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 businesses valued by its IFRS net asset value.

Contents

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 2015; 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 and assumptions are given in sections 4 and 5.

PricewaterhouseCoopers have audited this market consistent embedded value report. Their opinion is part of this report (section 6).

1.2 Covered business and non-covered business

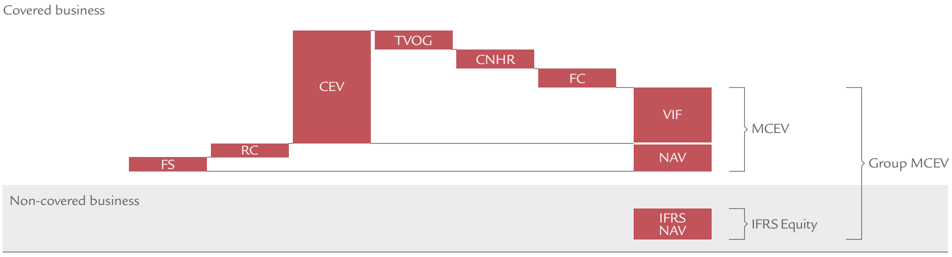
Covered business includes all of Swiss Life's life, health and pension business as well as assumed external reinsurance, with the exception of Swiss Life Insurance Solutions S.A., which is not material for MCEV purposes. MCEV (and Group MCEV) are net of ceded external reinsurance. Included are namely insurance operations in Switzerland, France, Germany, Luxembourg, Liechtenstein and Singapore. All other businesses such as investment management and Swiss Life Select 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 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



The MCEV for covered business consists of 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 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

2.1 Key results

Benefiting from strong operating earnings, Swiss Life contained the adverse effects from the challenging capital market environment and negative currency translation effects. The MCEV in 2015 amounted to CHF 12 509 million, compared to CHF 12 901 million in the prior year. In an environment of very low interest rates, Swiss Life generated a value of new business of CHF 268 million (CHF 255 million in 2014).

Results are shown in CHF million. Rounding differences may occur.

The following tables show key results as at 31 December 2015 compared to the results as at 31 December 2014.

In CHF million	2015	2014
Value of new business	**268**	255
Present value of new business premium (PVNBP)	**15 643**	14 414
New business margin (%PVNBP)	**1.7%**	1.8%

The value of new business profited from considerably increased volumes while the interest rate development had a substantial negative impact. The resulting pressure on new business profitability was mitigated by active new business steering across the Group. In local currency the value of new business increased by 10%.

In CHF million	Net asset value	Value of in-force business	Total 2015	Total 2014
Covered business	***3 514***	***7 050***	***10 564***	*11 071*
Non-covered business	***1 945***	***n/a[1]***	***1 945***	*1 831*
GROUP MCEV	**5 458**	**7 050**	**12 509**	12 901
Total MCEV earnings			**329**	1 737
Operating MCEV earnings			**1 211**	1 322

[1] n/a: not applicable

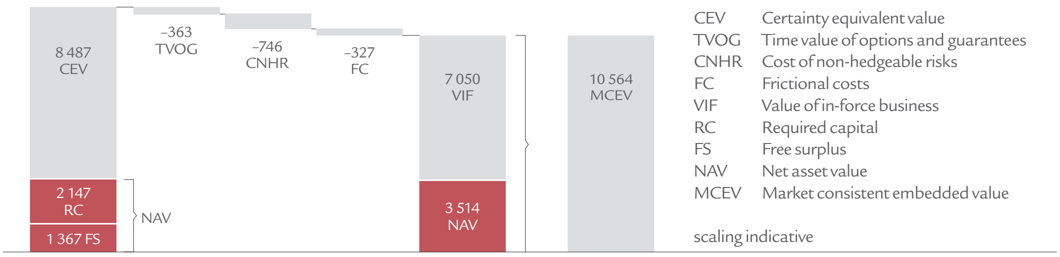
Due to the capital market and currency developments mentioned, the value of covered business decreased by 5% despite substantial operating MCEV earnings resulting from profitable new business and operating returns on the in-force business supported by margin management and favourable demographic experience. The Group MCEV decreased by 3% in total.

2.2 MCEV of covered business

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

MCEV of covered business 2015

CHF million



In CHF million

	2015	2014
NET ASSET VALUE	**3 514**	3 755
Free surplus	**1 367**	1 622
Required capital	**2 147**	2 133
VALUE OF IN-FORCE BUSINESS	**7 050**	7 315
Certainty equivalent value	**8 487**	8 735
Time value of financial options and guarantees	**–363**	–373
Cost of residual non-hedgeable risks	**–746**	–748
Frictional costs of required capital	**–327**	–298
MCEV	**10 564**	11 071

Excluding currency translation effects of CHF –405 million, the MCEV of the covered business would have remained at a comparable level.

The net asset value and similarly the free surplus decreased because of negative currency translation effects and reserve strengthenings, while the dividends and new business were financed from operating earnings. Goodwill and other intangibles are not included in the net asset value, with the exception of France (see section 4.7).

The value of in-force business decreased by 4% driven by the adverse capital markets and, for the non-CHF denominated units, currency developments. Frictional costs increased, among others, due to new business written.

The cost of credit risk amounts to CHF –693 million for 2015 compared to CHF –665 million for the previous year.

