Market Consistent Embedded Value (MCEV)

The Group MCEV is a measure of the consolidated value of shareholders' interest in the in-force business of the Swiss Life Group. It includes the insurance business covered by the MCEV methodology and all other business valued by its IFRS net asset value.

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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 2010; 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 market consistent embedded value reporting follows the European Insurance CFO Forum Market Consistent Embedded Value Principles©[1]. The cost of credit risk relating to bonds is calculated and disclosed in addition to the Principles' mandatory requirements. Further details on the MCEV methodology are given in section 4.

PricewaterhouseCoopers have audited this market consistent 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 as well as assumed external reinsurance, with the exception of Swiss Life Insurance Solutions AG and Swiss Life Products (Luxembourg) S.A., which are not yet material for MCEV purposes. MCEV (and Group MCEV) are net of ceded external reinsurance. Included are namely operations in Switzerland, France, Germany, Luxembourg, Liechtenstein and Singapore. All other businesses such as investment management and AWD are generally included in the non-covered business at their IFRS net asset values, with the exception of France, where they are included in the covered business.

1.3 DEFINITIONS

Swiss Life's Group MCEV consists of the MCEV for covered business and 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.

Components of Group MCEV

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

The net asset value is split between:

- the required capital (RC): the amount of capital provided by shareholders deemed necessary to run the business under the chosen definition (see section 4.1)
- the free surplus (FS): additional capital allocated to the covered business above the required capital

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

- the certainty equivalent value of future profits (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 costs 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.

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

During 2010, the capital markets were characterised by strong movements of the relevant interest rates and a decline of the euro and the US dollar against the Swiss franc. While interest rates recovered from their historic lows in the third quarter, they are still below their levels as per end of year 2009 while their volatilities increased. In the context of the ongoing margin management and to preserve current and future margins, the company has, among various reassessments performed during 2010, adjusted its approach to policyholder participation.

All results and components are shown in CHF million. Rounding differences may occur.

2.1 GROUP MCEV

The following table shows MCEV key results as at 31.12.2010 compared to the results as at 31.12.2009:

In CHF million	Net asset value	Value of in-force business	Total 2010	Total 2009
Covered business	***1 928***	***3 032***	***4 959***	*4 132*
Non-covered business	***2 636***	***n/a***[1]	***2 636***	*2 745*
GROUP MCEV	**4 563**	**3 032**	**7 595**	6 877
Value of new business			**209**	123
Total MCEV earnings			**1 424**	651

[1] n/a: not applicable

The Group MCEV includes the covered as well as the non-covered business. The covered business is valued according to the MCEV methodology. The value of the non-covered business included in the Group MCEV is the unadjusted IFRS net asset value.

The Group MCEV increased by 10%. The value of the non-covered business is slightly below the previous year's level. Despite the adverse economic environment and the weakened euro, the value of covered business increased by 20%.

Drivers for the increase are the profitable new business, margin management measures and favourable demographic experience.

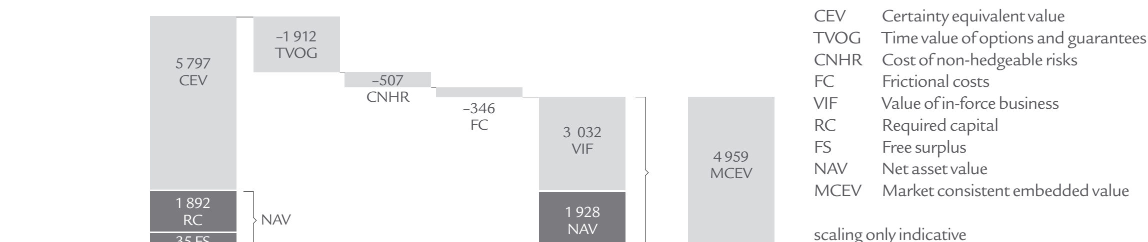
The increase in value of new business by 70% and of the new business margin from 0.9% to 1.4% is driven by change in business mix, change to the profit sharing approach and the continuous margin management.

2.2 MCEV OF COVERED BUSINESS

The following graph and table show the MCEV by components, together with the previous year's figures:

MCEV of Covered Business 2010

CHF million



In CHF million

	2010	2009
NET ASSET VALUE	**1 928**	2 324
Free surplus	**35**	319
Required capital	**1 892**	2 005
VALUE OF IN-FORCE BUSINESS	**3 032**	1 808
Certainty equivalent value	**5 797**	4 848
Time value of financial options and guarantees	**–1 912**	–1 984
Cost of residual non-hedgeable risks	**–507**	–631
Frictional costs of required capital	**–346**	–425
MCEV	**4 959**	4 132

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, with the exception of France (see section 4.7). 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 decrease in free surplus is mainly a consequence of reassessments performed during 2010. These include reserve strengthening in Switzerland (driven by low interest rate environment) and France (retirement age reform).

The value of in-force business (VIF) is the sum of the certainty equivalent value, TVOG, CNHR, and FC. 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. Despite lower interest rates and higher interest rate volatilities, the value of in-force business increased strongly. This reflects the company's approach to profit sharing, margin management, improved demographic assumptions, and other reassessments.

The certainty equivalent value (CEV) is the present value of future shareholder profits – net of tax – under the certainty equivalent scenario. This scenario is derived from reference rates as at the respective valuation date. The CEV contains that part of the value of financial options and guarantees which materialises in the underlying 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 cost of financial options and guarantees in excess of the intrinsic value which is already allowed for in the certainty equivalent scenario. As a consequence of the measures mentioned, the TVOG decreased slightly despite adverse changes in the economic environment. The TVOG also includes the cost of credit risk related to investments in corporate bonds. The amount of credit risk on group level is CHF –469 million for 2010 compared to CHF –476 million for 2009.

The cost of residual non-hedgeable risks (CNHR) represents the value of risks which is calculated by way of a cost of capital approach because there are no liquid markets, such as insurance risks, expense risks, and risks from variances to assumed rules for policyholder decisions.

