2014 Market Consistent Embedded Value

2014

Supplementary information
– 29 April 2015

Market Consistent Embedded Value

Supplementary information regarding Market Consistent Embedded Value 2014 of Storebrand Life Group.

MAIN FEATURES

- Embedded value of Storebrand Life Group was NOK 31,436 million at year-end 2014.
- The total embedded value earnings for the financial year 2014 were NOK 2,643 million, representing 9.5% return on the opening embedded value. The operating earnings were NOK 7,554 million, representing an operating return of 27.3%.
- The value of new business written in 2014 was NOK 251 million (at point of sale) decreased from 471 million in 2013. This is mainly due to a revised and improved view on the expense allocation in SPP which has led to a shift in cost allocation from maintenance to acquisition cost.
- The embedded value calculations are compliant with EEV Principles using a market consistent approach aligned to Solvency II (see Economic Assumptions in Section IV).
- An external review of the embedded value and the value of new business has been carried out by Towers Watson.

I. INTRODUCTION

This document discloses the 2014 Market Consistent Embedded Value (MCEV), hereby denoted embedded value, for Storebrand Life Group. It includes business written in Storebrand Livsforsikring AS (SBL) and the Swedish life insurance companies SPP Livförsäkring AB and SPP Liv Fondförsäkring AB (jointly referred to as SPP). The two entities in Sweden were merged to one company, SPP Pension & Försäkring AB on January 2nd 2015. The MCEV calculations are based on two separate entities. We do not expect any material effect on the MCEV from the merger.

The Embedded Value is a measure of the consolidated value of shareholders' interests in the covered business.

The calculation of embedded values requires a number of assumptions with respect to the business, operating, demographic, and economic conditions, as well as factors determined by financial markets. Although the operating and demographic assumptions used represent estimates which Storebrand considers reasonable, actual future operating conditions and actual future experience may vary from those assumed in the calculation of the embedded value, and such variations may be material. Consequently, the inclusion of embedded value information herein should not be regarded as a statement by Storebrand, Towers Watson, or any other person, that the stream of future after-tax profits used to determine the embedded value will be achieved with certainty.

II. RESULTS FOR STOREBRAND LIFE GROUP

All results are presented after tax in NOK.

The total embedded value as at 31 December 2014 for the life insurance business of Storebrand Life Group after capital movements is NOK 31,436 million. The value of in-force business (VIF) at year-end 2014 is NOK 16,639 million while shareholder surplus is NOK 14,797 million. The VIF includes the present value of future shareholder profits (PVFP) in a certainty equivalent scenario (including profits arising in the asset management companies of Storebrand Group induced by its life insurance business, referred to as Look through value), an allowance for the time value of options and guarantees (TVOG), frictional costs of holding required capital (FCRC) and an allowance for cost of residual non-hedgeable risks (CNHR).

EMBEDDED VALUE FOR STOREBRAND LIFE GROUP

The following table shows the embedded value at year-end 2014 as well as the published embedded value at year-end 2013:

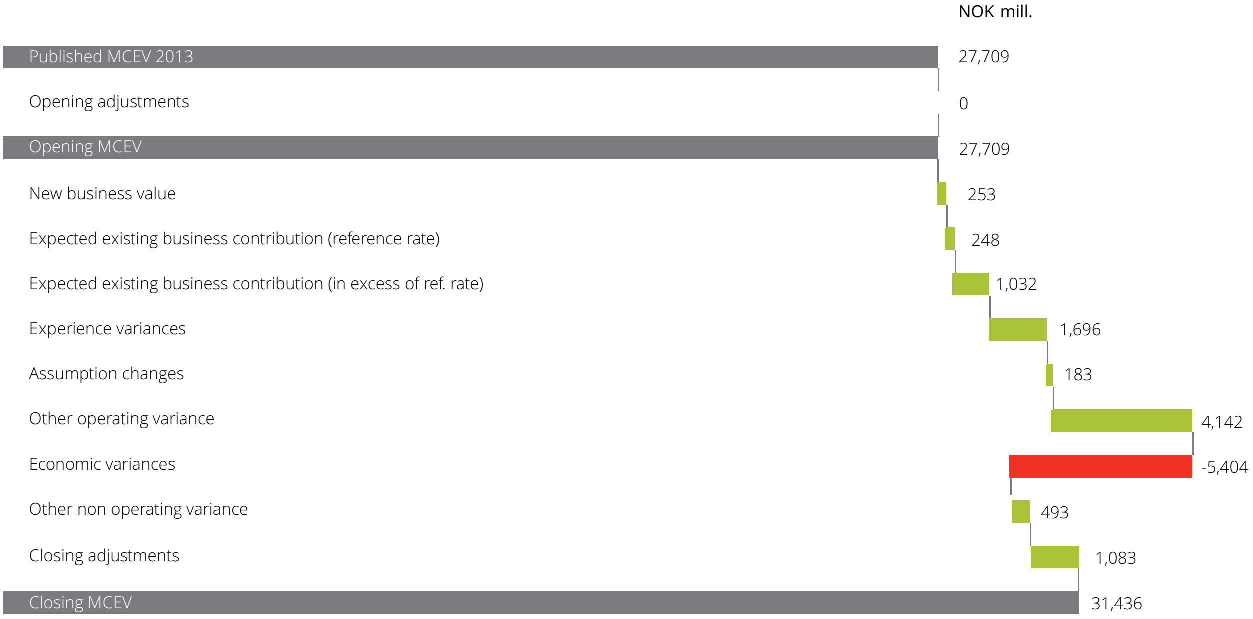
(NOK mill.)	MCEV 2013	MCEV 2014
Total shareholder surplus at market value	**12,023**	**14,797**
comprising		
- Free surplus	2,989	4,727
- Required capital	9,034	10,070
Value of In-force business	**15,685**	**16,639**
comprising		
- PVFP	26,944	23,637
- TVOG	-5,984	-2,863
- FCRC	-1,102	-1,091
- CNHR	-4,173	-3,043
Total embedded value	**27,709**	**31,436**
Look through value included in the PVFP	*2,518*	*3,475*

An implied discount rate (IDR) of 7.7% at year-end 2014 has been derived for Storebrand Life Group (8.0% for SBL and 7.4% for SPP). The approach for deriving the IDR is described in Section V.

Taxation is included in the MCEV figures (see section VI for details).

2014 Embedded value earnings analysis

The following chart shows the embedded value earnings:



ANALYSIS OF MCEV EARNINGS

The following table shows the movements in the embedded value from year-end 2013 to year-end 2014:

(NOK million)	Free Surplus	Required Capital	Value of In-force	Total MCEV
(1) Published MCEV 2013	**2,989**	**9,034**	**15,685**	**27,709**
(2) Opening adjustments	0	0	0	0
(3) Opening MCEV	**2,989**	**9,034**	**15,685**	**27,709**
(4) New business value	-511	83	681	253
(5) Expected existing business contribution (reference rate)	70	0	178	248
(6) Expected existing business contribution (in excess of ref. rate)	379	0	652	1,032
(7) Transfers from VIF and required capital to free surplus	1,150	198	-1,348	0
(8) Experience variances	945	0	751	1,696
(9) Assumption changes	0	0	183	183
(10) Other operating variance	0	0	4,142	4,142
(11) Operating MCEV earnings	**2,034**	**281**	**5,239**	**7,554**
(12) Economic variances	-2,263	2,031	-5,172	-5,404
(13) Other non operating variance	-254	0	748	493
(14) Total MCEV earnings	**-483**	**2,313**	**814**	**2,643**
(15) Closing adjustments	2,221	-1,277	139	1,083
(16) Closing MCEV	**4,727**	**10,070**	**16,638**	**31,436**

Detailed description of embedded value earnings

Technical terms are described in section V, Methodology. All figures are after tax.

1) Published MCEV 2013: *Published embedded value at year-end 2013.*

2) Opening adjustments: *Adjustments to the published embedded value from the previous year-end.*

No adjustment has been made to published results from year-end 2013.