2.3 Value of new business

2.3.1 Value of new business, premiums and margins

Amounts in CHF million

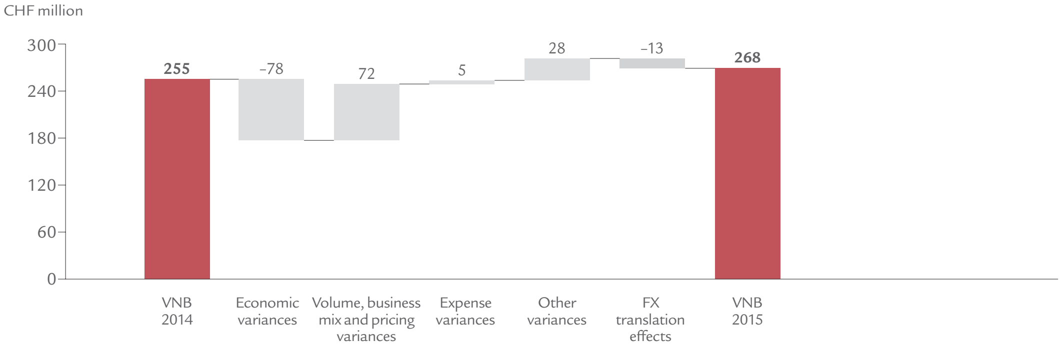
	2015	2014
VALUE OF NEW BUSINESS	**268**	255
New business strain [1]	***–165***	*–133*
Value of new business before new business strain	***433***	*388*
Annual premiums	**706**	612
Single premiums	**7 026**	6 919
PRESENT VALUE OF NEW BUSINESS PREMIUMS (PVNBP)	**15 643**	14 414
Average annual premium multiplier	**12.2**	12.3
New business annual premium equivalent (APE)	**1 408**	1 304
NEW BUSINESS MARGIN (% PVNBP)	**1.7%**	1.8%
New business margin (% APE)	**19.0%**	19.5%

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

2.3.2 Value of new business — analysis of change

The following graph and table detail the drivers for the change in new business value and margin of the business sold in 2015 compared to the business sold in 2014.

Value of new business – analysis of change



Amounts in CHF million

	PVNBP	VNB	NBM (% PVNBP)	Change in NBM (% PVNBP)
VALUE OF NEW BUSINESS 2014	14 414	**255**	**1.8%**	
Economic variances	132	**–78**		**–0.6%**
Volume, business mix and pricing variances	1 774	**72**		**0.3%**
Expense variances	–1	**5**		**0.0%**
Other variances	99	**28**		**0.2%**
FX translation effects	–775	**–13**		**0.0%**
VALUE OF NEW BUSINESS 2015	15 643	**268**	**1.7%**	

In local currency all market units contributed to the new business growth of 14% measured in PVNBP. Including the adverse currency development the volumes increased by 9%. This, in combination with active new business steering, pricing discipline and cost efficiency gains, mitigated the adverse impacts of the challenging capital market environment on both the new business value and margin.

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

2.4 Group MCEV — analysis of earnings

The table below shows the development of Group MCEV split by components from 31 December 2014 to 31 December 2015.

In CHF million	Covered business MCEV	Non-covered business IFRS	Total Group MCEV 2015	Total Group MCEV 2014
OPENING GROUP MCEV	*11 071*	*1 831*	**12 901**	11 378
Opening adjustments	*–227*	*16*	**–211**	–175
ADJUSTED OPENING GROUP MCEV	*10 844*	*1 846*	**12 690**	11 203
Operating MCEV earnings	*960*	*251*	**1 211**	1 322
Non-operating MCEV earnings	*–870*	*–11*	**–881**	415
TOTAL MCEV EARNINGS	*90*	*240*	**329**	1 737
Other movements in IFRS net equity	*n/a*[1]	*–40*	**–40**	17
Closing adjustments	*–370*	*–101*	**–471**	–55
CLOSING GROUP MCEV	*10 564*	*1 945*	**12 509**	12 901

[1] n/a: not applicable

The opening adjustment of the Group MCEV represents the distribution in 2015 to shareholders out of the capital contribution reserve of CHF 6.50 per share, corresponding to a total of CHF 207 million as described in the Consolidated Financial Statements (note 26), and foreign currency translation effects of CHF –4 million.

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

The operating MCEV earnings for non-covered business correspond mainly to the results from Swiss Life Asset Managers, Swiss Life Holding and distribution and insurance units outside the scope of covered business.

The non-operating MCEV earnings relate to borrowing costs and tax effects of the non-covered business. For Group MCEV, the change in non-operating MCEV earnings compared to 2014 arises almost entirely from the covered business.

