SwissLife

Investors' Day 2006

Holistic ALM approach to add value and protect capital

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Hans-Jürgen Wolter, Group CRO
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Agenda

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1.	**Risk management objectives**	**Thomas Müller**
2.	Framework and processes	
3.	Strategic risk positioning	
4.	Implications – Duration management – Equity allocation – Solvency	Hans-Jürgen Wolter
5.	Summary	Thomas Müller

Risk Management has a key dual role

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Company goals

Enhance shareholder value

Risk management tasks

Add value

Protect capital

Holistic risk management culture

- Commitment to a holistic risk management approach
- Swiss Life measures risk on an economic basis as starting point
- The risk management process covers all risk management approaches
- Risk taking and risk management functions are independent
- Active and robust risk management is embedded in the corporate calendar

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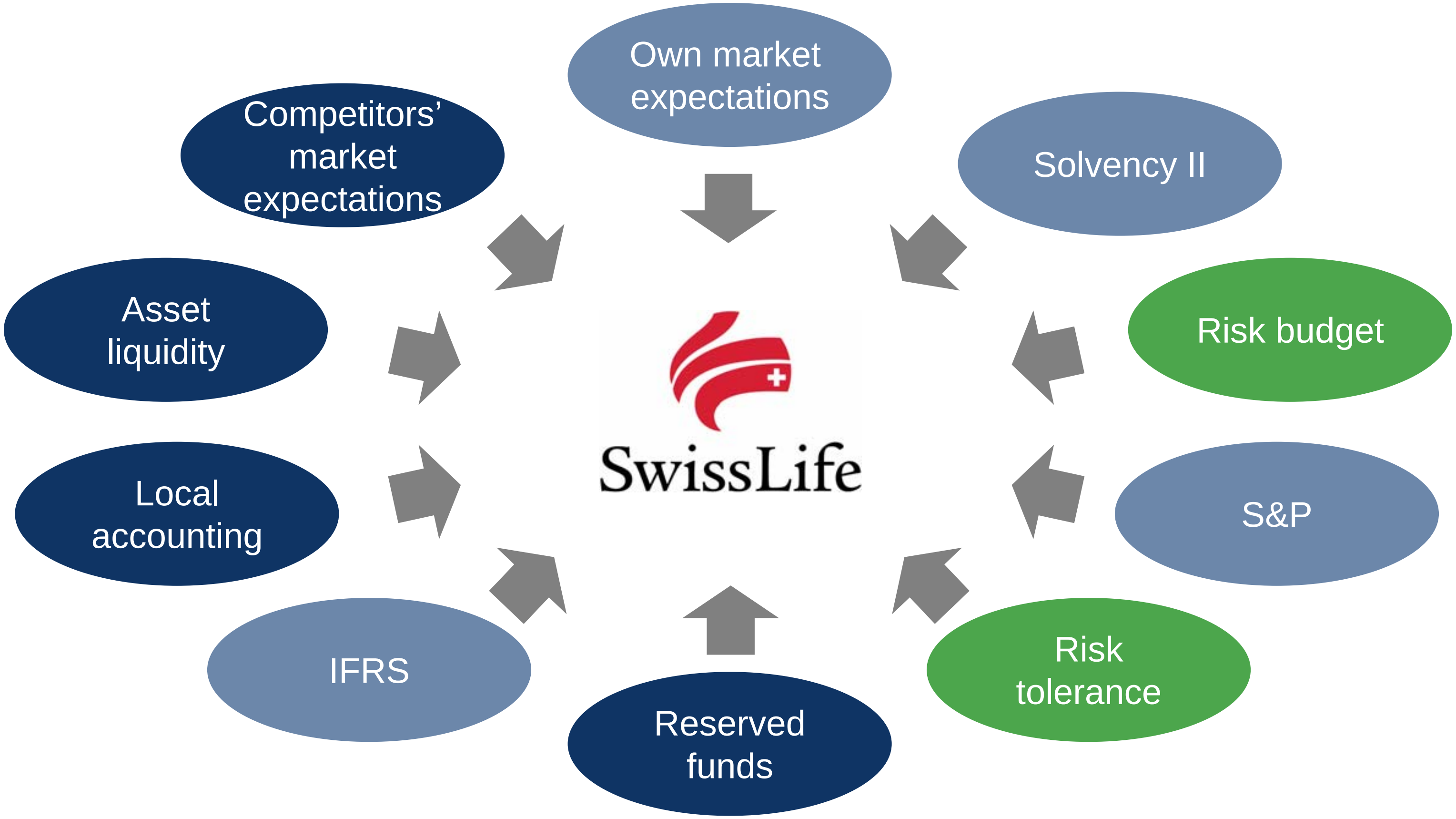
4. Implications — Hans-Jürgen Wolter
   – Duration management
   – Equity allocation
   – Solvency
5. Summary — Thomas Müller

Swiss Life subject to variety of constraints



Holistic view covers all dimensions

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Statutory

- Statutory accounting rules
- Focus of life insurers on coping with regulatory requirements

Economic

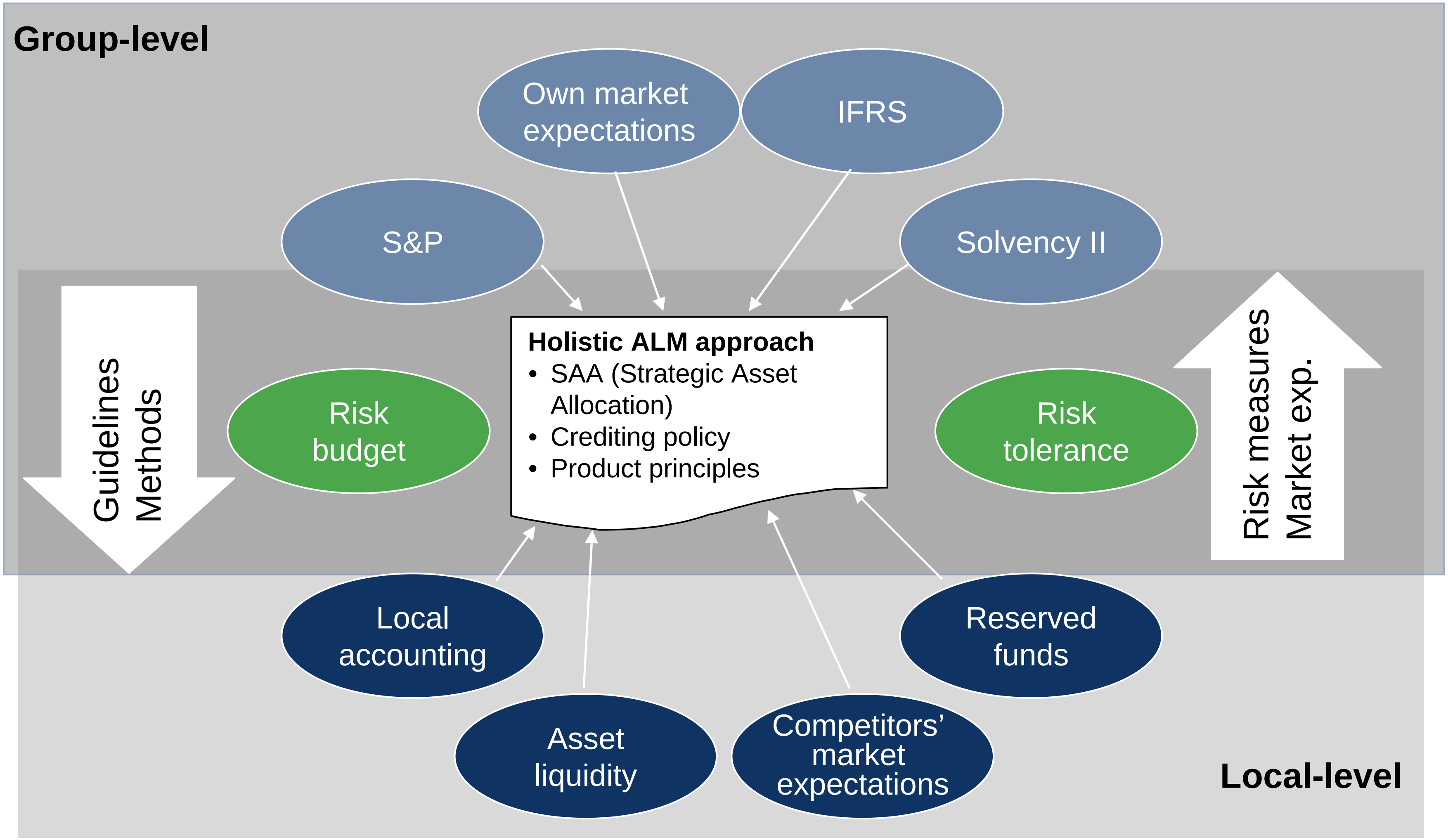
Risk management not restricted to regulatory requirements, but starting to focus on risks inherent to:
- Asset allocation
- Crediting policy
- Product principles

