4.375 % p.a until 16 June 2025. If the notes are not redeemed on 16 June 2025, the interest will be the aggregate of three-month Euribor and a margin of 4.30 % p.a.

In November 2012, Swiss Life Insurance Finance Ltd. offered to existing lenders under the subordinated perpetual step-up loan placed in 1999 by Swiss Life Ltd to purchase their loan holdings against a consideration consisting of both a cash component and a credit component. Altogether, EUR 265 million and CHF 290 million were purchased from lenders. The cash component amounted to a total of CHF 139 million. The credit component consists of a tranche of a subordinated dated step-up loan newly issued by Swiss Life Ltd. The subordinated dated step-up loan placed in connection with the offer amounts to CHF 471 million, is guaranteed by Swiss Life Holding, has a tenor of thirty years and is first repayable on 30 November 2022 at the option of the issuer, upon notice and subject to the consent of the Swiss Financial Market Supervisory Authority. The interest rate is six-month Libor plus a margin of 4.20 % p.a. until 30 November 2022. If the loan is not redeemed on 30 November 2022, the margin increases by 1 %.

On 22 October 2012, Swiss Life Ltd issued subordinated perpetual callable bonds in the amount of CHF 300 million. The bonds are guaranteed by Swiss Life Holding, have no fixed maturity date and are first callable on 22 August 2018 or at each interest payment date thereafter at the option of the issuer, upon notice and subject to the consent of the Swiss Financial Market Supervisory Authority. The interest has been fixed at 5.50 % p.a. until 22 August 2018. If the bonds are not redeemed on 22 August 2018, the interest resets at a rate fixed for the subsequent five years, consisting of the aggregate of the then-prevailing five-year CHF swap rate and the initial margin of 5.091 % p.a.

On 4 April 2011, Swiss Life Ltd issued subordinated perpetual callable bonds in the amount of CHF 325 million. CHF 75 million were additionally issued in June 2011 and CHF 100 million in October 2011. The bonds were guaranteed by Swiss Life Holding, had no fixed maturity date and were first callable on 4 October 2016 upon notice and subject to the consent of the Swiss Financial Market Supervisory Authority. The interest has been fixed at 5.25 % p.a. until 4 October 2016. The bonds were redeemed on the first call date on 4 October 2016.

On 12 April 2007, ELM B.V., a Dutch repackaging vehicle, issued EUR 700 million in fixed to floating rate subordinated perpetual notes to finance loan notes granted to Swiss Life Ltd, which are guaranteed by Swiss Life Holding. Swiss Life Ltd may repay the loan notes in full on 12 April 2017 or on any interest payment date thereafter, upon notice and subject to the consent of the Swiss Financial Market Supervisory Authority. The notes bear interest from 12 April 2007 to 12 April 2017 at a rate of 5.849 % p.a. The notes were redeemed on 12 April 2017.

In March 1999, Swiss Life Ltd 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 % p.a., increased by 100 basis points as from April 2009), CHF 290 million (at a rate of interest of Libor plus a margin of 1.05 % p.a., increased by 100 basis points as from April 2009) and EUR 215 million (at a rate of interest of Euribor plus a margin of 1.05 % p.a., increased by 100 basis points as from October 2009). In 2009, Swiss Life Ltd renounced the right to call the loan on its first call date. Following the purchase offer by Swiss Life Insurance Finance Ltd. in 2012, EUR 192 million remain outstanding. Swiss Life Ltd renounced the right to call the loan on the second optional call date in April 2014 and can next call it in 2019 or at five-year intervals thereafter, at its discretion, upon notice and subject to the consent of the Swiss Financial Market Supervisory Authority.

Amounts in CHF million (if not noted otherwise)	Nominal value in year of issue	Nominal value at 31.12.2017	Interest rate	Year of issue	Optional redemption	Carrying amount	Carrying amount
Borrower						**31.12.2017**	**31.12.2016**
Swiss Life AG	EUR 600	EUR 600	4.500%	2016	2027	**695**	637
Swiss Life AG	CHF 150	CHF 150	4.375%	2016	2026	**149**	149
Swiss Life AG	CHF 450	CHF 450	3.750%	2016	2021	**448**	447
Swiss Life AG	EUR 750	EUR 750	4.375%	2015	2025	**866**	793
Swiss Life AG	CHF 471	CHF 471	Libor +4.200%	2012	2022	**469**	468
Swiss Life AG	CHF 300	CHF 300	5.500%	2012	2018	**300**	299
Swiss Life AG	EUR 700	–	5.849%	2007	2017	**–**	633
Swiss Life AG	EUR 443	EUR 192	Euribor +2.050%	1999	2019	**225**	207
TOTAL						**3 152**	3 633

Convertible debt

In December 2013, Swiss Life Holding issued CHF 500 million in senior unsecured convertible bonds due in 2020. The coupon was set at 0 %. The bonds were convertible into registered shares of Swiss Life Holding at the option of the holder. The initial conversion price was set at CHF 243.97 (in 2017 adjusted to CHF 232.13, valid since 27 April 2017). The proceeds 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 450 million and was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount of CHF 50 million represented the value of the option to convert the instrument into Swiss Life Holding shares and was 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 September 2017, Swiss Life Holding announced its intention to use its right to redeem the convertible bonds at par on 27 December 2017. Bondholders could convert their bonds into shares until 11 December 2017. In 2017, convertible bonds with a nominal value of CHF 499 million (2016: CHF 35 000.00) were converted into 2 141 905 (2016: 147) Swiss Life Holding shares with a corresponding increase in share capital of CHF 11 million (2016: CHF 749.70) and an increase in share premium of CHF 462 million (2016: CHF 31 552.91). The remaining amount of the convertible bonds of CHF 0.8 million was repaid on 27 December 2017.

Senior bonds

In May 2013, Swiss Life Holding raised CHF 425 million debt through the issuance of a CHF public bond dual tranche transaction, split into a CHF 225 million tranche with a tenor of six years and a CHF 200 million tranche with a tenor of ten years. The unsecured senior bonds bear coupons of 1.125% p.a. and 1.875% p.a., respectively. Settlement took place on 21 June 2013.

Amounts in CHF million (if not noted otherwise)	Nominal value	Interest rate	Year of issue	Redemption	Carrying amount	Carrying amount
Issuer					**31.12.2017**	31.12.2016
Swiss Life Holding AG	CHF 225	1.125%	2013	2019	**225**	224
Swiss Life Holding AG	CHF 200	1.875%	2013	2023	**199**	199
TOTAL					**424**	423

21 Other Financial Liabilities

In CHF million	Notes	31.12.2017	31.12.2016
Insurance payables		**2 460**	2 483
Policyholder deposits		**1 157**	1 201
Reinsurance deposits		**158**	137
Customer deposits		**1 324**	1 881
Repurchase agreements		**3 662**	2 970
Amounts due to banks		**1 818**	1 585
Non-controlling interests in investment funds	30	**3 282**	3 295
Accrued expenses		**417**	396
Settlement accounts		**518**	739
Other		**779**	617
TOTAL OTHER FINANCIAL LIABILITIES		**15 574**	15 303

22 Insurance Liabilities

In CHF million	Gross		Ceded		Net	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Claims under non-life insurance contracts	**924**	851	**176**	164	**748**	687
Unearned premiums non-life	**55**	53	**1**	1	**55**	52
Claims under life insurance contracts	**6 219**	6 078	**88**	97	**6 131**	5 981
Future life policyholder benefits	**100 760**	96 932	**132**	131	**100 628**	96 800
Unearned premiums life	**38**	37	**0**	0	**38**	37
Deposits under insurance contracts	**8 847**	6 984	**–**	–	**8 847**	6 984
TOTAL INSURANCE LIABILITIES	**116 844**	110 935	**397**	393	**116 447**	110 542
of which for the account and risk of the Swiss Life Group's customers	**5 462**	3 692	**–**	–	**5 462**	3 692

Unearned premiums

Unearned premiums represent the portion of the premiums written relating to the unexpired terms of coverage.

Claims under life insurance contracts

Claims under life insurance contracts represent the liability for unpaid portions of claims incurred. The liability includes an estimate for claims incurred but not reported (IBNR). The measurement at reporting date is a best estimate of ultimate future claim payments.

Claims under non-life insurance contracts – gross

In CHF million	2017	2016
Balance as at 1 January	**851**	872
Additions from business combinations	**–**	–
Claims and claim settlement costs incurred		
Reporting period	**282**	270
Prior reporting periods	**–52**	–47
Claims and claim settlement costs paid		
Reporting period	**–120**	–115
Prior reporting periods	**–115**	–119
Reclassifications	**–**	–
Disposals	**–**	–
Foreign currency translation differences	**77**	–11
BALANCE AS AT END OF PERIOD	**924**	851

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.

Future life policyholder benefits and claims – gross

In CHF million

	2017	2016
Balance as at 1 January	**103 010**	100 583
Premiums received	**8 747**	9 098
Interest credited	**1 793**	1 931
Claims incurred, benefits paid and surrenders	**–9 160**	–8 990
Effect of changes in actuarial assumptions and other movements	**359**	645
Reclassifications	**26**	51
Disposals	**–**	–
Foreign currency translation differences	**2 205**	–307
BALANCE AS AT END OF PERIOD	**106 979**	103 010

For participating contracts where the contribution principle applies to the allocation of the policyholder bonus, future life policy benefit liabilities are determined by using the net-level-premium method on the basis of appropriate mortality and interest rate assumptions.

The valuation of other long-duration contracts is also based on the net-level-premium method with actuarial assumptions as to mortality, persistency, expenses and investment returns including provisions for adverse deviation.

Deposits under insurance contracts – gross

In CHF million

	2017	2016
Balance as at 1 January	**6 984**	6 602
Deposits received	**175**	177
Interest credited	**46**	52
Participating bonuses	**12**	15
Policy fees and insurance charges	**–28**	–23
Deposits released for payments on death, surrender and other terminations during the year	**–318**	–333
Other movements	**98**	7
Reclassifications	**1 249**	567
Foreign currency translation differences	**628**	–80
BALANCE AS AT END OF PERIOD	**8 847**	6 984

For investment-type contracts with significant insurance risk, savings premiums collected are reported as deposits (deposit accounting).

Insurance liabilities with and without discretionary participation

In CHF million

	31.12.2017	31.12.2016
Insurance liabilities with discretionary participation	**97 604**	95 039
Insurance liabilities without discretionary participation	**13 777**	12 203
Insurance liabilities linked to assets for the account and risk of the Swiss Life Group's customers	**5 462**	3 692
TOTAL INSURANCE LIABILITIES	**116 844**	110 935

23 Employee Benefits

Employee benefit liabilities

In CHF million

	31.12.2017	31.12.2016
Employee benefit liabilities consist of		
gross defined benefit liabilities	**1 815**	1 912
other employee benefit liabilities	**172**	155
TOTAL EMPLOYEE BENEFIT LIABILITIES	**1 986**	2 068

Defined benefit plans

Employees are covered under various funded and unfunded pension plans which operate under local regulations and practice. The major part of the defined benefit liability recognised arises from the plans covering employees in Switzerland. The impact on the consolidated financial statements arising from the plans covering employees in Germany and France is far less significant. Generally, the level of benefits is based on years of service and average compensation preceding retirement, and the main benefit is a pension after retirement or a lump-sum payment at the time of retirement. Most plans are funded and the funding is governed by local requirements and with respect to the liability (determined based on actuarial methods) based on the plans' benefit promises. For several plans, contributions are not only made by the employer, but also by the employee (generally as a part of gross salaries).

In Switzerland, France and Germany, insurance contracts have been issued to defined benefit plans covering own employees, which reinsure a part of the benefit promises made by the plans. Due to the requirements of IFRS 4 Insurance Contracts in combination with IAS 19 Employee Benefits, such insurance contracts are eliminated (self-insurance, non-eligibility as plan asset). To the extent the affected plans are funded by self-insurance, the defined benefit liabilities are backed by the investments relating to the eliminated insurance contracts. These investments are part of the investments presented in the consolidated balance sheet of the Swiss Life Group.

Plan descriptions

Switzerland

Pension plans in Switzerland are governed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (BVG). Pension plans must be managed by independent, legally autonomous entities and are under regulatory supervision. The plans covering the Group's employees in Switzerland are set up as foundations. The foundation board as the most senior governing body must be composed of equal numbers of employee and employer representatives. Main responsibilities of the foundation board are the definition of plan benefits, funding system and the setting of actuarial parameters and investment policies for the plan assets. The BVG defines minimum levels with regard to benefits (including conversion rate for old-age pensions), employer/employee contributions and the interest rate for the accrual of the employee's pension account. An annual actuarial report according to BVG requirements is prepared which shows the funding level of the respective plan. The measurement basis for the plan's assets and benefit obligations for this purpose is in accordance with BVG rules.

The primary benefit of Swiss Life's plans is an old-age pension after reaching retirement age. The level of the old-age pension is determined by the plan's conversion rate applied to the employee's individual pension account accumulated at retirement age. There are options for early retirement (with actuarially determined reduction of the conversion rate) and for choosing to receive a lump-sum payment instead of a pension. This old-age pension is funded by monthly contributions from the employer and the employee (deducted from salary) to an individual pension account, which in addition is increased by a yearly interest accrual. The contributions are based on age and on a percentage of the contributory salary. Further funding of an individual pension account comprises mandatory transfers of funds made by new employees from plans of their former employers and discretionary contributions from the employees (with restrictions to maximum amounts). As a consequence of plan amendments in the past, certain age groups are granted guarantees of a minimum level of old-age pensions in case of early retirement. The cost with respect to early retirement of members from these age groups is borne by the employer.

Other benefits comprise survivors'/orphans' pensions and/or lump-sum payments in case of death as well as disability pensions (if disabled before retirement age) and transfer of vested benefits in case of job changes. In these plans, which cover nearly all of the Group's employees in Switzerland, the cost of the benefits is funded by payment of insurance premiums to group insurance contracts issued by Swiss Life Ltd (self-insurance) and is borne by the employer. In addition, the administration expenses of the plans are also borne by the employer, since the personnel managing the plans are Swiss Life employees.

France

Pension plans in France are covered by various national agreements. Defined benefit plans in France cover retirement benefits for employees, including executive officers, based on the last salary, length of service, cause of termination and the respective national agreement. Furthermore, service anniversary bonuses are based on employee category and length of service.

Germany

Pension plans in Germany are governed by the Law on Occupational Retirement (BetrAVG). The BetrAVG is part of the general labour legislation, which means that the BetrAVG establishes no rules on funding benefit obligations. It only describes the various possible ways of funding benefit obligations without further details on the practice of funding.

There are various defined benefit plans in place. They provide pension benefits after reaching retirement age.

For some plans, the level of the pension benefits is determined by the years of service and the last salary before retirement according to the benefit formula as defined in the pension plan. Other benefits comprise widows'/widowers' pensions in case of death as well as disability pensions (if disabled before retirement age). The levels of these benefits are determined similar to the old-age pensions assuming service up to normal retirement age. Widows'/widowers' pensions are 60 % of the old age/disability pension benefits.

For some plans, the level of old-age pensions is determined by yearly amounts. Contributions are made in the form of premiums to an individual insurance contract with Swiss Life Germany. The premium is a fixed amount, determined by the rules of the pension plan, and depends on the employee's status. Every three years there is an adjustment of the contribution amount due to the general development of salaries in the German insurance industry. There is a risk that the employer has to make additional payments in case the benefits of the individual insurance contract do not cover the benefits promised by the plan. Other benefits comprise lump-sum payments in case of death as well as disability pensions (if disabled before retirement age). The levels of these benefits are determined as fixed amounts by the plan depending on the employee's status. This part of the plan is also covered by insurance contracts with Swiss Life Germany.

