SwissLife

Embedded Value Report 2008

1 Introduction

1.1 Basis of Preparation

Market consistent embedded value (MCEV) is a measure of the consolidated value of shareholders' interests in the in-force covered business of the Swiss Life Group. Covered business includes life, health and pension business of the company. The Group MCEV is a measure of the consolidated value of shareholders' interest in the covered and non-covered business in force of the company. Business in force includes business written as at 31 December 2008; future new business is not included. The notion of market consistent embedded value (MCEV) will alternatively refer within the course of this report to the MCEV of Swiss Life's covered business, of one of its market units, or to Swiss Life's Group MCEV.

Swiss Life's embedded value reporting follows the guidelines of the European Insurance CFO Forum Market Consistent Embedded Value Principles©[1], except for the treatment of liquidity premiums where Swiss Life has considered it appropriate to increase the swap yield curve in order to take into account dislocated financial markets at 31 December 2008. The cost of credit risk from bonds is calculated and disclosed in addition to mandatory requirements from the Principles. The embedded value of the health insurance business within Swiss Life in France is still the traditional embedded value (TEV). Further details on the MCEV methodology are given in section 4.

PricewaterhouseCoopers have audited this embedded value report. Their opinion is part of this report and can be found in section 6.

1.2 Covered Business and Non-Covered Business

Covered business includes all of Swiss Life's life, health and pension business, with the exception of Swiss Life Insurance Solutions AG and Swiss Life Products (Luxembourg) S.A. which are not yet material for embedded value purposes. Included are namely life businesses in Switzerland, France, Germany, Luxembourg and Liechtenstein. All other businesses such as investment management and AWD are included in the non-covered business at their IFRS net asset values.

MCEV (and Group MCEV) are net of external reinsurance. Where subordinated loans are allocated to covered business, they are marked to current market value.

1.3 Definitions

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

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

The embedded value for covered business is broken down into the net asset value i.e. the value of assets not backing liabilities, and the value of in-force business i.e. the value of future profits emerging from operations and assets backing liabilities.

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The net asset value (NAV) is split between:

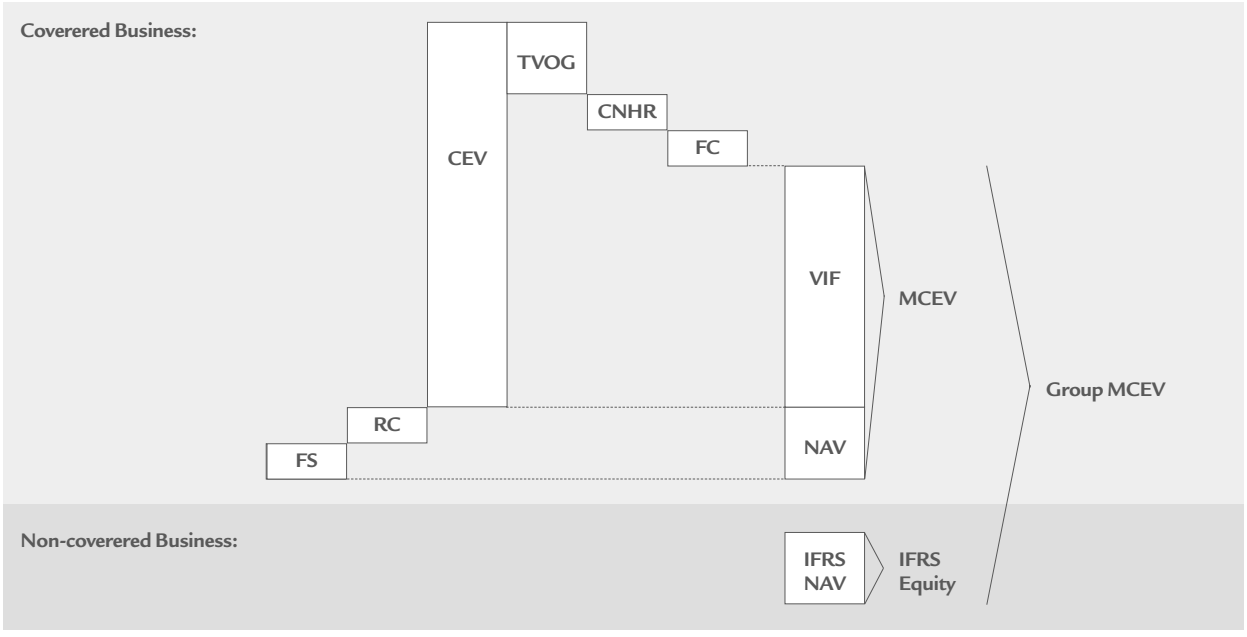
- The required capital (RC), i.e. the amount of capital provided by shareholders necessary to run the business
- The free surplus (FS): additional capital allocated to the covered business above the required capital

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

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

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

Components of Group MCEV



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

2 Summary of MCEV Results

Starting with the year 2008, Swiss Life changed its embedded value disclosure from traditional embedded value to market consistent embedded value. In order to see the effect of this change in methodology, basic results for 2008 from both traditional embedded value and MCEV are presented below.

As all results and components are shown in CHF million, rounding differences may occur.

2.1 MCEV and Traditional Embedded Value Comparison

The table below shows a comparison of MCEV and traditional embedded value split between net asset value and value of in-force business as at 31 December 2008.

MCEV and traditional embedded value comparison as at 31 December 2008

In CHF million	MCEV	Traditional EV	+/–
Net asset value	4 724	6 088	–22.4%
Value of in-force business	1 598	2 369	–32.5%
Total	**6 321**	**8 457**	**–25.3%**
Value of new business	119	78	52.3%

Overall, there has been a reduction in value of –25.3%, resulting from the move to MCEV compared to the previously published traditional embedded value (which did not include the life business in Liechtenstein).

The difference in net asset value can be mainly explained by the different treatment regarding treasury shares, hybrid capital, unrealised gains and losses of assets as well as goodwill of insurance units.

The value of in-force business by means of the MCEV framework directly accounts for all effects from uncertainties of future investment experience using a market consistent stochastic approach. As a consequence, profit sharing rules and financial guarantees imply a negative effect on shareholder value, especially in a situation with high volatilities. In the traditional framework the accounting for such risk was achieved by using risk discount rates to discount future profits. This risk discount rate has now turned out to be too low to represent a market consistent value.