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

2.3 VALUE OF NEW BUSINESS

The value of new business (VNB) represents the value added by new business written in 2010. 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.

The following sections show the premium volumes, measured in present value of new business premiums (PVNBP)

and annual premium equivalent (APE), the value of new business and the new business margins on the basis of PVNBP and APE. Furthermore there is an analysis of change showing the development of value of new business from last year to the current year.

Additional explanations about new business calculations are given in section 4.2 of this report.

2.3.1 VALUE OF NEW BUSINESS, PREMIUMS AND MARGINS

Amounts in CHF million

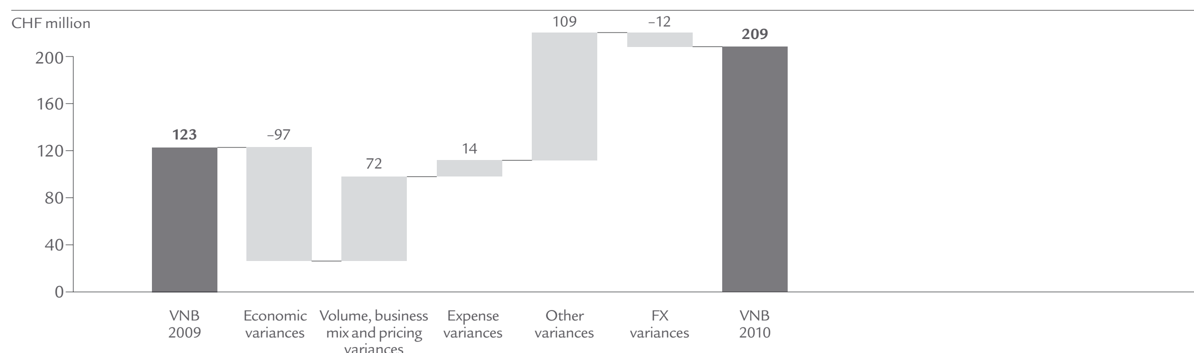
	2010	2009
VALUE OF NEW BUSINESS	**209**	123
New business strain [1]	***–124***	*–133*
Value of new business before new business strain	***333***	*225*
Annual premiums	**706**	678
Single premiums	**7 798**	8 146
PRESENT VALUE OF NEW BUSINESS PREMIUMS (PVNBP)	**14 607**	14 390
Average annual premium multiplier	**9.6**	9.2
New business annual premium equivalent (APE)	**1 486**	1 493
NEW BUSINESS MARGIN (% PVNBP)	**1.4%**	0.9%
New business margin (% APE)	**14.0%**	8.2%

[1] New business strain represents the effect on the net asset value from writing new business.

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

2.3.2 VALUE OF NEW BUSINESS — ANALYSIS OF CHANGE

Value of New Business – Analysis of Change



Amounts in CHF million	PVNBP	VNB	NBM (% PVNBP)	Change in NBM (% PVNBP)
VALUE OF NEW BUSINESS 2009	14 390	**123**	**0.9%**	
Economic variances	–450	**–97**		**-0.7%**
Volume, business mix and pricing variances	967	**72**		**0.5%**
Expense variances	–2	**14**		**0.1%**
Other variances	741	**109**		**0.7%**
FX variances	–1 039	**–12**		**0.0%**
VALUE OF NEW BUSINESS 2010	14 607	**209**	**1.4%**	

New business values as well as new business margins are significantly higher than in the previous year. Main drivers are pricing measures, changes in business mix, expense reductions, experience driven changes to demographic assumptions, and changes to the profit sharing approach. Negative effects resulted from capital market conditions and currency effects, notably the weakened euro.

2.4 GROUP MCEV — ANALYSIS OF EARNINGS

The table below shows the change in Group MCEV split by components from 31 December 2009 to 31 December 2010.

In CHF million	Covered business MCEV	Non-covered business IFRS	Total Group MCEV	Total Group MCEV
			2010	2009
OPENING GROUP MCEV	***4 132***	***2 745***	**6 877**	6 321
Opening adjustments	***–139***	***64***	**–75**	–161
ADJUSTED OPENING GROUP MCEV	***3 993***	***2 809***	**6 803**	6 161
Operating MCEV earnings	***2 301***	***52***	**2 353**	120
Non-operating MCEV earnings	***–904***	***–25***	**–929**	531
TOTAL MCEV EARNINGS	***1 397***	***27***	**1 424**	651
Other movements in IFRS net equity	***n/a***	***1***	**1**	43
Closing adjustments	***–431***	***–202***	**–633**	22
CLOSING GROUP MCEV	***4 959***	***2 636***	**7 595**	6 877

[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 2.40 per share or a total of CHF 77 million as shown in the Consolidated Financial Statements (Note 1) and currency exchange rate effects of CHF –2 million.

The following commentaries refer mainly to the non-covered business as the analysis of earnings for the covered business is commented in sections 2.5 and 3.2 in detail.

The operating MCEV earnings for non-covered business correspond mainly to results from Swiss Life Holding, AWD, Investment Management and insurance business not within the scope of covered business. The strong operating earnings compared to 2009 originate mainly from covered business. Non-covered business also contributed to the increase.

The non-operating MCEV earnings relate to borrowing costs and tax effects for the non-covered business. The change in non-operating MCEV earnings compared to 2009 originates almost entirely from the covered business.