For some plans, a lump-sum benefit is provided when reaching retirement age. The capital benefit amount depends on the contributions and the performance of an underlying portfolio of assets. The benefit payable is the amount originally paid in plus interest.

Risks covered

With respect to its defined benefit plans the Group faces the risks of adverse development of the prominent actuarial/financial assumptions, such as discount rates, mortality assumptions and future salary growth, inherent in the measurement of plan liabilities. If the high-quality corporate bond yields (which are the basis for assessing the discount rate) decrease, the present value of the defined benefit obligation would increase, which would lead to a higher defined benefit liability in the consolidated balance sheet. However, this effect would be partly offset by the increase in the value of bonds in the plan assets. A higher defined benefit obligation would also result if the average life expectancy (longevity) or the rate of future salary growth were higher than the corresponding values reflected in the financial/actuarial parameters.

With respect to funded plans, the Group faces investment risk. In general, the return of plan assets – together with contributions – must be sufficient to cover the plan's benefit promises. In particular, if the return is below the discount rate, an actuarial loss would be created with negative impact on the net benefit liability/asset and other comprehensive income. The mitigation of this risk depends on the nature of the benefit promises and the regulatory/legal framework of the plan, and is therefore country-specific.

Switzerland

The responsibility for maintaining a sufficient funding status lies with the foundations. In the case of underfunding (as assessed according to BVG rules, not IFRS) the foundations are required to take appropriate measures to restore a sufficient funding status. Potential measures that could be taken are adjustments to the pension accounts' interest rate, benefit levels and regular employer/employee contributions. Furthermore, the foundations could require additional contributions from the employer and the employees. Because the funding status of the foundations in Switzerland is sufficient, it is not expected that any such additional contributions will be required in the near future.

The investment risk inherent in achieving an adequate return on the plan assets covering the pension accounts of active employees is borne by the foundations. In addition, the investment risk and actuarial risk relating to old-age pensions lie with the foundations. However, for the two major plans, all pensions which were already in payout before 1 January 2011 are fully covered under a group insurance contract issued by Swiss Life Ltd. Furthermore, all insurance risk relating to death/survivors'/disability benefits is fully covered by several group contracts issued by Swiss Life Ltd.

The objective of the investment process is to ensure that the return on the plan assets – together with the contributions – will be sufficient to fulfil the benefit promises. The investment strategy must be in line with the related BVG rules and regulations (e.g. requirements regarding diversification). The foundations are responsible for defining the investment strategy taking into account the objectives, benefit obligations and risk capacity. The implementation of the investment policy is delegated to an investment committee.

France

The investment risk inherent in achieving an adequate return on the plan assets in order to pay the promised benefits to employees, as well as the mortality risk, are borne by the company.

Germany

According to the German BetrAVG there are no specific rules regarding funding of pension obligations. The defined benefit plans are funded by individual insurance contracts with Swiss Life Germany that cover the promised benefits. Because of tax limitations, the individual insurance contracts do not cover the whole level of the benefit promises. Therefore, Swiss Life Germany has established a contractual trust arrangement to cover the additional risks from the pension plan. Plan risks mainly arise from salary increases and from an increase in pension payments.

For the plans that provide lump-sum benefits based on separate asset portfolios, the most significant but low risk is from capital markets fluctuations. The asset portfolios are broadly diversified with corporate bonds, German government bonds, covered bonds and exchange-traded funds.

Amounts recognised as defined benefit assets / liabilities

In CHF million

	31.12.2017	31.12.2016
Present value of defined benefit obligation	–3 600	–3 537
Fair value of plan assets	1 848	1 684
Defined benefit asset ceiling	–	–
NET DEFINED BENEFIT LIABILITY	–1 752	–1 853
Insurance contracts not eligible as plan assets under IFRS	1 422	1 477
NET DEFINED BENEFIT SURPLUS (+)/DEFICIT (–) (ECONOMIC VIEW)	–330	–376
The net defined benefit liability consists of		
gross defined benefit liabilities	–1 815	–1 912
gross defined benefit assets	63	59

To assess the funding situation of the defined benefit plans in total, plan assets as well as insurance contracts not eligible as plan assets under IFRS must be set off against the present value of the defined benefit obligation. The total deficit taking into consideration insurance contracts not eligible as plan assets under IFRS amounted to CHF 330 million as at 31 December 2017 (2016: deficit of CHF 376 million).

Amounts recognised in profit or loss

In CHF million

	2017	2016
Current service cost	113	114
Past service cost	–4	2
Net interest cost	14	17
Settlements	–	0
Employee contributions	–31	–31
TOTAL DEFINED BENEFIT EXPENSE	92	102

Defined benefit expense in 2017 comprises negative past service cost of CHF 4 million due to plan amendments in Switzerland.

Amounts recognised in other comprehensive income

In CHF million

	2017	2016
Actuarial gains and losses on the defined benefit obligation	–40	–193
Return on plan assets excluding interest income	108	2
TOTAL REMEASUREMENTS OF THE NET DEFINED BENEFIT LIABILITY	68	–191

Defined benefit plans

In CHF million

	2017	2016
CHANGES IN THE PRESENT VALUE OF THE DEFINED BENEFIT OBLIGATION		
Balance as at 1 January	**–3 537**	–3 325
Current service cost	**–113**	–114
Past service cost incl. gains/losses from settlements	**4**	–2
Interest cost	**–26**	–32
Contributions by plan participants	**–52**	–68
Actuarial gains (+)/losses (–) arising from		
experience adjustments	**–44**	–75
changes in demographic assumptions	**0**	5
changes in financial assumptions	**4**	–123
Benefit payments	**191**	191
Settlement payments	**–**	0
Effect of reclassifications and other disposals	**0**	–
Foreign currency translation differences	**–27**	4
BALANCE AS AT END OF PERIOD	**–3 600**	–3 537
of which amounts owing to		
active plan participants	**–1 805**	–1 756
retired plan participants	**–1 795**	–1 781
CHANGES IN THE FAIR VALUE OF PLAN ASSETS		
Balance as at 1 January	**1 684**	1 599
Interest income	**12**	15
Return on plan assets excluding interest income	**108**	2
Contributions by the employer	**88**	105
Contributions by plan participants	**51**	66
Benefit payments	**–98**	–96
Transfer to intragroup insurance contracts, reclassifications and other disposals	**–2**	–5
Foreign currency translation differences	**6**	–1
BALANCE AS AT END OF PERIOD	**1 848**	1 684

Plan assets

In CHF million	Quoted market price		Other		Total	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Cash and cash equivalents	–	–	37	30	37	30
Debt securities						
Governments	3	8	–	–	3	8
Equity securities						
Financials	1	1	–	–	1	1
Investment funds						
Debt	596	616	–	–	596	616
Equity	490	430	–	–	490	430
Balanced	103	71	–	–	103	71
Real estate	–	–	446	399	446	399
Other	–	–	85	55	85	55
Derivatives						
Currency	–	–	0	0	0	0
Property						
located in Switzerland	–	–	13	11	13	11
Qualifying insurance policies	–	–	74	62	74	62
TOTAL PLAN ASSETS	1 193	1 126	655	558	1 848	1 684
Plan assets include						
own equity instruments	1	1	–	–	1	1

Principal actuarial assumptions

	Switzerland/Liechtenstein		Other countries	
	2017	2016	2017	2016
Discount rate	0.6–0.7%	0.6–0.7%	1.4–2.0%	1.5–1.8%
Future salary increases	1.0–1.5%	1.0–1.5%	1.0–2.5%	1.0–2.5%
Future pension increases	0.0%	0.0%	1.0–1.8%	1.0–1.8%
Ordinary retirement age (women)	64	64	63–65	63–65
Ordinary retirement age (men)	64–65	65	63–65	63–65
Average life expectation at ordinary retirement age (women)	25.4	25.3	23.2–29.9	23.2–29.8
Average life expectation at ordinary retirement age (men)	22.4–23.3	22.3–23.2	19.8–26.8	19.8–27.7

A sensitivity analysis was performed for each significant actuarial assumption showing the impact on the defined benefit obligation of changes in the respective actuarial assumptions that were reasonably possible at the balance sheet date. The calculation is done by leaving all other assumptions unchanged (i.e. at their value used in the calculation of the defined benefit obligation implicit in the net defined benefit asset/liability in the consolidated balance sheet as at end of period). In reality, it is unlikely that a change in assumption would happen in isolation. Some assumptions may well be correlated. In addition, the net effect in the consolidated balance sheet would also be driven by the change in the value of the plan assets.

At 31 December 2017, if the discount rate had been 50 basis points higher (lower), the defined benefit obligation would have decreased by CHF 262 million (increase CHF 297 million). At 31 December 2016, if the discount rate had been 50 basis points higher (lower), the defined benefit obligation would have decreased by CHF 258 million (increase CHF 293 million).

At 31 December 2017, if the future expected salary growth had increased (decreased) by 50 basis points, the defined benefit obligation would have increased by CHF 20 million (decrease CHF 19 million). At 31 December 2016, if the future expected salary growth had increased (decreased) by 50 basis points, the defined benefit obligation would have increased by CHF 20 million (decrease CHF 19 million).

At 31 December 2017, if the average life expectancy had increased by one year (for both men and women), the defined benefit obligation would have increased by CHF 118 million. At 31 December 2016, if the average life expectancy had increased by one year (for both men and women), the defined benefit obligation would have increased by CHF 113 million.

Expected benefit payments

Amounts in CHF million (if not noted otherwise)

	2017	2016
Duration of the defined benefit obligation (weighted average no. of years)	**15.6**	15.6
Benefits expected to be paid (undiscounted amounts)		
within 12 months	**160**	150
between 1 and 2 years	**156**	148
between 3 and 5 years	**438**	430
between 6 and 10 years	**686**	662

The contributions expected to be paid for the year ending 31 December 2018 are CHF 67 million. These contributions include amounts payable under insurance contracts issued to defined benefit plans covering own employees.

Defined contribution plans

Certain subsidiaries sponsor various defined contribution plans. Participation in the various plans is based either on completion of a specific period of continuous service or on the date of hire. The plans stipulate contributions by both employers and employees. The expenses under these plans amounted to CHF 1 million in 2017 (2016: CHF 1 million).

Equity compensation plans

For 2017, 2016, 2015, 2014 and 2013 participants in the share-based payment programme are allocated restricted share units (RSUs). RSUs grant the holder future subscription rights, entitling him or her to receive Swiss Life Holding shares free of charge after a three-year period has elapsed and if certain conditions are fulfilled.

The 2017 and 2016 equity compensation plans are based on the new Group-wide programme "Swiss Life 2018". For the purpose of supporting the achievement of the respective corporate goals, performance criteria have been determined by the Board of Directors analogously to the previous year's objectives: IFRS profit (50% weighting), the risk and fee result (25% weighting) and cash to Swiss Life Holding for further strengthening of the financial substance and payout capacity (25% weighting).

The 2013–2015 equity compensation plans are based on the Group-wide programme "Swiss Life 2015", which was announced at the Swiss Life Group's Investors' Day on 28 November 2012. On the basis of the medium-term planning 2013–2015 (2013 equity compensation plan) and 2014–2016 (2014 equity compensation plan), performance criteria relating to cost efficiency (50% weighting), the risk and fee result (25% weighting) and IFRS profit (25% weighting) have been determined by the Board of Directors. With regard to the 2015 equity compensation plan, the Board of Directors has set the following performance criteria on the basis of the medium-term planning 2015–2017: IFRS profit (50% weighting), the risk and fee result (25% weighting) and cash to Swiss Life Holding for further strengthening of the financial substance and payout capacity (25% weighting). After expiry of the three-year period of the RSU plan, the target value for each performance criterion according to the medium-term planning is compared with the actual result achieved. The share allocation corresponds to the number of allocated RSUs (1 RSU = 1 share) if all three performance criteria have been achieved or exceeded after the three-year period has elapsed; overperformance does not lead to a higher share allocation. If the targets are only partly achieved, the share allocation is correspondingly reduced in accordance with the weighting of the performance target concerned, or the RSUs expire worthless.

The RSU programmes also provide for adjustment and reclaiming mechanisms (clawback).

In 2013, the number of RSUs granted under this programme amounted to 74 630. The fair value at the measurement date amounted to CHF 127.34. The date of grant was 1 April 2013.

In 2014, the number of RSUs granted under this programme amounted to 58 800. The fair value at the measurement date amounted to CHF 203.54. The date of grant was 1 March 2014.

In 2015, the number of RSUs granted under this programme amounted to 51 660. The fair value at the measurement date amounted to CHF 205.87. The date of grant was 1 March 2015.

In 2016, the number of RSUs granted under this programme amounted to 51 270. The fair value at the measurement date amounted to CHF 215.66. The date of grant was 1 March 2016.

In 2017, the number of RSUs granted under this programme amounted to 45 135. The fair value at the measurement date amounted to CHF 281.80. The date of grant was 1 March 2017.

The fair value of the RSUs granted for each programme is determined at the grant date. The fair value was determined by an independent consulting company using the Black-Scholes formula taking into account input factors such as the dividend yield and the historical volatility of the Swiss Life Holding share. The associated expense during the vesting period is recognised under employee benefits expense with a corresponding increase in share premium.

The expense recognised for share-based payment amounted to CHF 12 million in 2017 (2016: CHF 12 million).

Share-based payment programmes (restricted share units)

Number of restricted share units	Balance as at 1 January	Issued	Employee departures	Vested	Balance as at end of period
2017					
Granted in 2014	**56 042**	**–**	**–**	**–56 042**	**–**
Granted in 2015	**48 423**	**–**	**–875**	**–**	**47 548**
Granted in 2016	**49 971**	**–**	**–882**	**–**	**49 089**
Granted in 2017	**–**	**45 135**	**–675**	**–**	**44 460**
2016					
Granted in 2013	73 010	–	–380	–72 630	–
Granted in 2014	57 271	–	–1 229	–	56 042
Granted in 2015	49 735	–	–1 312	–	48 423
Granted in 2016	–	51 270	–1 299	–	49 971
2015					
Granted in 2013	74 630	–	–1 620	–	73 010
Granted in 2014	58 800	–	–1 529	–	57 271
Granted in 2015	–	51 660	–1 925	–	49 735
2014					
Granted in 2013	74 630	–	–	–	74 630
Granted in 2014	–	58 800	–	–	58 800
2013					
Granted in 2013	–	74 630	–	–	74 630

24 Income Taxes

Income tax expense

In CHF million

	2017	2016
Current income tax expense	**230**	205
Deferred income tax expense	**78**	83
TOTAL INCOME TAX EXPENSE	**308**	289

The expected weighted-average tax rate for the Group in 2017 was 23.4% (2016: 23.5%). This rate was derived by obtaining a weighted average of the expected income tax rates in the various jurisdictions in which the Group operates. The change of the weighted-average tax rate is due to the geographical allocation of the profits and the different tax rates in these jurisdictions. The actual income tax expense differs from the expected amount as follows.

Reconciliation of income tax expense

In CHF million

	2017	2016
PROFIT BEFORE INCOME TAX	**1 320**	1 215
Income tax calculated using the expected weighted-average tax rate	**309**	285
Increase/reduction in taxes resulting from		
lower taxed income	**–109**	–91
non-deductible expenses	**91**	65
other income taxes (incl. withholding taxes)	**18**	1
change in unrecognised tax losses	**–4**	–20
adjustments for current tax of prior periods	**–7**	–5
changes in tax rates	**6**	14
intercompany effects	**11**	31
other	**–8**	8
INCOME TAX EXPENSE	**308**	289

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same tax authority.