The values of new business in the MCEV framework differ from the traditional values due to their marginal calculation, i.e. the impact on the total MCEV of writing new business. With current conditions, they tend to be higher than the corresponding traditional values. More details about the new business results and methodology can be found in sections 2.5 and 4.2 below.

2.2 Group MCEV

The Group MCEV includes the covered as well as the non-covered business. The covered business is valued according to the MCEV methodology; the resulting value is the MCEV. The value of the non-covered business included in the Group MCEV is the unadjusted IFRS net asset value. The following table shows the Group MCEV as composed of the covered and the non-covered parts.

Group MCEV as at 31 December 2008

In CHF million	Net asset value	Value of in-force business	**Total**
Covered business	1 971	1 598	**3 569**
Non-covered business	2 753	n.a.[1]	**2 753**
Total Group MCEV	**4 724**	**1 598**	**6 321**

[1] n.a.: not applicable

2.3 MCEV of Covered Business

The following table shows the MCEV by components:

MCEV of covered business as at 31 December 2008: overview

In CHF million	**2008**
Net asset value	**1 971**
Free Surplus	**87**
Required Capital	**1 884**
Value of in-force business	**1 598**
Certainty equivalent value	**4 007**
Time value of options and guarantees [1]	**–1 481**
Cost of residual non-hedgeable risks	**–398**
Frictional costs	**–530**
Total MCEV	**3 569**

[1] Time value of options and guarantees is used in this report equivalent to the MCEV-Principles' expression "Time value of financial options and guarantees"

The net asset value (NAV) of the covered business is the market value of assets allocated to the covered business, which are not backing liabilities. Goodwill and intangibles are not included in the net asset value. The required capital (RC) is that part of the net asset value whose distribution to shareholders is restricted. The free surplus (FS) is calculated as the difference between the total net asset value and the required capital.

The certainty equivalent value (CEV) is the present value of future shareholder profits – net of tax – under the reference scenario. This scenario is derived from swap rates as at the respective valuation date by including liquidity premiums (details about reference rates are provided in section 5.1.1 below). The CEV contains the part of the value of financial options and guarantees which materialises in this reference scenario (also called intrinsic value of the financial options and guarantees).

The time value of financial options and guarantees (TVOG) is calculated as the difference between the market consistent expected present value of future shareholder profits with all stochastic economic scenarios and the certainty equivalent value. The TVOG therefore represents the additional market price of financial options and guarantees in excess of the intrinsic value which is already allowed for in the reference scenario. The TVOG also includes the cost of credit risk related to investments in corporate bonds.

The cost of residual non-hedgeable risks (CNHR) represents the value of risks which cannot be calculated in a market consistent way because there are no liquid markets, such as insurance risks, expense risks, and risks from variances to assumed rules for policyholder decisions. It is calculated under a cost of capital approach.

The frictional costs (FC) are the present value of costs incurred by shareholders due to management expenses and taxes on the investments of restricted assets. They are calculated based on the required capital.

The value of in-force business (VIF) is the sum of the certainty equivalent value, TVOG, CNHR, and frictional costs. Thus MCEV is the sum of net asset value and value of in-force business, or the sum of free surplus, required capital and value of in-force business.

As explained above, the TVOG includes the value of credit risk from bond investments. This table shows the total TVOG including the cost of credit risk for MCEV.

Time value of financial options and guarantees (TVOG) as at 31 December 2008 including cost of credit risks – details

In CHF million	MCEV
Time value of options and guarantees w/o cost of credit risks	–1 248
Cost of credit risks	–234
Time value of options and guarantees	**–1 481**

Additional details about MCEV components and cost of credit risk can be found under section 4.1 later in this report.

2.4 Reconciliation of Traditional Embedded Value to MCEV for Covered Business

The table below summarises the reconciliation between the traditional embedded value as published in March 2009, and the MCEV following the MCEV Principles of the CFO Forum.

Reconciliation of traditional embedded value to MCEV for covered business as at 31 December 2008

In CHF million	**2008**
Traditional EV	**4 888**
Market consistent valuation	560
Certainty equivalent models and assumptions	–43
Remove cost of holding capital (traditional EV)	1 133
Allowance for frictional costs	–530
Time value of options and guarantees	–1 481
Cost of residual non-hedgeable risks	–398
Total changes	–1 319
MCEV	**3 569**

The effect of "market consistent valuation" reflects the move from the traditional embedded value methodology to the market consistent framework used for the MCEV calculations, but before allowance for the time value of financial options and guarantees and the cost of residual non-hedgeable risks:

- "Certainty equivalent models and assumptions" quantifies the change from traditional embedded value models and assumptions for investment returns and discount rates to a certainty equivalent framework. This value allows for the intrinsic value of financial options and guarantees but not for their time value.
- The allowance for cost of holding solvency capital in the traditional framework is replaced by the frictional cost for the required capital.

In addition to the intrinsic value of financial options and guarantees, the time value of these options and guarantees is allowed for. They are related to the variability of investment returns, management rules and policyholder behaviour. In addition, an allowance for the cost of credit risk of investment in bonds is included.

As a last step, the cost of residual non-hedgeable risks is allowed for.

2.5 Value of New Business

The value of new business (VNB) represents the value added by new business written in 2008. It is calculated consistently with the methodology and assumptions used for the business in force. The value of new business is calculated as the effect on MCEV from writing new business, i.e. it is the difference between the MCEV at year end and the MCEV which would have resulted, had no new business been written during the year. This is called the marginal approach to the value of new business.

The following sections show the premium volumes, measured in annual premium equivalent (APE) and present value of new business premiums (PVNBP), the value of new business split into MCEV components and the new business margins on the basis of APE and PVNBP. The annual premium equivalent is defined as new annual premiums plus 10% of new single premiums. The present value of new business premiums is equal to new single premiums plus the present value of new annual premiums which is calculated on the same assumptions as the value of new business.

Additional explanations about new business calculations can be found under section 4.2 later in this report.

2.5.1 Value of new business – premiums and margins

This table shows the value of new business together with the new business premium volumes and margins. Within MCEV reporting, it is customary to use the PVNBP to measure the premium volume of new business. For better comparison with previous disclosures, the traditional measure of APE is also shown.