Holistic view

In addition, all constraints applicable to a life insurance company start to get relevant and are included in all risk management thoughts and actions

2002 2004

Local- and group-level holistic ALM approach covers all constraints



Constraints on investing, taking Switzerland as an example

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Business-driven	Environment-driven

Business-driven

- Liabilities require a fixed income portfolio with maturities concentrated at the very long end
- Internal group risk committee regulation (e.g.: financial risk directives, eligible counterparties list, eligible instruments list)
- Investment allowed only in certain investment types (plain vanilla instruments)

Environment-driven

- Regulatory directives (AVO, VAG)
- Swiss bond market too tight to cover all long-term liabilities with CHF bonds
- Lack of hedge funds and alternative investments quoted in CHF

…could be partially mitigated through the right strategic positioning

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Framework leads to a preference for bonds …

- Liability modelling exhibits very long durations. As a result bonds are the preferred asset class
- Swiss Solvency Test supports in-house models for large companies
- Accounting: IFRS as well as local statutory accounting rules offer major leeway for active bond management due to:
  - Amortised cost treatment
  - IFRS hedge accounting

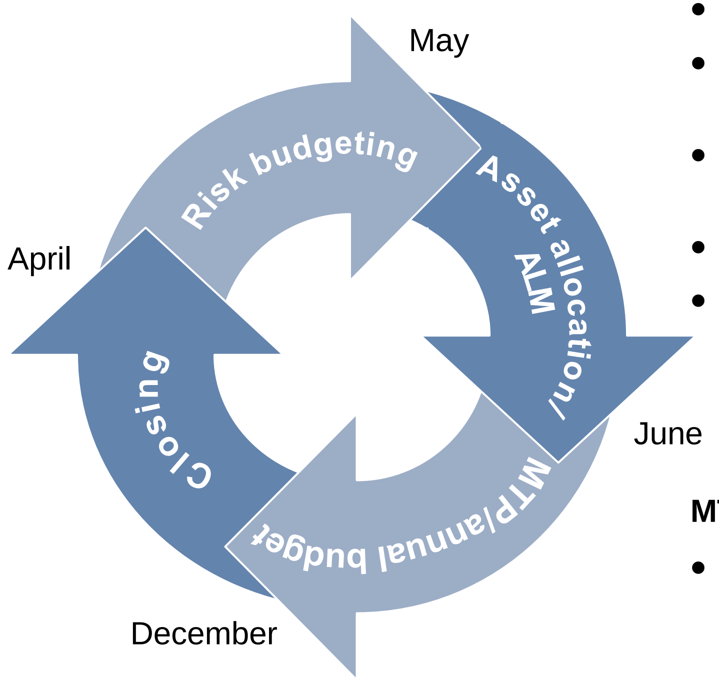
… but new investment guidelines from the Swiss regulator support assets with higher returns

- Use of alternatives, derivatives and structured products facilitated
- Maximum exposure to alternatives lifted from 5 to 10%, whereby commodities and currency overlays as asset classes are accepted within alternatives
- Derivatives become key for equity and currency management, facilitated by the excess reserves in the security fund
- Tougher requirements for risk management and controlling than in the past

The risk management processes are embedded in the Group-wide planning process

Risk budgeting

- Available risk capital determination
- Current risk capital consumption
- Risk budgeting by business unit



ALM process

- Allocation of risk capital
- Determination of risk and capital limits
- Determination of strategic asset allocation
- Crediting policy
- Product principles

Closing

- Annual closing
- Embedded value
- Media / Analyst communication

MTP [1] / annual budget

- Long-term objectives and strategic business priorities per core Life market unit
- Functional objectives and strategies
- Definition, monitoring and review of financial and functional KPI targets
- Capital transfers

1) Medium-term planning

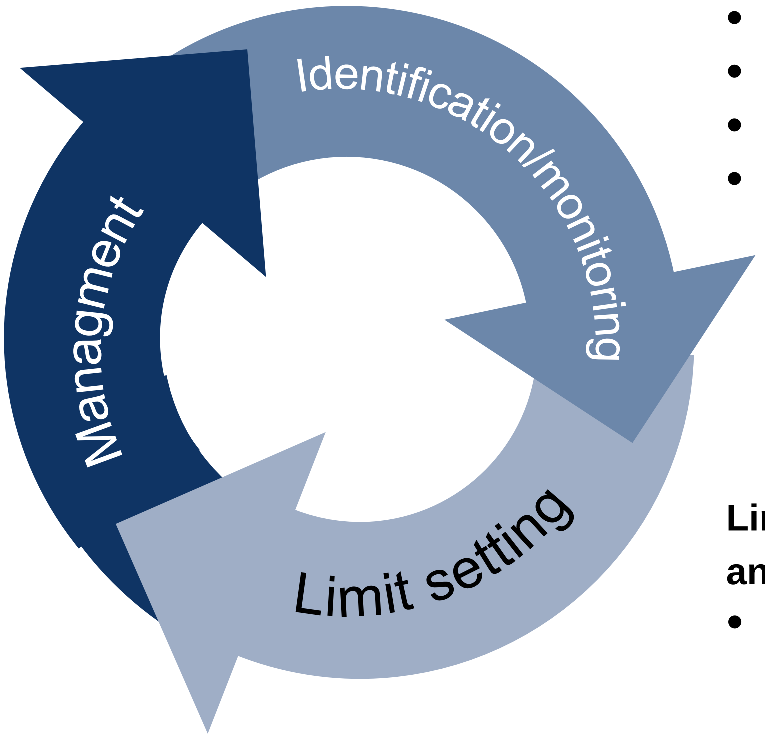
Ongoing risk control as a closed loop system

Close collaboration between

- Risk Management
- Investment Management
- Line management

and

- Group
- Market units



Covered types of risk

- Market risk
- Credit risk
- Insurance risk
- Operational and strategic risk

Limits set by BoD and ExB

- Risk capital (market, credit, interest rate, insurance risk)
- Exposures (currencies, equity quota)

