

Embedded Value at 31 December 2003 for Swiss Life / Rentenanstalt

Introduction

The embedded value of in-force **life** insurance business of the Swiss Life / Rentenanstalt Life Company and its subsidiaries has been calculated as at 31 December 2003. The embedded value for the previous year is also shown together with items contributing to the change in embedded value during 2003. Sensitivities to changes in certain assumptions have also been calculated.

The goodwill for entities for which an embedded value has been calculated has been eliminated from the net asset value.

The embedded value of the life business is assessed to be:

the shareholders' interest in the net assets of the Group
plus
the value (to shareholders) of the in-force life business
less
the cost of solvency capital.

The value of in-force life business is calculated as the present value of projected future after-tax profits attributable to shareholders arising from the in-force life business (ignoring profits from future new business). The present value is calculated at discount rates which incorporate risk margins.

The values for new life business have been calculated as the present value as at inception of projected future after-tax profits to shareholders using the assumptions used for the 31 December 2003 embedded value. They allow for the cost of solvency capital required to support the solvency margin requirements of the new business.

The embedded value calculations follow a commonly used methodology, but it should be noted that they do not attempt to estimate values which the "Fair Value" methodology currently being implemented by the IASB might give.

Results

The calculated values for the Swiss Life / Rentenanstalt Life Company and subsidiaries are shown below. They do not include CHF 1,095 million of capital in Swiss Life Holding (which includes the dividend of CHF 94 million to be paid by Swiss Life Zurich).

<u>Embedded value as at:</u>	31/12/2003	31/12/2002
	CHF millions	CHF millions
Value of shareholders' interest in the net assets	2'180	1'740
Value of in-force business	4'784	5'185
Cost of locking-in solvency margin	(1'132)	(1'309)
Total embedded value	5'832	5'616

The embedded value include the values for new business written in the preceding year of CHF 77 million for 2003 and CHF 94 million for 2002. The 2003 new business value is lower due to the closure of the UK to new business. The rest of the Group increased new business value by 21 million in 2003.

Geographical breakdown

A geographical breakdown of the figures is set out in the tables below. They do not include CHF 1,095 million of capital in Swiss Life Holding.

Embedded value split by region	31/12/2003	31/12/2002
	CHF millions	CHF millions
Switzerland		
Shareholders interest in the net asset value	1'504	534
Value of in-force business	3'524	3'859
Cost of locking-in solvency margin	(683)	(1'014)
<i>Embedded value</i>	4'345	3'379
European Division		
Shareholders interest in the net asset value	1'510	1'206
Value of in-force business	1'734	1'326
Cost of locking-in solvency margin	(448)	(295)
<i>Embedded value</i>	2'796	2'237
Overhead		
<i>Embedded value</i>	(475)	
Elimination Effects		
<i>Embedded value</i>	(834)	
Total embedded value	5'832	5'616

Luxembourg and Italy have been included at figures based on the book values at which the companies appear in the accounts of Rentenanstalt Holding.

Economic Assumptions

The economic assumptions used in the calculations were:

Economic assumptions by region	31/12/2003	31/12/2002
	%	%
Switzerland		
Discount rate	7.0	7.0
Pre tax investment returns		
Fixed interest	3.0 – 3.8	2.5 - 3.5
Real Estate	4.2 - 4.5	4.6
Ordinary shares	5.0	7.0
European Division		
Discount rate	7.9	7.9
Pre tax investment returns		
Fixed interest	4.5 – 5.1	4.3 - 4.6
Real Estate	5.1	5.6
Ordinary shares	6.0	8.0

The change in fixed interest yields is assumed to occur linearly over five years.

Where there are different rates in different countries or products within a country, the rates shown are averages weighted by the in-force assets.

Other assumptions

Other assumptions including mortality, morbidity, persistency and expenses have been chosen having regard to the recent and expected local experience of the insurance companies of the Group.

Translation of foreign currencies

Calculations for individual countries have been performed in the local currencies and the results translated at the foreign currency year-end rates adopted for the Group accounts.

Change in embedded value

The expected increase in value over the year was CHF 414 million

Investment performance in 2003 increased the embedded value by CHF 580 million. In many cases this included the realisation of gains on bonds, which has a corresponding negative impact on the projected investment returns.

The reduction in projected investment returns reduced the embedded value by CHF 1'033 million.

The planned introduction of a "Legal Quote" in Swiss Group business (BVG business) decreases the embedded value by CHF 944 million.

Additionally, reductions in expenses across the Group increased the embedded value by CHF 602 million and tariff increases in the Swiss Group business together with the reduced minimum guaranteed rate increased the embedded value by 1091 million.

The value added by new business written in the year 2003 was CHF 77 million.

Foreign exchange rate changes increased the value by CHF 175 million.

Miscellaneous other items, including changes to experience assumptions made up the balance of the change of value.

Sensitivities

The sensitivity of the results has been calculated for changes to some of the major assumptions. The results were:

Sensitivities at 31/12/2003 (Deviation from central value)	Switzerland	European Division	Total
Items	CHF millions	CHF millions	CHF millions
Base Value	4'345	2'796	5'832 ¹⁾
0.5% reduction in discount rate	204	107	311
0.5% increase to future new money rates	316	304	620
0.5% decrease to future new money rates	(647)	(332)	(979)
10% decrease in market value of equities	(18)	(36)	(54)
10% decrease in market value of property assets	(498)	(30)	(528)

¹⁾ The total amount of CHF 5'832 millions include the overhead of CHF (475) millions, the elimination effects of CHF (834) millions.

The sensitivities to a 0.5% change in new money investment rates are after allowing for changes to policyholder benefits.

Included business

The values at which the major banking companies are included are as follows:

Book Values	CHF Million	
	31/12/2003	31/12/2002
Banca del Gottardo and STG	1'363	1'692

External Review

Deloitte LLP have reviewed the methodology adopted together with the assumptions and calculations made by the Directors of Swiss Life ("the Company") in the calculation of the embedded value of its Life Business at 31 December 2003 and the analysis of change for the year then ended. These results and the assumptions underlying them are the sole responsibility of the Board of Directors.

The review was conducted in accordance with normal actuarial practice and processes. In particular, Deloitte LLP have relied on and not sought to verify the data provided by the Company; that data included information contained in the group's audited financial statements.

In the light of the above, Deloitte LLP considers that the methodology adopted is appropriate, the Directors' assumptions taken together are reasonable and the embedded value results have been properly compiled on the basis of the Directors' methodology and assumptions.

This report is made solely to the Directors of Swiss Life for inclusion in the annual report to its members. To the fullest extent permitted by law, Deloitte LLP do not accept or assume responsibility to anyone other than the company and the company's members as a body, for their work, for this report, or for the opinions they have formed