3) Opening MCEV: *Embedded value at year-end 2013 after opening adjustments.*

4) New business value: *Value of new business (VNB) in 2014 based on year-end 2014 assumptions*.

VNB at point of sale and using year-end 2014 exchange rates is NOK 251 million. VNB as shown in the embedded value earnings of NOK 253 million is based on year-end 2013 exchange rates and includes the unwinding to year-end 2014.

5) Expected existing business contribution (reference rate): *This item reflects the unwinding of the discounting included in the present value components. Additionally, the risk free return on the shareholder surplus is shown in the free surplus column.*

The total expected existing business contribution of NOK 248 million comprises the unwinding of the value of in-force of NOK 178 million and the risk free return on the shareholder surplus of NOK 70 million.

6) Expected existing business contribution (in excess of reference rate): *The existing business contribution in excess of reference rate reflects the additional return on the opening MCEV in line with management expectations for the business. In this step, "real world" returns described in Section VI are assumed for the first year (2014). Also, the excess return includes the release of the allowance for options and guarantees (TVOG) and non-hedgeable risks (CNHR) for the year 2014.*

The total expected return in excess of risk-free rate at the end of 2014 was NOK 1,032 million.

In total, the expected existing business contribution (points 5 and 6 above) amounts to NOK 1,280 million which represents an expected return of 4,6% on the opening MCEV.

7) Transfers from VIF and required capital to free surplus: *Profits for 2014 that were capitalized at the previous year-end are moved from the VIF into the shareholder surplus. There is no impact on the embedded value earnings as these profits were expected to emerge at the previous year-end. This item also includes the expected development of the required capital with a corresponding movement in the free surplus.*

The transfer from VIF to the free surplus amounts to NOK 1,348 million. Additionally, the required capital has increased by NOK 198 million with a corresponding decrease in the free surplus.

8) Experience variances: *These variances result from deviations between actual and expected profits due to operational and actuarial considerations. Experience variances consist of effects on the 2014 profits (shown in the column "Free surplus") and effects on the future profits (shown in the column "VIF").*

The total experience variances amount to NOK 1,696 million, comprising NOK 1,367 million from SBL and NOK 328 million from SPP.

For SBL, conversion from DB to DC business results in new DC contracts which are not included in VNB. Lower than expected lapse on DB also gives a positive experience variance, in total an effect of NOK 872 million. Better than expected administration result, mainly on DC and risk products, contributes NOK 322 million.

For SPP, the positive variance is a combination of a positive effect from better than expected risk result and a negative effect from lapse experience.

9) Assumption changes: *Changes in actuarial and operational assumptions from 2013 to 2014, which affects the VIF only.*

The total effect of changes in assumptions for the group in 2014 amounts to NOK 183 million, comprising NOK -525 million for SBL and NOK 708 million for SPP.

Assumed increased competition in the market for DC paid-ups has led to a corresponding decrease of the assumed charges with a negative effect of NOK -1,068 million. Improved analysis of death and disability assumptions led to a corresponding assumption change for disability (including recovery) on the 20/80 and fee portfolio and for death on the 35/65 portfolio, with a total effect of NOK 771 million. Lower asset management cost contributes with NOK 357 million.

For SPP a revised and improved view on the expense allocation has led to a shift in the split between acquisition and maintenance cost. This has a positive effect of NOK 1,323 million on the MCEV but correspondingly a negative effect on the VNB. The cost allocation effect is partially offset by higher lapse assumptions (NOK -323 million), and a new best estimate for mortality (NOK -462 million). In addition, lower asset management cost contributes with NOK 169 million.

10) Other operating variances: *This item comprises changes in management policies for profit sharing, investment strategy, etc. Additionally, this item includes model improvements and corrections.*

The total of other operating variances amount to NOK 4,142 million. For SBL, the effect is NOK 3,854 million whereas SPP has an effect of NOK 288 million.