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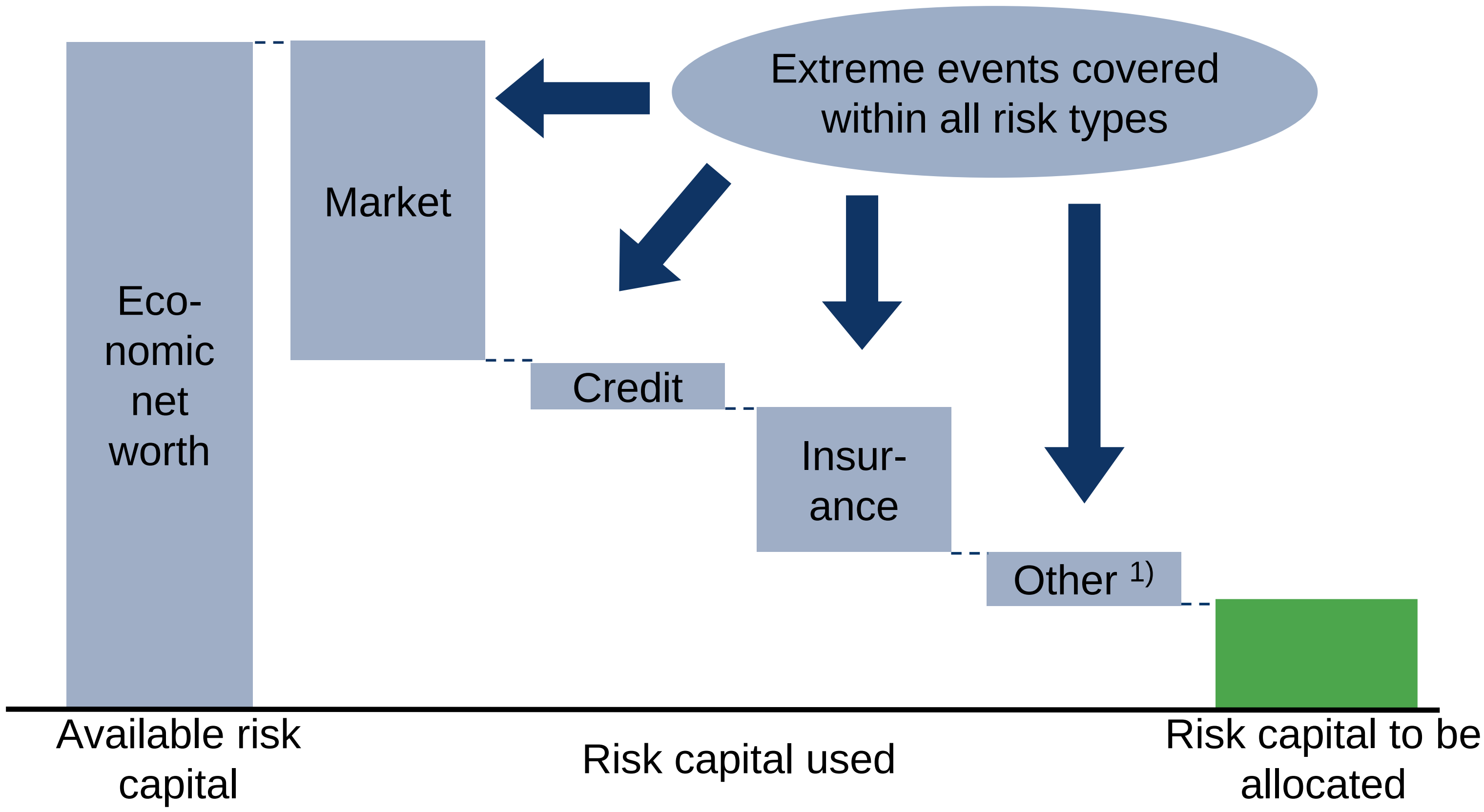
Risk budgeting takes all risk categories into account

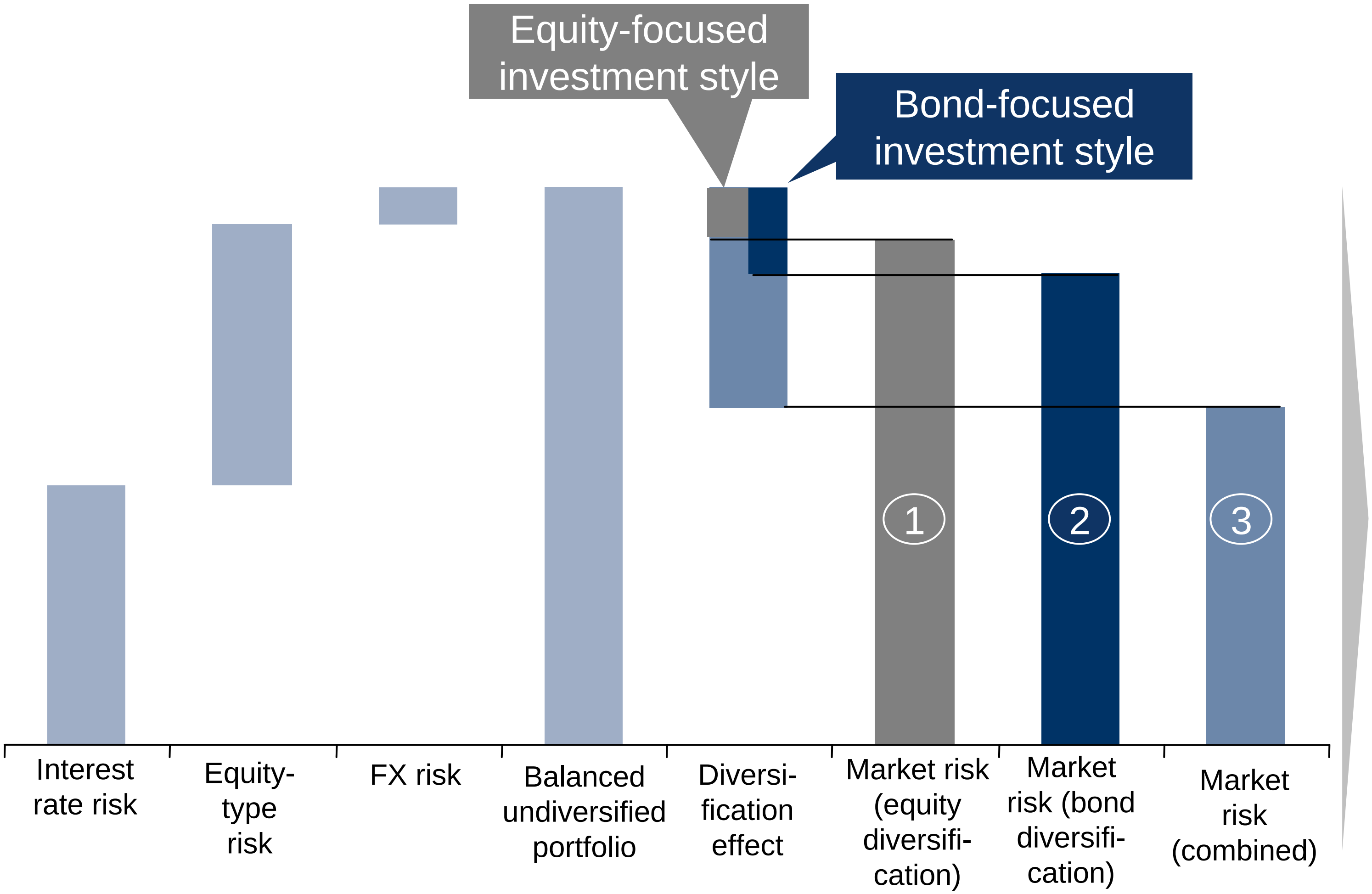
CONCEPTUAL



1) I.e. operational, business and strategic risk
Note: Waterfall shows risk contribution of individual risk types net of diversification effect