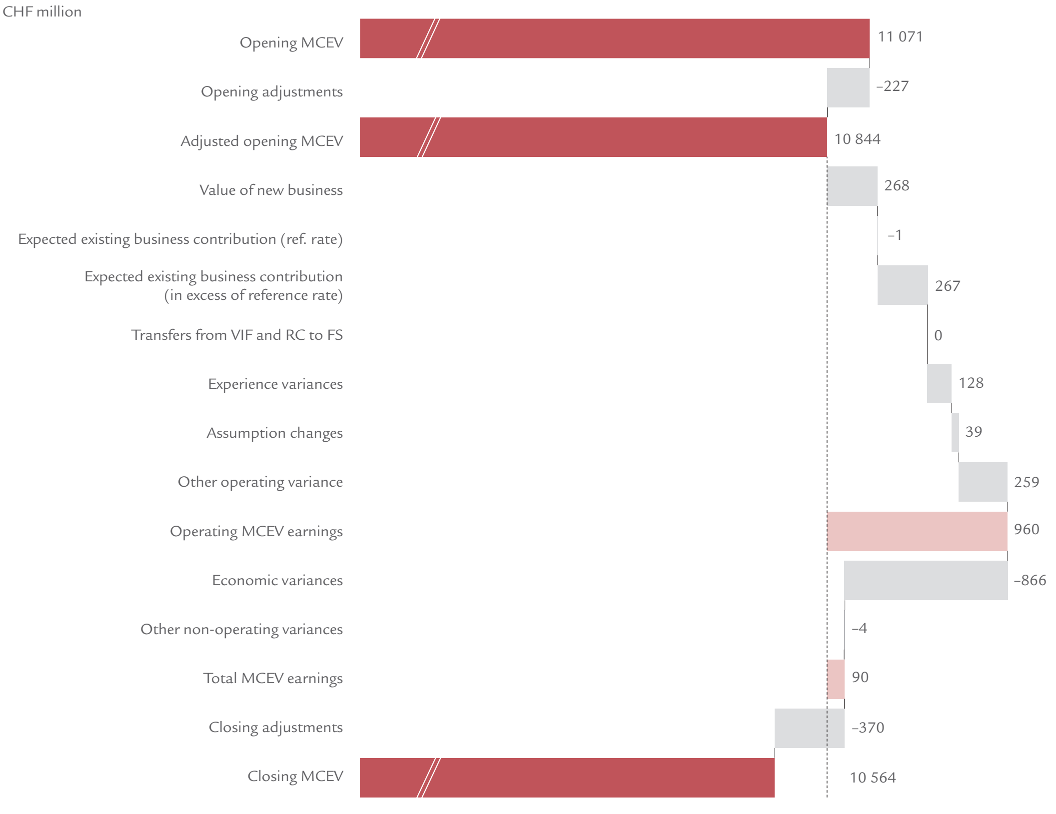
The other movements in IFRS net equity (non-covered business only) include effects from the sale and purchase of treasury shares, changes in unrealised gains and losses and effects from equity-settled share-based payments.

The closing adjustments result mainly from foreign currency translation effects and the transfer of funds between covered and non-covered business.

2.5 Covered business — analysis of earnings

The graph and table below show the analysis of earnings for the covered business in 2015.

Covered business – analysis of earnings for 2015



In CHF million	Free surplus	Required capital	VIF	MCEV 2015	MCEV 2014
OPENING MCEV	1 622	2 133	7 315	11 071	9 669
Opening adjustments	–227	–	–	–227	–121
ADJUSTED OPENING MCEV	1 395	2 133	7 315	10 844	9 548
Value of new business	–350	185	433	268	255
Expected existing business contribution (reference rate)	1	–5	3	–1	21
Expected existing business contribution (in excess of reference rate)	14	0	253	267	306
Transfers from VIF and required capital to free surplus	661	–182	–479	–	–
Experience variances	–243	109	262	128	111
Assumption changes	–13	1	51	39	71
Other operating variance	–40	23	276	259	351
OPERATING MCEV EARNINGS	30	130	799	960	1 116
Economic variances	–18	4	–852	–866	485
Other non-operating variances	14	–	–18	–4	–52
TOTAL MCEV EARNINGS	26	134	–70	90	1 549
Closing adjustments	–55	–121	–195	–370	–26
CLOSING MCEV	1 367	2 147	7 050	10 564	11 071

Opening adjustments

Opening adjustments represent the increased dividend payments from covered to non-covered business.

Value of new business

Value of new business contributions from free surplus and required capital sum up to the new business strain of CHF –165 million (2014: CHF –133 million). This represents the shareholders' share in acquisition expenses for new business. The VIF-component of CHF 433 million (2014: CHF 388 million) is the value of future profits from new business.

Expected existing business contribution (reference rate)

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 net asset value is included.

Expected existing business contribution (in excess of reference rate)

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. The expected existing business contribution is explained to a large extent by spreads expected to be earned on the corporate bond and real estate portfolio.

Transfers from value in force and required capital to free surplus

Transfers from value in force and required capital to free surplus include the transfer of the results of the preceding step from value in force to free surplus. Also, the required capital is normally reduced after this step, resulting in an equal increase of free surplus. The total effect in this line is zero. In the context of a life insurer's business model, this should be seen in combination with effects from new business which partly reverses this effect by an increase of required capital and a reduction of net asset value.

Experience variances

Experience variances aggregate the impact of actual development versus expectations regarding non-economic assumptions such as mortality, expenses, lapses and deviations in handling of additional reserves. A variety of effects relating to persistency and other demographic experience as well as reserve strengthening resulted in a MCEV increase. The last had a negative impact on free surplus and a positive effect on value of in-force business; the largest contribution stems from the Swiss business.

Assumption changes

Assumption changes refer to the impact of the change on assumptions such as future expense, surrender, mortality, morbidity and longevity rates. The impacts of positive longevity experience and efficiency gains in France were reduced by effects from updated policyholder behaviour parameters in Germany.

Other operating variance

Other operating variance includes effects from the revised profit-sharing in view of the low interest rate environment.

Economic variances

Economic variances represent the change in embedded value by replacing the starting economic scenarios by the closing ones. Effects from deviations between actual and expected investment returns are included here. Overall, the economic variances had a negative impact on MCEV, driven by lower interest rates in Switzerland and widened credit spreads, mitigated by a strong real estate performance.

Other non-operating variances

Other non-operating variances encompass effects relating to government-set parameters, tax impacts and changes in the regulatory environment.

Closing adjustments

Closing adjustments represent foreign currency translation effects resulting from the consolidation in Swiss francs and the transfer of funds into the covered business.

