

Embedded Value at 30 June 2005 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 2005. The embedded value at the end of 2004 is also shown, together with items contributing to the change in embedded value over the first half year of 2005. 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 maintaining 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 of new 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 2005 embedded value. They allow for the cost of solvency capital requirements for the new business.

Results

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

Embedded value as at:	30/06/2005	31/12/2004
	CHF millions	CHF millions
Shareholders' interest in the net assets	5,762	4,909
Value of in-force business	4,210	4,507
Cost of solvency capital	(1,595)	(1,480)
Total embedded value	8,377	7,936

The embedded value as at 30 June 2005 includes CHF 23 million value of new business written in the first half year of 2005.

Geographical breakdown

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

Embedded value split by region	30/06/2005	31/12/2004
	CHF millions	CHF millions
Switzerland		
Shareholders interest in the net asset value	2,373	2,078
Value of in-force business	2,517	2,979
Cost of solvency capital	(1,022)	(1,047)
Elimination effects ⁽¹⁾	(406)	(409)
<i>Embedded value</i>	<i>3,462</i>	<i>3,601</i>
EU		
Shareholders interest in the net asset value	1,814	1,724
Value of in-force business	1,693	1,528
Cost of solvency capital	(573)	(433)
<i>Embedded value</i>	<i>2,934</i>	<i>2,819</i>
 Holding ⁽²⁾		
Shareholders interest in the net asset value	1,981	1,516
<i>Embedded value</i>	<i>1,981</i>	<i>1,516</i>
Total embedded value	8,377	7,936

⁽¹⁾ The book value of life subsidiaries of RA/SL whose embedded values are included in the consolidated results.

(2) Statutory shareholder equity of SL Holding less the book value of RA/SL after deducting the present value after tax of the overhead expenses.

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

Economic Assumptions

The economic assumptions used in the calculations were:

Economic assumptions by region	30/06/2005	31/12/2004
	%	%
Switzerland		
Discount rate	7.0	7.0
Pre tax investment returns		
Bond	2.0 – 2.6	2.5 – 3.3
Real Estate	4.0 – 4.6	4.2
Equities and Hedge Funds	6.5	5.0
EU		
Discount rate	8.0	8.0
Pre tax investment returns		
Bond	3.4 – 3.9	3.9 – 4.4
Real Estate	5.3 – 5.5	5.8
Equities and Hedge Funds	7.5	6.0

The change in investment returns is assumed to occur linearly over five years.

Where rates differ by country or for products within a country, the values shown above 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.

Conversion of foreign currencies

Calculations for individual countries have been performed in the local currencies and the results converted at the end of period exchange rates (as adopted for the Group accounts).

Change in embedded value

The total change of the embedded value during the first half year of 2005 was CHF 441 million representing a six month return on embedded value of 5.6%. The expected increase in value over the first half year of 2005 was CHF 280 million.

A better investment performance than expected in the first half of 2005, driven by increases in equity prices in Swiss Life's key markets and realisations of gains on bonds increased the embedded value by CHF 371 million.

Lower bond yields at 30 June 2005 have led to reduced expectations of future bond yields. This has been partially compensated by an increase in Swiss Life's assumption for future equity returns, which was increased to be more consistent with other insurers. In total the change in expected future investment returns reduced the total Embedded Value by CHF 81 million.

Increased surrenders, particularly in the Swiss group pensions business, decreased the embedded value by CHF 62 million.

An additional strengthening of the reserves for Swiss business had a negative impact on the embedded value of CHF 42 million.

The value added by new business written in the first half of 2005 allowing for the cost of solvency capital was CHF 23 million.

Miscellaneous other items, including taxation, policyholder bonuses and foreign exchange rate changes made up the balance of the change of value.

New Business

The value of new business by country is shown in the following table:

New Business Values at 30/06/2005 CHF millions	Annual Premium Equivalent	New Business Value
Switzerland	195	0
France	117	7
Germany	119	14
Netherlands	218	3
Belgium	34	(1)
Total	683	23

Sensitivities

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

Sensitivities at 30/06/2005 (Deviation from central value) CHF millions	Switzerland	EU	Total
Base Case	3,462	2,934	8,377*
Investment return + 50bp	322	307	629
Investment return – 50bp	(636)	(318)	(954)
Risk discount rate – 50bp	159	96	255
New money rate (bonds only) + 50bp	103	153	256
New money rate (bonds only) – 50bp	(124)	(163)	(287)
Asset values (property only) – 10%	(542)	(24)	(566)
Investment margin – 10bp	(386)	(94)	(480)
Cost of locking-in + 150%	(511)	(252)	(763)

* Including CHF 1,981 million statutory shareholder equity of SL Holding less book value of RA/SL after deducting the present value after tax of the overhead expenses.

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

Banking subsidiary

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

Book value	CHF Million	
	30/06/2005	31/12/2004
Banca del Gottardo	1,340	1,340

External Review

Deloitte & Touche 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 30 June 2005 and the analysis of change. 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 have relied on and not sought to verify the data provided by the Company; that data included information contained in the Company's audited financial statements.

In the light of the above, Deloitte 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. It should be noted that the results are based on deterministic cashflow projections and they do not attempt to estimate the impact of applying the European Embedded Value Guidelines published by the CFO Forum.

This report is made solely to the Directors of Swiss Life for inclusion in the published accounts. 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 Directors as a body, for our work in respect of this report, for this report, or for the opinions we have formed