

Embedded Value at 30 June 2004 for the Swiss Life Group

Introduction

The embedded value of the in-force **life** insurance business of the Swiss Life Group has been calculated as at 30 June 2004. The embedded value at the end of 2003 is also shown, together with items contributing to the change in embedded value during the first half of 2004. Sensitivities to changes in certain assumptions have also been calculated.

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 post-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 post-tax profits to shareholders using the assumptions used for the 30 June 2004 embedded value. They allow for the cost of 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 either results using the European Embedded Value Guidelines published by the CFO Forum or values which the "Fair Value" methodology currently being implemented by the IASB might give.

Results

The calculated values for the Swiss Life Group are shown below.

<u>Embedded value as at:</u>	30/06/2004	31/12/2003
	CHF millions	CHF millions
Value of shareholders' interest in the net assets	4'454	3'269
Value of in-force business	4'848	4'771
Cost of locking-in solvency margin	(1'144)	(1'129)
Total embedded value	8'158	6'911

The embedded value includes the values for new business written in the preceding period of CHF 31 million for the first half of 2004 and CHF 77 million for the full year 2003.

Geographical breakdown

A geographical breakdown of the figures is set out in the tables below.

<u>Embedded value split by region</u>	30/06/2004	31/12/2003
	CHF millions	CHF millions
Switzerland		
Shareholders interest in the net asset value	1'597	1'500
Value of in-force business	3'478	3'514
Cost of locking-in solvency margin	(727)	(681)
<i>Embedded value</i>	4'348	4'333
EU		
Shareholders interest in the net asset value	1'654	1'506
Value of in-force business	1'824	1'729
Cost of locking-in solvency margin	(417)	(447)
<i>Embedded value</i>	3'061	2'788
Overhead		
<i>Embedded value</i>	(454)	(474)
Holding		
<i>Embedded value</i>	1'970	1'095
Elimination Effects		
<i>Embedded value</i>	(767)	(831)
Total embedded value	8'158	6'911

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

Economic Assumptions

The economic assumptions used in the calculations were:

Economic assumptions by region	30/06/2004	31/12/2003
	%	%
Switzerland		
Discount rate	7.0	7.0
Pre tax investment returns		
Bond	3.2 – 3.9	3.0 - 3.8
Real Estate	4.2 - 4.5	4.2 - 4.5
Equities and Hedge Funds	5.0	5.0
European Division		
Discount rate	7.9	7.9
Pre tax investment returns		
Bond	4.7 - 5.2	4.5 - 5.1
Real Estate	5.5 - 5.7	5.1
Equities and Hedge Funds	6.0	6.0

The change in investment returns 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 end of period rates adopted for the Group accounts.

Change in embedded value

The expected increase in value over the half year was CHF 211 million.

A better investment performance than expected in the first half of 2004 increased the embedded value by CHF 33 million.

Increases in bond yields in the first half of 2004 led to increased projected investment returns which increased the embedded value by CHF 342 million.

The capital raising exercise in the first half of 2004 increased the embedded value by CHF 860 million.

Surrenders, particularly in the Swiss group pensions business decreased the embedded value by CHF 172 million and a strengthening of reserves for future pensioners in Switzerland decreased the embedded value by a further 135 million.

The value added by new business written in the first half of 2004 was CHF 31 million.

Miscellaneous other items, including cost savings, taxation and foreign exchange rate changes 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 30/06/2004 (Deviation from central value)	Switzerland	EU	Total
Items	CHF millions	CHF millions	CHF millions
Base Value	4'348	3'061	8'158 ¹⁾
0.5% reduction in discount rate	+212	+117	+329
0.5% increase in investment return	+343	+328	+671
0.5% decrease in investment return	(656)	(309)	(965)
0.5% decrease in bond yields	(224)	(181)	(405)
10% decrease in investment margin	(403)	(112)	(515)
10% decrease in market value of property assets	(509)	(31)	(540)

¹⁾ The total amount of CHF 8'158 million includes the overhead of CHF (454) million, the eliminations effect of CHF (767) and the value of the Holding of CHF 1'970 million.

The sensitivities to changes in investment returns are after allowing for changes to policyholder benefits.

Included business

The value at which the Banca del Gottardo is included is as follows:

Book Values	CHF Million	
	30/06/2004	31/12/2003
Banca del Gottardo	1'340	1'363

External Review

Deloitte LLP have carried out a high level review of 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 30 June 2004 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