2.6 Sensitivities

Operational and demographic sensitivities for MCEV remained stable overall, while the sensitivities with regard to reference rates increased. Sensitivities relating to swaption implied volatilities are influenced by the Swiss group life business, where continued operating improvements have contained the cost of policyholder options and guarantees, such that business-inherent shareholder options drive the time value of options and guarantees. As in the previous year, we disclose corresponding sensitivities of ±10%. The relative sensitivities with regard to equity/property market values and their volatilities slightly increased compared to 2014.

The economic sensitivities are assumed to occur after the new business contracts have been sold, indicating how the value of in-force business and the value of new business written would be affected by sudden economic shocks.

The table below shows sensitivities of the MCEV and the value of new business to important financial market parameters as well as to operational and demographic assumptions.

Sensitivities as at 31 December 2015

Amounts in CHF million

	Change in MCEV	+/–	Change in value of new business	+/–
BASE VALUE	10 564		268	
Economic				
100 bp increase of interest rates (reference rates)	987	9%	88	33%
100 bp decrease of interest rates (reference rates)	–1 428	–14%	–154	–57%
10% increase in equity / property market values	811	8%	[1]	[1]
10% decrease in equity / property market values	–958	–9%	[1]	[1]
25% increase in equity / property implied volatilities	–338	–3%	–17	–6%
25% decrease in equity / property implied volatilities	273	3%	14	5%
10% increase in swaption implied volatilities	37	0%	–0	–0%
10% decrease in swaption implied volatilities	–121	–1%	–4	–1%
Operational				
10% increase in maintenance expenses	–202	–2%	–18	–7%
10% decrease in maintenance expenses	197	2%	16	6%
10% proportionate increase in lapse rates	–168	–2%	–20	–7%
10% proportionate decrease in lapse rates	188	2%	21	8%
Demographic				
5% proportionate increase in mortality rates (death cover)	–27	–0%	–6	–2%
5% proportionate decrease in mortality rates (annuities)	–163	–2%	–19	–7%
5% increase of longevity driver (annuities)	–31	–0%	–5	–2%
5% proportionate increase in morbidity rates	–41	–0%	–4	–2%
5% proportionate decrease in morbidity rates	40	0%	4	2%
Other				
Required capital 100% statutory solvency capital	147	1%	10	4%

[1] not available

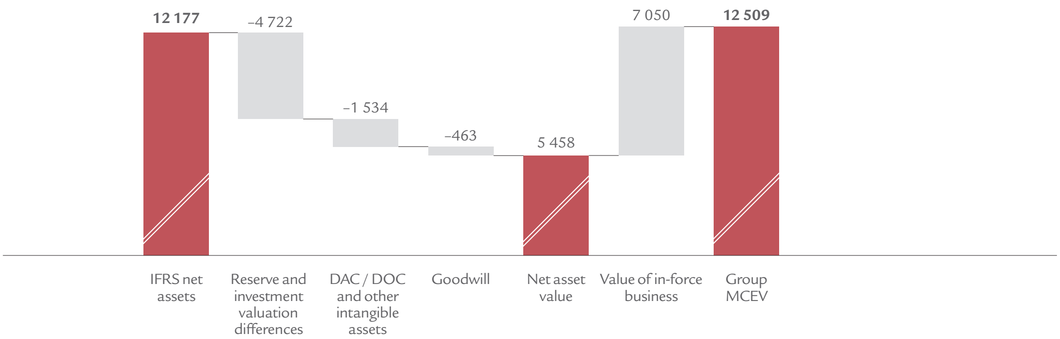
2.7 Reconciliation of IFRS net asset value to Group MCEV

Swiss Life's MCEV for covered business reflects the value of the shareholders' interest in the life, health and pension business of the Swiss Life Group. This value includes the determination of best estimate liabilities for policyholder bonuses and tax payments, 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, and adjusted to market value.

For the other parts of the Swiss Life Group, i.e. the non-covered business, the shareholder value is derived from their 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 2015

In CHF million

	2015
IFRS NET ASSETS	**12 177**
Adjustments	**–6 718**
Reserve and investment valuation differences	***–4 722***
DAC / DOC and other intangible assets	***–1 534***
Goodwill [1]	***–463***
Net asset value	**5 458**
Value of in-force business	**7 050**
GROUP MCEV [2]	**12 509**

[1] Goodwill adjustments correspond to goodwill of covered business with the exception of CHF 78 million from French operations (see section 3.2).

[2] Group MCEV includes CHF 844 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 International)

This breakdown by market unit essentially coincides with the IFRS insurance segments in the annual report. There are some differences since the MCEV classification generally follows the legal structure. A divergence from the IFRS insurance segment reporting is the treatment of distribution units such as Swiss Life Select, which are reported for MCEV purposes under non-covered business, and 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 with a full range of offerings. The individual business includes modern savings and retirement products with flexible and lower guarantees, risk and annuity products, as well as traditional savings products. Swiss Life's own sales force plays the major role in distribution, followed by brokers and Swiss Life Select. The business for assumed external reinsurance is included here.

France
Swiss Life offers savings, annuity and risk products, as well as health insurance. New business for life insurance focuses on multi-support products, combining unit-linked and traditional savings components. The main distribution channels are brokers, tied agents and own sales force. Additionally, Swiss Life in France has developed strong relations with independent financial advisors and private banks.

Germany
Swiss Life focuses its offering on comprehensive disability insurance and modern products with flexible and lower guarantees in individual and group life business. The main distribution channels are independent brokers, followed by financial advisors such as Swiss Life Select.

International
Swiss Life International provides life and pension solutions for High Net Worth Individuals (HNWI) in Europe and Asia through its Private Clients business with insurance carriers in Luxembourg, Liechtenstein and Singapore. For multinational corporations, Corporate Clients business, together with its network, offers local employee benefit and expatriates solutions out of Luxembourg.