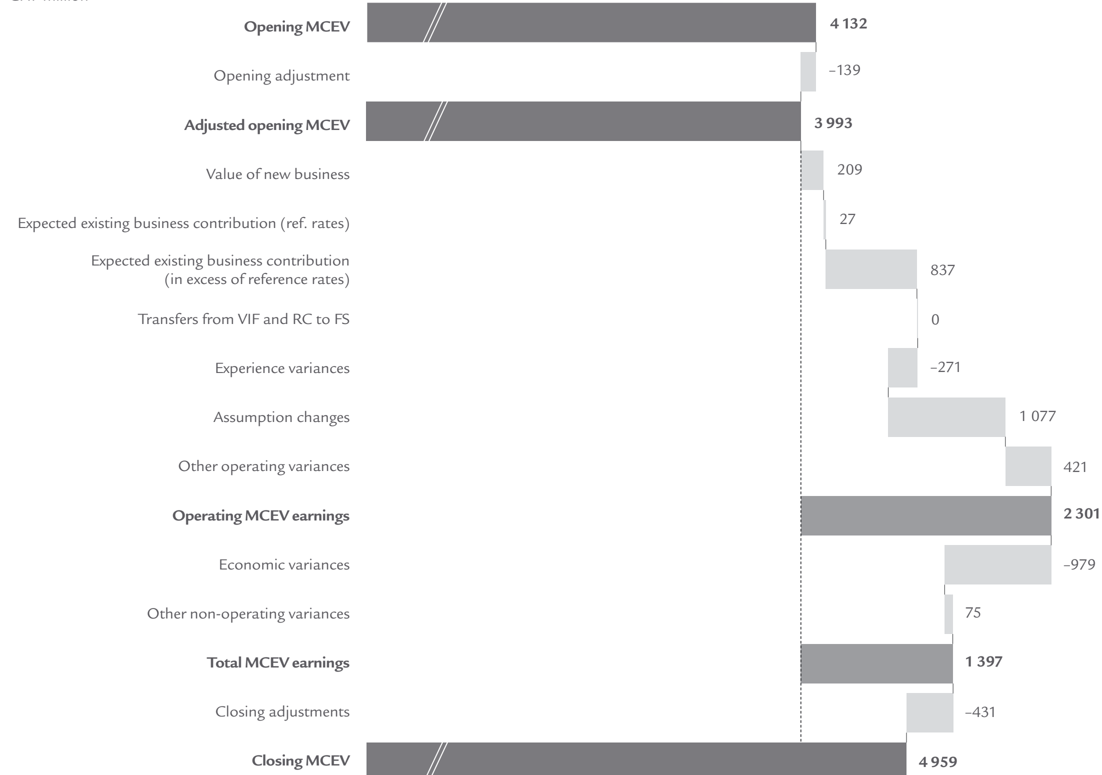
The other movements in IFRS net equity (non-covered business only) include the change in unrealised capital gains and losses and currency exchange rate effects on goodwill.

The closing adjustments result mainly from currency exchange rate developments.

2.5 COVERED BUSINESS — ANALYSIS OF EARNINGS

The table below shows the analysis of earnings for the covered business in 2010:

Covered Business – Analysis of Earnings for 2010



In CHF million	Free surplus	Required capital	VIF	MCEV 2010	MCEV 2009
OPENING MCEV	319	2005	1808	4132	3569
Opening adjustments	–139	–	–	–139	–1
ADJUSTED OPENING MCEV	180	2005	1808	3993	3567
Value of new business	–380	256	333	209	123
Expected existing business contribution (reference rate)	–	10	17	27	80
Expected existing business contribution (in excess of reference rate)	9	–5	833	837	–
Transfers from VIF and required capital to free surplus	666	–162	–504	–	–
Experience variances	–376	60	45	–271	–174
Assumption changes	–47	–	1125	1077	180
Other operating variance	–328	72	677	421	–15
OPERATING MCEV EARNINGS	–456	230	2527	2301	194
Economic variances	258	–119	–1117	–979	581
Other non-operating variances	86	–	–12	75	–13
TOTAL MCEV EARNINGS	–112	111	1398	1397	763
Closing adjustments	–32	–224	–174	–431	–198
CLOSING MCEV	35	1892	3032	4959	4132

OPENING ADJUSTMENTS represent dividend payments from covered to non-covered business.

VALUE OF NEW BUSINESS contributions from free surplus and required capital sum up to the new business strain of CHF –124 million (2009: CHF –133 million). This represents the shareholders' share in acquisition expenses for new business. The VIF-component of CHF 333 million (2009: CHF 255 million) is the value of future risk-adjusted profits from new business.

EXPECTED EXISTING BUSINESS CONTRIBUTION (REFERENCE RATE) shows the unwinding of discount on all value of in-force components with reference rates as at start of year. Additionally the notional interest on the components of the net asset value is included.

EXPECTED EXISTING BUSINESS CONTRIBUTION (IN EXCESS OF REFERENCE RATE) represents the additional contribution to MCEV by taking into account investment returns for the reporting period expected at the beginning of the period over and above the initial reference rates for the period. Also releases from the period's contribution to the time value of financial options and guarantees and cost of residual non-hedgeable risks are included. In Swiss Life's previous MCEV reporting, this step was not separated; its effects were part of economic variances. The expected business contribution depends on asset allocation and capital market conditions at start of the year.

TRANSFERS FROM VALUE IN FORCE AND REQUIRED CAPITAL TO FREE SURPLUS include the transfer of the results of the preceding step to free surplus and subsequent split between free surplus and required capital. The total effect in this line is zero. As this step is carried out after taking into account the contributions in excess of reference rates the effect on free surplus is positive.

EXPERIENCE VARIANCES aggregate the impact of actual performance versus expectations on insurance contracts regarding non-economic assumptions such as mortality, expenses, lapses, as well as the deviations in handling of additional reserves. As a result of the low interest rate environment the situation in Switzerland was reassessed and subsequently reserves were strengthened.

ASSUMPTION CHANGES refer to the impact of the change on assumptions such as future mortality, morbidity, longevity rates, changes in anticipated surrenders and expenses, and the approach to future profit sharing. These are commented on in section 3.2.

OTHER OPERATING VARIANCE includes effects from strategic management decisions, modelling improvements and other reassessments. Comments are provided in the section 3 (results per market unit).