Value of 2008 new business – premiums and margins

In CHF million	2008
Value of new business	**119**
Annual premiums	**643**
Single premiums	**4 791**
Present value of new business premiums (PVNBP)	**10 935**
Average annual premium multiplier	**9.6**
New business annual premium equivalent (APE)	**1 122**
New business margin (% PVNBP)	**1.1%**
New business margin (% APE)	**10.6%**

2.5.2 Value of new business – components

The table below shows the value of new business split into its components. The net asset value component is included in the new business value's certainty equivalent value.

Value of 2008 new business – components

In CHF million	2008
Certainty equivalent value [1]	**190**
Time value of options and guarantees	**–12**
Cost of residual non-hedgeable risks	**–13**
Frictional costs	**–46**
Value of new business	**119**

[1] including net asset value

As explained above, the TVOG includes the value of credit risk from bond investments. The TVOG contribution to the value of new business is rather small compared to the in-force business. The reason is the lower guaranteed interest rates for new business compared with the rates for in-force business in combination with the marginal calculation of the value of new business.

2.6 Group MCEV – Analysis of Earnings

The table below shows the change in embedded value split by components from the unpublished restated MCEV as at 31 December 2007 to the MCEV as at 31 December 2008.

Group MCEV – analysis of 2008 earnings

In CHF million	Covered business MCEV	Non-covered business IFRS	**Total Group MCEV**
Opening Group MCEV	**6 572**	**2 740**	**9 312**
Opening adjustments	–212	–344	**–556**
Adjusted opening Group MCEV	**6 360**	**2 396**	**8 756**
Operating MCEV earnings	1 700	1 424	**3 123**
Non-operating MCEV earnings	–4 241	–168	**–4 408**
Total MCEV earnings	**–2 541**	**1 256**	**–1 285**
Other movements in IFRS net equity	n.a.[1]	–737	**–737**
Closing adjustments	–250	–162	**–412**
Closing Group MCEV	**3 569**	**2 753**	**6 321**

[1] n.a.: not applicable

The opening adjustments represent dividend payments from the covered and non-covered business, resulting in the reduction of par value of CHF 17 per share as shown in the annual report 2008.

The operating MCEV earnings for non-covered business correspond mainly to gains from divestments in the Netherlands and Belgium amounting to CHF 886 million after taxes, as well as gains on the sale of Banca del Gottardo amounting to CHF 589 million after taxes (see annual report 2008).

The non-operating MCEV earnings include economic variances on covered business (see next section). For non-covered business they relate to impairments on MLP, Wiesloch, and borrowing costs for the non-covered business.

The other movements in IFRS net equity (non-covered business only) are mainly due to the share buy-back programme (CHF –711 million), as well as the change in unrealised capital gains and losses and the change in minority interest.

The closing adjustments relate notably to the change in currency exchange rates during 2008.

Items related to covered business are explained in detail in the next section.

2.7 Covered Business – Analysis of Earnings

The table below shows the analysis of earnings for the covered business in 2008:

Covered business – analysis of 2008 earnings

	Earnings on MCEV analysis			
In CHF million	Free Surplus	Required Capital	VIF	MCEV
Opening MCEV	**1 004**	**1 797**	**3 772**	**6 572**
Opening adjustments	–212	0	0	– 212
Adjusted opening MCEV	**791**	**1 797**	**3 772**	**6 360**
Value of new business	–312	187	244	119
Expected existing business contribution (reference rate) [1]	–62	32	364	334
Transfers from VIF and required capital to free surplus	578	–178	–400	0
Experience variances	810	–1 090	503	222
Assumption changes	0	0	1 174	1 174
Other operating variance	–143	83	–90	–149
Operating MCEV earnings	**871**	**–966**	**1795**	**1700**
Economic variances	–1 618	1 172	–3 800	–4 247
Other non-operating variances	17	11	–21	6
Total MCEV earnings	**–731**	**216**	**–2026**	**–2541**
Closing adjustments	27	–129	–148	–250
Closing MCEV	**87**	**1 884**	**1 598**	**3 569**

[1] This presentation of the analysis of earnings for the covered business is compliant with MCEV Principles, except that no indication of the expected existing business contribution in excess of the reference rate has been provided by Swiss Life.

Opening adjustments correspond to dividend payments.

The value of new business contributions from free surplus and required capital sum up to CHF –125 million. This represents the shareholders' share in acquisition expenses for new business.

Expected business contribution (reference rate) assumes market performance of all assets at the reference rate during the reporting period. Shareholders' results from this scenario are shown here, including the release from costs of residual non-hedgeable risks.

Transfers from value in force and required capital to free surplus include the shifts of the results of the preceding step to free surplus and shifts between free surplus and required capital. This line sums up to zero.

Experience variances aggregate the impact of actual performance versus expected assumptions on insurance contracts regarding non-economic assumptions such as mortality, expenses, lapses, as well as investment variances. Investment variances in the Swiss business make up most of the variances. This must be seen in connection with economic variances (see remarks below) which have been calculated with management decisions assumed at the beginning of the year – especially those for the management of unrealised gains. The management decisions actually applied were quite different from those anticipated, also as a reaction to the extraordinary movements in capital markets.

Assumption changes refer to the impact of the change on assumptions such as future mortality, morbidity, longevity rates, changes in surrender rates, expense rates, and rules for future profit sharing. The largest part of this variance arises from changes in projected asset allocations.

Other operating variances refer to any other changes that differ from the expected values not captured by the items above. This includes variances between actual and anticipated effects from management rules and profits or expenses from the look-through principle in 2008.

Swiss Life's Group MCEV and MCEV for covered business were significantly affected by the economic crisis in 2008, in particular by the drop in equity values, the widening of credit spreads, the lower interest rates and the higher volatilities. Economic variances represent the change in embedded value from replacing the starting economic scenarios with the closing ones. Effects from change in equity values and change in spreads on corporate bonds above reference rates are also included here. Economic variances are included in the line non-operating MCEV earnings in the table Group MCEV – analysis of 2008 earnings.

Other non-operational variances include – among others – tax variances.

Closing adjustments represent raising or pay-back of capital and currency exchange rate fluctuation.