Deferred income tax assets and liabilities

In CHF million	Deferred tax assets		Deferred tax liabilities	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Financial assets	311	246	1 508	1 365
Investment property	123	8	899	788
Intangible assets	53	50	187	171
Property and equipment	13	13	1	1
Financial liabilities	42	354	53	329
Insurance liabilities	23	28	163	145
Employee benefits	132	132	84	82
Deferred income	1	2	0	0
Other	47	134	40	68
Tax losses	12	23		
DEFERRED INCOME TAX ASSETS/LIABILITIES	757	989	2 933	2 948
Offset	–717	–950	–717	–950
TOTAL DEFERRED INCOME TAX ASSETS/LIABILITIES	40	39	2 216	1 998

The movements in net deferred income tax assets/liabilities during the period were as follows.

In CHF million	Balance as at 1 January	Profit or loss	Other comprehensive income	Equity component convertible debt	Acquisitions and disposals of subsidiaries	Foreign currency translation differences	Balance as at end of period
MOVEMENTS BY TYPE OF TEMPORARY DIFFERENCE DURING THE YEAR 2017							
Financial assets	–1 119	49	–112	–	–	–14	–1 197
Investment property	–780	–77	0	–	87	–6	–776
Intangible assets	–121	–14	5	–	0	–4	–134
Property and equipment	12	0	–	–	0	0	12
Financial liabilities	25	–33	–8	4	0	1	–11
Insurance liabilities	–117	–18	0	–	–	–6	–140
Employee benefits	50	3	–8	–	0	3	48
Deferred income	2	–1	–	–	–	0	1
Other	66	25	–	–	–86	2	7
Tax losses	23	–12	–	–	–	1	12
NET DEFERRED INCOME TAX ASSETS/LIABILITIES	–1 959	–78	–123	4	2	–21	–2 176
MOVEMENTS BY TYPE OF TEMPORARY DIFFERENCE DURING THE YEAR 2016							
Financial assets	–876	1	–246	–	–	2	–1 119
Investment property	–692	–91	1	–	–	1	–780
Intangible assets	–124	–5	10	–	–3	1	–121
Property and equipment	14	–1	–	–	–	0	12
Financial liabilities	16	–6	16	–	–	0	25
Insurance liabilities	–119	1	0	–	–	1	–117
Employee benefits	32	1	17	–	–	0	50
Deferred income	3	–1	–	–	–	0	2
Other	65	1	–	–	–	0	66
Tax losses	8	15	–	–	–	–1	23
NET DEFERRED INCOME TAX ASSETS/LIABILITIES	–1 673	–83	–203	–	–3	3	–1 959

Deferred tax liabilities have not been recognised on the aggregate amount of temporary differences with consolidated investments in subsidiaries to the extent the Group considers such undistributed earnings as being indefinitely reinvested. The amount of such temporary differences was approximately CHF 10.1 billion as at 31 December 2017 (2016: CHF 8.7 billion). If such amounts from entities controlled by the Group are ever distributed, no material tax liabilities would be incurred due to participation exemption rules, unrecognised tax loss carryforwards and applicable double taxation treaties.

Deferred tax assets are recognised for tax-loss carryforwards only to the extent that realisation of the related tax benefit is probable. Swiss tax assets are calculated in accordance with cantonal and municipal tax legislation. The uncertainty of the utilisation of tax losses is taken into account in establishing the valuation allowance. For the following tax-loss carryforwards, which will expire as follows, no deferred tax asset has been recognised.

Unrecognised tax losses

Amounts in CHF million	Tax losses		Tax rate	
	31.12.2017	31.12.2016	**31.12.2017**	31.12.2016
2018	**3**	3	**21.3%**	21.2%
2019	**2**	2	**21.2%**	21.2%
2020	**1**	1	**20.1%**	21.2%
Thereafter	**319**	322	**17.7%**	17.6%
TOTAL	**325**	328	**n/a**	n/a

25 Provisions

In CHF million		Restructuring		Litigation		Other		Total	
	Notes	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Balance as at 1 January		**11**	18	**49**	66	**16**	18	**75**	101
Additions from business combinations	28	**–**	–	**–**	–	**0**	–	**0**	–
Additional provisions made		**5**	6	**4**	4	**10**	5	**19**	15
Amounts used		**–6**	–11	**–19**	–6	**15**	–1	**–11**	–18
Unused amounts reversed		**0**	–3	**–10**	–14	**–5**	–6	**–16**	–23
Unwinding of discount and effect of change in discount rate		**0**	0	**0**	0	**–**	–	**0**	0
Reclassifications and other disposals		**–**	–	**–**	–	**0**	–	**0**	–
Foreign currency translation differences		**0**	0	**5**	–1	**1**	0	**6**	–1
BALANCE AS AT END OF PERIOD		**9**	11	**28**	49	**37**	16	**74**	75

Restructuring

Provisions for restructuring were set up in 2017 in Switzerland (2016: Switzerland, Germany and Liechtenstein). The outflow of the amounts is expected within the following one to two years.

Litigation

“Litigation” relates to several proceedings in several jurisdictions with uncertain outcome including customer claims relating to the distribution units in Germany. Litigation provisions have been set up to cover legal and administrative proceedings that arise in the ordinary course of business. These provisions concern numerous cases that are not of public knowledge or whose detailed disclosure could prejudice the interests of the Group.

Other

“Other” comprises various liabilities of uncertain timing or amount (e.g. indemnification provision relating to property development and management).

26 Equity

Share capital

As at 31 December 2017, the share capital of Swiss Life Holding consisted of 34 223 106 fully-paid shares with a par value of CHF 5.10 each (2016: 32 081 201 fully-paid shares with a par value of CHF 5.10 each). In exercising voting rights, no shareholder can collect more than 10% of the total share capital directly or indirectly in respect of own shares or shares they represent. Conditional share capital was CHF 19 675 534.80 as at 31 December 2017 (2016: CHF 30 599 250.30).

The conversion of convertible debt into Swiss Life Holding shares and the corresponding impact on share capital and share premium is described in note 20.

Share premium

Share premium comprises additional paid-in capital in excess of the par value (net of transaction costs), gains/losses on own equity instruments and equity compensation benefits.

In 2017, a distribution to shareholders out of the capital contribution reserve of CHF 356 million (CHF 11.00 per registered share) was made (2016: CHF 271 million, CHF 8.50 per registered share).

Number of shares

The following table shows the development of Swiss Life Holding shares issued and treasury shares held by the Swiss Life Group during the period.

Number of shares

	2017	2016
SHARES ISSUED		
Balance as at 1 January	**32 081 201**	32 081 054
Conversion of convertible debt	**2 141 905**	147
SHARES ISSUED AS AT END OF PERIOD	**34 223 106**	32 081 201
TREASURY SHARES		
Balance as at 1 January	**189 870**	254 495
Purchases of treasury shares	**–**	11 472
Sales of treasury shares	**–16**	–7
Allocation under equity compensation plans	**–58 653**	–76 090
BALANCE AS AT END OF PERIOD	**131 201**	189 870

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.

Accumulated other comprehensive income

Accumulated other comprehensive income comprises items of income and expense that are recognised directly in equity rather than in profit or loss, as required or permitted by certain IFRSs.

Items presented in other comprehensive income are grouped on the basis of whether they will be reclassified subsequently to profit or loss when specific conditions are met, and those that will not be reclassified.

The amounts are presented net of certain policyholder bonuses and other policyholder liabilities, deferred acquisition costs, deferred income taxes and non-controlling interests.

Items that may be reclassified to profit or loss comprise:

- Foreign currency translation differences arising on the translation of assets, liabilities, income and expenses of Group entities denominated in foreign currencies into Swiss francs.
- Gains and losses from fair value changes of financial assets available for sale.
- Effective portion of gains and losses on hedging instruments in qualifying cash flow hedges.
- Other items consisting of unrealised losses on financial assets reclassified from "available for sale" to "loans" in 2008 due to the disappearance of an active market, and the Group's share of other comprehensive income of investments in associates accounted for using the equity method.

Items that will not be reclassified to profit or loss comprise:

- Revaluation surplus on the transfer of owner-occupied property to investment property following a change in use evidenced by the end of owner-occupation.
- Remeasurements of the net defined benefit liability relating to employee benefit plans.

The following table provides information relating to amounts recognised in accumulated other comprehensive income.

Accumulated other comprehensive income for the year 2017

In CHF million	Items that may be reclassified to the income statement					Items that will not be reclassified to the income statement				Total
	Foreign currency translation differences	Gains/losses financial assets available for sale	Gains/losses cash flow hedges	Other items	Total	Revaluation surplus investment property	Remeasurements net defined benefit liability	Other items	Total	
Net balance as at 1 January	–1 157	3 685	464	–30	2 962	64	–353	–	–289	2 673
Net other comprehensive income	268	441	–54	8	664	8	29	–	37	701
NET BALANCE AS AT END OF PERIOD	–888	4 127	410	–22	3 626	72	–325	–	–252	3 374
NET OTHER COMPREHENSIVE INCOME IS COMPOSED OF THE FOLLOWING										
Revaluation – gross	230	1 086	–23	–	1 292	–	68	–	68	1 360
Net investment hedges – gross	89	–	–	–	89	–	–	–	–	89
Reclassification to profit or loss – gross	–	–495	–23	15[1]	–501	–	–	–	–	–501
Effects of										
policyholder participation	–34	–85	–22	–5	–145	3	–29	–	–26	–171
shadow accounting	–2	–12	4	0	–10	0	–	–	0	–10
income tax	–11	–108	4	–2	–116	1	–8	–	–7	–123
foreign currency translation differences	–	54	6	0	60	4	–2	–	2	62
Net other comprehensive income before non-controlling interests	272	441	–54	8	668	8	29	–	37	705
Non-controlling interests	–4	0	0	0	–4	0	0	–	0	–4
NET OTHER COMPREHENSIVE INCOME	268	441	–54	8	664	8	29	–	37	701

[1] Amount relates to debt securities reclassified to loans in 2008 (note 13).

Accumulated other comprehensive income for the year 2016

In CHF million	Items that may be reclassified to the income statement					Items that will not be reclassified to the income statement				Total
	Foreign currency translation differences	Gains/ losses financial assets available for sale	Gains/ losses cash flow hedges	Other items	Total	Revalu- ation surplus investment property	Remea- sure- ments net defined benefit liability	Other items	Total	
Net balance as at 1 January	–1 157	2 853	436	–53	2 079	66	–296	–	–230	1 849
Reclassification of policyholder participation and income tax effects	–	2	–	–	2	–2	–	–	–2	–
Net other comprehensive income	0	831	28	23	882	–1	–59	–	–59	824
NET BALANCE AS AT END OF PERIOD	–1 157	3 685	464	–30	2 962	64	–353	–	–289	2 673
NET OTHER COMPREHENSIVE INCOME IS COMPOSED OF THE FOLLOWING										
Revaluation – gross	38	3 076	66	–	3 181	–	–191	–	–191	2 990
Net investment hedges – gross	–85	–	–	–	–85	–	–	–	–	–85
Reclassification to profit or loss – gross	–	–433	–26	45[1]	–414	–	–	–	–	–414
Effects of										
policyholder participation	34	–1 522	0	–15	–1 504	0	117	–	117	–1 387
shadow accounting	–	–65	–5	–1	–69	0	–	–	0	–69
income tax	11	–218	–6	–6	–219	0	17	–	17	–203
foreign currency translation differences	–	–7	–1	0	–8	–1	0	–	0	–9
Net other comprehensive income before non-controlling interests	–1	832	28	23	883	–1	–59	–	–59	824
Non-controlling interests	1	0	0	0	1	0	0	–	0	1
NET OTHER COMPREHENSIVE INCOME	0	831	28	23	882	–1	–59	–	–59	824

[1] Amount relates to debt securities reclassified to loans in 2008 (note 13).

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.

Non-controlling interests

Summarised financial information for subsidiaries with material non-controlling interests is as follows.

In CHF million	SwissLife Banque Privée Paris		TECHNOPARK Real Estate LTD Zurich	
	2017	2016	2017	2016
Principal place of business	**France**	France	**Switzerland**	Switzerland
Ownership interests held by non-controlling interests	**40.0%**	40.0%	**33.3%**	33.3%
Voting rights held by non-controlling interests	**40.0%**	40.0%	**33.3%**	33.3%
SUMMARISED FINANCIAL INFORMATION BEFORE INTRAGROUP ELIMINATIONS				
Current assets	**1 366**	1 980	**8**	10
Non-current assets	**204**	176	**194**	190
Current liabilities	**–1 404**	–2 065	**–56**	–57
Non-current liabilities	**–62**	–4	**–20**	–20
NET ASSETS	**103**	88	**125**	123
Accumulated non-controlling interests	**41**	35	**42**	41
Revenue	**105**	75	**11**	10
Profit or loss	**7**	2	**6**	5
Total comprehensive income	**8**	1	**6**	5
Profit or loss allocated to non-controlling interests	**3**	1	**2**	2
Net cash flows from operating activities	**828**	912	**5**	5
Net cash flows from investing activities	**1**	–2	**0**	–
Net cash flows from financing activities	**–**	–3	**–1**	–5
NET CHANGE IN CASH AND CASH EQUIVALENTS	**829**	906	**3**	1
Dividends paid to non-controlling interests	**–**	–	**1**	1

27 Capital Management

Swiss Life's objectives when managing capital are as follows: to comply with the legal and regulatory requirements, to manage economic capital, to fulfil the company's rating capital target and to optimise capital efficiency. The company also actively manages the composition and quality of the capital to continuously optimise its capital structure and interest coverage ratio.

Swiss Solvency Test

The Swiss Solvency Test (SST) is the Swiss legislation which governs the capital requirements of insurance companies and groups. It is a principle-based framework whose main objective is the alignment of the required capital with the underlying risks. The SST capital requirement underpins a high level of confidence that insurers will meet their obligations towards policyholders even in adverse circumstances. Swiss Life uses an internal model to calculate the available and the required capital for the SST.

Continuous monitoring of solvency under the SST is conducted on an ongoing basis and calibration is updated based on the full SST calculations as at the beginning of each calendar year and as at mid-year.

Regulatory requirements

Swiss Life reports to the Swiss Financial Market Supervisory Authority FINMA. The reporting covers risk management and solvency, liquidity, legal structure, management organisation and intra-group transactions. The reporting is submitted on an ad-hoc, quarterly, half-yearly or yearly basis depending on the topic and is reviewed on a yearly basis by the statutory auditor according to the legal requirements. As at 31 December 2017 and 2016, Swiss Life was compliant with the legal requirements.

In addition to the Group's solvency requirements, constraints at local level such as Solvency II are considered to address the specific situation of each country and business unit.

Economic capital

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

Economic and statutory capital requirements and the profit target are the main elements determining the risk budgets. Based on the overall risk budget set by the Investment and Risk Committee of the Board of Directors, the Group Risk Committee of the Corporate Executive Board defines the risk limits for the particular business units. Adherence to these limits is checked on an ongoing basis.

Standard & Poor's rating capital

In Standard & Poor's risk-based capital model, the total adjusted capital (TAC) is the measure used for available capital. TAC is set against the capital required given the company's target rating category (target capital). The calculation of target capital takes into account, in particular, insurance risks, asset value volatility and credit risks. Swiss Life has established a target capital level in line with its rating ambition. Within the capital analysis, in addition to assessing capital adequacy, Standard & Poor's also evaluates the quality of capital with respect to its structure. Capital adequacy is monitored on an ongoing basis according to Standard & Poor's capital model.