ECONOMIC VARIANCES represent the change in embedded value by replacing the starting economic scenarios by the closing ones. The effects from expected investment

income over and above the reference rates are no longer included here – as was the case in Swiss Life's previous MCEV reporting – but in a preceding step. These do not contribute directly to economic variances anymore. Therefore, effects from deviations between actual and expected investment returns are included here. Drivers are lower reference rates and higher swaption implied volatilities compared to the 2009 closing. Foreign exchange rate fluctuations from a market unit's assets and liabilities in foreign currencies also contribute to economic variances.

OTHER NON-OPERATING VARIANCES consists mainly of tax variances.

CLOSING ADJUSTMENTS represent mainly currency exchange rate translation effects resulting from the consolidation in Swiss francs.

2.6 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 assumptions.

SENSITIVITIES AS AT 31 DECEMBER 2010

Amounts in CHF million

	Change in MCEV	+/–	Change in value of new business	+/–
BASE VALUE	**4 959**		**209**	
Economic				
100 bp increase of interest rates (reference rates)	**473**	**10%**	**28**	**13%**
100 bp decrease of interest rates (reference rates)	**–824**	**–17%**	**–56**	**–27%**
10% increase in equity / property market values	**723**	**15%**		1
10% decrease in equity / property market values	**–808**	**–16%**		1
25% increase in equity / property implied volatilities	**–276**	**–6%**	**–14**	**–7%**
25% decrease in equity / property implied volatilities	**227**	**5%**	**10**	**5%**
25% increase in swaption implied volatilities	**–247**	**–5%**	**–6**	**–3%**
25% decrease in swaption implied volatilities	**397**	**8%**	**13**	**6%**
Operational				
10% increase in maintenance expenses	**–251**	**–5%**	**–22**	**–11%**
10% decrease in maintenance expenses	**249**	**5%**	**22**	**11%**
10% proportionate increase in lapse rates	**–145**	**–3%**	**–26**	**–12%**
10% proportionate decrease in lapse rates	**156**	**3%**	**28**	**13%**
Demographic				
5% proportionate increase in mortality rates (death cover)	**–14**	**–0%**	**–3**	**–1%**
5% proportionate decrease in mortality rates (annuities)	**–118**	**–2%**	**–5**	**–2%**
5% increase of longevity driver (annuities)	**–28**	**–1%**	**–1**	**–0%**
5% proportionate increase in morbidity rates	**–78**	**–2%**	**–6**	**–3%**
5% proportionate decrease in morbidity rates	**81**	**2%**	**6**	**3%**
Other				
Required capital 100% statutory solvency capital	**157**	**3%**	**15**	**7%**

1 not available

Overall, sensitivities are significantly reduced with respect to the ones for 2009. Management actions such as duration measures, cost reductions, strengthening of buffers and changes to the profit sharing approach contributed to this effect.

2.7 RECONCILIATION OF IFRS NET ASSET VALUE TO GROUP MCEV

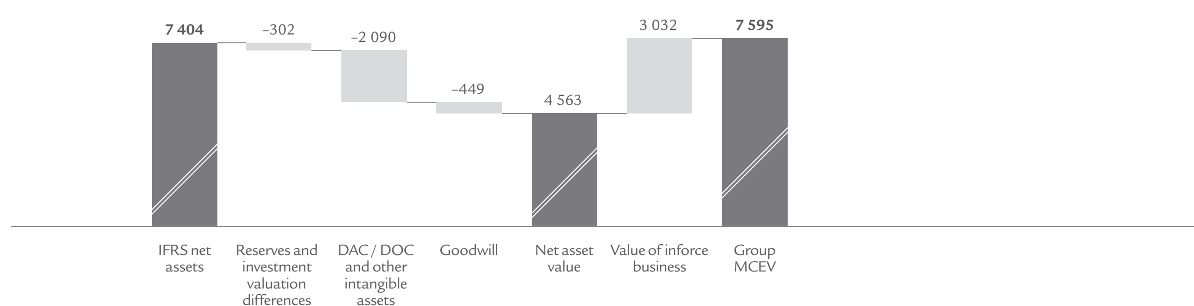
Swiss Life's MCEV for covered business reflects the value of the shareholders' interest in the life, health and pension business as well as assumed external reinsurance of the Swiss Life Group. This value includes the determination of best estimate liabilities for bonus and tax pay-

ments, 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 Asset Value to Group MCEV

CHF million



RECONCILIATION OF IFRS NET ASSETS TO GROUP MCEV AS AT 31 DECEMBER 2010

In CHF million

	2010
IFRS NET ASSETS	**7 404**
Adjustments	**–2 841**
Reserves and investments valuation differences	***–302***
DAC / DOC and other intangible assets	***–2 090***
Goodwill [1]	***–449***
Net asset value	**4 563**
Value of in-force business	**3 032**
GROUP MCEV [2]	**7 595**

[1] Goodwill adjustments correspond to goodwill of covered business with the exception of CHF 72 million from French operations (see section 3.2).

[2] Group MCEV includes CHF 1 443 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 value of in-force business leads to the 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, pension and assumed external reinsurance business in Switzerland
- All businesses in France, mainly life, health and pension business
- Life and pension business in Germany
- Life and pension business in Luxembourg, Liechtenstein, and Singapore (together referred to as Insurance Other)

This breakdown by market unit 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 divergence from the IFRS insurance segment reporting is the treatment of Swiss Life Asset Management in France, which is reported for MCEV purposes under France.

SWITZERLAND — Swiss Life's main business in the Swiss market is group life business. The individual business includes traditional savings, risk and annuity products, as well as modern savings and retirement products with flexible guarantees. Swiss Life's own sales force plays the major role in distribution, followed by AWD. The business for assumed external reinsurance is included in the covered business as of this year.

FRANCE — Insurance products include savings, annuity, and risk products as well as health insurance products. New business for life insurance focuses on multi-support products, combining traditional savings and unit-linked components. The main distribution channels are independent financial advisors and private banking.