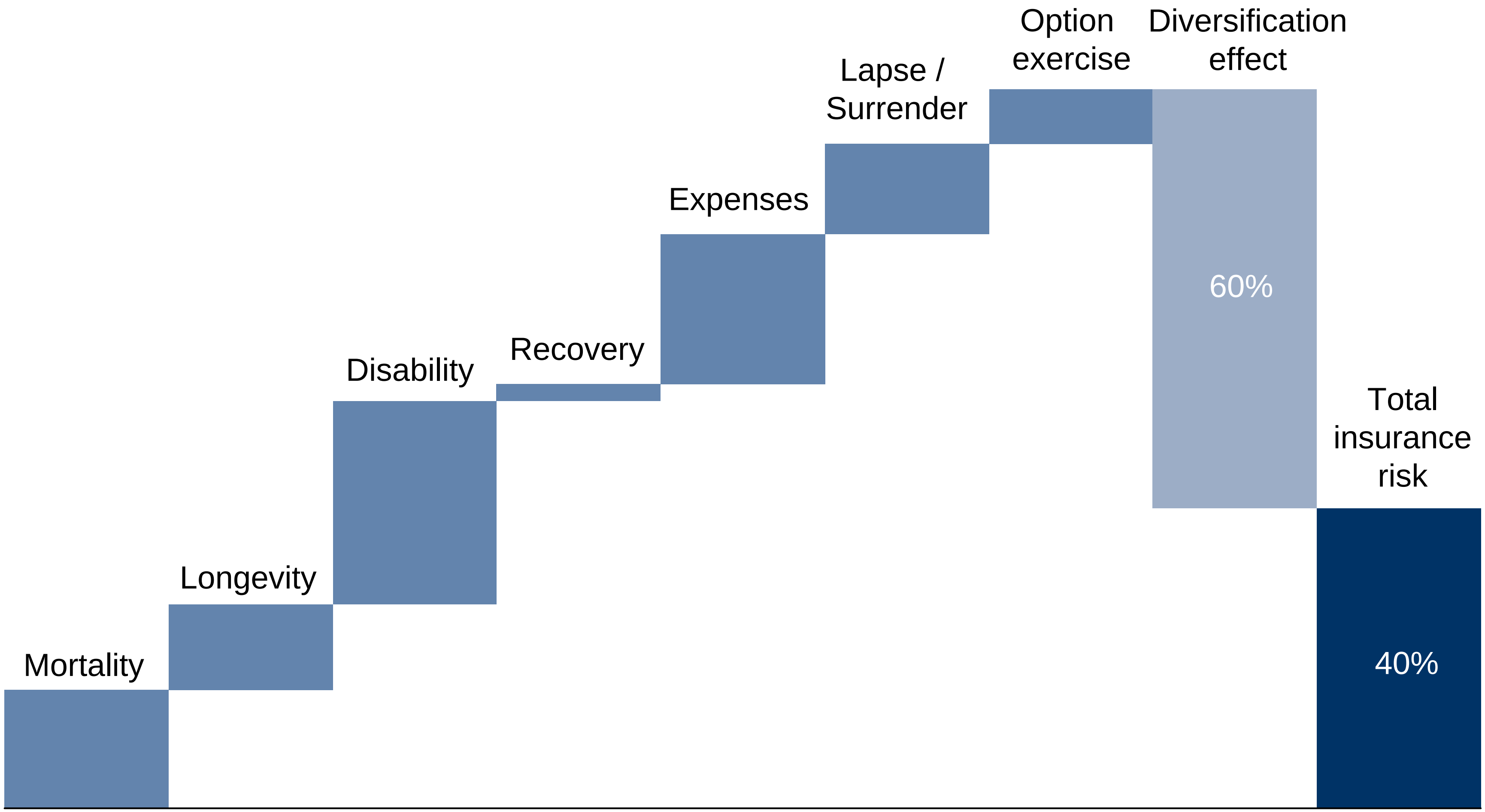
Balanced market risk allocation is favoured