For SBL, the effect is mainly caused by model improvements and strategy changes, in particular for the fee and paid-up portfolios. The use of buffers and the investment strategy now better reflects the actual risk in the portfolios, and hence is better aligned to Solvency II. This has a total effect of NOK 2,706 million. The implementation of a new and improved cash flow model, including the explicit modeling of new generated paid-ups from fee business and indexation of benefits from investment and risk surplus, has a positive effect of NOK 1,065 million.

For SPP, the effect is caused by model improvements and changes in management rules. During the year an overview of the mortality risk pricing resulted in model improvement and change in the margins for mortality that gave a positive effect of NOK 288 million.

11) Operating MCEV earnings: *Sum of items 4) to 10). These earnings are under management control in contrast to economic earnings.*

The total operating MCEV earnings amount to NOK 7,554 million representing a return on the opening MCEV of 27.3%.

12) Economic variances: *The economic variances are divided into effects on the 2014 profit and all future profits. The variances in the shareholder surplus comprise the impact of the investment performance in 2014 on shareholder profits and movements in the required capital. The change in VIF represents the effect on future profits from the change in the economic environment during 2014.*

Storebrand has decided to change the 2013 yield curve applied to the MCEV calculation to the Solvency II yield curve in order to ensure consistency between the MCEV and Solvency II calculations. This change in the approach to derive the yield curve has caused a negative effect of NOK -2,870 split between NOK -2,094 million for SBL and NOK -776 million for SPP.

The remaining economic variances in 2014 amount to NOK -3,090 million for SBL and NOK 556 million for SPP.

The interest rate has fallen during 2014, with a corresponding negative effect. The 10-year spot rate derived from the swap curve has decreased by 143 bp in Norway and 165 bp in Sweden.

For SBL, economic variances excluding the effect of changing to Solvency II interest rate curve are NOK -3,090 million. The return in 2014 was far better than expected with a corresponding effect of higher buffers. This partially offsets the negative effect of the fall in interest rate during 2014.

For SPP, economic variances excluding the effect of changing the interest rate curve are NOK 556 million. This is explained by the negative effect of the huge fall in interest rates during 2014 countered by a better than expected return in 2014 and the corresponding positive effect from increased buffers.

On group level, the NAV is reduced by NOK -232 million. The reserve strengthening cost on shareholder capital in SBL has a negative effect of NOK -391 million, but this is partially offset by a better than expected financial result on the shareholder capital.

13) Other non-operating variances: *Regulatory changes implemented in 2014 and other non-operating changes are shown in this item (e.g. changes in tax laws or other business related laws).*

The effect of other non-operating variances is NOK 493 million mainly caused by updating the underlying risk drivers in the CNHR calculation.

14) Total MCEV earnings: *Sum of items 11) to 13).*

The movements from 31 December 2013 to 31 December 2014 show MCEV total earnings of NOK 2,643 million. This represents a return of opening MCEV of 9.5%, divided into economic variances and other non-operating variances of -17.7% and operating earnings of 27.3%.

15) Closing adjustments: *Under this item, changes in the exchange rate to NOK, dividends and other capital movements are shown.*

Aggregated closing adjustments amount to NOK 1,083 million. This includes a positive effect of NOK 266 million from the change in the SEK/NOK exchange rate and a change in value of other subsidiaries of NOK 856 million.

16) Closing MCEV: *MCEV for the Storebrand Life Group at year-end 2014.*

VALUE OF NEW BUSINESS (VNB)

The following table shows the consolidated value of new business written in 2014:

(NOK mill.)

Value of New Business	
comprising	
- PVFP	375
- TVOG	0
- FCRC	-12
- CNHR	-111
Total value of new business	**251**
Look through value included in the PVFP	*103*

NEW BUSINESS MARGINS

The following table shows the new business margins for the business written in 2014:

(NOK mill.)

Value of New Business	**251**
PVNBP Margin 2014	**2.5 %**
- PVNBP	9,907
APE Margin 2014	**22%**
- New Regular premiums	817
- New Single premiums	3,319
- Annual Premium Equivalent (APE)	1,149
PVNBP Margin 2013	*3.8 %*
APE Margin 2013	*36%*

The implied discount rate for the new business amounts to 4.4%, the internal rate of return 17.8%.