GERMANY — Swiss Life sells traditional and modern products within individual and group life business. Disability insurance plays an important role. The main distribution channel is independent brokers, followed by financial advisors such as AWD.

INSURANCE OTHER — Swiss Life offers private placement life insurance (PPLI) through Liechtenstein, Singapore and Luxembourg. In Luxembourg, Swiss Life also provides group insurance solutions for international and local corporate clients through Corporate Solutions.

3.2 RESULTS BY MARKET UNIT

MCEV BY MARKET UNIT FOR THE YEAR 2010

In CHF million

	Switzerland	France[1]	Germany	Insurance Other	Total
NET ASSET VALUE	557	1 056	335	–20	1 928
Free surplus	103	43	–43	–68	35
Required capital	454	1 013	378	48	1 892
VALUE OF IN-FORCE BUSINESS	1 655	824	271	282	3 032
Certainty equivalent value	3 485	1 431	536	346	5 797
Time value of financial options and guarantees	–1 407	–315	–180	–10	–1 912
Cost of residual non-hedgeable risks	–234	–195	–38	–40	–507
Frictional costs of required capital	–188	–97	–47	–14	–346
MCEV	2 212	1 879	606	262	4 959

[1] The value for France includes CHF 72 million in goodwill and intangible assets orginating from the non-life and non-health insurance operations.

MCEV BY MARKET UNIT FOR THE YEAR 2009

In CHF million

	Switzerland	France[1]	Germany	Insurance Other	Total
NET ASSET VALUE	741	1 247	379	–43	2 324
Free surplus	300	134	–28	–87	319
Required capital	441	1 114	407	45	2 005
VALUE OF IN-FORCE BUSINESS	772	678	125	233	1 808
Certainty equivalent value	2 884	1 153	513	298	4 848
Time value of financial options and guarantees	–1 602	–148	–227	–7	–1 984
Cost of residual non-hedgeable risks	–267	–222	–99	–44	–631
Frictional costs of required capital	–243	–105	–63	–14	–425
MCEV	1 513	1 926	503	190	4 132

[1] The value for France includes CHF 93 million in goodwill and intangible assets orginating from the non-life and non-health insurance operations.

SWITZERLAND – The net asset value is influenced by the hybrid debt. It includes the – negative – difference between the market value of assets covering the hybrid debt in the statutory balance sheet and the marked-to-model value of the hybrid debt which is calculated as described in section 4.3. The decrease in net asset value is mainly a consequence of assessments alluded to before.

The increase in value of in-force business is driven by the reduced expense base, changes in the profit sharing approach, and updated demographic assumptions. In aggregate, these changes also lead to lower time value of options and guarantees and to lower sensitivities.

FRANCE – In local currency, the net asset value remained at previous year's level despite a considerable new business strain and regulatory changes, such as retirement age reform and specific taxation, that lead to a reduced free surplus.

The higher TVOG of Swiss Life France at 31.12.2010 compared to the one reported a year ago, is mainly a consequence of higher interest rate volatilities and a changed strategic asset allocation, which is partly offset by hedges.

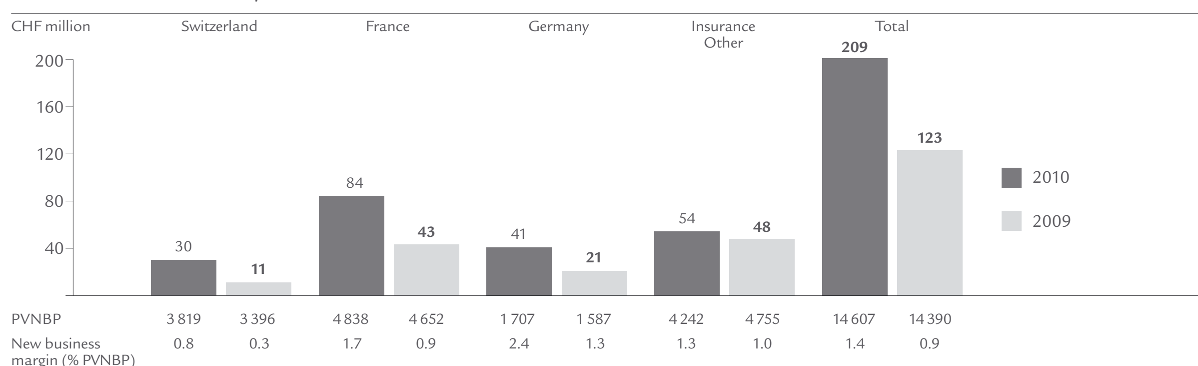
As the health business does not contain financial options and guarantees, it does not contribute to the time value of financial options and guarantees.

GERMANY – The negative free surplus stems from the assumed required coverage of 150% of statutory solvency. The free surplus would be positive at a 100% requirement of statutory solvency.

The value in-force increased considerably despite deteriorating capital market conditions, partly due to profitable new business, expense reductions and improved disability experience.

INSURANCE OTHER – The contributions of PPLI business to the total MCEV of Insurance Other accounts for about 80% of the value.

The negative net asset value is explained by not taking into account the goodwill for the acquired insurance company CapitalLeben as part of Liechtenstein. The business in force of PPLI contains only very small financial guarantees, so the TVOG is negligible.



VALUE OF NEW BUSINESS BY MARKET UNIT – PREMIUMS AND MARGINS FOR THE YEAR 2010

Amounts in CHF million

	Switzerland	France	Germany	Insurance Other	Total
VALUE OF NEW BUSINESS	**30**	**84**	**41**	**54**	**209**
New business strain [1]	***–41***	***–66***	***–9***	***–7***	***–124***
Value of new business before new business strain	***71***	***150***	***50***	***61***	***333***
Annual premiums	**189**	**382**	**129**	**6**	**706**
Single premiums	**1 164**	**2 099**	**333**	**4 202**	**7 798**
PRESENT VALUE OF NEW BUSINESS PREMIUMS (PVNBP)	**3 819**	**4 838**	**1 707**	**4 242**	**14 607**
Average annual premium multiplier	**14.0**	**7.2**	**10.7**	**6.7**	**9.6**
New business annual premium equivalent (APE)	**306**	**592**	**163**	**426**	**1 486**
NEW BUSINESS MARGIN (% PVNBP)	**0.8%**	**1.7%**	**2.4%**	**1.3%**	**1.4%**
New business margin (% APE)	**9.8%**	**14.2%**	**25.0%**	**12.7%**	**14.0%**

[1] New business strain represents the effect on the net asset value from writing new business.