Managing the capital structure and flows

The Group has defined a reference capital structure based on IFRS with the goal of optimising the return on equity and the interest coverage ratio, while taking into account restrictions such as regulatory and rating agency targets. The capital components include shareholders' equity, hybrid capital and senior debt. The Swiss Life Group seeks to maintain its capital structure close to the reference levels.

Swiss Life Holding is the ultimate parent of all of the Group's legal entities. Capital and cash held at Swiss Life Holding have the highest fungibility. Therefore, the Group aims to hold an appropriate capital buffer at the holding level. Under consideration of legal and regulatory restrictions, internal limits and local capital buffers, the legal entities of the Group transfer cash and capital to Swiss Life Holding, in the form of dividends, interest on loans and fees (cash remittance). Capital at Swiss Life Holding is used as a buffer to ensure financial flexibility of the Group, to pay dividends to shareholders and to finance growth.

Capital planning

Capital planning is an integral part of the Group's yearly mid-term plan. Intercompany and external capital flows are planned based on the Group's objectives and according to the frameworks set out above. In this context, the Swiss Life Group also plans to fund transactions in accordance with its reference capital structure and its debt maturity profile.

28 Acquisitions and Disposals of Subsidiaries

Assets and liabilities from acquisitions

In CHF million

	Notes	2017	2016
CONSIDERATION			
Cash consideration		**16**	20
Contingent consideration arrangement(s)		**7**	10
TOTAL CONSIDERATION		**23**	30
ACQUISITION-RELATED COSTS			
Other expenses		**0**	0
TOTAL		**0**	0
IDENTIFIABLE ASSETS ACQUIRED AND LIABILITIES ASSUMED			
Cash and cash equivalents		**–**	3
Loans and receivables		**0**	1
Property and equipment	16	**0**	0
Intangible assets including intangible insurance assets	17	**–**	14
Other assets		**–**	1
Financial liabilities		**–**	–1
Employee benefit liabilities		**–**	–1
Provisions	25	**0**	–
Deferred income tax liabilities		**–**	–3
Other liabilities		**0**	–1
TOTAL IDENTIFIABLE NET ASSETS		**0**	13
Goodwill	17	**23**	17
TOTAL		**23**	30
ACQUIRED LOANS AND RECEIVABLES			
Fair value		**0**	1
Gross contractual amounts receivable		**0**	2
Estimated uncollectible cash flows		**0**	0

The Swiss Life Group acquired in October 2017 Medical Money Management Ltd., Liverpool, a company specialised in providing financial planning advice to medical, dental and other professionals.

In November 2016, MAYFAIR CAPITAL INVESTMENT MANAGEMENT LIMITED, London, an FCA-regulated real estate investment management company, was acquired. The transaction strengthens Swiss Life's regional position in one of the most important and liquid European real estate markets with attractive growth potential.

Assets and liabilities from disposals

In CHF million

	2017
CONSIDERATION	
Consideration received in cash	135
TOTAL CONSIDERATION RECEIVED	135
ASSETS AND LIABILITIES DISPOSED	
Cash and cash equivalents	34
Assets held for sale	13
Loans and receivables	5
Investment property	210
Property and equipment	0
Other assets	167
Borrowings	–12
Financial liabilities	–271
Other liabilities	–3
NET ASSETS DISPOSED OF	142
GAIN/LOSS ON DISPOSALS	
Consideration received	135
Net assets disposed of	–142
Fair value of retained equity interest(s)	54
Amounts recognised in other comprehensive income	0
GAIN (+)/LOSS (–) ON DISPOSALS	47

In 2017, the real estate companies Vestas Germany ACB GmbH & Co. KG, Cologne, CS Stella (Lux) S.à r.l., Luxembourg and Agrippa Quartier GmbH & Co. Geschlossene InvKG, Heusenstamm, as well as Swiss Life Immo-Arlon, Société Anonyme, Strassen, were sold.

The assets held for sale and associated liabilities as at 31 December 2017 mainly consist of investment property to be sold.

In 2016, no significant disposals of subsidiaries took place.

29 Related Party Transactions

Consolidated statement of income

In CHF million	Associates	Key management personnel	Other	Total	Total
				2017	2016
Net earned premiums	–	–	–	–	1
Asset management and other commission income	1	–	–	1	2
Investment income	0	–	–	0	0
Interest expense	–	–	–	–	0
Commission expense	–	–	–	–	–1
Employee benefits expense	–	–20	–	–20	–20

Consolidated balance sheet

In CHF million	Associates	Key management personnel	Other	Total	Total
				31.12.2017	31.12.2016
Loans and receivables	3	–	–	3	3
Other financial liabilities	–1	–	–	–1	–1

For the years ended 31 December 2017 and 2016, no impairment allowance has been made for doubtful debts in respect of the amounts owed by related parties. This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Guarantees and commitments

In CHF million	Associates	Key management personnel	Other	Total	Total
				31.12.2017	31.12.2016
Financial guarantees issued	2	–	–	2	2

"Guarantees issued" relates to a bank loan granted to an associated company of the Group in relation to property under construction.

Key management compensation

In CHF million	2017	2016
Short-term employee benefits	14	14
Post-employment benefits	2	2
Equity-settled share-based payments	4	4
TOTAL	20	20

Key management comprises the members of the Board of Directors of Swiss Life Holding and the members of the Corporate Executive Board of Swiss Life Holding. These individuals have the authority and responsibility for planning, directing and controlling the activities of the Swiss Life Group, directly or indirectly.

The details regarding key management compensation in accordance with Article 663b^{bis} of the Swiss Code of Obligations or the Ordinance against Excessive Compensation in Listed Stock Companies (Compensation Ordinance, VegüV), respectively, are set out in the Compensation Report, which forms part of the Corporate Governance section of the Annual Report 2017 of the Swiss Life Group. The information according to Article 663c of the Swiss Code of Obligations is shown in the Notes to the Swiss Life Holding Financial Statements.

30 Fair Value Measurements

For reporting purposes, a fair value hierarchy is established that categorises the inputs to valuation techniques used to measure fair value into level 1, 2 or 3. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1 inputs) and the lowest priority to unobservable inputs (level 3 inputs).

The fair value of assets or liabilities included in level 1 is based on unadjusted quoted prices in active markets for identical assets or liabilities. The fair value of assets or liabilities which are not traded in an active market is determined using valuation techniques. If all significant inputs to these valuation techniques are observable (directly and indirectly) in the market, the assets or liabilities are included in level 2.

If one or more significant inputs to these valuation techniques are not observable in the market, the assets or liabilities are included in level 3. Such inputs may include information that is derived through extrapolation which is not substantiated by observable market data or that reflects own assumptions about what market participants would use in pricing the asset or liability.

30.1 Assets and liabilities measured at fair value on a recurring basis

Financial instruments

As a general rule, fair values of financial instruments are based on quoted prices sourced from well-known independent price providers such as Bloomberg. Model-based level 2 and level 3 valuations of financial instruments are applied to a minority of the assets.

Fair value hierarchy

In CHF million	Quoted prices (level 1)		Valuation technique – observable inputs (level 2)		Valuation technique – unobservable inputs (level 3)		Total	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
FINANCIAL ASSETS								
Derivatives								
Currency	**4**	1	**354**	342	**–**	–	**358**	342
Interest rate	**3**	0	**1 099**	1 413	**–**	–	**1 102**	1 413
Equity	**141**	113	**74**	17	**–**	–	**215**	130
Total derivatives	**148**	113	**1 527**	1 771	**–**	–	**1 675**	1 885
Debt instruments								
Governments and supranationals	**48 770**	47 954	**378**	266	**–**	–	**49 148**	48 219
Corporates	**44 149**	42 415	**653**	713	**62**	13	**44 864**	43 141
Other	**147**	108	**23**	7	**58**	–	**228**	116
Total debt instruments	**93 065**	90 477	**1 054**	986	**121**	13	**94 241**	91 476
Equity instruments								
Equity securities	**7 368**	5 071	**17**	21	**357**	301	**7 742**	5 393
Investment funds	**8 276**	8 671	**2 007**	1 665	**1 376**	1 638	**11 660**	11 973
Alternative investments	**72**	62	**51**	64	**2 163**	1 683	**2 285**	1 809
Total equity instruments	**15 715**	13 804	**2 076**	1 749	**3 897**	3 621	**21 687**	19 174
Assets for the account and risk of the Swiss Life Group's customers	**28 885**	23 840	**1 318**	1 323	**2 622**	2 316	**32 824**	27 479
TOTAL FINANCIAL ASSETS	**137 813**	128 233	**5 974**	5 830	**6 639**	5 950	**150 426**	140 013
INVESTMENTS IN ASSOCIATES								
Associates at fair value through profit or loss	**–**	–	**34**	0	**52**	22	**86**	23
FINANCIAL LIABILITIES								
Derivatives								
Currency	**0**	0	**755**	792	**–**	–	**755**	792
Interest rate	**–**	0	**678**	711	**–**	–	**678**	711
Equity	**57**	77	**3**	1	**–**	–	**60**	78
Other	**–**	–	**126**	66	**–**	–	**126**	66
Total derivatives	**58**	78	**1 561**	1 570	**–**	–	**1 619**	1 648
Investment contracts without discretionary participation	**–**	–	**383**	330	**–**	–	**383**	330
Unit-linked contracts	**–**	–	**24 977**	21 798	**152**	150	**25 130**	21 948
Non-controlling interests in investment funds	**–**	–	**2 349**	2 418	**933**	877	**3 282**	3 295
TOTAL FINANCIAL LIABILITIES	**58**	78	**29 270**	26 116	**1 085**	1 027	**30 413**	27 221

The fair value hierarchy of assets for the account and risk of the Swiss Life Group's customers is consistent with the categorisation of assets for the account and risk of the Swiss Life Group.

The following sections outline the valuation techniques and significant inputs used in the fair value measurement of financial instruments categorised within level 2 and level 3 of the fair value hierarchy.

Level 2: Valuation techniques and inputs

Level 2 financial instruments carried at fair value include debt instruments, equity securities, investment funds, alternative investments, over-the-counter derivatives and investments in associates.

Debt instruments: Debt instruments categorised as level 2 of the fair value hierarchy comprise government, supranational and corporate bonds for which prices are only available on an irregular basis or with a significant time lag. The price for such assets is obtained from an independent, acknowledged market data provider, which refers to quotes of recent transactions with the same or similar actively traded bonds and systematically derives a comparable price for those less liquid securities. Alternatively, if such a derived price is missing, level 2 fair values of debt instruments are measured on a discounted cash flow basis using risk-adjusted discount factors. Main inputs to determine the discount factor are zero coupon yield curves and observable, rating-implied flat spreads to account for credit risk.

Equity securities: Equity securities categorised as level 2 of the fair value hierarchy comprise unlisted equities for which the prices are not available in the exchange market. The instruments are evaluated by counterparties or third-party independent agencies based on market consistent valuation parameters.

Investment funds: Some fair value measurements of fund units, including unlisted fixed income funds, are only available on an irregular basis and are therefore categorised as level 2. Prices are provided by independent external market data providers who measure the fair value using market-consistent parameters.

Alternative investments: Alternative investments classified as level 2 assets comprise hedge funds of funds and leveraged loans funds based on third-party quotes substantiated by observable market data, such as recent transactions or valuation techniques that reflect the market participant's assumptions. The level 2 classification is chosen because those funds maintain an irregular basis of price and are evaluated with some time lag.

Over-the-counter derivatives: Level 2 fair values of over-the-counter derivatives on currencies, interest rates and equities are based on theoretical valuations with observable market data from well-known data providers as inputs. The fair value measurement is based on acknowledged, well-established models. In certain cases, the market quotes used in those models may be slightly adjusted to better reflect specific market behaviour, e.g. volatility smiles.

Currency derivatives:
- Foreign currency options are valued on the basis of the Garman-Kohlhagen model with the spot foreign exchange rate, the interest rates of the underlying currencies and the foreign exchange rate volatility as main inputs.
- The fair value of foreign currency forwards is derived from the foreign exchange spot rate and actively traded foreign exchange ticks.

Interest rate derivatives:
- Interest rate swaps are valued on a discounted cash flow basis. Main inputs used to derive the discount factors are the overnight index/deposit/swap rates.
- Swaptions are theoretically valued with the Black model. Main inputs are the current par swap rate that is calculated out of the standard yield curve and the implied volatility that is derived from observable at-the-money swaption volatility curves.
- Forward starting bonds are valued on a cost-of-carry basis using the discounted cash flow method. Main inputs to calculate the current forward rate are the spot price of the underlying bond and the discount factors to coupon payment dates/maturity date.

Equity derivatives:
Over-the-counter equity-index options are valued using the Black-Scholes model. Main inputs are the current spot value and the dividend yield of the underlying index. The implied volatility is taken from similar exchange-traded equity index options.

Other derivatives:
Other derivatives mainly comprise credit default swap indices. CDS indices are valued using the discounted cash flow method for the fee and the contingent leg. Main inputs for the valuation are the swap curve and the CDS par spreads quoted in the market.

In the exceptional case that a theoretical valuation of an OTC derivative is not available in Swiss Life's asset management system, the fair value is provided by counterparties. The appropriateness of such quotes is validated by Swiss Life based on established models using observable market data as input.

Investments in associates: The associate is categorised as level 2 of the fair value hierarchy as the entity holds investments that qualify inherently as level 1 financial instruments.

Level 3: Valuation techniques and inputs

The exposure of level 3 financial instruments primarily consists of alternative investments (private equity, hedge funds) and real estate funds.

Debt instruments: Debt instruments categorised as level 3 of the fair value hierarchy mainly comprise instruments with embedded derivatives to guarantee the participation on a defined underlying (hedge fund of funds or equity basket). The valuation, which is provided by banks, is derived from valuation techniques that take into account the market value of the underlying assets, transaction prices and other information, such as market participants' assumptions.

Level 3 fair values of CDO/CLO positions are determined by external providers. Their proprietary methodologies typically rely both on indicative market prices of comparable assets as well as discounted expected cash flows. Unobservable inputs for the cash flow models include assumptions about prepayment rates, discount margins and asset default rates.

Equity securities: The fair values of equity securities, which are not traded in an active market and are determined using unobservable inputs, classify as level 3 within the fair value hierarchy. These fair values are based on generally accepted valuation techniques. Valuation techniques aim at using a maximum of market inputs and include discounted cash flow analysis (e.g. profit situation, investment plans, investment property) and other valuation techniques commonly used by market participants.

Investment funds: Level 3 fair values of investment funds are primarily related to real estate funds. The valuation of the underlying property investments is done by independent appraisers using generally accepted valuation techniques (mainly discounted cash flow). The appraisers consider the general economic situation and the individual condition of the property investments. Main input factors applied in the discounted cash flow method are estimates on rental income and vacancies, projections of non-recoverable running costs (e.g. property taxes), maintenance costs and risk-adjusted discount rates, which are determined individually for each property.

Alternative investments: The fair values of private equity and infrastructure investments are based on generally accepted valuation techniques. Valuation techniques use a maximum of market inputs and include the use of comparable recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. Because of the inherent valuation uncertainty, those estimated fair values may differ significantly from the values that would be used if a ready market for the financial assets existed, and those differences could be material. The fair values are determined by the general partner in the partnership and reviewed by management. In determining the fair value of fund investments, the partnership considers the funds as transparent holding vehicles. The fair values of the underlying investments are determined using the general partner valuation. These fair value measurements are generally categorised as level 3 within the fair value hierarchy.

To measure the fair value of hedge funds for which 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.

