

## Embedded Value at 30 June 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 30 June 2003. The embedded value for the previous year is also shown together with items contributing to the change in embedded value since 31 December 2002. 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 30 June 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 the "Fair Value" methodology currently being implemented by the IASB.

## Results

The calculated values for the Swiss Life / Rentenanstalt Life Company and subsidiaries are shown below. They do not include CHF 881 million of capital in Swiss Life Holding.

<u>Embedded value as at:</u>	30/06/2003	31/12/2002
	CHF millions	CHF millions
Value of shareholders' interest in the net assets	1'865	1'738
Value of in-force business	4'731	5'185
Cost of locking-in solvency margin	(1'344)	(1'307)
<b>Total embedded value</b>	<b>5'252</b>	<b>5'616</b>

The embedded values include the values for new business written in the preceding 6 months of CHF 37m for 2003 and in the full year 2002 of CHF 94 million. Lower volumes of new business during the first half of 2003 and lower assumed future investment returns result in a lower new business value despite the lower actual expenses during the first half of 2003 and the lower assumed expenses. It should also be noted that the 2002 figure includes new business for all the French entities, whereas the 2003 figure only includes Société Suisse Vie.

## Geographical breakdown

A geographical breakdown of the figures is set out in the tables below. They do not include CHF 881 million of capital in Swiss Life Holding.

<b><u>Embedded value split by region</u></b>	30/06/2003	31/12/2002
	CHF millions	CHF millions
<b>Switzerland</b>		
Shareholders interest in the net asset value	533	531
Value of in-force business	3'352	3'859
Cost of locking-in solvency margin	(1'016)	(1'011)
<i>Embedded value</i>	2'869	3'379
<b>E.U. Countries</b>		
Shareholders interest in the net asset value	1'332	1'206
Value of in-force business	1'379	1'325
Cost of locking-in solvency margin	(328)	(295)
<i>Embedded value</i>	2'383	2'236
<b>Total embedded value</b>	<b>5'252</b>	<b>5'616</b>

Luxembourg and Italy have been included at figures based on the book values at which the companies appear in the accounts of Rentenanstalt Holding, while Spain is included at the agreed sale price that has not yet been received. The embedded value of the UK subsidiary takes into account the closure to individual new business, but does not take into account the sale of the renewal rights of the group life business announced in August 2003.

### *Economic Assumptions*

The economic assumptions used in the calculations were:

<b>Economic assumptions by region</b>	30/06/2003	31/12/2002
	%	%
<b>Switzerland</b>		
Discount rate	7.0	7.0
Pre tax investment returns		
Fixed interest	2.5 - 3.5	2.5 - 3.5
Real Estate	4.3	4.6
Ordinary shares	5.0	7.0
<b>E.U. Countries</b>		
Discount rate	7.9	7.9
Pre tax investment returns		
Fixed interest	4.0 - 4.9	4.3 - 4.6
Real Estate	5.7	5.4
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 mid-year and year-end rates adopted for the Group accounts.

### *Change in embedded value*

The embedded value profit expected from in-force business and net assets at 31 December 2002 before taking into account the new business sold in 2003 was CHF 202 million.

The major item contributing to the reduction in embedded value was the effect of reducing future investment return assumptions, particularly for equities, cash and foreign bonds. This reduction in projected investment returns reduced the embedded value by CHF 978 million (after allowing for associated changes in policyholder bonuses).

Reductions in actual expenses across the Group and a resultant decrease in future assumed expenses increased the embedded value by CHF 270 million, while tax changes (mainly a reduced tax rate in Kanton Zurich from 25% to 22% from 2005 onwards) increased the embedded value by CHF 125 million and the strengthening of the Euro increased the embedded value by CHF 149 million.

The value added by new business written in the half year to June 2003 was CHF 36 million.

Miscellaneous other items, including reserve strengthening 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 30/06/2003 (Deviation from central value)	Switzerland	European Division	Total
Items	CHF millions	CHF millions	CHF millions
0.5% reduction in discount rate	194	86	280
0.5% increase to future new money rates	527	276	803
0.5% decrease to future new money rates	(1'756)	(303)	(2'059)
10% increase in market value of equities	143	70	213
10% increase in market value of property assets	660	22	682

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

### *External Review*

B&W Deloitte, consulting actuaries, have undertaken a limited review of the half year 2003 embedded value results for the main life companies of the Rentenanstalt / Swiss Life Group (“the Company”) on the basis of data provided by the Company. B&W Deloitte have reported to the Company that during this review, nothing has come to B&W Deloitte’s attention that would indicate that the embedded value results of the Company as of June 30, 2003 are unreasonable.

### *Included business*

The values at which the major banking and non life insurance companies are included are as follows:

<b>Book Values</b>	<b>CHF Million</b>	
	<b>30/06/2003</b>	<b>31/12/2002</b>
Banca del Gottardo (and STG in 2002)	1'382	1'692
Non life [and health]	480	465

The Swiss and French companies included in the non life company net asset values (at book value) are:

- La Suisse Accidents (Lausanne) - Switzerland
- Société Suisse Accidents - France