2.8 Sensitivities

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

Sensitivities as at 31 December 2008

In CHF million	Change in MCEV	+/–	Change in Value of new business	+/–
Base value	**3 569**		**119**	
Economic				
100 bp increase of interest rates (reference rates)	1 020	29%	41	35%
100 bp decrease of interest rates (reference rates)	–1 747	–49%	–109	–92%
10% increase in equity / property market values	909	25%	–[1]	–[1]
10% decrease in equity / property market values	–1 057	–30%	–[1]	–[1]
25% increase in equity / property implied volatilities	–274	–8%	–3	–3%
25% decrease in equity / property implied volatilities	193	5%	2	2%
25% increase in interest rate implied volatilities	–376	–11%	–13	–11%
25% decrease in interest rate implied volatilities	284	8%	10	8%
Operational				
10% increase in maintenance expenses	–306	–9%	–15	–12%
10% decrease in maintenance expenses	313	9%	29	25%
10% proportionate increase in lapse rates	–129	–4%	–15	–12%
10% proportionate decrease in lapse rates	150	4%	13	11%
Demographic				
5% proportionate increase in mortality rates (death cover)	–7	0%	–2	–2%
5% proportionate decrease in mortality rates (annuities)	–105	–3%	0	0%
5% increase of longevity driver (annuities)	–42	–1%	1	1%
5% proportionate increase in morbidity rates (death cover)	–87	–2%	–7	–6%
5% proportionate decrease in morbidity rates (death cover)	96	3%	6	5%
Other				
Required capital 100 % statutory solvency capital	239	7%	28	23%

[1] not available

As can be seen in the table above, the sensitivities with the biggest impact on the MCEV and the value of new business are the economic sensitivities: interest rates, equity / property market values, and their corresponding volatilities. Operational sensitivities such as expenses, lapse rates and required capital also have a significant impact. The same sensitivities are also relevant to the value of new business.

2.9 Reconciliation of IFRS Net Asset Value to Group MCEV

Swiss Life's MCEV for covered business reflects the value of the shareholders' interest in the life business of the Swiss Life Group. This value includes the determination of best estimate liabilities for bonus and tax payments, which are derived from results based on local statutory accounting rather than on IFRS. Therefore local balance sheets and profit and loss accounts are the starting point for the projections. The net asset value (of assets not backing liabilities) is based on the local balance sheet, but adjusted at market value.

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

Reconciliation of IFRS net assets to Group MCEV as at 31 December 2008

In CHF million	Subtotal	**Total**
IFRS net assets		**6 609**
Adjustments		
Reserves and investments valuation differences	1 067	
Net DAC / DOC and other intangibles assets	–2 517	
Goodwill	–436	
Subtotal adjustments		**–1 886**
Certainty equivalent value		**4 007**
Time value of options and guarantees		**–1 481**
Cost of residual non-hedgeable risks		**–398**
Frictional costs		**–530**
Group MCEV [1]		**6 321**
Net asset value		4 724
Value of in-force business		1 598

[1] Group MCEV includes CHF 1 698 million of goodwill and intangible assets as part of the unadjusted IFRS net assets for non-covered business.

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

The adjusted IFRS net asset value corresponds to the MCEV net asset value of the Swiss Life Group. Adding the components of the value of in-force covered business (certainty equivalent value, TVOG, CNHR, and frictional costs) leads to the total Group MCEV.

3 Information by Market Unit

3.1 Market Units

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

- Life and pension business in Switzerland
- Life, health and pension business in France
- Life and pension business in Germany
- Life and pension business in Luxembourg and Liechtenstein (together referred to as Insurance Other)

This breakdown by market units essentially coincides with the IFRS insurance segments in the annual report. There are minor differences since the MCEV classification follows the legal structure in order to ensure a correct modelling of the profit sharing. A significant discrepancy from the IFRS insurance segment reporting is the treatment of Swiss Life Asset Management in France which belongs in this report to the MCEV of Swiss Life in France. The businesses of Luxembourg and Liechtenstein are presented together under Insurance Other.

SWITZERLAND | Swiss Life's main business in the Swiss market is group life business. The individual business includes all the typical traditional savings, risk and annuity products, whereas the share of the non-traditional products is steadily increasing. Swiss Life's own sales force plays the major role in distribution.

FRANCE | The life insurance products sold through Swiss Life Assurance et Patrimoine consist mainly of savings and annuity products, while risk products play a minor role. New business focuses on multi-support products, combining traditional savings and unit-linked components. The main distribution channels are independent financial advisors and private banking. The health business is sold through Swiss Life Prévoyance et Santé.

GERMANY | Swiss Life sells both individual life and group life contracts with traditional and non-traditional products. Disability insurance plays an important role. The main distribution channel is independent brokers, followed by financial advisors such as AWD.

INSURANCE OTHER | Swiss Life operates private placement life insurance in both Liechtenstein and Luxembourg. In Luxembourg, Swiss Life also provides group insurance solutions for international and local corporate clients.

3.2 Results by Market Unit

MCEV by market unit

In CHF million	Switzerland	France[1]	Germany	Insurance Other	Total
Net asset value	383	1 272	356	–40	**1 971**
Free surplus	–40	171	37	–82	**87**
Required capital	423	1 101	319	41	**1 884**
Value of in-force business	818	410	169	201	**1 598**
Certainty equivalent value	2 403	838	521	246	**4 007**
Time value of options and guarantees	–1 051	–182	–242	–6	**–1 481**
Cost of residual non-hedgeable risks	–275	–30	–62	–32	**–398**
Frictional costs	–259	–216	–48	–7	**–530**
Total MCEV	**1 201**	**1 682**	**525**	**161**	**3 569**

[1] For reasons of comparison, the scope for "France" remains the same as under the traditional embedded value. In the framework of MCEV this requires a sub consolidation of covered business with non-covered business. Therefore the NAV of France includes goodwill and intangible assets on an IFRS basis of CHF 90 million.

SWITZERLAND | The relatively high amount of time value of financial options and guarantees results from a combination of a small spread between market and guaranteed interest rates and the high volatility of interest rates. The "legal quote" rules applying to the profit sharing of the Swiss group life business also add to the time value of financial options and guarantees.