VALUE OF NEW BUSINESS BY MARKET UNIT – PREMIUMS AND MARGINS FOR THE YEAR 2009

Amounts in CHF million

	Switzerland	France	Germany	Insurance Other	Total
VALUE OF NEW BUSINESS	11	43	21	48	123
New business strain [1]	*–55*	*–54*	*–9*	*–15*	*–133*
Value of new business before new business strain	*65*	*96*	*30*	*63*	*255*
Annual premiums	161	360	154	3	678
Single premiums	1 352	1 867	193	4 734	8 146
PRESENT VALUE OF NEW BUSINESS PREMIUMS (PVNBP)	3 396	4 652	1 587	4 755	14 390
Average annual premium multiplier	12.7	7.7	9.1	6.2	9.2
New business annual premium equivalent (APE)	296	547	173	477	1 493
NEW BUSINESS MARGIN (% PVNBP)	0.3%	0.9%	1.3%	1.0%	0.9%
New business margin (% APE)	3.6%	7.8%	12.2%	10.1%	8.2%

[1] New business strain represents the effect on the net asset value from writing new business.

SWITZERLAND — New business consists of new contracts and new coverages on existing contracts. Within group life business, replacements and newly insured persons entering existing contracts are not accounted for as new business.

Worsening economic conditions were successfully counteracted by margin management including pricing initiatives and lower guaranteed interest rates resulting in better new business margins. In addition, assumed external reinsurance contributed positively.

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 for the health business.

The value of new business for the health business remained stable compared to 2009, whereas the value of new business for the life operations increased considerably. Higher volumes of contracts sold and the related economies of scale on acquisition expenses, a higher share of unit-linked vs. traditional saving products as well as a reassessed profit sharing contributed positively to this increase.

GERMANY — The value of new business as well as the new business margin for the German operations have increased compared with the values reported for 2009. The higher volume of risk and supplementary disability insurance contracts written, the improved disability experience and the reduced expense base contributed substantially to this enhancement as well as a change in the profit sharing approach.

INSURANCE OTHER — The business of private placement life insurance (PPLI) generated almost the entire value of new business which improved by 12.5% despite the unfavourable EUR exchange rate. The new business margin increased considerably compared to the previous year. This is related to pricing initiatives, cost savings and higher average premium amounts. Because of the weight of PPLI within Insurance Other, by far the biggest share of new business premiums consists of single premiums. The premium volume is lower than in 2009 only because of the strong Swiss franc. Using last year's foreign exchange rates, the current premium of CHF 4.2 billion would amount to CHF 4.9 billion.

ANALYSIS OF EARNINGS BY MARKET UNIT FOR THE YEAR 2010

In CHF million

	Switzerland	France	Germany	Insurance Other	Total
OPENING MCEV	1 513	1 926	503	190	4 132
Opening adjustments	–96	–31	–12	–	–139
ADJUSTED OPENING MCEV	1 417	1 895	491	190	3 993
New business value	30	84	41	54	209
Expected existing business contribution (reference rate)	11	12	3	1	27
Expected existing business contribution (in excess of reference rate)	599	155	63	20	837
Experience variances	–232	–29	–6	–4	–271
Assumption changes	795	–19	300	1	1 077
Other operating variance	130	237	45	10	421
OPERATING MCEV EARNINGS	1 333	440	445	82	2 301
Economic variances	–633	–87	–237	–22	–979
Other non-operating variances	95	–20	–	–	75
TOTAL MCEV EARNINGS	795	333	209	59	1 397
Closing adjustments	–	–349	–93	12	–431
CLOSING MCEV	2 212	1 879	606	262	4 959

All market units contributed to the value creation with a positive value of new business and favourable impacts from margin management: The expected business contribution of CHF 864 million was increased to a total of CHF 2 301 million operating MCEV earnings. The deteriorating capital market environment reduced MCEV earnings by CHF 979 million.

SWITZERLAND — The experience variances stem mainly from strengthening of policyholder reserves and funds as well as persistency variances in group life business.

The assumption changes are dominated by a favourable experience driven update of demographic assumptions, the ongoing cost reduction programme, and a revised policyholder participation approach in the light of the low interest rate environment.

Other operating variances include forward looking decisions, scope enhancement with the assumed external reinsurance, modelling refinements, and other reassessments.

Other non-operating variances consist mainly of tax variances.

FRANCE — One driver of the operating MCEV earnings is the value of new business which has been described above.

The negative experience variance is explained by the current year effect of the transition to a new policyholder participation approach for the life business and by deviations between expectation and experience for demography and expenses in 2010 for the health operations.

In other operating variance, the long-term effects of the transition mentioned above, an increase in the scope of modelled business and modelling refinements as well as other reassessments are shown.

Closing adjustments reflect the decrease of the euro exchange rate in 2010.

GERMANY — The operating return is driven by lower expenses, an experience driven update of biometric assumptions and a change to the policyholder participation approach.

Furthermore, the low interest rates experienced triggered a reassessment of the anticipated policyholder surrender behaviour in such environments.

Closing adjustments reflect the decrease of the euro exchange rate in 2010.

INSURANCE OTHER — The value of new business represents, at CHF 54 million, the main driver for the considerable increase in embedded value of Insurance Other.