3.2 Results by market unit

MCEV by market unit for the year 2015

In CHF million

	Switzerland	France[1]	Germany	International	Total
NET ASSET VALUE	**1 640**	**1 379**	**353**	**143**	**3 514**
Free surplus	**1 158**	**223**	**–45**	**31**	**1 367**
Required capital	**482**	**1 155**	**397**	**112**	**2 147**
VALUE OF IN-FORCE BUSINESS	**5 059**	**1 415**	**299**	**278**	**7 050**
Certainty equivalent value	**5 401**	**2 178**	**535**	**372**	**8 487**
Time value of financial options and guarantees	**251**	**–441**	**–154**	**–18**	**–363**
Cost of residual non-hedgeable risks	**–373**	**–247**	**–70**	**–57**	**–746**
Frictional costs of required capital	**–221**	**–75**	**–11**	**–20**	**–327**
MCEV	**6 698**	**2 793**	**652**	**420**	**10 564**

[1] The value for France includes CHF 78 million in goodwill and intangible assets originating from the non-life and non-health insurance operations.

MCEV by market unit for the year 2014

In CHF million

	Switzerland	France[1]	Germany	International	Total
NET ASSET VALUE	1 776	1 469	401	110	3 755
Free surplus	1 313	237	34	39	1 622
Required capital	463	1 232	367	72	2 133
VALUE OF IN-FORCE BUSINESS	5 240	1 405	380	290	7 315
Certainty equivalent value	5 557	2 211	582	384	8 735
Time value of financial options and guarantees	261	–470	–143	–21	–373
Cost of residual non-hedgeable risks	–363	–274	–55	–55	–748
Frictional costs of required capital	–214	–61	–4	–19	–298
MCEV	7 016	2 874	781	400	11 071

[1] The value for France includes CHF 90 million in goodwill and intangible assets originating from the non-life and non-health insurance operations.

The MCEV of Swiss Life in France, Germany and International was negatively affected by the impacts of foreign currency translation into group presentation currency CHF.

Switzerland

The positive operating earnings including the value of new business, were offset by the negative capital market development, which led to a decrease of the MCEV by CHF 318 million.

The reduction of the free surplus is driven by further balance sheet strengthening. The value of the in-force business decreased following the adverse capital market development. This was partly offset by sustained business growth and in-force management. In group life, characterised by variable guarantees, the business-inherent shareholder options drive the time value of options and guarantees.

France

The MCEV increased by CHF 204 million excluding the currency translation effect, notably due to an enhanced financial margin and the correspondingly revised profit-sharing for life business, as well as the increased new business value.

Swiss Life in France is subject to a tax of 3% applied to dividends paid to Switzerland, which is considered for the actual payment.

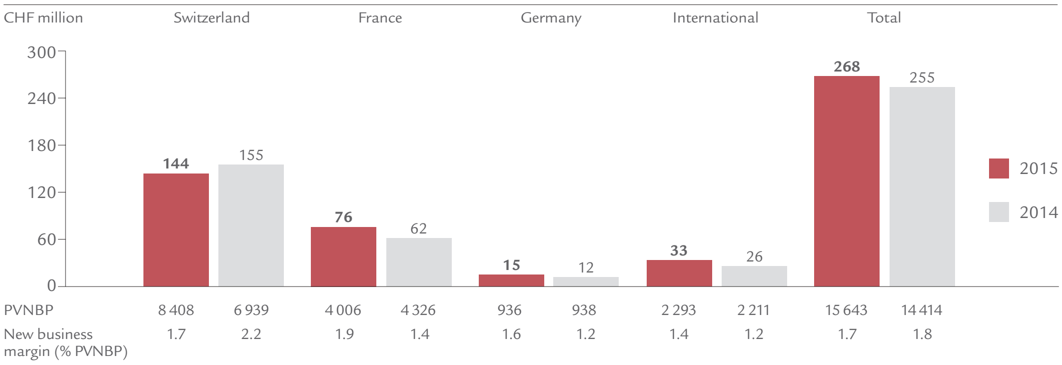
Germany

Mainly due to the unfavourable capital market development, the MCEV decreased by CHF 49 million excluding the currency translation effect. This was counteracted by revised surplus sharing.

International

The MCEV increased by CHF 20 million despite adverse foreign currency translation effects, driven by a strong value of new business. In addition to the good annual profit, a capital transfer contributed to the increase of the net asset value.

Value of new business by market unit



Value of new business by market unit – premiums and margins for the year 2015

Amounts in CHF million

	Switzerland	France	Germany	International	Total
VALUE OF NEW BUSINESS	**144**	**76**	**15**	**33**	**268**
New business strain [1]	***–100***	***–51***	***–6***	***–8***	***–165***
Value of new business before new business strain	***244***	***127***	***21***	***41***	***433***
Annual premiums	**360**	**285**	**54**	**7**	**706**
Single premiums	**2 622**	**2 056**	**121**	**2 228**	**7 026**
PRESENT VALUE OF NEW BUSINESS PREMIUMS (PVNBP)	**8 408**	**4 006**	**936**	**2 293**	**15 643**
Average annual premium multiplier	**16.1**	**6.8**	**15.2**	**9.2**	**12.2**
New business annual premium equivalent (APE)	**622**	**491**	**66**	**230**	**1 408**
NEW BUSINESS MARGIN (% PVNBP)	**1.7%**	**1.9%**	**1.6%**	**1.4%**	**1.7%**
New business margin (% APE)	**23.2%**	**15.4%**	**23.2%**	**14.3%**	**19.0%**