The net asset value is influenced by the hybrid capital. It includes the – negative – difference between the market value of assets covering the hybrid capital in the statutory balance sheet and the market value of the hybrid capital.

FRANCE | The MCEV of Swiss Life in France consists of the following three components:

- The life business, which is concentrated in Swiss Life Assurance et Patrimoine and which is calculated using the MCEV approach
- The health insurance business of Swiss Life Prévoyance et Santé. For this business, the methodology of the traditional embedded value has been applied
- Other companies in France which are accounted for by their IFRS net asset value

The rather high required capital is explained by the net asset value of Swiss Life Prévoyance et Santé which is not split into free surplus and required capital but entirely allocated to the required capital.

The impact of the projection of the French health business – which does not contain any financial options and guarantees, and is calculated on a traditional basis – is shown as certainty equivalent value and frictional costs (the latter being the cost of holding capital in the traditional embedded value).

The time value of financial options and guarantees of the French business is rather low compared to the size of the business in force. The low level is explained mainly by its health business which comprises no interest guarantees.

GERMANY | The size of the cost of residual non-hedgeable risks comes from disability contracts which play an important role in the German business mix.

The time value of financial options and guarantees of the German business is high compared to other market units. The reason is the high level of guarantees applicable to the German business together with the "legal quote" (statutory minimum policyholder distribution ratio) enforced in Germany. This effect is increased by high interest volatilities and low long-term interest rates.

INSURANCE OTHER | The contributions of Swiss Life in Luxembourg and Swiss Life in Liechtenstein to the total value of Insurance Other are on a similar level.

The value of in-force business is mainly driven by Liechtenstein. The products of Swiss Life in Liechtenstein and in Luxembourg contain only small financial guarantees or even no financial guarantees at all, so the TVOG is negligible. The negative net asset value is explained by goodwill adjustments for the recently acquired insurance company CapitalLeben as part of Liechtenstein.

Value of new business by market unit – premiums

In CHF million	Switzerland	France	Germany	Insurance Other	Total
Value of new business	**48**	**47**	**12**	**12**	**119**
Annual premiums	146	355	137	5	**643**
Single premiums	1 167	1 523	155	1 947	**4 791**
Present value of new premiums (PVNBP)	3 824	3 767	1 356	1 987	**10 935**
Average annual premium multiplier	18.2	6.3	8.7	8.7	**9.6**
New business annual premium equivalent (APE)	262	507	153	199	**1 122**
New business margin (% PVNBP)	1.2%	1.3%	0.9%	0.6%	**1.1%**
New business margin (% APE)	18.2%	9.4%	7.9%	5.8%	**10.6%**

SWITZERLAND | New business consists of new contracts and new coverages on existing contracts. Within group life business, replacements and newly hired persons are not accounted for as new business. The value of new business in the Swiss business is significantly higher than the traditional value of new business. This is explained by the marginal definition of new business and the difference between guaranteed interest rates for the existing and new business together with high volatilities of interest rates. In this approach the effect of decreasing the total level of guarantees by writing new business with low guaranteed interest rates is allocated to the value of new business.

FRANCE | The value of new business for Swiss Life in France is determined as the sum of the value of new business for the life business and that for the health business. The latter has been calculated using the traditional embedded value approach.

GERMANY | The value of new business for the German operations has decreased when being compared with the value reported under the traditional embedded value methodology. With its long-term business, high guaranteed interest rates coupled with low long-term yields and restrictive "legal quote" regulation, Germany constitutes one of the most challenging markets for life insurance, which was probably overvalued under the traditional embedded value framework.

INSURANCE OTHER | As the most important line of business of Insurance Other is private placement life insurance, by far the biggest share of new business premiums consists of single premiums. Lower volumes due to market turmoil have a negative expense effect which leads to low new business margins.

Value of new business by market unit – components

In CHF million	Switzerland	France	Germany	Insurance Other	Total
Certainty equivalent value [1]	47	78	50	15	**190**
Time value of options and guarantees	11	–3	–20	0	**–12**
Cost of residual non-hedgeable risks	–5	–1	–5	–3	**–13**
Frictional costs	–5	–27	–14	0	**–46**
Value of new business	**48**	**47**	**12**	**12**	**119**

[1] including net asset value

SWITZERLAND | The contribution of time value of financial options and guarantees to the value of new business is positive. As explained in the comments for the previous table this is an effect from the marginal approach to the value of new business in a situation where the new business has lower guaranteed interest rates and hence decreases the average guaranteed interest rate of the portfolio.

FRANCE | The value of new business in the health business is shown as certainty equivalent value and as frictional costs. The time value of financial options and guarantees is small compared to the size of the new business. This is related to the low level of guarantees in the French new business and to the health business, which does not contribute to the time value of financial options and guarantees. The solvency costs resulting from the traditionally modelled health business have been allocated to the frictional costs. This explains the large contribution of this component.

GERMANY | The TVOG is relatively high as a consequence of a combination of long-term low interest rates, high interest rate volatilities and a strict "legal quote".

INSURANCE OTHER | The private placement life insurance business shows potential for sustainable value creation in terms of value of new business. The value suffered from lower volumes due to market turmoil leading to adverse expense effects in 2008.

Analysis of earnings by market unit

	Earnings on MCEV analysis				
In CHF million	Switzerland	France	Germany	Insurance Other	Total
Opening MCEV	**3 160**	**2 332**	**861**	**219**	**6 572**
Opening adjustments	–202	0	–11	0	**–212**
Adjusted opening MCEV	**2 958**	**2 332**	**850**	**219**	**6 360**
New business value	48	47	12	12	**119**
Expected existing business contribution (reference rate)	146	128	46	14	**334**
Transfers from VIF and required capital to free surplus	0	0	0	0	**0**
Experience variances	162	83	–9	–13	**222**
Assumption changes	1 124	32	12	6	**1 174**
Other operating variance	–43	–88	–16	–2	**–149**
Operating MCEV earnings	**1 436**	**201**	**45**	**17**	**1 700**
Economic variances	–3 194	–624	–358	–71	**–4 247**
Other non operating variances	0	15	1	–10	**6**
Total MCEV earnings	**–1 758**	**–408**	**–311**	**–64**	**–2 541**
Closing adjustments	0	–242	–15	6	**–250**
Closing MCEV	**1 201**	**1 682**	**525**	**161**	**3 569**

SWITZERLAND | The opening adjustment is the sum of payments to Swiss Life Holding and from subsidiaries.