Much of PPLI's business is not written in Swiss francs but in other currencies, especially in EUR and USD. Compared to 2009, the particularly strong Swiss franc resulted in a lower value of assets under control. Since this is one of the main drivers for PPLI's value in force, a negative economic variance resulted.

Closing adjustments have a positive impact. A capital increase is partly offset by the currency exchange rate effect from Corporate Solutions (Luxembourg).

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 included in the net asset value. Intangible assets are not accounted for 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, except for assumed external reinsurance where an economic approach is used instead.

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 unallocated bonus reserves).

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.

Under the chosen definition of required capital, the free surplus, unlike the required capital, is supposed to be immediately releasable and hence does not affect the frictional costs of required 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 and regulatory obligations
- company practice due to commercial and competitive constraints
- 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. The certainty equivalent value includes that part of the value of financial options and guarantees which materialises in the underlying scenario.

The rules for anticipated management and policyholders' actions applied in the certainty equivalent scenario are the same as those 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 one implied by the 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 regulatory constraints, e.g. "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 remarks 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 share of any residual assets. The same applies to the certainty equivalent value.

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 one year, due to the migration and default risk. The underlying credit risk calculations are performed using an internal model based on the CreditMetrics[2] methodology.

The economic capital for cost of credit risk has been projected based on mathematical reserves. The same charge for annual cost of capital has been applied to the resulting projected capital at risk.

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.

The initial capital for the CNHR has been calculated using the standard approach within the Swiss Solvency Test applied to Swiss Life's MCEV framework. Therefore the corresponding economic capital is calculated by aggregating the stand-alone economic capital that corresponds to non-hedgeable risk factors, notably the following:

- mortality
- longevity
- disability/morbidity
- recovery rates
- capital options
- lapses
- expenses

The drivers for projecting the economic capital for CNHR are based on the statutory solvency 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 has been taken into account. Furthermore no diversification effects between market units have been accounted for.

FRICTIONAL COSTS OF REQUIRED CAPITAL (FC) — The frictional costs of required capital for the covered business are 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

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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 of required capital.

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. 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 as at end of 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: CEV, TVOG, CNHR and FC. 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 generally calculated with economic scenarios and assumptions as at end of period.

4.3 ASSET AND LIABILITY DATA

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

ASSETS — 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

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 for the corresponding geographical regions (Switzerland, Europe and USA) and currencies.

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 amortisation of bonds or lower of cost or market principle) are incorporated in the model.

When a substantial part of the assets is held in foreign currencies, these foreign assets are modelled explicitly (including the foreign currency exchange risk).

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

HYBRID DEBT — The going-concern assumption stipulates that for MCEV the hybrid debt allocated to the covered business is valued assuming that the coupons and nominal are paid with certainty. The hybrid debt is valued in a market consistent way by discounting the corresponding liability cash flows using the reference rates without any credit spreads. This leads to a difference to the fair value reported in the Notes to the Consolidated Financial Statements.

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
- interest rate and equity-type volatilities
- correlations between the economic risk factors
- inflation rates

The stochastic economic scenarios are generated by the economic scenario generator developed and provided by Barrie & Hibbert, a UK based financial consulting company. For variable annuity products another economic scenario generator is used.

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 and dividend yields 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 at valuation date, 1000–2000 economic scenarios (also referred to as simulations) are used, ensuring a satisfactory convergence of the results 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

Anticipated dynamic management actions and policyholder behaviour mainly concern the following areas: profit sharing for participating life businesses, asset allocation and realisation 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) and other legal requirements 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. For traditional business, lapse rates depend on the difference between the credited rate to the policyholders and the anticipated policyholders' expectations. Lapse parameters depend on the country and product line considered.

4.6 LOOK-THROUGH PRINCIPLE

MCEV guidance requires that profits or losses incurred in service companies from managing covered business are measured on a "look-through" basis. This principle ensures that all profits and losses incurred with regard to the covered business are passed to the corresponding entity, and consequently passed to the present value of future profits.

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 of Swiss Life's major life, health and pension business as well as assumed external reinsurance. In the case of France, the remaining operations are sub-consolidated with their IFRS net asset value and also included in the French covered business.

Covered business relates to the operations in:

– Switzerland
– Germany
– France: sub-consolidated
– Luxembourg
– Liechtenstein
– Singapore

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 the Swiss Life Group that are valued at 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 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. In Switzerland there is a semi-autonomous pension fund with biometric risks covered by an insurance contract. In other units the major part is covered by insurance contracts. The remaining part is modelled as commensurate expenses in the projections.

The costs of share-based payment programmes for employees are not included in the MCEV, 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 market consistent calibration of the economic scenarios is based on traded market instruments at the valuation date wherever possible. 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 notably includes correlations, exchange rate volatilities and real estate volatility.

5.1.1 REFERENCE RATES — The reference rates used for the calculation of the MCEV 2010 are based on the swap rates as at 31 December 2010.

The MCEV principles permit the use of liquidity premiums. Given the continued development of a suitable methodology to quantify liquidity premiums, Swiss Life decided to set liquidity premiums at zero for the calculation of the MCEV 2010 and 2009.

5.1.1.1 SWAP RATES AS AT 31 DECEMBER 2010

Economy	1 year	2 year	5 year	10 year	15 year	30 year
Switzerland	**0.18%**	**0.52%**	**1.40%**	**2.16%**	**2.41%**	**2.19%**
Euro Zone	**1.33%**	**1.56%**	**2.48%**	**3.31%**	**3.64%**	**3.50%**
United States	**0.44%**	**0.80%**	**2.15%**	**3.36%**	**3.83%**	**4.10%**

5.1.1.2 SWAP RATES AS AT 31 DECEMBER 2009

Economy	1 year	2 year	5 year	10 year	15 year	30 year
Switzerland	0.49%	0.87%	1.71%	2.50%	2.85%	2.83%
Euro Zone	1.31%	1.88%	2.81%	3.59%	3.96%	3.94%
United States	0.66%	1.43%	2.98%	3.97%	4.36%	4.53%

5.1.2 VOLATILITY ASSUMPTIONS — Volatility assumptions for the year-end 2010 and 2009 calculations are derived from market data as at 31 December 2010 and 2009.