Sensitivities for Storebrand Life Group

The following sensitivities have been carried out for the embedded value. The sensitivities reflect changes in single assumptions unless stated otherwise.

Sensitivities 1 & 2:
A parallel shift of 100 basis points is applied to the starting yield curve. The market values of bonds are adjusted accordingly. It should be noted that a 100 basis points parallel shift for the entire yield curve has been reflected (the extrapolation method described in Section VI has not been applied to the shifted curve).

Sensitivities 3 & 4:
The initial market values of all equity and property holdings are reduced by 10% (in Sensitivity 4 only equity market values have been reduced). Dynamic risk management does not apply to this sudden shock, but contributes to reduced risk in the portfolios for the remaining projection period.

Sensitivity 5:
Mortality rates are reduced by 5% going forward for annuity business only.

Sensitivity 6:
Mortality rates are reduced by 5% going forward for life business only.

Sensitivity 7:
Future maintenance expenses are reduced by 10%.

The following table shows the sensitivity results for the embedded value at year-end 2014:

(NOK million)	Total MCEV	Total Change	Change SBL	Change SPP	Total change in %
Base	**31,436**				
1. 100 basis point pa increase in the interest rate	38,999	7,563	6,365	1,199	24%
2. 100 basis point pa decrease in the interest rate	23,512	-7,924	-7,026	-898	-25%
3. 10% decrease in equity/property	28,074	-3,362	-2,004	-1,358	-11%
4. 10% decrease in equity	29,174	-2,262	-1,148	-1,114	-7%
5. Mortality rates -5% - annuity business	30,834	-602	-184	-418	-2%
6. Mortality rates -5% - life business	31,491	55	55	0	0%
7. 10% decrease in maintenance expenses	32,992	1,556	857	699	5%

III. RESULTS BY COMPANY

In this section the values of in force and values of new business are shown for SBL and SPP separately on a legal entity basis.

RESULTS FOR SBL

The following table shows the VIF for SBL at year-end 2013 and 2014, and by portfolio:

			Guaranteed Pensions			Non-guaranteed Pensions	Risk
			Fee	Profit Sharing			
(NOK million)	VIF 2013	VIF 2014	Fee	20/80	35/65	DC/UL	Risk
Value of In-force business							
comprising							
- PVFP	16,424	11,682	2,275	-3,247	-42	10,678	2,018
- TVOG	-6,087	-2,860	-409	-2,415	-31	-5	0
- FCRC	-577	-519	-45	-305	-18	-91	-60
- CNHR	-2,791	-1,802	-112	-233	-28	-1,292	-137
Total Value of in-force business	**6,968**	**6,500**	**1,709**	**-6,201**	**-120**	**9,290**	**1,821**
Look through value included in the PVFP	*1,406*	*1,979*	*141*	*700*	*50*	*1,080*	*8*

The following table shows the VNB for SBL by portfolio:

(NOK million)	Total	DC/UL	Risk
Value of New Business			
comprising			
- PVFP	342	250	92
- TVOG	0	0	0
- FCRC	-4	-3	-1
- CNHR	-53	-43	-10
Total value of new business	**285**	**204**	**81**
Look through value included in the PVFP	*41*	*40*	*1*

Fee based business: Defined benefit group pension schemes
20/80: Paid-up policies from DB schemes with 20/80 profit sharing
35/65: Traditional life and saving business with 35/65 profit sharing
DC/UL: Defined contribution and Unit Link
Risk: Individual risk products and group life

The following table shows the new business margins for SBL:

(NOK million)	Total	DC/UL	Risk
VNB	**285**	**204**	**81**
PVNBP Margin 2014	**5.1 %**	**4.2 %**	**10.6 %**
- PVNBP	5,615	4,854	761
APE Margin 2014	**62%**	**53%**	**105%**
- New Regular premiums	335	258	77
- New Single premiums	1,259	1,259	0
- Annual Premium Equivalent (APE)	461	384	77
PVNBP Margin 2013	*4.7 %*	*4.4 %*	*7.7 %*
APE Margin 2013	*56%*	*58%*	*45%*