Normalised

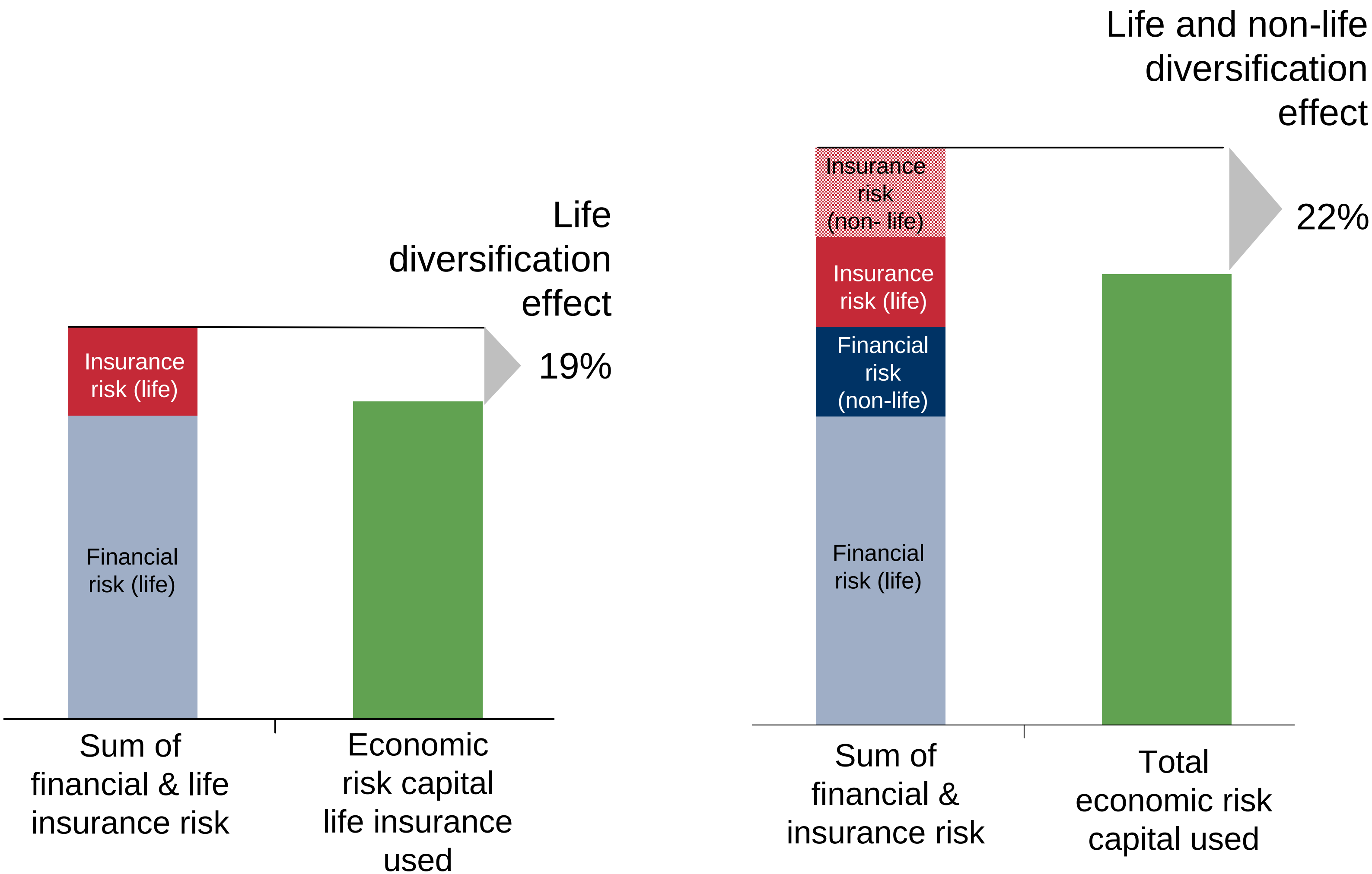


- Balanced risk of interest rate and equity
- Substantial diversifica-tion benefit
- Exposure to a set of risk factors

Significantly reduced life insurance risk capital through diversification…

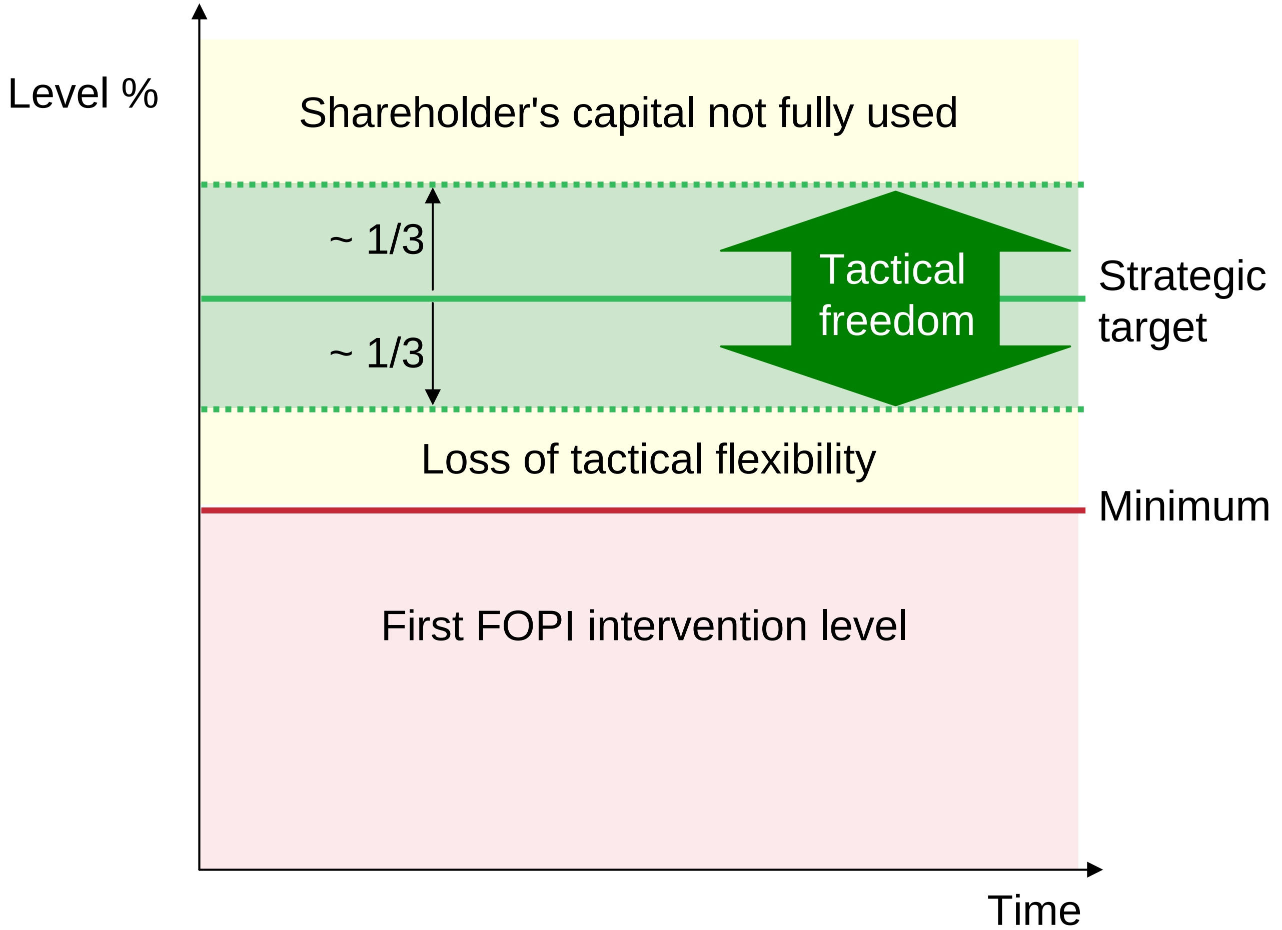


… and only marginal benefit by adding non-life business



Marginal non-life diversification benefit

Strategic positioning includes economic solvency



- We have a strategic target
- We use the tactical freedom available

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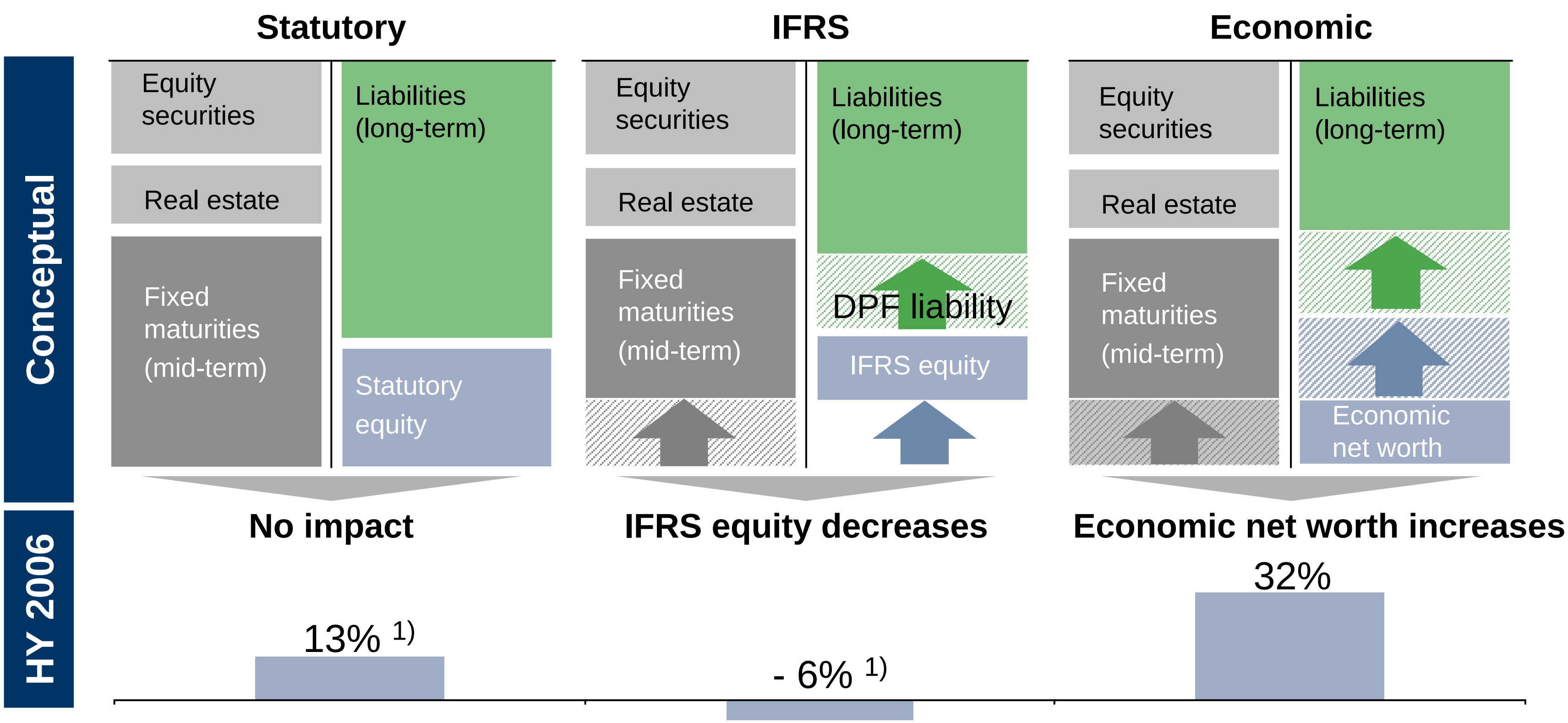
Different implications for capital based on rising interest rates scenario