The interest rate volatilities are based on implied volatilities of at-the-money receiver swaptions. The tenors are 20 years for the euro and the US dollar and 10 years for the Swiss franc.

5.1.2.1 SWAPTION IMPLIED VOLATILITIES AS AT 31 DECEMBER 2010

Economy	1 year option	2 year option	5 year option	10 year option	15 year option	30 year option
Switzerland	**30.0%**	**27.8%**	**26.2%**	**31.0%**	**n/a**[1]	**n/a**[1]
Euro Zone	**24.1%**	**22.0%**	**18.7%**	**18.2%**	**20.5%**	**20.5%**
United States	**25.1%**	**23.4%**	**20.2%**	**16.3%**	**15.2%**	**14.4%**

[1] n/a: not available

5.1.2.2 SWAPTION IMPLIED VOLATILITIES AS AT 31 DECEMBER 2009

Economy	1 year option	2 year option	5 year option	10 year option	15 year option	30 year option
Switzerland	27.4%	25.1%	21.7%	19.9%	n/a[1]	n/a[1]
Euro Zone	21.0%	20.5%	17.4%	15.6%	16.2%	16.5%
United States	25.9%	24.7%	20.6%	16.3%	14.3%	12.5%

[1] n/a: not available

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

5.1.2.3 EQUITY OPTION IMPLIED VOLATILITIES AS AT 31 DECEMBER 2010 AND 31 DECEMBER 2009

Economy	Index	Volatility 2010	Volatility 2009
Switzerland	SMI	**21.0%**	23.7%
Euro Zone	EuroStoxx 50	**27.3%**	28.6%
United States	S&P 500	**27.4%**	29.0%

For 31 December 2010 Swiss Life reassessed the property volatilities considering historical data.

5.1.2.4 PROPERTY VOLATILITIES USED FOR THE CALCULATION AS AT 31 DECEMBER 2010 AND 31 DECEMBER 2009

Economy	Volatility 2010	Volatility 2009
Switzerland	**8.0%**	10.0%
Euro Zone	**13.0%**	15.0%

5.1.3 CORRELATION ASSUMPTIONS – The correlation assumptions between different asset classes are based on historical market data. The correlations between returns on equities and on 10-year zero coupon bonds are assumed to be 16% for 2010 and 2009.

5.1.4 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.

5.1.4.1 FORWARD INFLATION RATES USED FOR THE CALCULATION AS AT 31 DECEMBER 2010

Economy	1 year	2 year	5 year	10 year	15 year	30 year
Switzerland	**0.6%**	**0.6%**	**1.2%**	**1.8%**	**1.4%**	**1.2%**
Euro Zone	**2.1%**	**1.5%**	**1.7%**	**2.4%**	**2.6%**	**1.9%**

5.1.4.2 FORWARD INFLATION RATES USED FOR THE CALCULATION AS AT 31 DECEMBER 2009

Economy	1 year	2 year	5 year	10 year	15 year	30 year
Switzerland	0.6%	0.6%	1.0%	1.9%	2.2%	1.6%
Euro Zone	1.7%	2.0%	2.1%	2.8%	3.2%	2.5%

5.1.5 REAL WORLD ASSUMPTIONS – These assumptions are used for the step "expected business contribution in excess of reference rates" introduced in 2010.

For fixed interest assets, the "real world" investment return assumptions are based on the gross redemption yield on the assets less a rating-dependent allowance for expected defaults derived from historic data.

Fixed risk premiums are used for other risky assets. Return assumptions for equity and property are derived from the 10-year reference rates, plus a risk premium; see table 5.1.5.1 below.

5.1.5.1 EQUITY AND PROPERTY ASSUMPTIONS FOR REAL WORLD PROJECTION

Risk premiums by asset class	2010	2009
Equity	**400 bp**	n/a[1]
Property (Switzerland and Europe)	**200 bp**	n/a[1]

[1] n/a: not applicable

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

	2010	2009
Switzerland	**22.3%**	22.3%
France	**34.4%**	34.4%
Germany	**32.6%**	32.6%
Luxembourg	**22.0%**	22.0%
Liechtenstein	**13.0%**	13.0%
Singapore	**18.0%**	n/a[1]

[1] n/a: not applicable

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. Projected expenses are subject to inflation. 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 2010

As requested, we have audited the accompanying Embedded Value Report 2010 of Swiss Life Group for the period ended 31 December 2010. The Embedded Value Report has been prepared in accordance with the Market Consistent Embedded Value ("MCEV") Principles issued in June 2008 and amended in October 2009 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 2010 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　　Michael Köhler
Audit expert

Zurich, 28 February 2011

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.

AVERAGE ANNUAL PREMIUM MULTIPLIER — The average annual premium multiplier is determined as the difference between PVNBP and the new business single premiums, divided by new business annual premiums.

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 and an amendment in October 2009.

COST OF CREDIT RISK — The cost of credit risk accounts for the credit risk of investments in bonds that would otherwise have been 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 — Covered business includes all of Swiss Life's major life, health and pension business as well as assumed external reinsurance. In the case of France, all business operations are included in the covered 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 COSTS OF REQUIRED CAPITAL (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 participation ratio

LOOK-THROUGH PRINCIPLE — Method by which profits or losses from service companies within the 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 the Swiss Life Group.

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 businesses of the Swiss Life Group which are not accounted for under covered business, such as investment management and AWD, are 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.

OPERATING MCEV EARNINGS — Change in MCEV and in Group MCEV in the reporting period after initial and closing adjustments, economic variances and other non-operating variances, as well as other movements in IFRS net equity.

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 of the MCEV are based on the swap rates at the valuation date.

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 based on statutory solvency.

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.

TOTAL 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.

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 FC.

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.