RESULTS FOR SPP

The following table shows the VIF for SPP at year-end 2013 and 2014, and by portfolio:

			Guaranteed Pensions			Risk
			Profit Sharing	Non-profit Sharing		
(NOK million)	VIF 2013	VIF 2014	DB	DC	UL	Risk
Value of In-force business						
comprising						
- PVFP	10,520	11,955	2,103	1,702	7,636	515
- TVOG	103	-3	-6	3	0	0
- FCRC	-524	-573	-209	-317	-43	-4
- CNHR	-1,381	-1,241	-229	-181	-826	-5
Total Value of in-force business	**8,717**	**10,139**	**1,659**	**1,207**	**6,767**	**506**
Look through value included in the PVFP	*1,112*	*1,496*	*344*	*284*	*868*	*1*

DB: Defined benefit business with profit sharing
DC: Defined contribution business with guarantees and profit sharing
UL: Unit linked products
Risk: Disability policies

The following table shows the VNB for SPP by product:

(NOK million)	Total	DC	UL	Risk
Value of New Business				
comprising				
- PVFP	32	-67	63	36
- TVOG	0	0	0	0
- FCRC	-8	-1	-7	0
- CNHR	-58	-1	-56	0
Total Value of in-force business	**-33**	**-70**	**0**	**36**
Look through value included in the PVFP	*62*	*2*	*60*	*0*

The following table shows the 2013 and 2014 new business margins for SPP:

(NOK million)	Total	DC	UL	Risk
Value of New Business	**-33**	**-70**	**0**	**36**
PVNBP Margin 2014	**-0.8 %**	**-18.5 %**	**0.0 %**	**23.6 %**
- PVNBP	4,291	376	3,763	152
APE Margin 2014	**-5%**	**-125%**	**0%**	**102%**
- New Regular premiums	482	29	417	35
- New Single premiums	2,060	267	1,793	0
- Annual Premium Equivalent (APE)	688	56	596	35
PVNBP Margin 2013	*3.0 %*	*-4.9 %*	*3.0 %*	*25.9 %*
APE Margin 2013	*23%*	*-30%*	*24%*	*118%*

IV. IFRS RECONCILIATION AND STOREBRAND GROUP MCEV

Storebrand Group MCEV 2014 and IFRS reconciliation

The following table shows a reconciliation of the IFRS equity for the life insurance business to embedded value at year-end 2014:

(NOK million)	Total
IFRS Equity Storebrand Life (incl. book value SPP)	**21,934**
NGAAP adjustments	
- Security reserve non-life	-153
- Group contribution NGAAP (provision)	0
NGAAP Equity Life (incl. SPP)	**21,780**
- Total consolidation SBL Group	-755
NGAAP Equity Storebrand Life (incl. book value SPP)	**21,025**
MCEV adjustments	
- Risk equalisation fund	-829
- Market value debt	-225
- Intangible assets	-324
- Other consolidation factors	974
Shareholders Surplus Storebrand Life (incl. book value of SPP)	**20,621**
- Book value of SPP in SBL accounts	-15,065
- Shareholder surplus SPP	9,240
Group Shareholder surplus in MCEV	**14,797**
- Value of In-force SPP	10,139
- Value of In-force SBL	6,500
Total Life MCEV	**31,436**

The table below shows the derivation of the group MCEV for the Storebrand Group (including the covered and non-covered business, see Section V) as well as the movements in the group MCEV during the year 2014. The movements of the group MCEV are shown separately for the covered and the non-covered business. The IFRS life segment is the covered life business. Other segments such as the banking, asset management and other businesses (including eliminations) have been similarly included at their IFRS value.

The earnings for the Asset Management business reflect NOK 256 million less profit than IFRS reporting. This represents asset management profits for managing covered business assets that has been modelled with the covered business MCEV.