Investments in associates: The valuation methods of investments in associates categorised as level 3 of the fair value hierarchy are identical to the methods outlined for level 3 private equity investments and real estate funds.

Financial liabilities

Investment contracts without discretionary participation: The fair value of investment contracts, which are carried at fair value, is measured using market consistent, risk-neutral economic option price models, i.e. Monte Carlo simulations based on scenarios of capital market variables (share price and interest rate indices, interest rates and foreign currency rates). These inputs to fair value measurements are generally categorised as level 2 within the fair value hierarchy.

Unit-linked contracts: The fair value of liabilities arising from unit-linked insurance and investment contracts is measured by reference to the fair value of the underlying assets. Unit-linked contract liabilities are generally categorised as level 2, except for contracts that are backed predominantly by assets categorised within level 3 of the fair value hierarchy.

Investment property

The following table shows the fair value hierarchy of investment property as at 31 December.

In CHF million	Quoted prices (level 1)		Valuation technique – observable inputs (level 2)		Valuation technique – unobservable inputs (level 3)		Total	
	31.12.2017	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
Commercial	**–**	–	**–**	–	**10 523**	8 465	**10 523**	8 465
Residential	**–**	–	**–**	–	**9 461**	8 731	**9 461**	8 731
Mixed use	**–**	–	**–**	–	**7 962**	6 605	**7 962**	6 605
TOTAL INVESTMENT PROPERTY	**–**	–	**–**	–	**27 946**	23 801	**27 946**	23 801

Level 3: Valuation techniques and inputs

Discounted cash flow models used for investment property consider the present value of net cash flows to be generated from the property, taking into account expected rent growth rate, vacancy rate, rent-free periods, other costs not paid by tenants, maintenance costs and investment plans. The expected net cash flows are discounted using risk-adjusted discount rates. Location- and property-related criteria are reflected in the discount rate for each property. The criteria reflect the micro- and macro-location characteristics as well as the relevant parameters of the current management situation.

Trends in fair value are determined by various fundamental parameters. A distinction has to be made between property-specific factors and exogenous factors that relate to the real estate and finance market environments. Changes in the property management situation on both the income and the cost side directly trigger an adjustment in the reported market value. Key determinants are new and expiring leases, change in the vacancy situation, as well as movements in running, maintenance and repair costs. Developments in the relevant local real estate market have an impact on the calculation of potential rental values. Changes in the capital or transaction markets have an influence on discount rates. Property ageing is another key factor.

Significant unobservable inputs

	Switzerland		Other countries	
	2017	2016	2017	2016
Rent growth p.a.	0.3–3.5%	0.3–4.2%	–	–
Long-term vacancy rate	4.1–7.1%	4.0–7.2%	–	–
Discount rate	2.3–4.8%	2.4–4.9%	2.3–8.4%	3.3–7.7%
Market rental value p.a. (price/m²/year)	CHF 231–288	CHF 230–286	EUR 85–928	EUR 130–928

Significant increases or decreases in estimated rental value and rent growth per annum would result in a higher or lower fair value of the properties. Significant decreases or increases in long-term vacancy rate and discount rate would result in a higher or lower fair value.

Reconciliation of fair value measurements categorised within level 3
The following tables show a reconciliation from the opening balances to the closing balances for fair value measurements categorised within level 3 of the fair value hierarchy.

Assets measured at fair value based on level 3 for the year 2017

In CHF million	Derivatives	Debt instruments		Equity instruments		Financial assets for the account and risk of the Swiss Life Group's customers	Investment property	Total
		At fair value through profit or loss	Available for sale	At fair value through profit or loss[1]	Available for sale			
Balance as at 1 January	–	13	0	2 315	1 328	2 316	23 801	29 773
Total gains/losses recognised in profit or loss	–	0	–1	67	28	–105	651	640
Total gains/losses recognised in other comprehensive income	–	–	0	–	27	–	–	27
Additions	–	0	108	874	199	315	3 563	5 059
Disposals	–	–	0	–563	–466	–75	–522	–1 627
Transfers into level 3	–	–	0	1	–	0	–	1
Transfers out of level 3	–	–	–	–11	–	–	–	–11
Foreign currency translation differences	–	1	0	88	62	171	452	775
BALANCE AS AT END OF PERIOD	–	14	107	2 770	1 179	2 622	27 946	34 637
Unrealised gains/losses recognised in profit or loss for assets held at the end of the period	–	0	–	63	–8	–105	601	551

[1] including associates at fair value through profit or loss

Assets measured at fair value based on level 3 for the year 2016

In CHF million	Derivatives	Debt instruments		Equity instruments		Financial assets for the account and risk of the Swiss Life Group's customers	Investment property	Total
		At fair value through profit or loss	Available for sale	At fair value through profit or loss[1]	Available for sale			
Balance as at 1 January	–	15	1	1 707	1 283	2 750	21 557	27 313
Total gains/losses recognised in profit or loss	–	1	2	34	29	–53	763	776
Total gains/losses recognised in other comprehensive income	–	–	0	–	2	–	–	2
Additions	–	0	–	814	182	210	1 555	2 761
Disposals	–	–2	–3	–227	–159	–570	–22	–983
Foreign currency translation differences	–	0	–	–13	–9	–21	–52	–96
BALANCE AS AT END OF PERIOD	–	13	0	2 315	1 328	2 316	23 801	29 773
Unrealised gains/losses recognised in profit or loss for assets held at the end of the period	–	0	–	29	–19	–53	763	721

[1] including associates at fair value through profit or loss

During 2017, debt securities of CHF 120 million (2016: CHF 76 million) were transferred from level 1 into level 2 due to reduced frequency of price quotations, and debt securities of CHF 114 million (2016: CHF 190 million) were transferred from level 2 into level 1 due to available quoted prices. Changes in fund pricing frequency (daily/weekly) resulted in the following transfers of investment funds during 2017: nil (2016: nil) from level 1 into level 2, and nil (2016: CHF 21 million) from level 2 into level 1.

The transfers between the levels of the fair value hierarchy were made at the end of the reporting period.

Liabilities measured at fair value based on level 3

In CHF million	Derivatives		Unit-linked contracts		Non-controlling interests in investment funds		Total	
	2017	2016	2017	2016	2017	2016	2017	2016
Balance as at 1 January	–	–	**150**	124	**877**	570	**1 027**	693
Total gains/losses recognised in profit or loss	–	–	**0**	0	**6**	12	**6**	12
Additions	–	–	**2**	26	**261**	300	**262**	326
Disposals	–	–	**0**	0	**–221**	–	**–221**	0
Transfers out of level 3	–	–	**–**	–	**–11**	–	**–11**	–
Foreign currency translation differences	–	–	**0**	0	**21**	–5	**22**	–5
BALANCE AS AT END OF PERIOD	–	–	**152**	150	**933**	877	**1 085**	1 027
Unrealised gains/losses recognised in profit or loss for liabilities held at the end of the period	–	–	**0**	0	**6**	12	**6**	12

Gains/losses recognised in profit or loss

Gains/losses on level 3 fair value measurements recognised in profit or loss are presented in the income statement as follows.

In CHF million	Net gains/losses on financial assets		Net gains/losses on financial instruments at fair value through profit or loss		Net gains/losses on investment property	
	2017	2016	2017	2016	2017	2016
ASSETS						
Total gains/losses recognised in profit or loss	**27**	31	**–38**	–18	**651**	763
Unrealised gains/losses recognised in profit or loss for assets held at the end of the period	**–8**	–19	**–42**	–24	**601**	763
LIABILITIES						
Total gains/losses recognised in profit or loss	**–**	–	**–6**	–12	**–**	–
Unrealised gains/losses recognised in profit or loss for liabilities held at the end of the period	**–**	–	**–6**	–12	**–**	–

30.2 Fair value of financial instruments carried at amortised cost

The following table shows the carrying amounts and fair values of those financial assets and liabilities not measured at fair value in the Group's balance sheet.

In CHF million	Carrying amount		Fair value	
	31.12.2017	31.12.2016	**31.12.2017**	31.12.2016
ASSETS				
Loans	**18 613**	19 597	**21 285**	22 793
Receivables [1]	**4 361**	4 358	**4 361**	4 358
LIABILITIES				
Investment contracts without discretionary participation [1]	**0**	0	**0**	0
Borrowings	**3 577**	4 524	**4 080**	4 792
Other financial liabilities [1,2]	**12 292**	12 008	**12 284**	12 008

[1] Carrying amount approximates fair value.
[2] excluding non-controlling interests in investment funds

Fair value hierarchy

In CHF million	Quoted prices (level 1)		Valuation technique – observable inputs (level 2)		Valuation technique – unobservable inputs (level 3)		Total fair value	
	31.12.2017	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
ASSETS								
Loans	**2 649**	3 790	**9 423**	10 082	**9 213**	8 921	**21 285**	22 793
LIABILITIES								
Borrowings	**3 332**	3 604	**747**	1 187	**1**	–	**4 080**	4 792

Receivables, investment contracts and other financial liabilities

The carrying amounts of receivables and other financial liabilities represent a reasonable estimate of fair value as the effect of discounting is immaterial and changes in credit risk are not significant. Such instruments include insurance receivables and payables, demand and short-term deposits and repurchase agreements. The carrying amount of investment contracts without discretionary participation approximates the fair value at reporting date. The disclosure of the fair value hierarchy is not applicable for these instruments.

Loans
Level 1: This category consists of debt securities reclassified from financial assets available for sale due to the disappearance of an active market and where the market has become active again. Additionally, debt securities not quoted in an active market at initial recognition and where the market has become active again are included in this category.

Level 2: This category mainly consists of note loans *(Schuldscheindarlehen)* classified as loans. The fair values are measured on a discounted cash flow basis with zero coupon yield curves and credit spreads as main inputs.

Level 3: The fair values of mortgages and other loans are estimated using the discounted cash flow method.

For mortgages, the discount factors are derived from the libor/swap curve and a flat spread. Contract-specific spreads are based on an internal model that covers both risk and administration costs. Main inputs to that model are characteristics of the underlying property, the financial situation of the debtor and the duration of the contract. If no contract-specific spread is available a standard spread is applied that shall cover the marketability disadvantages and the administration costs, as mortgages are less standardised and tradable than exchange-traded bonds.

The discount factors for other loans are derived from 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.

Borrowings
Level 1: This category consists of hybrid debt listed on the stock exchange.

Level 2: Privately placed hybrid debt, the liability component of the convertible debt and bank loans are categorised as level 2. The fair value of Swiss Life's privately placed hybrid debt (subordinated step-up loans) is calculated as the present value of the prospective cash flows to the lenders. The discount rate used for the calculation consists of a relevant government bond rate plus a credit spread. The fair value of the liability component of the convertible debt is calculated as the present value of the prospective cash flows to the bondholders. The discount rate used for the calculation is based on the yield-to-maturity of outstanding straight senior bonds issued by Swiss Life Holding. The fair value of the bank loans secured by mortgage 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.

31 Offsetting Financial Assets and Liabilities

The Swiss Life Group enters into separate collateral management and netting agreements with counterparties to manage the credit risks associated with repurchase and reverse repurchase transactions, securities lending and over-the-counter and exchange-traded derivatives transactions. These agreements and similar arrangements generally enable the counterparties to set off liabilities in connection with the respective agreement against assets received in the event that the counterparty to the transaction is unable to fulfill its contractual obligations. The right to setoff is a legal right to settle or otherwise eliminate all or a portion of an amount due by applying an amount receivable from the same counterparty against it to reduce credit exposure.

The following financial assets and liabilities are subject to offsetting, enforceable master netting arrangements and similar agreements.

Offsetting financial assets

In CHF million	Derivatives		Repurchase agreements		Total	
	31.12.2017	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
Gross amounts of recognised financial assets before offsetting	**1 675**	1 885	**–**	–	**1 675**	1 885
Gross amounts of recognised financial liabilities set off	**–**	–	**–**	–	**–**	–
NET AMOUNTS PRESENTED IN THE BALANCE SHEET	**1 675**	1 885	**–**	–	**1 675**	1 885
Related amounts not set off in the balance sheet:						
Financial instruments	**–392**	–354	**–**	–	**–392**	–354
Cash collateral received	**–866**	–1 119	**–**	–	**–866**	–1 119
Net amounts	**417**	411	**–**	–	**417**	411

Offsetting financial liabilities

In CHF million	Derivatives		Repurchase agreements		Total	
	31.12.2017	31.12.2016	**31.12.2017**	31.12.2016	**31.12.2017**	31.12.2016
Gross amounts of recognised financial liabilities before offsetting	**1 619**	1 648	**3 662**	2 970	**5 281**	4 618
Gross amounts of recognised financial assets set off	**–**	–	**–**	–	**–**	–
NET AMOUNTS PRESENTED IN THE BALANCE SHEET	**1 619**	1 648	**3 662**	2 970	**5 281**	4 618
Related amounts not set off in the balance sheet:						
Financial instruments	**–392**	–354	**–3 599**	–2 942	**–3 991**	–3 297
Cash collateral pledged	**–1 223**	–1 281	**–**	–	**–1 223**	–1 281
Net amounts	**4**	13	**63**	27	**67**	40

32 Guarantees and Commitments

In CHF million

	31.12.2017	31.12.2016
Financial guarantees [1]	**53**	28
Loan commitments	**231**	208
Capital commitments for alternative investments	**520**	770
Other capital commitments	**901**	634
Operating lease commitments	**178**	149
Contractual obligations to purchase or construct investment property	**1 367**	1 380
Other contingent liabilities and commitments	**559**	465
TOTAL	**3 809**	3 635
[1] of which relating to investments in associates	**2**	2

Financial guarantees

The Group has issued financial guarantees and similar instruments. Financial guarantees provide for specified payments to be made to reimburse the holder for a loss incurred in the event that a client fails to make payment when due.

Loan commitments

The Group has also entered into irrevocable commitments to extend credit in the form of loans and other instruments. They represent undrawn credit lines which are available to clients to secure their liquidity needs. With respect to credit risk, these commitments are contingent upon clients maintaining certain credit standards, and the Group monitors its exposure on a regular basis.

The total amount of credit commitments includes commitments to lend at fixed rates, which expose the Group to interest rate risk. These commitments are entered into for restricted periods of time. As at 31 December 2017, committed principal amounts totalled EUR 17 million and CHF 180 million (2016: EUR 32 million and CHF 137 million). The range of committed interest rates is 1.8% to 3.3% for commitments in euro and 0.8% to 2.1% for commitments in Swiss francs.

Capital commitments for alternative investments

They represent unfunded commitments to make investments in direct private equity, private equity funds, infrastructure and hedge funds. Such commitments do not involve credit or market risk, as the Group purchases investments at market value at the time the commitments are invoked.

Other capital commitments

They represent agreements to provide liquidity to protection funds in the insurance industry, commitments to make investments in real estate funds and other commitments.

Operating lease commitments

The Group has entered into various operating leases as a lessee. Rental expenses for these items totalled CHF 48 million for the year ended 31 December 2017 (2016: CHF 44 million). Minimum lease payments totalled CHF 48 million in 2017 (2016: CHF 41 million).

Future minimum lease payments under non-cancellable operating leases

In CHF million

	31.12.2017	31.12.2016
Not later than 1 year	**42**	38
Later than 1 year and not later than 5 years	**115**	91
Later than 5 years	**21**	19
TOTAL	**178**	149
Expected future minimum sublease payments	**2**	0

Contractual obligations to purchase or construct investment property

They mainly relate to projects for the purchase or construction of investment property in Switzerland and Germany.