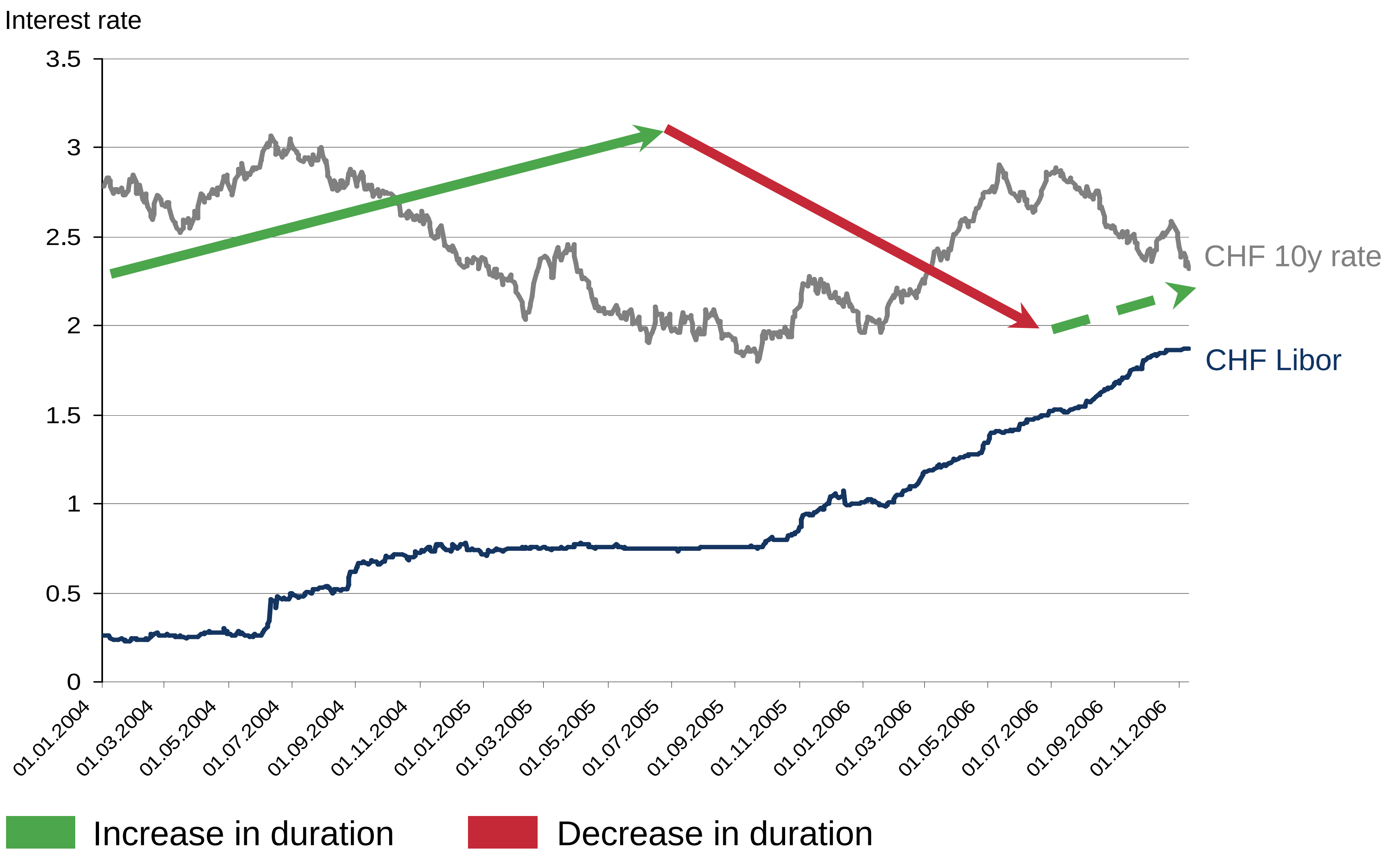
- IFRS equity is not the appropriate measure for insurance value; IFRS equity, however, is protected by use of derivatives and hedge accounting in a first step
- Active steering of the duration gap has a positive effect on economic equity and protects IFRS equity
- IFRS equity further protected by policyholders: through DPF liability (incl. bonus reserves) and bonus adjustment potential

1) Impact through P&L

Active duration management is key

Interest rate sensitivity and interest rates since 2004

ILLUSTRATIVE



Active asset and liability management to add value and protect capital

Initial position

Closed duration gap (strategic)
→ Bond duration = 9.8y

Anticipation of rising interest rates

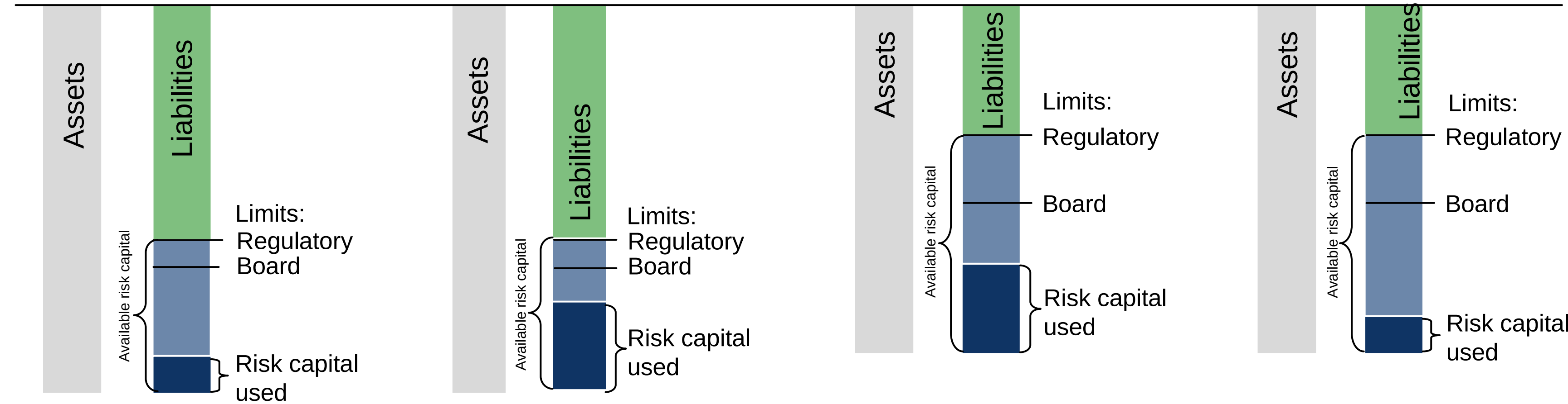
Open duration gap (tactical)
→ Bond duration = 7.8y