The assumption change effect arises mainly from the change to a more conservative future asset allocation, lower projected expenses, and improved persistency.

Economic variances, by far the biggest effect, originate in lower interest rates, higher spreads on corporate bonds, and higher volatilities on interest rates and equity type instruments. This comment also applies to the other market units.

FRANCE | The changes to the asset allocation in 2008 of the French business are the main driver for the experience variances.

The adjustments in 2008 to the CMU contribution scheme (universal health insurance cover in France) were the main reason for updating the assumptions in the French health business, which accounts for the bulk of deviations shown in assumption changes.

In other operating variances the major effect results from the health business which is valued by means of the traditional embedded value. Additional costs arising out of the change in required capital from 100% to 150% of the legal required solvency margin are shown here.

The effects of the exchange rate fluctuation of the euro against the Swiss franc are shown in the closing adjustments.

GERMANY | The experience variances can be traced back to higher than expected expenses during the year.

The deviations in "Other operating variances" are mainly caused by a higher than initially assumed policyholder participation.

The closing adjustments of the analysis of earnings of the German business show a strong negative effect from the exchange rate fluctuation of the euro against the Swiss franc combined with an internal capital transfer to Germany.

INSURANCE OTHER | The main reasons behind the negative operating experience variance are higher expenses and taxes for Swiss Life in Liechtenstein.

Economic variances are driven by the negative investment return in 2008. Unfavourable market conditions decreased the assets under management, which are the key driver for Swiss Life's value of in-force business in Liechtenstein.

4 Methodology

4.1 MCEV Components for Covered Business

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

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

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

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

The amount of required capital disclosed is presented from a shareholders' perspective and thus is net of funding sources other than shareholder resources (such as subordinated loans or policyholders' unrealised gains).

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

The free surplus, unlike the required capital, is supposed to be immediately releasable and hence does not affect the frictional cost of capital.

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

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

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

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

- Local legal obligations
- Company practice due to commercial and competitive constrains
- Local market practice in the calculation of embedded values

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

In this scenario, future market returns are determined as the forward rates implied in the reference rates at the valuation date. Discounting is done at the same reference rates. Consequently, the certainty equivalent value includes the intrinsic value of financial options and guarantees, but not the corresponding time value.

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

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

- Guaranteed interest rates
- Profit sharing and "legal quotes"
- Maturity guarantees
- Guaranteed minimum death benefits
- Guaranteed annuity options
- Surrender options

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

At the end of the projection, shareholders are assumed to meet any shortfall of assets against liabilities or to receive a part of any residual assets as a "liquidation dividend", the amount of which reflects local practice and local requirements. The same applies to the certainty equivalent value.

COST OF CREDIT RISK | The cost of credit risk accounts for the credit risk of investments in bonds that would have otherwise been unaccounted for in other MCEV components. It is defined as the present value of charges on the projected economic capital for credit risk.

The initial economic capital for credit risk is defined as the impact on the present value of future profits corresponding to the 99% expected shortfall of the credit loss from the actual bond portfolio over 1 year, due to the migration and default risk. The underlying credit risk calculations are performed using CreditMetrics[2].

Dependencies between credit risk and other financial risks have been modelled and lead to an increase in the capital for credit risk. No diversification with insurance risks (including surrender and expenses) has been allowed for.

[2]

As for the CNHR (see below), the economic capital for cost of credit risk has been projected proportionally to the statutory solvency margin, and the same charge for annual cost of capital has been applied to the resulting projected capital at risk.

The cost of credit risk has been reported under the total TVOG.

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

The annual amount of frictional costs is calculated based on the required capital.

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

The initial capital for the CNHR has been calculated using the standard model within the Swiss Solvency Test and the assumptions used for MCEV calculations. Therefore the corresponding economic capital is calculated by aggregating the stand alone economic capital that corresponds to the following non-hedgeable risk factors:

- Mortality
- Longevity
- Disability/morbidity
- Recovery rates
- Capital options
- Lapses
- Expenses

The economic capital for CNHR has been then projected proportionally to the statutory Solvency I margin.

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

In order to be consistent with the CFO Forum Principles, no diversification between hedgeable and non-hedgeable risks of the covered business has been taken into account.

4.2 New Business

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

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

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

The value of new business is assessed at point of sale including the shareholders' share in acquisition costs and valued with the economic scenarios at end of period.

4.3 Asset and Liability Data

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

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

- Cash and fixed income instruments
- Equity-type investments (including real estate)
- Derivatives (like equity options, swaps, swaptions and caps)

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

Equities, real estate, participations and alternative investments (hedge funds and private equities) are modelled separately using appropriate indices according to the corresponding volatilities and the corresponding geographical regions (Switzerland, Europe and USA).

Actual initial market values of assets have been taken where available ("marked-to-market"), or estimated where there is no market ("marked to model"), for example by discounting unquoted loan and mortgage asset proceeds. Local regulatory and accounting frameworks (such as the amortization of bonds or lower of cost or market principle) are incorporated in the model where appropriate.

When a substantial part of the assets are held in foreign currencies, these foreign assets are modelled explicitly (including the foreign currency exchange risk). For assets denominated in foreign currency but modelled as local currency assets, volatilities are adjusted to reflect the foreign exchange risk.

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

4.4 Economic Scenario Generator

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

- The reference swap rates
- Equity and interest rate implied volatilities
- Correlations between the economic risk factors

The stochastic economic scenarios are generated by the Economic Scenario Generator. This software was developed and provided by Barrie & Hibbert, a UK based financial consulting company.

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

For the calculation of the MCEV and the value of the new business as of 31 December 2008, 5000 economic scenarios (also referred to as simulations) are used, ensuring a satisfying convergence of the models for all market units. For the calculation of the sensitivities and some steps in the movement analysis, some market units use fewer scenarios in connection with variance reduction techniques.

4.5 Dynamic Management Actions and Policyholder Behaviour

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

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

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

Lapse rates from policyholders have been dynamically modelled, depending on the difference between the credited rate to the policyholders and the policyholders’ perceived expectations, which are based on benchmark market interest rates. Lapse parameters depend on the country and product line considered.