Other contingent liabilities and commitments

Contractual obligations for repairs and maintenance of investment property amounted to CHF 304 million as at 31 December 2017, which are included in this line item (2016: CHF 214 million).

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.

According to the media release of 14 September 2017 Swiss Life is in dialogue with the US Department of Justice regarding its cross-border business with US clients. Swiss Life is using the opportunity for dialogue and explaining its past cross-border business in cooperation with the US authorities. At this stage of the dialogue it cannot be predicted if in this context possible financial charges for the Group will result.

33 Collateral

Financial assets pledged as collateral

The following table provides details of financial assets which have been sold or otherwise transferred, but which do not qualify for derecognition because substantially all risks and rewards of ownership are retained. Repurchase agreements and securities lending transactions are discussed in notes 2.8 and 12. Other securities pledged include debt securities pledged as collateral under reinsurance contracts issued and debt securities pledged as collateral under prime broker contracts to cover margins due in respect of derivative transactions.

In CHF million	Pledged amount		Fair value	
	31.12.2017	31.12.2016	**31.12.2017**	31.12.2016
Securities pledged under repurchase agreements [1]	**3 601**	2 942	**3 601**	2 942
Securities lent in exchange for securities received	**5 516**	4 613	**5 516**	4 613
Other securities pledged	**421**	332	**421**	332
TOTAL	**9 538**	7 888	**9 538**	7 888
[1] of which can be sold or repledged by transferee	**3 601**	2 942	**3 601**	2 942

Collateral held

The table below presents marketable securities received from third parties that are not recognised in the balance sheet, but are held as collateral in respect of the following transactions.

In CHF million	Fair value	
	31.12.2017	31.12.2016
Securities received as collateral in exchange for securities lent	**5 516**	5 125
Securities received for loans	**621**	487
Securities received for reinsurance assets	**303**	294
Other securities received	**71**	76
TOTAL	**6 511**	5 982

34 Scope of Consolidation

Switzerland

	Segment [1]	Consolidation period	Group share	Direct share	Principal activity
ABCON AG, Bern	CH		100.0%	100.0%	Services
Actuaires et Associés SA, Petit-Lancy	CH		100.0%	100.0%	Services
Adroit Private Equity AG, Zürich	CH		100.0%	100.0%	Private equity
aXenta AG, Baden-Dättwil	CH		100.0%	100.0%	Information technology
GENBLAN AG, Zürich	CH	until 27.06.2016	–	–	
Livit AG, Zürich	AM		100.0%	100.0%	Asset management & Real estate
Neue Warenhaus AG, Zürich	CH		100.0%	100.0%	Real estate
Oscar Weber AG, Zürich	CH		100.0%	100.0%	Real estate
Sobrado Software AG, Cham	CH		66.7%	66.7%	Information technology
Swiss Life AG, Zürich	CH		100.0%	100.0%	Life insurance
Swiss Life Asset Management AG, Zürich	AM	until 09.06.2017	–	–	
Swiss Life Asset Management AG, Zürich (formerly Swiss Life Funds AG, Lugano)	AM		100.0%	100.0%	Finance
Swiss Life Capital Holding AG, Zürich	Other		100.0%	100.0%	Holding
Swiss Life Holding AG, Zürich	Other		–	–	Holding
Swiss Life Intellectual Property Management AG, Zürich	Other		100.0%	100.0%	Services
Swiss Life International Holding AG, Zürich	IN		100.0%	100.0%	Holding
Swiss Life Investment Management Holding AG, Zürich	AM		100.0%	100.0%	Holding
Swiss Life Pension Services AG, Zürich	CH		100.0%	100.0%	Services
Swiss Life Private Equity Partners AG, Zürich	AM		100.0%	100.0%	Asset management
Swiss Life REIM (Switzerland) AG, Zürich	AM	until 09.06.2017	–	–	
Swiss Life Schweiz Holding AG, Zürich	CH		100.0%	100.0%	Holding
Swiss Life Select International Holding AG, Zürich	IN		100.0%	100.0%	Holding
Swiss Life Select Schweiz AG, Zug	CH		100.0%	100.0%	Services
Swissville Centers Holding AG, Zürich	CH		100.0%	100.0%	Holding
Swissville Commerce AG, Zürich	CH	until 27.06.2016	–	–	
TECHNOPARK Immobilien AG, Zürich	CH		66.7%	66.7%	Real estate

Liechtenstein

	Segment [1]	Consolidation period	Group share	Direct share	Principal activity
Swiss Life (Liechtenstein) AG, Schaan	IN		100.0%	100.0%	Life insurance
Swiss Life International Services AG, Schaan	IN		100.0%	100.0%	Services

France

	Segment [1]	Consolidation period	Group share	Direct share	Principal activity
AGAMI, Levallois-Perret	FR		100.0%	100.0%	Services and broker
CLUB PRIME HOSPITALITY, Paris	CH/FR		70.0%	70.0%	Real estate
PIERRE CAPITALE, Paris	FR	from 01.01.2017	99.9%	100.0%	Real estate
SL RETAIL FRANCE 1, Paris	FR/DE	from 16.03.2017	100.0%	100.0%	Real estate
Swiss Life Asset Management (France), Levallois-Perret	AM		100.0%	100.0%	Asset management
SWISS LIFE REIM (France), Marseille	AM		100.0%	100.0%	Asset management
SwissLife Assurance et Patrimoine, Levallois-Perret	FR		100.0%	100.0%	Life insurance
SwissLife Assurances de Biens, Levallois-Perret	FR		100.0%	100.0%	Non-life insurance
SwissLife Banque Privée, Paris	FR		60.0%	60.0%	Bank
SwissLife France, Levallois-Perret	FR		100.0%	100.0%	Holding
SwissLife Gestion Privée, Paris	FR		60.0%	100.0%	Bank
SwissLife Immobilier, Levallois-Perret	AM	until 01.01.2017	–	–	
SwissLife Prévoyance et Santé, Levallois-Perret	FR		99.8%	99.8%	Non-life insurance

[1] Segment (CH = Switzerland, AM = Asset Managers, IN = International, FR = France, DE = Germany)

Germany

	Segment[1]	Consolidation period		Group share	Direct share	Principal activity
CORPUS SIREO Asset Management Commercial GmbH, Heusenstamm	AM	until	01.08.2017	–	–	
CORPUS SIREO Asset Management Residential GmbH, Köln	AM	until	14.07.2017	–	–	
CORPUS SIREO Asset Management Retail GmbH, Köln	AM	until	14.07.2017	–	–	
CORPUS SIREO Aurum GmbH & Co. KG, Köln	CH	from	25.07.2016	100.0%	100.0%	Asset management & Real estate
CORPUS SIREO Immobilien Beteiligungs GmbH, Köln	CH			100.0%	100.0%	Asset management & Real estate
CORPUS SIREO Investment Residential No. 2 GmbH, Köln	AM			100.0%	100.0%	Asset management & Real estate
CORPUS SIREO Investment Residential No. 30 GmbH & Co. KG, Köln	AM			99.0%	100.0%	Asset management & Real estate
CORPUS SIREO Projektentwicklung Beteiligungs GmbH, Köln	AM			100.0%	100.0%	Asset management & Real estate
CORPUS SIREO Projektentwicklung Düsseldorf GmbH, Köln	AM			99.9%	100.0%	Asset management & Real estate
CORPUS SIREO Projektentwicklung Köln-West GmbH, Köln	AM			99.9%	100.0%	Asset management & Real estate
CORPUS SIREO Projektentwicklung Lessingstrasse GmbH, Köln	AM	until	11.05.2016	–	–	
CORPUS SIREO Projektentwicklung München GmbH, Köln	AM			99.9%	100.0%	Asset management & Real estate
CORPUS SIREO Projektentwicklung München II GmbH, Köln	AM			100.0%	100.0%	Asset management & Real estate
CORPUS SIREO Projektentwicklung Wohnen GmbH, Köln	AM			99.9%	100.0%	Asset management & Real estate
CORPUS SIREO Real Estate GmbH (formerly CORPUS SIREO Holding GmbH), Köln	AM			100.0%	100.0%	Holding
Financial Solutions AG Service & Vermittlung, Garching b. München	DE			100.0%	100.0%	Services
FRECOR Projektentwicklung und Wohnbau GmbH, Köln	AM			76.0%	76.0%	Asset management & Real estate
IC Investment Commercial No. 5 GmbH, Köln	AM			100.0%	100.0%	Asset management & Real estate
Maicor Projektentwicklung Winterhafen GmbH, Mainz	AM			74.2%	74.2%	Asset management & Real estate
RheinCOR Projektentwicklung GmbH, Köln	AM			55.0%	55.0%	Asset management & Real estate
S Corpus Immobilienmakler GmbH (formerly CORPUS SIREO Makler GmbH), Köln	AM			100.0%	100.0%	Asset management & Real estate
Schwabengalerie GmbH & Co. Geschlossene Investmentkommanditgesellschaft, Heusenstamm	DE	from	13.12.2016	100.0%	100.0%	Real estate
SELECT Bauprojektentwicklung GmbH, Köln	AM			100.0%	100.0%	Asset management & Real estate
SL Beteiligungs-GmbH & Co. Grundstücksverwaltung KG, Garching b. München	DE			100.0%	100.0%	Real estate
SL Beteiligungs-GmbH & Co. Immobilien I KG, Garching b. München	DE			100.0%	100.0%	Real estate
SL Beteiligungs-GmbH & Co. Immobilien II KG, Garching b. München	DE			100.0%	100.0%	Real estate
SL Beteiligungs-GmbH & Co. Immobilien III KG, Garching b. München	DE			100.0%	100.0%	Real estate
SL Beteiligungs-GmbH & Co. Immobilien IV KG, Garching b. München	DE			100.0%	100.0%	Real estate
SL Beteiligungs-GmbH & Co. Immobilien Ost KG, Garching b. München	DE			100.0%	100.0%	Real estate
SL Beteiligungs-GmbH & Co. Immobilien V KG, Garching b. München	DE	from	08.06.2016	100.0%	100.0%	Real estate
SL Beteiligungs-GmbH & Co. Immobilien VI KG, Garching b. München	DE	from	16.11.2016	100.0%	100.0%	Real estate
SL Beteiligungs-GmbH & Co. Immobilien VII KG, Garching b. München	DE	from	16.11.2016	100.0%	100.0%	Real estate
SL-Immobilien-Beteiligungs-Gesellschaft mbH, Garching b. München	DE			100.0%	100.0%	Holding
SL Private Equity GmbH, Frankfurt am Main	DE			98.9%	98.9%	Private equity
SLPM Schweizer Leben PensionsManagement GmbH, Garching b. München	DE			100.0%	100.0%	Services
Swiss Life AG, Garching b. München (Branch Swiss Life AG)	DE			100.0%	100.0%	Life insurance
Swiss Life Asset Management GmbH, Garching b. München	AM			100.0%	100.0%	Services
Swiss Life Beteiligungen GmbH, Garching b. München	DE	until	14.07.2016	–	–	
Swiss Life Deutschland erste Vermögensverwaltungs AG, Garching b. München	DE			100.0%	100.0%	Services
Swiss Life Deutschland Holding GmbH, Hannover	DE			100.0%	100.0%	Holding
Swiss Life Invest GmbH, München	AM			100.0%	100.0%	Asset management
Swiss Life Kapitalverwaltungsgesellschaft mbH, Heusenstamm	AM	from	29.02.2016	100.0%	100.0%	Asset management & Real estate
Swiss Life Partner Service- und Finanzvermittlungs GmbH, Garching b. München	DE			100.0%	100.0%	Services
Swiss Life Pensionsfonds AG, Garching b. München	DE			100.0%	100.0%	Life insurance
Swiss Life Pensionskasse AG, Garching b. München	DE			100.0%	100.0%	Life insurance
Swiss Life Service GmbH, Leipzig	DE			100.0%	100.0%	Services
Swiss Life Vermittlungs GmbH, Garching b. München	DE			100.0%	100.0%	Services
Vestas Germany ACB GmbH & Co. KG (formerly CORPUS SIREO Projektentwicklung Adlershof GmbH & Co. KG), Köln	CH	until	29.06.2017	–	–	

[1] Segment (CH = Switzerland, AM = Asset Managers, IN = International, FR = France, DE = Germany)

Luxembourg

	Segment [1]	Consolidation period	Group share	Direct share	Principal activity
CORPUS SIREO Investment Residential No. 24 S.à r.l., Luxembourg	AM		100.0%	100.0%	Asset management & Real estate
CORPUS SIREO Real Estate S.à r.l. (formerly CORPUS SIREO International S.à r.l.), Luxembourg	AM		100.0%	100.0%	Asset management & Real estate
CORPUS SIREO RetailCenter-Fonds Deutschland SICAV-FIS, Luxembourg	DE		57.0%	57.0%	Real estate
CS Stella (LUX) S.à r.l., Luxembourg	CH	until 04.07.2017	–	–	
Heralux S.A., Luxembourg	FR		99.8%	100.0%	Reinsurance
SL Place de Paris S.à r.l., Luxembourg	FR		100.0%	100.0%	Real estate
SWISS LIFE (LUXEMBOURG) S.A., Luxembourg	IN		100.0%	100.0%	Life insurance
Swiss Life Assurance Solutions S.A., Strassen	Other		100.0%	100.0%	Non-life insurance
Swiss Life Fund Management (LUX) S.A., Luxembourg	AM		100.0%	100.0%	Investment funds
Swiss Life Funds (Lux) Global Infrastructure Opportunities Management S.à r.l., Luxembourg	AM		100.0%	100.0%	Asset management
Swiss Life Funds (Lux) Global Infrastructure Opportunities S.C.A., SICAV-SIF, Luxembourg	AM		82.8%	82.8%	Asset management
Swiss Life Immo-Arlon, Société Anonyme, Strassen	Other	until 15.12.2017	–	–	
Swiss Life Insurance Solutions S.A., Strassen	Other	until 28.06.2016	–	–	
Swiss Life Invest Luxembourg S.A., Strassen	IN		100.0%	100.0%	Holding
Swiss Life Loan Fund (LUX) SA, SICAV-SIF, Luxembourg	CH/DE	from 19.09.2017	100.0%	100.0%	Investment funds
Swiss Life Participations Luxembourg S.A., Strassen	IN		100.0%	100.0%	Holding
Swiss Life Products (Luxembourg) S.A., Strassen	CH		100.0%	100.0%	Life insurance/Reinsurance
Swiss Life REF (LUX) European Retail SCS, SICAV-RAIF, Luxembourg	FR/DE	from 08.03.2017	100.0%	100.0%	Real estate
Swiss Life REF (LUX) German Core Real Estate SCS, Société en Commandite simple sous la forme d'une SICAV, Luxembourg	CH/FR/DE		66.4%	66.4%	Real estate
Swiss Life Participations Luxembourg S.A., Strassen	IN		100.0%	100.0%	Holding
SwissLife LuxCo S.à r.l., Luxembourg	FR	from 24.02.2017	100.0%	100.0%	Holding

United Kingdom

	Segment [1]	Consolidation period	Group share	Direct share	Principal activity
Chase de Vere IFA Group Plc, London	IN		100.0%	100.0%	Finance
MAYFAIR CAPITAL INVESTMENT MANAGEMENT LIMITED, London	AM	from 01.11.2016	100.0%	100.0%	Asset management
MAYFAIR CAPITAL TRUST MANAGER (JERSEY) LIMITED, St. Helier	AM	from 01.11.2016	100.0%	100.0%	Asset management

Austria

	Segment [1]	Consolidation period	Group share	Direct share	Principal activity
Swiss Life Select CEE Holding GmbH, Wien	IN		100.0%	100.0%	Holding
Swiss Life Select Österreich GmbH, Wien	IN		100.0%	100.0%	Services

Belgium

	Segment [1]	Consolidation period	Group share	Direct share	Principal activity
MONTOYER 51 LEASEHOLD, Etterbeek	FR	from 03.11.2016	100.0%	100.0%	Real estate
Swiss Life BelCo, Etterbeek	FR	from 02.11.2016	100.0%	100.0%	Real estate

[1] Segment (CH = Switzerland, AM = Asset Managers, IN = International, FR = France, DE = Germany)

Cayman Islands

	Segment [1]	Consolidation period	Group share	Direct share	Principal activity
Adroit Investment (Offshore) Ltd., Grand Cayman	CH		100.0%	100.0%	Private equity
Adroit Partnerships (Offshore) L.P., Grand Cayman	CH		100.0%	100.0%	Private equity
Swiss Life Financial Services (Cayman) Ltd., Grand Cayman	Other		100.0%	100.0%	Services
Swiss Life Insurance Finance Ltd., Grand Cayman	Other		100.0%	100.0%	Finance

Czech Republic

	Segment [1]	Consolidation period	Group share	Direct share	Principal activity
Swiss Life Select Ceska Republika s.r.o., Brno	IN		100.0%	100.0%	Services

Singapore

	Segment [1]	Consolidation period	Group share	Direct share	Principal activity
Swiss Life (Singapore) Pte. Ltd., Singapore	IN		100.0%	100.0%	Life insurance
Swiss Life Network (Asia) Pte. Ltd., Singapore	IN		100.0%	100.0%	Services

[1] Segment (CH = Switzerland, AM = Asset Managers, IN = International, FR = France, DE = Germany)

Report of the Statutory Auditor

Report of the statutory auditor
to the General Meeting of Swiss Life Holding Ltd
Zurich

Report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of Swiss Life Holding Ltd and its subsidiaries (the Group), which comprise the consolidated balance sheet as at 31 December 2017 and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of cash flows, consolidated statement of changes in equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 134-282) give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion
We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Group materiality: CHF 113 Million

We concluded full scope audit work at 10 reporting units in 5 countries. Our audit scope addressed over 93% of the Group's total assets and 99% of the Group's total net earned premiums. In addition, specified procedures were performed on a further 2 reporting units in Switzerland.