Interest rates rose

Open duration gap (tactical)
→ Bond duration = 5.7y

Interest rates stable or declining

Close duration gap (strategic)
→ Bond duration ≥ 9y

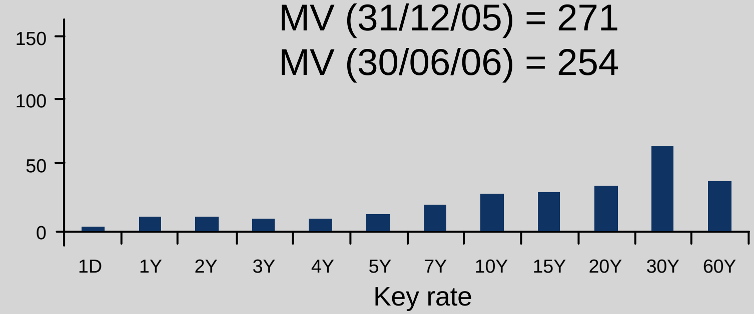
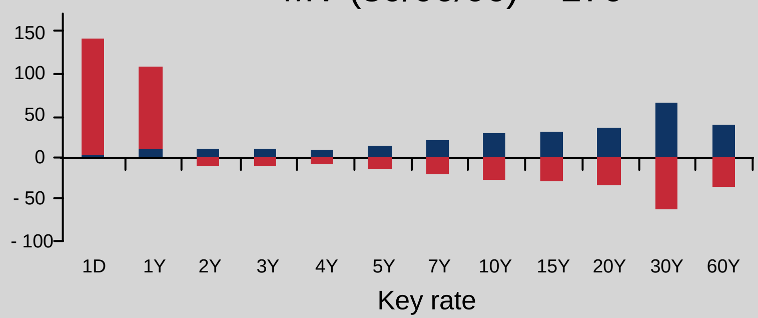


30.06.2005 | 31.12.2005 | 30.06.2006 | As needed

Flexibility to increase duration due to bonds classified as available for sale (AFS) and unwinding of derivatives and hedges

Appropriate measures used to protect our book, market and IFRS value

In CHF million

Cash flow pattern		Impact in different measures after interest rates rise				
		MV [1]	BV [1]	IFRS equity	IFRS P/L	Future yield
Un-hedged bond	MV (31/12/05) = 271 MV (30/06/06) = 254 	down	stable	down	stable	stable
Hedged with a swap	MV (31/12/05) = 271 MV (30/06/06) = 276 					
	Without hedge accounting	stable	stable	stable	up	stable
	With hedge accounting	stable	stable	stable	stable	up

Unchanged book value, increased direct yield due to reduced market value

Swap Bond

1) MV= Market value; BV= Book value

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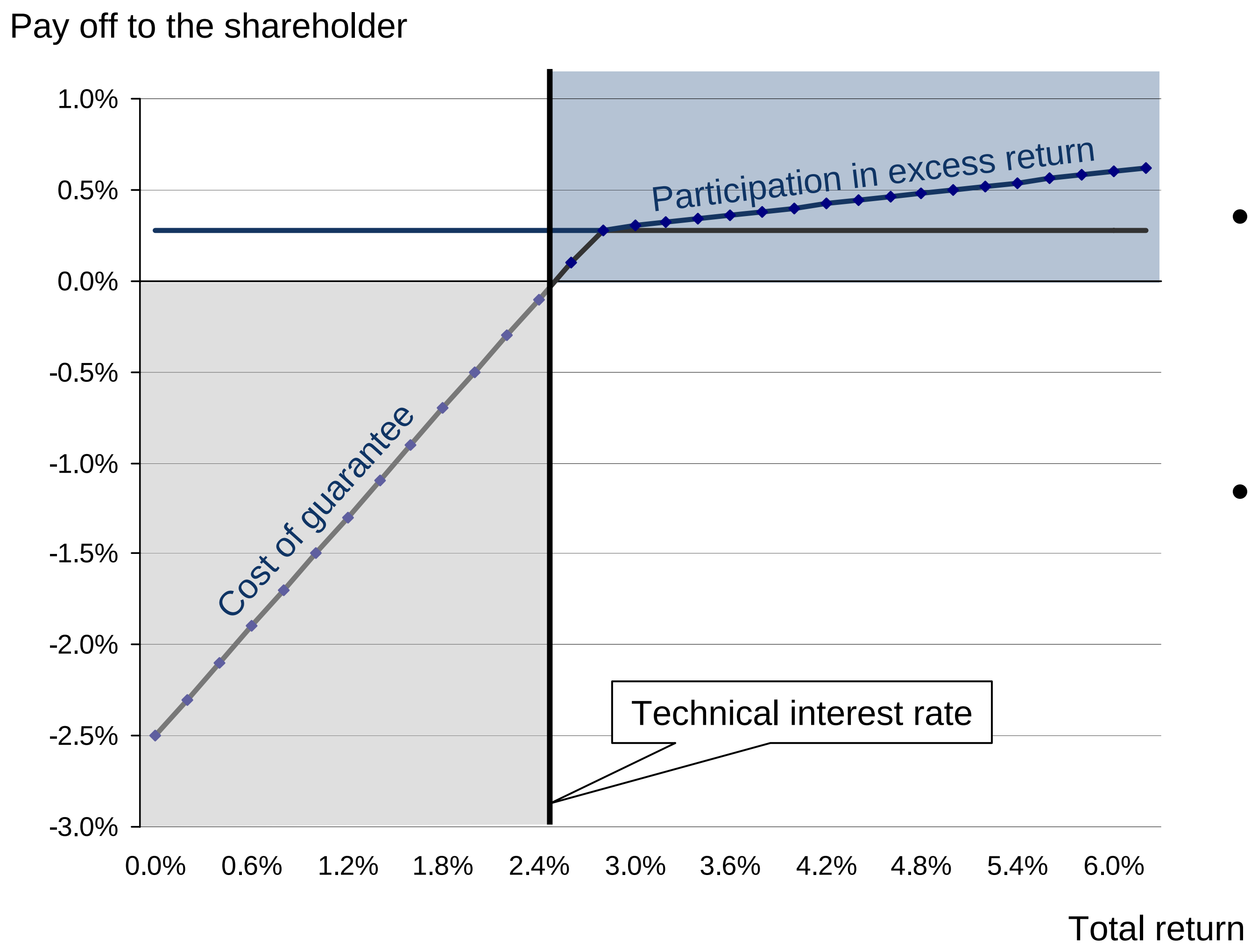
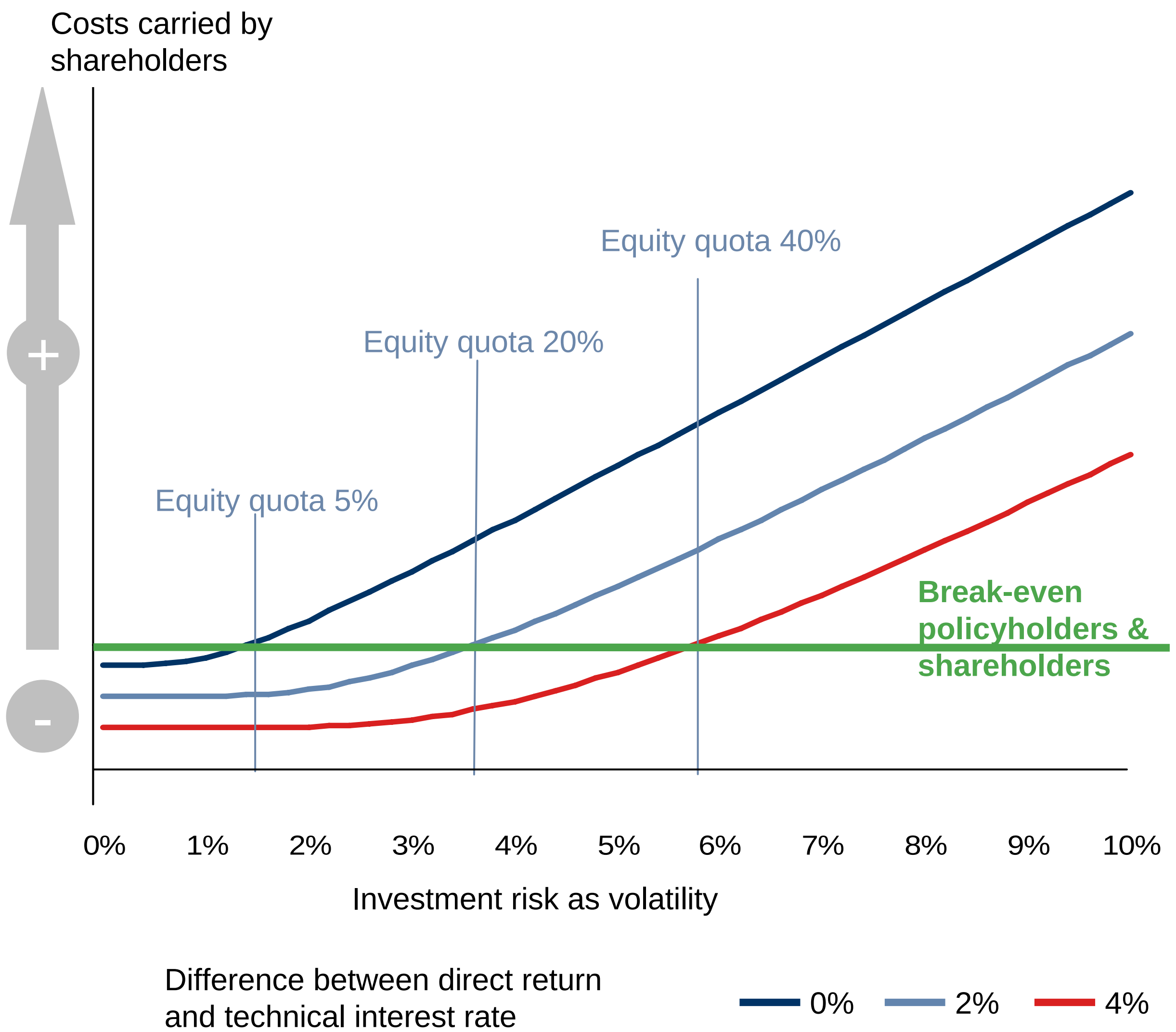
Asymmetric risk/return profile of investment returns