4.6 Look-Through Principle

MCEV Guidance requires that profits for the covered business are measured on a "look-through" basis. This principle ensures that all expenses incurred with regards to the covered business are passed down to the corresponding entity, and consequently passed down to the present value of future profits.

According to this guidance, profits or losses related to service companies within the Swiss Life Group and directly related to managing the covered business are included in the MCEV and in the value of new business of each market unit.

Look-through adjustments are applied on the asset management services and corporate centre costs. The future profits or losses taken into account for this adjustment are those linked to the insurance business, after "legal quote" and taxes.

4.7 Consolidation

The Group MCEV for Swiss Life comprises MCEV results for covered business and IFRS net asset values for non-covered business. Covered business comprises all relevant life insurance entities, non-covered business all other entities within the Swiss Life Group.

Covered business relates to the insurance operations in:

- Switzerland
- Germany
- France: consolidated, including life and health business
- Luxembourg
- Liechtenstein

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

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

For future MCEV publications, other units – such as Swiss Life Products (Luxembourg) S.A. and Swiss Life Insurance Solutions AG – will be included under covered business as soon as their MCEV is significant.

4.8 Employee Pension Schemes and Share-Based Payment Programmes

Allowance is made for gains or losses arising from the defined benefit pension plans for Swiss Life's own employees. The effects are modelled as respective expenses in the projections. In Switzerland there is no need for separate projection of expenses as the pension scheme for own employees is included in the portfolio as an insurance contract. In other units the major part of the effect is covered by external insurance contracts. The rest is based on best estimates.

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

5 Assumptions

5.1 Economic Assumptions

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

5.1.1 Reference rates

The reference rates used for the calculation for the MCEV 2008 are based on the swap rates as of 31 December 2008, adjusted by liquidity premiums. Swiss Life has considered that the spreads on debt securities for liquidity risks cannot be ignored in the disorderly market conditions observed at the end of 2008. This adjustment reflects the ability to earn returns in excess of swap rates by investing in corporate bonds and purchasing credit default swaps.

The liquidity premium has been assessed on the actual bond portfolios held by Swiss Life. The premium above the swap rates is set to:

- 65 basis points for Switzerland
- 50 basis points for France, Germany and Luxembourg
- No liquidity premium for Liechtenstein

5.1.1.1 Swap rates used for the calculation of the MCEV as of 31 December 2008

Economy	1 year	2 year	5 year	10 year	15 year	30 year
Switzerland	0.80%	1.11%	1.96%	2.61%	2.79%	2.44%
Euro Zone	2.55%	2.76%	3.24%	3.74%	3.90%	3.54%
United States	1.29%	1.45%	2.16%	2.57%	2.81%	2.72%

For the MCEV 2007, the reference rates are based on the swap rates as of 31 December 2007.

5.1.1.2 Swap rates used for the calculation of the MCEV as of 31 December 2007

Economy	1 year	2 year	5 year	10 year	15 year	30 year
Switzerland	2.88%	2.95%	3.12%	3.34%	3.49%	3.72%
Euro Zone	4.44%	4.49%	4.60%	4.73%	4.80%	4.86%
United States	4.22%	3.82%	4.19%	4.68%	4.85%	5.02%

5.1.2 Volatility assumptions

In the absence of deep and liquid markets as of 31 December 2008, the volatility assumptions, used for the calculation of the MCEV 2008, are based on averages of implied volatilities observed during the year 2008 at the end of each quarter.

The interest rate volatilities are based on implied volatilities of 20-year receiver swaptions.

5.1.2.1 Interest rate volatilities used for the calculation of the MCEV as of 31 December 2008

Economy	1 year option	2 year option	5 year option	10 year option	15 year option	30 year option
Switzerland	19.4%	17.8%	15.6%	15.0%	14.7%	10.4%
Euro Zone	17.0%	15.6%	13.9%	13.3%	13.4%	12.3%
United States	26.6%	23.9%	20.0%	16.0%	14.9%	13.4%

5.1.2.2 At-the-money implied volatilities of 20-year receiver swaptions as of 31 December 2007

Economy	1 year option	2 year option	5 year option	10 year option	15 year option	30 year option
Switzerland	15.2%	15.1%	14.6%	13.6%	12.7%	10.4%
Euro Zone	11.4%	11.5%	11.2%	10.8%	10.3%	8.8%
United States	16.2%	16.8%	16.3%	14.8%	13.2%	10.2%

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

5.1.2.3 Equity implied volatilities used for the calculation of the MCEV as of 31 December 2008

Economy	Index	Volatility
Switzerland	SMI	27.6%
Euro Zone	Eurostoxx	29.5%
United States	S&P 500	29.6%
United States	Nasdaq	32.3%

5.1.2.4 Equity implied volatilities used for the calculation of the MCEV as of 31 December 2007

Economy	Index	Volatility
Switzerland	SMI	23.7%
Euro Zone	Eurostoxx	27.3%
United States	S&P 500	25.9%
United States	Nasdaq	26.8%

The property volatilities are based on best-estimate assumptions.

5.1.2.5 Property volatilities used for the calculation of the MCEV as of 31 December 2008 and as of 31 December 2007

Economy	Volatility
Switzerland	10.0%
Euro Zone	15.0%
United States	15.0%

5.1.3 Correlation assumptions

The correlations between different asset classes are based on historical market data. The correlations between equities and 10-year zero coupon bonds are assumed to be 30% for 2007 and 2008.