(NOK million)	IFRS Segment Life	Banking, Asset Management and Other (incl eliminations)	Group MCEV
Published Group MCEV 2013	**27,709**	**2,502**	**30,211**
Opening adjustments	0	0	0
Restated and adjusted opening values	**27,709**	**2,502**	**30,211**
Operating Earnings	7,554	188	7,742
Non-operating Earnings	-4,910	0	-4,910
Total Earnings	**2,643**	**188**	**2,832**
Other movements in IFRS equity	0	-140	-140
Closing adjustments	1,083	256	1,340
Closing Group MCEV	**31,436**	**2,807**	**34,242**

V. METHODOLOGY

Embedded Value: Is a present value of cash flow calculation estimating the value of the company excluding any value attributable to future new business. It comprises the sum of shareholder surplus and the value of business in force (VIF). The VIF comprises the present value of future profits in a certainty equivalent scenario (PVFP) (including profits arising in the asset management companies of Storebrand Group which are induced by its life insurance business), an allowance for the time value of options and guarantees (TVOG), frictional costs of holding required capital (FCRC) and an allowance for cost of residual non-hedgeable risks (CNHR).

The shareholder surplus for Storebrand Life Group is based on the published shareholder assets under NGAAP, less intangible assets, deferred acquisition costs and risk equalisation fund, and with adjustment for market value of debt.

The PVFP is the present value of the projected stream of future after-tax profits which, at the valuation date, are expected to be generated by the policies in force, taking into account all assets backing policyholder liabilities. The profits are determined on local GAAP using a deterministic projection (with a certainty equivalent scenario).

The stream of future after-tax profits is determined using best estimate assumptions for future operating conditions regarding such items as expenses, taxation, lapse, mortality, and morbidity rates. Economic assumptions are further described in Section VI.

No positive value (for the shareholder) is assigned to residual assets at the end of the projection period.

Embedded value earnings: The embedded value earnings are defined as the change in embedded value, after adjustments for any capital movement, such as dividends or capital injections. The embedded value earnings are divided into the following categories: the expected return (unwinding of discounting and excess return above the reference rate), the value of new business and experience variances, assumption changes, other operational variances, economic variances, and other non-operating variances. The sum of the first five components listed above is referred to as embedded value operating earnings.

Covered business: The business covered in the embedded value reporting is the business written within and legally contained in Storebrand Livsforsikring AS, SPP Livförsäkring AB and SPP Liv Fondförsäkring AB. It should be noted that other life insurance business in the Storebrand Group is included in the consolidated embedded value at their respective book value.

Additionally, profits arising from the covered business of Storebrand Group into the group's asset management companies, Storebrand Asset Management AS and Storebrand Eiendom AS, have been included (look-though profits). No other sources of profits from the life insurance business within Storebrand Group are considered.

In-force business: For the purposes of the embedded value, the in-force business is defined as existing policies including future renewals on existing policies for individual business, and existing schemes for group business.

For SBL, future new members of existing group schemes have implicitly been allowed for within defined contribution business' value of in-force by assuming leaving members are replaced by new members joining (steady state). For SBL's defined benefit business, no replacement of leaving members from guaranteed business to non-guaranteed business is modelled. We do, however, expect that closing the defined benefit business will increase future defined contribution business on existing schemes. SBL's defined benefit business has been closed during 2012 and 2013, and hence we do not expect any future new business on this.

For SPP's defined benefit business, future replacements are taken into account whereby they are assumed to decrease fast in the next years to reflect customer's expected behavior to move to defined contribution plans. For the unit-linked business, replacements are still taken into account. For the guaranteed defined contribution business, no replacements are applied as we expect transitions to the unit-linked part.

New business: New business in 2014 is defined as new policies on individual business, and new schemes or schemes which are transferred to the Storebrand Group within group business. Transfers from traditional business to unit linked business in SPP are included in new business.

New business value: The new business value is defined as the after-tax value derived from new business excluding funds that are not yet booked, including the impact of initial acquisition expenses, an allowance for TVOG, FCRC, and CNHR, and the present value of profits arising in Storebrand Group's asset management companies which are induced by the new business written.

Frictional cost of holding required capital: The frictional cost of holding required capital reflects the taxation on expected return and the frictional investment management costs in relation to the required capital (see section VI for further details on taxation).