Shareholders' portion of "legal quote" investment



- Shareholder provides 100% protection if returns fall below guarantee (short put option)
- Shareholder participates at rate of 10% in excess returns above guarantee (long call option)

Equity quota determined by interest rate spread and shareholder / policyholder participation



- Equity quote defined by the difference between direct return and technical interest rate
- Risk and return could be increased over proportionally if the difference between direct return and technical interest rate increases
- Product with lower guarantees should be preferred from a shareholder and policyholder perspective

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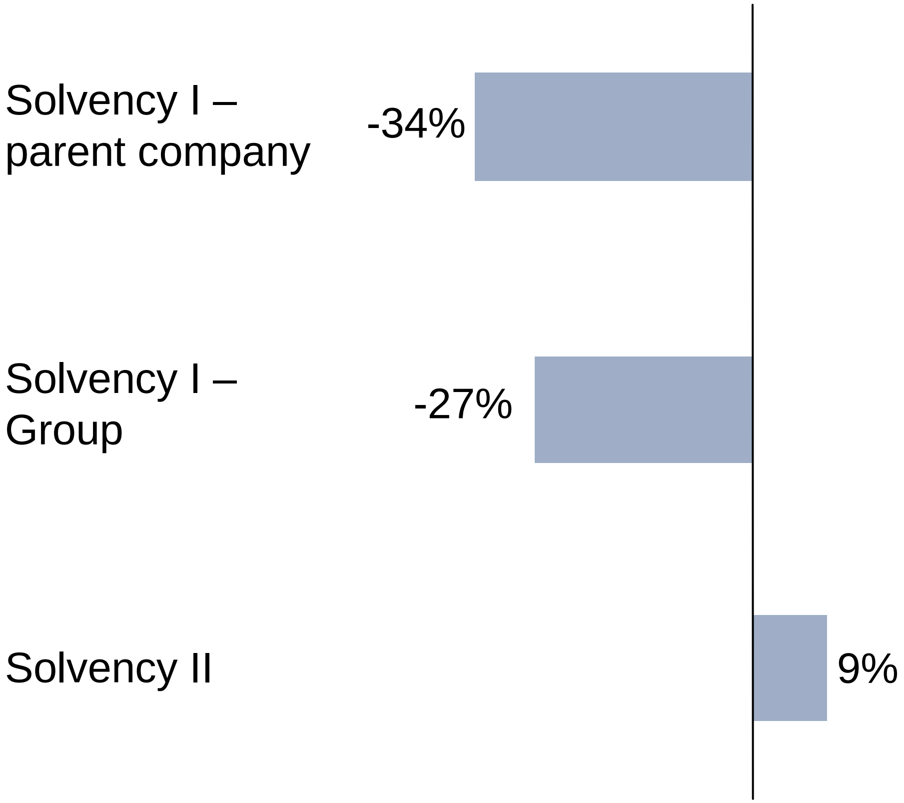
Rising interest rates: Real-life implications

Development during HY 2006



Comments/explanation

- Legally binding
- Solvency I at a comfortable level and with downside protection (floored by statutory equity) in case of rising interest rates

- Different methods defined by different Group regulators
- Only used as a trigger point

- Business steered with Solvency II (SST, as defined by Swiss regulator)
- Active ALM has significantly increased Solvency II level

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We add value while controlling our capital level

- Complex environment and various constraints require holistic risk management approach
- Strategically well diversified risk positioning
- Assuring tactical flexibility to act on market opportunities
- Implications for Swiss Life are:
  - Active ALM; duration gap reduced by 2 years
  - Equity exposure defined by business line
  - Solvency I floored, Solvency II well prepared for the future

Dual function of risk management to add value and protect capital

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