

Embedded Value at 31 December 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 31 December 2004. The embedded value at the end of 2003 is also shown, together with items contributing to the change in embedded value over 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 31 December 2004 embedded value. They allow for the cost 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 results using the European Embedded Value Guidelines published by the CFO Forum.

Results

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

<u>Embedded value as at:</u>	31/12/2004	31/12/2003
	CHF millions	CHF millions
Value of shareholders' interest in the net assets	4'909	2'831
Value of in-force business	4'507	5'209
Cost of solvency capital	(1'480)	(1'129)
Total embedded value	7'936	6'911

The embedded value as at 31 December 2004 includes CHF 41 million value of new business written in 2004.

Geographical breakdown

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

<u>Embedded value split by region</u>	31/12/2004	31/12/2003
	CHF millions	CHF millions
Switzerland		
Shareholders interest in the net asset value	2'078	1'500
Value of in-force business	2'979	3'515
Cost of solvency capital	(1'047)	(682)
Elimination Effects	(409)	(832)
<i>Embedded value</i>	3'601	3'501
EU		
Shareholders interest in the net asset value	1'724	1'541
Value of in-force business	1'528	1'694
Cost of solvency capital	(433)	(447)
<i>Embedded value</i>	2'819	2'788
 Holding⁽¹⁾		
<i>Embedded value</i>	1'516	622
Total embedded value	7'936	6'911

⁽¹⁾ Equity of SL Holding less book value of RA/SL including Overhead

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	31/12/2004	31/12/2003
	%	%
Switzerland		
Discount rate	7.0	7.0
Pre tax investment returns		
Bond	2.5 – 3.3	3.0 - 3.8
Real Estate	4.2	4.2
Equities and Hedge Funds	5.0	5.0
European Division		
Discount rate	8.0	7.9
Pre tax investment returns		
Bond	3.9 – 4.4	4.5 - 5.1
Real Estate	5.8	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, have been adopted for the Group accounts.

Change in embedded value

The expected increase in value over the year 2004 was CHF 431 million.

A better investment performance than expected in 2004 increased the embedded value by CHF 797 million. A significant part of the investment performance is due to the realisation of gains on bonds.

Lower bond yields as at 31 December 2004 have reduced expected future returns for Switzerland and the Euro zone thus reducing the Embedded Value by CHF 506 million.

The sale of Swiss Life UK resulted in a loss on the embedded value of CHF 158 million.

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

Surrenders, particularly in the Swiss group pensions business decreased the embedded value by CHF 114 million.

A strengthening of the reserves had a total negative impact on the embedded value of CHF 221 million.

Changes in the legal environment decreased the embedded value by CHF 96 million.

The value added by new business written in 2004 after the cost of solvency capital was CHF 41 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 31/12/2004 (Deviation from central value)	Switzerland	EU	Total
Items	CHF millions	CHF millions	CHF millions
Base Value	3'601	2'819	7'936 ⁽¹⁾
0.5% reduction in Discount rate	+190	+91	+281
0.5% increase in investment return	+313	+304	+617
0.5% decrease in investment return	(520)	(264)	(784)
0.5% decrease in bond yields	(111)	(146)	(257)
10% decrease in investment margin	(402)	(93)	(495)
10% decrease in market value of property assets	(542)	(28)	(570)

⁽¹⁾ Including ANAV of Swiss Life Holding and Overhead

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	
	31/12/2004	31/12/2003
Banca del Gottardo	1'340	1'363

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 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