As key audit matters the following areas of focus have been identified:

Models and assumptions used to calculate future life policyholder benefits

Recoverability of Goodwill

Valuation of investment property

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Audit scope
We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

We continuously adjusted our audit approach to the developments of the Swiss Life Group and its subsidiaries. While all material positions of the consolidated financial statements are audited, emphasis is placed on matters identified during our risk assessment process. We have described such matters further below in section "Key audit matters".

Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material, if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	CHF 113 Million
How we determined it	5% of profit before tax and policyholder participation
Rationale for the materiality benchmark applied	We chose profit before tax and policyholder participation as the benchmark because, in our view, it is a prevailing indicator for the performance of the Group as it is free from management's decisions regarding profit allocation and thus, more representative of the Group's activities.

We agreed with the Audit Committee that we would report to them misstatements above CHF 5 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters
Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Models and assumptions used to calculate future life policyholder benefits

Key audit matter	*How our audit addressed the key audit matter*
As set out in note 22 – Insurance Liabilities – Net future life policyholder benefits amount to CHF 100'628 million. Policyholders' benefits represent the estimated future benefit liability for traditional life insurance	Our audit procedures relating to actuarially determined liabilities primarily consist of testing the models used in developing these balances, reviewing management's assumptions in light of current economic conditions, industry developments and policyholder behaviour, and performing proce-

Key audit matter	*How our audit addressed the key audit matter*
policies and include the value of accumulated declared bonuses or dividends that have vested to policyholders. The reserves for life benefits for participating traditional life insurance policies are calculated using a net level premium valuation model. The actuarially determined liabilities depend on the type of profit participation and is based on actuarial assumptions, such as guaranteed mortality benefits, interest rates, persistency, expenses and investment return, plus a margin for adverse deviations. Management assesses the appropriateness of the main assumptions used for the calculation of these liabilities at each reporting date. Management's process for updating assumptions varies by territory and product. We focused our audit on these liabilities due to their significance to the consolidated financial statements, the sensitivity to changes in the economic conditions, and the level of management judgment involved in setting assumptions. Further, our audit procedures focused on the Swiss future life policyholder benefits as with 76% they make up the majority of the future life policyholder benefits on the Group's balance sheet.	dures over the completeness and accuracy of underlying data used in the calculations. We were supported by actuaries in our audit work of all full scope reporting units. We examined if the models used in the valuation of actuarially determined future life policyholder benefits are reasonable and in line with financial reporting requirements and industry accepted practice. We examined the biometric assumptions, such as mortality and disability. The future life policyholder benefits are calculated using a discount rate. We have reviewed significant assumption changes made during the year with a focus on the interest rate used in the traditional life insurance policies. In assessing the interest rate used, we confirmed that the interest rates are supported by the anticipated economic performance of the assets backing the liability when considering any planned changes in asset strategy and reinvestment. In particular, we assessed the different components of the discount rate on a portfolio level ("individual life" and "group life"). Our audit procedures for the discount rate included, but were not limited to: • Assessment of the estimated future expected returns for all major investment classes, such as bonds, real estate, loans, mortgages, equity, and alternative investments • Comparison of the allocation of the major asset classes to the strategic asset allocation as determined by management • Verification of the consistency of the assumptions made by management with assumptions made elsewhere • Review of the methodology for determining the selected discount rate, based on the above input parameters. Based on the work performed, we determined that the models and assumptions used in the valuation of actuarially determined future life policyholder benefits are reasonable and in line with financial reporting requirements and industry accepted practice.

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Recoverability of Goodwill

Key audit matter	*How our audit addressed the key audit matter*
As elaborated in note 17 - Intangible Assets including Intangible Insurance Assets - Goodwill represents the excess of the fair value of the consideration transferred and the amount of any non-controlling interest recognised, if applicable, over the fair value of the assets and liabilities recognised at the date of acquisition. The existing goodwill amounts to CHF 1'318 million as a result of various business combinations, mainly Swiss Life Select, Lloyd Continental, CapitalLeben and Corpus Sireo. Goodwill is subject to management testing, at least annually, for impairment at the cash generating unit level. The recoverable amounts have been determined on a value-in-use basis and use cash flow projections based on financial budgets approved by management and the board of directors. The calculations are based on present values that use a single set of estimated cash flows and a single discount rate. The cash flow projections cover a three or five-year period, and consider a terminal value after such period, based on long-term growth assumptions in the various geographical markets, which is material to the overall value-in-use. In addition, a significant driver of the value-in-use is the discount rate, which is based on the weighted average cost of capital. As the actual cash flows naturally vary from planned projections, management have created detailed sensitivity analysis. The sensitivity analysis provide insights as to the recoverability of goodwill when the assumptions used in the planned projections, individually or as a whole, are not met. We focused on goodwill, since the cash flow projections extending into the future are based on significant management judgement, as to the development of the acquired businesses.	We obtained the mid-term planning documents for the individual cash generating units, as approved by management and the board of directors, including details on activities supporting the expected development. In particular, we challenged management as to the feasibility of reaching the cash flows. Further evidence of reasonableness of planned cash flows was to validate if these were met in the past. Where actual results deviated from planned results, we inquired as to the reasons and potential impact they may have, in reaching future goals. We critically assessed the deviations from planned results. In addition, with the support of our valuation experts, we assessed the main parameters used in the calculation of the weighted average cost of capital, from which the discount rate is derived. In particular, we identified the market data inputs used by the Group and tested these against independent data. As for the long-term growth rate used at the end of the mid-term planning period, we compared it to the economic environment and industry trends. We critically assessed management's sensitivity analyses to ascertain the level of reliability of the assumptions when compared to past performance. We consider the valuation approach, and the assumptions and parameters used within, as a reasonable and adequate basis for the assessment of recoverability of goodwill. The audit evidence obtained through our audit procedures was sufficient and suitable to assess the recoverability of goodwill.

Valuation of investment property

Key audit matter	*How our audit addressed the key audit matter*
As set out in note 14 - Investment Property - property held for investment amount to CHF 27'946 million. We focused on investment property due to the size of such property with respect to the total amount of invested assets and the fact that there is management judgement involved in determining the fair value. Fair values of investment property are calculated for the assessment of the valuation of investment property. Further, we focused our audit procedures performed on Swiss Life Switzerland, as the value of investment property provides for 77% of the investment property on the Group's balance sheet. The fair value is usually derived using the generally accepted discounted cash flow method. Ordinarily the valuation of each investment property is determined on an annual basis by an independent recognised valuation expert. Consideration is given to the assumed expected rental revenue, over the period in use, and discounted using a rate which reflects the risk assessment of the investment property, such as location and market value. The fair value of investment property is sensitive to a) the development of the real estate market for residential, commercial, and mix-use properties in general, to b) the expected rental revenue, and c) the discount rate.	We assessed the overall portfolio structure, compared the current portfolio to the prior year, and assessed the overall process of determining the fair values. Based on the overall risk assessment, we selected investment properties for an individual valuation review. Our sample selection was conducted using specified criteria, such as location, market value, market value deviation compared to the previous year, type of use, and acquisitions of investment property during the reporting period. During the audit we have been supported by our real estate valuation experts. In particular, our valuation review included the following: • assessed the completeness and appropriateness of the valuation report and the competence, objectivity and independence of the valuation expert • examined the formal aspects, in particular the compliance with real estate valuation standards • examined the valuation assumptions for example expected rental income, with regards to reasonableness and market conformity • reviewed the mathematical correctness of fundamental calculation steps through the reperformance of a sample of such calculation steps • examined the appropriateness of the valuation methodology used • examined the valuation parameters (discount rate and operating costs) and compared these to market data. In addition, we assessed the average discount rate resulting from valuing the investment property portfolio and compared it to market data. We compared the booked values with the valuation results of the valuation experts. We examined if the carrying values as well as the valuation adjustments (if applicable) were correctly booked. We consider the valuation methodology, and the underlying valuation parameters used, to be reasonable. The audit evidence obtained through our audit procedures was sufficient and suitable to assess the valuation of real estate.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of Swiss Life Holding Ltd and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

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Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Ray Kunz	Nebojsa Baratovic
Audit expert Auditor in charge	Audit expert

Zürich, 13 March 2018

Swiss Life Holding Financial Statements

Management Report

Swiss Life Holding generated a profit of CHF 314 million in the 2017 financial year (2016: CHF 359 million).

The annual profit of Swiss Life Holding consisted mainly of dividends, guarantee fees and interest income within the Group, as well as investment income. Dividend payments from subsidiaries to the holding company increased from CHF 519 million to CHF 555 million during the year under review. Guarantee fees including processing fees on new loans came to CHF 44 million (previous year: CHF 49 million). New loans totalling EUR 41 million were awarded to Group units in Germany and France to finance new real estate projects. The volume of loans to Group companies increased from CHF 708 million in the previous year to CHF 758 million. Interest earned on loans to Group companies amounted to CHF 24 million (previous year: CHF 32 million). The decline in interest income is due to new loans awarded at lower rates in accordance with the current interest rate environment.

As at the end of the year Swiss Life Holding had assets (liquid funds, debt securities, investment funds and equities) of CHF 1743 million. Liquid funds reduced from CHF 119 million to CHF 65 million, and debt security, investment fund and equity holdings increased from CHF 1321 million to CHF 1647 million. All debt securities are eligible for repo transactions. Earnings from investments in bonds and fund units rose from CHF 36 million to CHF 44 million.

All loans granted internally and external investments in foreign currencies are fully hedged with currency futures. The cost of hedging during the reporting period was CHF 18 million (2016: CHF 16 million). The investment book value decreased from CHF 3716 million to CHF 3416 million during the reporting year due to an allowance of a subsidiary.

Swiss Life Holding's profit distribution to shareholders in the period under review came to CHF 356 million, or CHF 11.00 per share, and was made out of the capital contribution reserve. The par value of the Swiss Life Holding share stands unchanged at CHF 5.10. The company's nominal share capital rose from CHF 164 million to CHF 175 million. In 2017, Swiss Life exercised its right to conclude an early buyback of a convertible bond issued in 2013 and due to mature in 2020. Almost all the bond holders exercised their right to convert their bonds into Swiss Life Holding shares. Bonds with a principal of CHF 499 160 000 were converted, which led in turn to the issue of 2 141 905 new shares in Swiss Life Holding from conditional capital. The remaining convertible bonds, with a principal of CHF 805 000, were repurchased on 27 December 2017.

The conversion of the convertible bond reduced the long-term debt capital from CHF 919 million to CHF 424 million. This consists of two senior bonds in the total nominal amount of CHF 425 million, comprising a tranche of CHF 225 million with a six-year maturity (coupon 1.125%; maturing 2019) and a tranche of CHF 200 million with a ten-year maturity (coupon 1.875%; maturing 2023). These debt financing instruments were issued in 2013. Interest on the bonds came to CHF 7 million.

Staff costs and operating expenses including taxes came to CHF 21 million (2016: CHF 15 million). The increase is due to the stamp duty on issues resulting from the convertible bond conversions.

Statement of Income

Statement of income for the years ended 31 December

In CHF million

	2017	2016
Net income on non-current assets		
Dividends received	**555**	519
Realised gain/loss on non-current assets	**–2**	–2
Unrealised gain/loss on non-current assets	**–307**	–223
Other finance income	**68**	69
Other financial expense	**–11**	–9
Foreign currency gains/losses	**–5**	–30
Total net income on non-current assets	**299**	324
Staff costs	**–6**	–6
Operating expense	**–16**	–9
Other profit from operations	**44**	50
Other operating expense	**–8**	–
Income tax	**0**	0
ANNUAL PROFIT	**314**	359

Balance Sheet

Balance sheet

In CHF million

	31.12.2017	31.12.2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	65	119
Receivables from Group companies	31	29
Receivables from third parties	2	2
Accrued income	17	14
TOTAL CURRENT ASSETS	115	164
NON-CURRENT ASSETS		
Debt securities	1 424	1 104
Shares	15	15
Investment funds	208	202
Loans to Group companies	758	708
Financial assets	2 405	2 028
Participations	3 416	3 716
TOTAL NON-CURRENT ASSETS	5 820	5 744
TOTAL ASSETS	5 935	5 907
LIABILITIES AND EQUITY		
LIABILITIES		
Short-term debt capital		
Payables to Group companies	–	–
Short-term interest-bearing liabilities	40	–
Other short-term liabilities	68	53
Accrued expenses	4	4
Liabilities towards third parties	112	57
Total short-term debt capital	112	57
Long-term debt capital		
Convertible securities	–	496
Senior bonds	424	423
Total long-term debt capital	424	919
TOTAL LIABILITIES	536	976
EQUITY		
Share capital	175	164
Capital contribution reserve	724	591
Statutory capital reserve	724	591
General reserves	33	33
Statutory retained earnings	33	33
Free reserves	4 181	3 822
Balance carried forward from previous year	0	0
Annual profit	314	359
Profit shown in the balance sheet	314	359
Voluntary retained earnings	4 495	4 181
Own capital shares	–26	–37
TOTAL EQUITY	5 400	4 931
TOTAL LIABILITIES AND EQUITY	5 935	5 907

Notes to the Financial Statements

Accounting Rules

The 2017 Financial Statements were prepared in accordance with the provisions of Swiss accounting law (Title 32 of the Swiss Code of Obligations). Swiss Life Holding's Financial Statements are presented in millions of Swiss francs (CHF), which is the presentation currency. Figures may not add up exactly due to rounding.