5.1.3.1 Equity correlations used for the calculation of the MCEV as of 31 December 2008

	Equity CHF	Property CHF	Equity EUR	Property EUR	Equity USD	Nasdaq
Equity CHF	1.00	0.14	0.26	0.14	0.24	0.22
Property CHF		1.00	0.14	0.60	0.07	0.06
Equity EUR			1.00	0.14	0.23	0.21
Property EUR				1.00	0.07	0.06
Equity USD					1.00	0.22
Nasdaq						1.00

5.1.3.2 Equity correlations used for the calculation of the MCEV as of 31 December 2007

	Equity CHF	Property CHF	Equity EUR	Property EUR	Equity USD	Nasdaq
Equity CHF	1.00	0.17	0.32	0.17	0.32	0.31
Property CHF		1.00	0.15	0.60	0.08	0.07
Equity EUR			1.00	0.15	0.28	0.27
Property EUR				1.00	0.08	0.07
Equity USD					1.00	0.30
Nasdaq						1.00

5.1.4 Exchange rates against CHF

	2008	2007
EUR	**1.492**	1.655
USD	**1.061**	1.125

5.1.5 Inflation assumptions

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

5.1.5.1 Annualised forward inflation rate used for the calculation of the MCEV as of 31 December 2008

Economy	1 year	2 year	5 year	10 year	15 year	30 year
Switzerland	1.7%	2.6%	3.7%	3.9%	3.3%	1.9%
Euro Zone	0.7%	0.9%	1.2%	2.3%	2.4%	2.0%

5.1.5.2 Annualised forward inflation rate used for the calculation of the MCEV as of 31 December 2007

Economy	1 year	2 year	5 year	10 year	15 year	30 year
Switzerland	1.3%	1.3%	1.4%	1.6%	1.8%	2.1%
Euro Zone	2.6%	2.6%	2.5%	2.5%	2.6%	2.6%

5.2 Taxation and Legislation

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

5.2.1 Tax assumptions

	2008	2007
Switzerland	**22.3%**	22.3%
France	**34.4%**	34.4%
Germany	**32.6%**	31.9%
Luxembourg	**22.0%**	22.0%
Liechtenstein	**13.0%**	13.0%

5.3 Operating Assumptions

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

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

6 External Auditors' Statement

To the Board of Directors of
Swiss Life Holding AG
General-Guisan-Quai 40
8002 Zürich

Report of the Auditor on Embedded Value Report 2008

As requested, we have audited the accompanying Embedded Value Report 2008 of Swiss Life Group for the period ended 31 December 2008. The Embedded Value Report has been prepared in accordance with the Market Consistent Embedded Value ("MCEV") Principles issued in June 2008 by the European Insurance CFO Forum as described in Section 1.

The Board of Directors of Swiss Life Holding AG is responsible for the preparation of the Embedded Value Report in accordance with the MCEV Principles as described in Section 1. Our responsibility is to express an opinion on the Embedded Value Report based on our audit.

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

In our opinion, the Embedded Value Report at 31 December 2008 has been properly prepared on the basis of the MCEV Principles. Without qualifying our opinion, we draw your attention to the fact that areas of non-compliance with the Guidance underlying the MCEV Principles have been disclosed by Swiss Life Holding AG in accordance with G1.4 of the MCEV Principles.

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

PricewaterhouseCoopers AG

Peter Lüssi
Audit expert

Michael Köhler

Zurich, 24 June 2009

7 Glossary and List of Abbreviations

Annual Premium Equivalent (APE)
Volume measure for new business. Sum of regular premiums from new business +10% of single premiums on business written during the period.

Best estimate assumptions
A best estimate assumption should equal the mean estimate (probability weighted average) of outcomes of that risk variable.

Certainty equivalent scenario
Economic scenario under which asset returns are equal to the reference rates.

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

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

Cost of credit risk
The cost of credit risk accounts for the credit risk of investments in bonds that would have been otherwise unaccounted for in other MCEV components.

Cost of residual non-hedgeable risks (CNHR)
The cost of residual non-hedgeable risks accounts for risk factors such as mortality, morbidity, expenses and lapse rates.

Covered business
The business to which the MCEV methodology has been applied, in line with the MCEV principles. Covered business includes all of Swiss Life's major life, health and pension business.

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

Frictional cost (FC)
The additional investment and taxation cost incurred by shareholders through investing required capital in the company compared to direct investment as individuals.

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

IFRS
International Financial Reporting Standards

"Legal quote"
Statutory minimum policyholder distribution ratio

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

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

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

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

New business margin
The value of new business divided by the present value of new business premiums (PVNBP) or divided by the annual premium equivalent (APE) respectively.

Non-covered business
All business of Swiss Life Group which is not accounted for under covered business, like investment management and AWD, is included in the non-covered business of the Group MCEV by means of their IFRS net asset values.

Non-traditional business
Unit-linked-type contracts, with or without additional financial guarantees and policyholder options.

Present value of new business premiums (PVNBP)
Volume measure for new business. It represents the present value of premiums from new business. It is the sum of single premiums and the present value of periodic premiums from new business.

Reference rate
The reference rates used for the calculation for the MCEV 2008 are based on the swap rates as of 31 December 2008, adjusted by liquidity premiums.

Required capital (RC)
The required capital is the market value of assets, attributed to the covered business over and above that required to back liabilities for covered business, whose distribution to shareholders is restricted.

Time value of financial options and guarantees (TVOG)
The TVOG represents the additional market price of those financial options and guarantees in excess of the intrinsic value of options and guarantees which is already allowed for in the certainty equivalent value.

Value of in-force business (VIF)
The value of in-force business represents the net present value of future profits emerging from operations and assets backing liabilities, after accounting for TVOG, CNHR and frictional costs.

Value of New Business (VNB)
The value of new business reflects the additional value to shareholders created by writing new business during the reporting period.

Variable annuities
Unit-linked contracts with additional guarantees and policyholder options.

Caution regarding forward-looking statements

This document may contain projections or other forward-looking statements related to Swiss Life that are subject to known and unknown risks, uncertainties and other important factors. The reader should be aware that these statements are only projections which could differ materially from the actual results, financial situation, development, performance or expectations and that therefore no undue reliance should be placed on such forward-looking statements. Neither Swiss Life nor any of its directors, officers, employees or advisors nor any other person connected or otherwise associated with Swiss Life makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this document. Neither Swiss Life nor any of its directors, officers, employees or advisors nor any other person connected or otherwise associated with Swiss Life shall have any liability whatsoever for loss howsoever arising, directly or indirectly, from any use of this document. All forward-looking statements are based on the data available to Swiss Life at the time the present document was compiled. Unless otherwise required by applicable law, Swiss Life assumes no responsibility to publicly update or alter its forward-looking statements or to adapt them, whether as a result of new information, future events or developments or any other reason.

Important Dates

Presentation of Half-Year Figures
26 August 2009

Interim Reporting
11 November 2009

Embedded Value Report

You can find the Embedded Value Report of the Swiss Life Group on the internet: http://www.swisslife.com/mcev2008

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