[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 2014

Amounts in CHF million

	Switzerland	France	Germany	International	Total
VALUE OF NEW BUSINESS	155	62	12	26	255
New business strain [1]	*–71*	*–50*	*–3*	*–10*	*–133*
Value of new business before new business strain	*225*	*113*	*14*	*36*	*388*
Annual premiums	237	315	52	8	612
Single premiums	2 499	2 079	199	2 142	6 919
PRESENT VALUE OF NEW BUSINESS PREMIUMS (PVNBP)	6 939	4 326	938	2 211	14 414
Average annual premium multiplier	18.7	7.1	14.2	8.1	12.3
New business annual premium equivalent (APE)	487	522	72	223	1 304
NEW BUSINESS MARGIN (% PVNBP)	2.2%	1.4%	1.2%	1.2%	1.8%
New business margin (% APE)	31.8%	11.9%	16.3%	11.6%	19.5%

[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 group life contracts are not accounted for as new business.

The pressure on margins due to the challenging interest rate environment following the decisions of the Swiss National Bank from January 2015 was counteracted by comprehensive repricing measures in individual life and mitigated by further reduced guarantees in group life. Combined with increased volumes in both group and individual life and a strong contribution from assumed reinsurance business, the value of new business remained at a high level.

France

Ongoing margin management led to an increased value of new business and at the same time the volume increased on a local currency basis by 3%.

The new business margin in life improved substantially thanks to the enhanced financial margin and the revised profit-sharing, a further increased share of unit-linked business and cost efficiency gains. Along with the higher new business volumes this led to a significant increase in new business value.

In health, the general shift of the offering to group business and some niches in individual business led to stable margins, although volumes decreased.

Germany

New business margin and value increased as a result of continued pricing discipline, revised surplus sharing and the shift towards modern-traditional products with flexible and lower guarantees. On a local currency basis, volumes increased by 10% with a maintained high share of risk business.

International

Both new business value and margin could be expanded in International. This is due to increased volumes in Private Clients business and a higher share of risk business in Corporate Clients business.

Because of the weight of Private Clients business within International, by far the biggest share of new business premiums consists of single premiums.

Analysis of earnings by market unit for the year 2015

In CHF million

	Switzerland	France	Germany	International	Total
OPENING MCEV	7 016	2 874	781	400	11 071
Opening adjustments	–134	–76	–16	–1	–227
ADJUSTED OPENING MCEV	6 882	2 798	764	399	10 844
New business value	144	76	15	33	268
Expected existing business contribution (reference rate)	–2	1	1	–0	–1
Expected existing business contribution (in excess of reference rate)	144	107	3	14	267
Experience variances	125	1	9	–7	128
Assumption changes	–9	83	–37	2	39
Other operating variance	39	135	76	9	259
OPERATING MCEV EARNINGS	441	402	67	50	960
Economic variances	–613	–135	–100	–19	–866
Other non-operating variances	–25	13	–0	8	–4
TOTAL MCEV EARNINGS	–196	280	–33	39	90
Closing adjustments	12	–285	–79	–18	–370
CLOSING MCEV	6 698	2 793	652	420	10 564

All market units contributed positively to the value creation with their operating earnings.

Switzerland

Opening adjustments reflect the dividend payment to the Swiss Life Holding net of dividends received.

Operating earnings of CHF 441 million correspond to a return of 6% on MCEV.

The positive experience variances relate to portfolio true-ups including improved persistency. Also balance-sheet strengthening, such as a reduction of technical interest rates, had a positive impact.

Assumption changes mainly relate to group life and are influenced by the regular inclusion of the demographic and persistency experience, which had minor opposite effects.

The positive other operating variances stem mostly from changes in the asset allocation and the reduction of the minimum interest rate for non-mandatory group life business, slightly reduced by the effect of hybrid debt issued in the reporting period.

Economic variances are influenced by the significantly lower interest rates in Swiss francs following the decisions of the Swiss National Bank in January 2015 and widened credit spreads, mitigated by a good real estate performance.

France

Opening adjustments reflect dividend payments of CHF 76 million.

Operating earnings of CHF 402 million correspond to a return of 14% on MCEV. In addition to the expected business contribution and the positive new business value, this is driven by an enhanced financial margin and the correspondingly revised profit-sharing for life business, a favourable longevity development and efficiency gains for the life operations.

Economic variances reflect mainly the increased credit spreads, positive real estate and equity performance, and related changes of the asset allocation.

Other non-operating variances are positive tax variances.

Closing adjustments relate to the depreciation of the Euro against the Swiss franc.

Germany

Opening adjustments reflect dividend payments of CHF 16 million.

Operating earnings of CHF 67 million correspond to a return of 9% on MCEV.

The assumption changes mainly reflect updated lapse and capital take-up parameters.

Other operating variances include effects from a revised surplus sharing approach and the handling of bond realisations.

The negative economic variances result mainly from increased credit spreads and more than offset the operating earnings.

Closing adjustments relate to the aforementioned effects of foreign currency translation.

International

Operating earnings of CHF 50 million correspond to a return of 12% on MCEV. This was driven by a strong value of new business, the operating profit and overall positive true-up effects on the in-force business relating to mortality, persistency and expenses.

Economic variances mostly relate to the performance of the assets under management, which are the basis for the fees earned in the Private Clients business.

Other non-operating variances reflect the reduction of the applied tax rate in Luxembourg.

Closing adjustments include foreign currency translation effects of CHF –40 million and capital transfers of CHF 23 million.