Explanations on the balance sheet and statement of income

Participations

	Currency	Authorised share capital in 1000	Direct share	Currency	Authorised share capital in 1000	Direct share
		31.12.2017			31.12.2016	
Swiss Life Ltd, Zürich	**CHF**	**587 350**	**100.00%**	CHF	587 350	100.00%
Swiss Life Deutschland Holding GmbH, Hannover	**EUR**	**25**	**100.00%**	EUR	25	100.00%
Swiss Life Intellectual Property Management AG, Zürich	**CHF**	**250**	**100.00%**	CHF	250	100.00%
Swiss Life International Holding AG, Zürich	**CHF**	**1 000**	**100.00%**	CHF	1 000	100.00%
Swiss Life Investment Management Holding AG, Zürich	**CHF**	**50 000**	**100.00%**	CHF	50 000	100.00%
Swiss Life Schweiz Holding AG, Zürich	**CHF**	**250**	**100.00%**	CHF	250	100.00%

A value adjustment totalling CHF –300 million was made to Swiss Life Deutschland Holding GmbH following the annual assessment of participations.

Loans to Group companies

CHF 544 million of the loans to Group companies is classified as subordinated.

Major shareholders

The following shareholders hold over 5% of Swiss Life Holding's share capital.

As % of total share capital	31.12.2017	31.12.2016
BlackRock Inc.	**5.28%**	5.08%

Share capital

As at 31 December 2017, the share capital of Swiss Life Holding (SLH) consisted of 34 223 106 fully-paid shares with a par value of CHF 5.10 each. In exercising voting rights, no shareholder can collect more than 10% of the total share capital directly or indirectly in respect of his own shares and those he represents. As at 31 December 2016, Swiss Life Holding had 32 081 201 registered shares outstanding with a par value of CHF 5.10 per share. Conditional share capital was CHF 19 675 534.80 as at 31 December 2017 (previous year: CHF 30 599 250.30).

Statutory capital reserve
The statutory capital reserve consists of the capital contribution reserve of CHF 724 million (previous year: CHF 591 million). The capital contribution reserve fell by CHF 11.00 per share or CHF 356 million due to the distribution of profit during the year under review. On the other hand, the capital contribution reserve increased by CHF 488 million with the conversion of the convertible bond. As at 31 December 2017, the capital contribution reserve came to CHF 724 million. Of this amount, CHF 547 million is recognised by the Federal Tax Administration, while the legal qualification of CHF 177 million is still open and is to be reassessed according to future legal developments.

Statutory retained earnings
Statutory retained earnings comprise the general reserves.

Free reserves
This post comprises accumulated retained earnings which have not been distributed to the shareholders.

Issue of a convertible bond in 2013
On 2 December 2013, Swiss Life Holding launched a bond issue in the amount of CHF 500 million with a coupon of 0%, maturing in 2020. The bonds may be converted into registered Swiss Life Holding shares.

In 2017, Swiss Life exercised its right to conclude an early buyback of the convertible bond issued in 2013 and due to mature in 2020. Almost all the bond holders exercised their right to convert their bonds into Swiss Life Holding shares. Bonds with a principal of CHF 499 160 000 were converted, which led in turn to the issue of 2 141 905 new shares in Swiss Life Holding from conditional capital. The remaining convertible bonds with a principal of CHF 805 000 were repurchased on 27 December 2017.

Issue of two senior bonds in 2013
Two senior bonds for a total amount of CHF 425 million were issued on 21 June 2013, split into a tranche of CHF 225 million with a tenor of six years until 2019 (coupon of 1.125%) and a tranche of CHF 200 million with a tenor of ten years until 2023 (coupon of 1.875%).

Treasury shares
The Swiss Life Group companies did not purchase any treasury shares during the year under review. In the same period, they sold 17 shares at an average price of CHF 196.72. As at 31 December 2017, the Swiss Life Group held 131 201 treasury shares.

Contingent liabilities
Swiss Life Holding acts as warrantor for all Swiss Life Ltd liabilities with regard to the various tranches of the subordinated perpetual step-up loans (hybrid debt), which amounted to an equivalent value of CHF 4010 million at the balance sheet date.

Swiss Life Holding further provides capital guarantees for a maximum net asset value of CHF 1100 million to Swiss Life Ltd, CHF 152 million to Swiss Life Products, CHF 7 million to Swiss Life Liechtenstein, CHF 25 million to Corpus Sireo and CHF 100 million to cover regulatory requirements at the level of subsidiaries.

In addition, Swiss Life Holding grants a line of credit in the amount of CHF 48 million to Swiss Life Products, a line of credit in the amount of CHF 6 million to Swiss Life Schweiz Holding, a line of credit of CHF 25 million to Pierre Capitale and a line of credit in the amount of CHF 77 million to Corpus Sireo.

Financial assets pledged as collateral

In the year under review, Swiss Life Holding pledged no liquid assets as margin cover for currency forward transactions. Debt securities of CHF 42 million were pledged on the balance sheet date as part of a repurchase agreement.

Statement of changes in equity for the years ended 31 December

In CHF million

	2017	2016
SHARE CAPITAL		
Balance as at 1 January	164	164
Change	11	0
TOTAL SHARE CAPITAL	175	164
STATUTORY CAPITAL RESERVE		
Balance as at 1 January	591	862
Distribution of profit from the capital contribution reserve	–356	–271
Changes due to conversion of the convertible bond	488	–
TOTAL STATUTORY CAPITAL RESERVE	724	591
STATUTORY RETAINED EARNINGS		
General reserves		
Balance as at 1 January	33	32
Change	0	–
Total general reserves	33	33
TOTAL STATUTORY RETAINED EARNINGS	33	33
VOLUNTARY RETAINED EARNINGS		
Free reserves		
Balance as at 1 January	3 822	3 473
Allocation to free reserves	359	349
Release of reserve for treasury shares	–	–
Total free reserves	4 181	3 822
Profit shown in the balance sheet		
Balance as at 1 January	359	349
Allocation to free reserves	–359	–349
Annual profit	314	359
Total profit shown in the balance sheet	314	359
TOTAL VOLUNTARY RETAINED EARNINGS	4 495	4 181
OWN CAPITAL SHARES		
Balance as at 1 January	–37	–49
Change in own capital shares	12	12
TOTAL OWN CAPITAL SHARES	–26	–37
TOTAL EQUITY	5 400	4 931

Number of full-time positions

As in the previous year, the number of full-time positions is not above 50 employees on average over the year.

Disclosure of compensation to the Board of Directors and the Corporate Executive Board in accordance with Art. 663b^{bis} of the Swiss Code of Obligations (CO) and Art. 14–16 of the Federal Ordinance against Excessive Compensation in Listed Stock Companies, and disclosure of the shareholdings of members of the Board of Directors and the Corporate Executive Board in accordance with Art. 663c of the CO

Compensation in 2017

The Board of Directors is responsible for drawing up a written compensation report each year to include the information required by Articles 14–16 of the Federal Ordinance against Excessive Compensation in Listed Stock Companies (Compensation Ordinance). This compensation report supersedes the details in the notes to the balance sheet according to Art. 663b^{bis} CO. Swiss Life's compensation report for the 2017 financial year is provided on pages 49 to 66.

The following tables contain information on the share ownership and participation rights of members of the Board of Directors and the Corporate Executive Board in accordance with Art. 663c CO.

Share ownership/participation rights as at 31 December 2017
As at 31 December 2017, acting members of the Board of Directors and the Corporate Executive Board (including closely linked parties) held the following number of registered Swiss Life Holding shares and future subscription rights to Swiss Life Holding shares in the form of Restricted Share Units (RSUs).

Board of Directors

	SLH shares 31.12.2017
Rolf Dörig, Chairman of the Board of Directors	34 364
Gerold Bührer	7 465
Frank Schnewlin	5 118
Adrienne Corboud Fumagalli	589
Ueli Dietiker	841
Damir Filipovic	1 572
Frank W. Keuper	809
Stefan Loacker	600
Henry Peter	9 995
Franziska Tschudi Sauber	3 061
Klaus Tschütscher	809
TOTAL BOARD OF DIRECTORS	65 223

Corporate Executive Board

	SLH shares 31.12.2017
Patrick Frost, Group CEO	10 949
Jörg Arnold	250
Thomas Buess	19 743
Nils Frowein	1 020
Markus Leibundgut	4 544
Stefan Mächler	1 500
Charles Relecom	1 431
TOTAL CORPORATE EXECUTIVE BOARD	39 437

	Restricted Share Units (RSUs) 31.12.2017 [1]
Patrick Frost, Group CEO	10 139
Jörg Arnold	1 367
Thomas Buess	6 067
Nils Frowein	4 958
Markus Leibundgut	5 070
Stefan Mächler	4 816
Charles Relecom	4 756
TOTAL CORPORATE EXECUTIVE BOARD	37 173

[1] Total number of RSUs allocated in the years 2015, 2016 and 2017 in connection with the relevant equity compensation plan. The RSUs represent future subscription rights that entitle the individuals concerned to receive SLH shares after a period of three years, provided that the relevant conditions are met at that point.

Share ownership/participation rights as at 31 December 2016

As at 31 December 2016, acting members of the Board of Directors and the Corporate Executive Board (including closely linked parties) held the following number of registered Swiss Life Holding shares and future subscription rights to Swiss Life Holding shares in the form of Restricted Share Units (RSUs).

Board of Directors

	SLH shares 31.12.2016
Rolf Dörig, Chairman of the Board of Directors	33 290
Gerold Bührer	7 151
Frank Schnewlin	4 804
Wolf Becke	983
Adrienne Corboud Fumagalli	463
Ueli Dietiker	697
Damir Filipovic	1 446
Frank W. Keuper	683
Henry Peter	9 483
Franziska Tschudi Sauber	2 900
Klaus Tschütscher	683
TOTAL BOARD OF DIRECTORS	62 583

Corporate Executive Board

	SLH shares 31.12.2016
Patrick Frost, Group CEO	11 625
Thomas Buess	17 704
Nils Frowein	600
Ivo Furrer	1 000
Markus Leibundgut	3 070
Stefan Mächler	1 500
Charles Relecom	3 430
TOTAL CORPORATE EXECUTIVE BOARD	38 929

	Restricted Share Units (RSUs) 31.12.2016[1]
Patrick Frost, Group CEO	9 446
Thomas Buess	6 455
Nils Frowein	5 258
Ivo Furrer	6 455
Markus Leibundgut	5 035
Stefan Mächler	3 307
Charles Relecom	5 017
TOTAL CORPORATE EXECUTIVE BOARD	40 973

[1] Total number of RSUs allocated in the years 2014, 2015 and 2016 in connection with the relevant equity compensation plan. The RSUs represent future subscription rights that entitle the individuals concerned to receive SLH shares after a period of three years, provided that the relevant conditions are met at that point.

Appropriation of Profit
Profit and Appropriation of Profit

Annual profit amounts to CHF 313 645 014. The Board of Directors proposes to the General Meeting of Shareholders that the profit be appropriated in accordance with the table below. If this proposal is adopted, a distribution of CHF 13.50 per share will be made from the capital contribution reserve.

Profit shown in the balance sheet

In CHF

	2017	2016
Balance carried forward from previous year	**50 770**	331 790
Annual profit	**313 645 014**	358 718 980
TOTAL PROFIT SHOWN IN THE BALANCE SHEET	**313 695 784**	359 050 770

Appropriation of profit

In CHF

	2017	2016
Dividend	**–**	–
Allocation to legal reserves	**–**	–
Allocation to free reserves	**313 000 000**	359 000 000
Balance carried forward to new account	**695 784**	50 770
TOTAL PROFIT SHOWN IN THE BALANCE SHEET	**313 695 784**	359 050 770

Zurich, 13 March 2018

For the Swiss Life Holding Board of Directors

Rolf Dörig Gerold Bührer

Report of the Statutory Auditor

pwc

Report of the statutory auditor
to the General Meeting of Swiss Life Holding Ltd
Zurich

Report on the audit of the financial statements

Opinion
We have audited the financial statements of Swiss Life Holding Ltd, which comprise the balance sheet as at 31 December 2017, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 292 - 299) as at 31 December 2017 comply with Swiss law and the company's articles of incorporation.

Basis for opinion
We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall materiality: CHF 50 million

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As key audit matter the following area of focus has been identified:

Valuation of participations

Audit scope
We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example,

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in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material, if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Overall materiality	CHF 50 million
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because the company mainly holds participations in areas of insurance and financial services providers, as well as providing loans to group companies.

We agreed with the Audit Committee that we would report to them misstatements above CHF 3 million identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of participations

Key audit matter	*How our audit addressed the key audit matter*
Participations represent a significant amount of the balance sheet (CHF 3'416 million, 58% of total assets). We refer to page 293 of the financial statements of Swiss Life Holding Ltd. Annually, management analyse participations to assess valuation adjustments. For the analysis significant judgement is applied, to determine assumptions, such as new business volume, commission income, cost development applied discount rates on projected cash flows.	Our work in the area of participations mainly focused on the audit of management's analysis of valuation adjustments of participations as well as an assessment of assumptions used by management to determine the value in use. As part of our audit procedures, we compared the book value with the IFRS equity value or value in use. For material participations, we audited the IFRS equity value as part of the IFRS group audit. For immaterial participations, we performed an

Key audit matter	*How our audit addressed the key audit matter*
We consider our audit procedures in this area as particularly important, due to the size of the balance sheet position and level of significant assumptions. In accordance with the Swiss Code of Obligations, participations are valued at cost with deductions for write-downs as necessary. Management test the valuation of individual participations through a comparison of the book value of each participation to the respective IFRS equity value. Management utilise the equity value of each participation determined for the IFRS closings. As long as the IFRS equity value exceeds the book value of the participation, the conclusion is drawn that the valuation of the participation is sufficient. In case that the IFRS equity value is below the book value of the participation, management performs an extensive valuation analysis and the value in use is compared to the book value of the participation. For the calculation of the value in use, an extensive valuation analysis using cash flow projections, based on mid-term planning approved by management and the board of directors, is performed. As the actual cash flows naturally vary from planned projections, management have created detailed sensitivity analyses. The sensitivity analyses provide insights as to the valuation of the participation, when key assumptions, individually or as a whole, on which planned projections are based, are not met.	assessment of differences between the IFRS equity value and the statutory equity. For participations where the book value exceeds the IFRS equity value, we audited the underlying valuation analysis. We reviewed the financial budgets approved by management and the board of directors. The financial budgets include details on certain planned activities supporting the expected business development. In particular, we challenged management as to the feasibility of reaching the planned cash flow projections. An element of placing trust in planned cash flow projections is the extent they were reached in the past. Where actual results varied from planned results, we inquired as to the reasons and potential impact they may have in reaching future goals and assessed the key drivers which contributed to the deviation. We critically assessed the additional sensitivity analyses prepared by management to ascertain the level of prudency used. In addition, we, together with our valuation experts, assessed the main parameters used in the calculation of the weighted average cost of capital, from which the discount rate is derived. In particular, we identified the market data inputs used by management and compared these against independent data. As for the long-term growth rate used at the end of the mid-term planning period, we compared it to the economic environment and industry trends. We consider the valuation approach, and the assumptions and parameters used within, as a reasonable and adequate basis for the assessment of the participation value recorded on the balance sheet. The audit evidence obtained through our audit procedures was sufficient and suitable to assess the valuation of participations.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Ray Kunz	Nebojsa Baratovic
Audit expert Auditor in charge	Audit expert

Zürich, 13 March 2018

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SwissLife