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 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. As in prior years Swiss Life bases the amount of required capital on 150% of the 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 shareholder's 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 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 projections encompassing 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 value

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 particular scenario, future market returns are determined as the forward rates implied in the reference rates at the valuation date. Discounting is performed 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
- discretionary 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 consistent value 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 shareholder's share of 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 value of in-force business 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. An annual charge of 4% has been applied to the resulting projected economic capital.

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 risks.

The initial capital for the CNHR has been calculated in line with Swiss Life's internal model. The corresponding economic capital is calculated by aggregating the stand-alone economic capital amounts that correspond 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 generally based on the statutory solvency margin.

An annual charge of 4% 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 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.

[2] Copyright © 2009 JPMorgan Chase & Co. All rights reserved.

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 at 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 equity) are modelled separately using appropriate indices for the corresponding currencies.

Current initial market values of assets have been taken where available ("marked-to-market"), or estimated where there is no reliable 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 reflected.

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

Insurance liabilities
Liabilities are valued 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
In accordance with the MCEV Principles (G3.4), hybrid debt allocated to covered business is valued by discounting the corresponding coupon and nominal payments (liability cash flows) with reference interest rates and spreads that would be used by capital markets for debt with similar characteristics. For the spread used, see section 5.1.1.

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 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, part of Moody's Analytics, Inc. For variable annuity products a dedicated economic scenario generator is used.

The assets and liabilities within the Swiss Life Group are mostly denominated in Swiss francs, euros or US dollars. The economic scenarios reflect these three major economies, and also British pounds and Canadian dollars, which are of lesser importance. 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, 2000 economic scenarios are used, ensuring 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 economic scenario considered and reflect local regulations and type of business.

The crediting rules for policyholders are consistent with current company practices and local regulatory and legal requirements, in particular regarding the existence of a "legal quote".

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 in relation to the covered business are passed to the corresponding entity, and consequently incorporated into the value of in-force business.

The look-through principle is applied for asset management services and corporate centre services. The future profits or losses taken into account for these services are limited to 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 with the exception of Swiss Life Insurance Solutions S.A., which is not material for MCEV purposes. 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.

As described in section 3.1, covered business relates to the operations in:

- Switzerland
- France
- Germany
- Luxembourg
- Liechtenstein
- Singapore

International includes results for Luxembourg, Liechtenstein and 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 units of Swiss Life Select or investment management (including CORPUS SIREO), financing and holding companies. Non-covered business is added to the MCEV results from the covered business to form the Group MCEV.

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 Consolidated Financial Statements (note 23).

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 is not available or the market is not liquid enough, the model calibration is based on best estimate assumptions. This notably includes correlations, exchange rate volatilities and real estate volatilities.

5.1.1 Reference rates

The reference rates used for the calculation of the MCEV 2015 are based on the swap rates as at 31 December 2015 and include, where appropriate, a liquidity premium. Extrapolation of the interest curves and determination of liquidity premiums closely follow the QIS 5 framework.

The underlying liquidity premium is determined by applying the formula Maximum (0; 50%*(corporate credit spread over swap –40bp)), where the corporate spreads over swap are measured with appropriate market indices. For the corporate credit spread over swap rates for the three currencies euro, US dollar and British pound, we use the quotation from Markit©[3] instead of using the two-step approach as described in the QIS 5 guidance. For Canadian dollar we use the quotation from BofA Merrill Lynch. For the spread over swap rates for Swiss franc we use a SIX Swiss Exchange Bond Index (SBI® Corporate) composed of investment grade, foreign and domestic corporate issues in Swiss francs.

We apply no liquidity premium to unit-linked, portfolio-linked and variable annuities business, 50% of the underlying liquidity premium to health insurance and assumed external reinsurance, and 75% to all participating and other businesses, including traditional annuities. Liquidity premiums are applied over a term of 10 years for Swiss franc, 15 years for euro and 30 years for US dollar, and phased out over the following five years.

As some of Swiss Life's liabilities are running longer than asset durations are available on financial markets in sufficient depth and liquidity, an extrapolation of yields is applied to assess swap rates beyond this horizon. Swiss Life uses the approach for extrapolation prescribed by EIOPA for QIS 5.

The spread (over swap rates) applied for the valuation of the hybrid debt was updated based on a subordinated bond index and amounts to 319bp as at 31 December 2015. For the opening MCEV the spread amounted to 287bp.

The whole yield curve is shifted for the 100bp increase/decrease in reference rate sensitivity including the extrapolated part beyond terms where market data is used for calibration of the reference rates.

[3] Copyright © 2011 Markit Group Limited

5.1.1.1 Swap rates as at 31 December 2015

Economy	1 year	2 year	5 year	10 year	15 year	30 year
Switzerland	**–0.70%**	**–0.64%**	**–0.31%**	**0.25%**	**0.56%**	**0.88%**
Euro Zone	**–0.06%**	**–0.03%**	**0.33%**	**1.00%**	**1.40%**	**1.61%**
United States	**0.85%**	**1.15%**	**1.70%**	**2.16%**	**2.40%**	**2.60%**

5.1.1.2 Swap rates as at 31 December 2014

Economy	1 year	2 year	5 year	10 year	15 year	30 year
Switzerland	–0.11%	–0.13%	0.06%	0.52%	0.79%	1.16%
Euro Zone	0.16%	0.18%	0.36%	0.82%	1.15%	1.47%
United States	0.44%	0.89%	1.75%	2.27%	2.49%	2.69%

5.1.1.3 100% Liquidity premium, relative to swap rates, as at 31 December 2015 and 31 December 2014

Economy	**2015** [1]	2014
Switzerland	**24bp**	20bp
Euro Zone	**38bp**	24bp
United States	**84bp**	63bp

[1] Liquidity premium for British pound: 83bp (2014: 69bp), for Canadian dollar: 48bp (2014: 25bp)

5.1.2 Volatility assumptions

Volatility assumptions for the year-end 2015 and 2014 calculations are derived from market data as at 31 December 2015 and 2014.

The interest rate volatilities are based on implied volatilities of at-the-money receiver swaptions. The tables below show rates for euro and US dollar with 20-year tenors and rates for Swiss franc with 10-year tenors.

5.1.2.1 Swaption implied volatilities as at 31 December 2015

Economy	1 year option	2 year option	5 year option	10 year option	15 year option	30 year option
Switzerland	**144.0%**	**120.1%**	**89.7%**	**76.0%**	**74.7%**	[1]
Euro Zone	**42.4%**	**40.5%**	**36.0%**	**34.5%**	**35.5%**	**38.6%**
United States	**29.5%**	**29.1%**	**27.4%**	**24.1%**	**22.1%**	**22.2%**

[1] not available

5.1.2.2 Swaption implied volatilities as at 31 December 2014

Economy	1 year option	2 year option	5 year option	10 year option	15 year option	30 year option
Switzerland	65.7%	61.8%	59.4%	49.7%	43.1%	49.0%
Euro Zone	43.5%	41.1%	35.9%	32.6%	30.7%	26.6%
United States	27.6%	27.4%	26.1%	23.4%	20.8%	21.3%

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 2015 and 31 December 2014

Economy	Index	Volatility 2015	Volatility 2014
Switzerland	SMI	**18.1%**	18.5%
Euro Zone	EuroStoxx 50	**21.6%**	20.8%
United States	S&P 500	**26.8%**	25.9%

The property volatilities are based on best estimate assumptions considering historical data.

5.1.2.4 Property volatilities used for the calculation as at 31 December 2015 and 31 December 2014

Economy	Volatility 2015	Volatility 2014
Switzerland	**8.0%**	8.0%
Euro Zone	**13.0%**	13.0%

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 15% for 2015 and for 2014.

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 2015

Economy	1 year	2 year	5 year	10 year	15 year	30 year
Switzerland	**–0.1%**	**–0.1%**	**–0.2%**	**0.6%**	**0.8%**	**0.7%**
Euro Zone	**1.2%**	**0.7%**	**0.8%**	**1.6%**	**1.7%**	**1.0%**

5.1.4.2 Forward inflation rates used for the calculation as at 31 December 2014

Economy	1 year	2 year	5 year	10 year	15 year	30 year
Switzerland	0.1%	–0.1%	–0.2%	0.5%	0.7%	0.4%
Euro Zone	0.1%	0.3%	0.9%	1.6%	1.6%	0.9%

5.1.5 Real world assumptions

These assumptions are used for the step “expected existing business contribution in excess of reference rates”.

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 historical data.

Fixed risk premiums are used for other risky assets. Return assumptions for equity and property are derived from the 10-year swap 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	**2015**	2014
Equity	**400bp**	400bp
Property (Switzerland and Europe)	**200bp**	200bp

5.2 Taxation and legislation

Tax assumptions for the projection of annual results have been set in line with the local tax regime. Tax losses carried forward are considered. 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

	2015	2014
Switzerland	**21.1%**	21.1%
France	**34.4%**	34.4%[1]
Germany	**28.3%**	28.3%
Luxembourg	**20.0%**	22.0%
Liechtenstein	**12.5%**	12.5%
Singapore	**17.0%**	17.0%

[1] Following French legislation the tax rate assumption applied for 2015 is 38.0%.

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 Auditor's Report on Embedded Value

To the Board of Directors of
Swiss Life Holding Ltd

We have audited the Market Consistent Embedded Value Report ("MCEV Report") of Swiss Life Holding Ltd for the year ended 31 December 2015. The embedded value information included in the MCEV Report has been prepared in accordance with the Market Consistent Embedded Value ("MCEV") Principles issued by the European Insurance CFO Forum, as described in sections 1 and 4 of the MCEV Report.

Board of Directors' responsibility
The Board of Directors is responsible for the preparation of the MCEV Report in accordance with the MCEV Principles, including the applied methodology and the assumptions used and for such internal controls as determined necessary to enable the preparation of the MCEV Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on whether the MCEV Report has been properly prepared in accordance with the MCEV Principles. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the MCEV Report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the MCEV Report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the MCEV Report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the MCEV Report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of the principles used and the reasonableness of significant estimates made, as well as evaluating the adequacy of the overall presentation of the MCEV Report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the MCEV Report of Swiss Life Holding Ltd for the year ended 31 December 2015 is prepared, in all material respects, in accordance with the MCEV Principles.

Basis of preparation
Without modifying our opinion, we draw attention to sections 4 and 5 of the MCEV Report, which describe the basis of MCEV methodology and assumptions.

This report has been prepared solely for the Board of Directors of Swiss Life Holding Ltd 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 Ltd.

PricewaterhouseCoopers AG

Ray Kunz Thomas Hull
Audit expert

Zurich, 29 February 2016

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

Liquidity premium
As stipulated in the MCEV Principles, liquidity premiums are included in swap yield curves in cases where liabilities are not liquid.

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 Swiss Life Select, 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.

QIS 5
EIOPA's fifth quantitative impact study for Solvency II.

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.

Zinszusatzreserve (ZZR)
Additional statutory reserve requirement in Germany in view of the low interest rate environment.