Required capital: The amount of required capital for SBL has been set as the greater of Norwegian regulatory capital and internal capital requirements. Life insurance in Norway is subject to two solvency requirement tests, the EU requirement (Solvency I) and the banking requirement (Basel I), both of which must be satisfied. For both SBL and SPP the internal capital requirement is equivalent to 150% of the EU minimum solvency requirements. For SBL, the internal capital requirement is higher than the banking requirement (Basel 1).

In the consolidated embedded value at year-end 2014, the required capital shown reflects the actual group solvency requirement (150% of the EU minimum requirement) and not the sum of the required capital of SBL and SPP. The group requirement represents 88% of the sum of solo requirements. The required capital is assumed to be released in line with the run off of the business in-force.

Cost of residual non-hedgeable risks (CNHR): The CNHR is an allowance for risks that have not been allowed for elsewhere in the calculations. Where possible, the estimated impact of these risks on the embedded value has been assessed and included directly in the CNHR. Where no direct assessment of the impact of these risks has been possible, a cost of capital approach has been applied based on an estimated risk capital for the risks. The risk capital has mainly been estimated based on recent calculations of Solvency II capital requirements, and a cost of 4% per annum has been applied for most risks.

The total CNHR is equivalent to an annual charge of 2.4% on the diversified risk capital for non-hedgeable risks (2.4% at year-end 2013).

Participating business: Bonuses to policyholders are derived based on the companies' individual profit sharing strategy. Regulatory constraints are appropriately reflected.

Time value of options and guarantees (TVOG): The TVOG (including guaranteed return and the right of policyholders to receive minimum profit sharing) has been determined using stochastic models of the underlying with-profit business. It is defined as the difference between the present value of future profits in a certainty equivalent scenario and the average over 1000 market-consistent stochastic scenarios.

The new business written at the moment, has no options or guarantees that are not already fully reflected in the PVFP, hence the TVOG for the VNB is 0.

The financial options evaluated comprise the interest rate guarantees and the impact of local profit-sharing regulations. No other financial options have been evaluated; specifically, no dynamic policyholder behavior has been assumed (dynamic policyholder behavior has been included as part of the allowance for residual non-hedgeable risks, based on the solvency capital requirement calculation for lapse risk).

Reinsurance and debt: There are only non-material amounts of reinsurance in Storebrand Life Group which have not been considered in the valuation. An adjustment has been made to the shareholder surplus to reflect the difference between the book value of the subordinated loans in SBL and the corresponding market value. The adjustment to the shareholder surplus at year-end 2014 amounts to NOK -225 million.

Look-through adjustments: Profits arising in Storebrand's asset management companies which are induced by the group's life insurance business have been considered in the value of in-force and in the value of new business.

Deterministic projections: A detailed deterministic model has been used to determine the projected future shareholder cash flows based on a certainty equivalent scenario, where it is assumed that all assets earn the risk-free rate of return and all cash flows are discounted with the risk-free rate.

Stochastic projections: A Monte-Carlo simulation using market consistent scenarios was used to evaluate the effect of volatility in the capital markets on the earnings of the covered business.

Allowance is made for management actions, including the investment strategy and solvency based dynamic risk management, as well as crediting and buffer capital strategy based on the current profit-sharing strategy adopted by the Storebrand Life Group. The underlying principles are in line with the strategies developed and executed in recent years.

Implied discount rate (IDR) and internal rate of return (IRR): The implied discount rate is derived as the discount rate which, if applied to projected shareholder profits using real world economic assumptions as described in Section VI including an allowance for the cost of holding capital, leads to the same embedded value or VNB calculated via a direct MCEV approach as described above.

The IRR is derived as the discount rate which, if applied to projected shareholder profits generated by the new business using real world economic assumptions and including an allowance for the cost of holding capital, leads to a discounted value of zero.

VI. ASSUMPTIONS

ECONOMIC ASSUMPTIONS
In accordance with current best practice, consistent with MCEV Principles, swap rates are used to derive the risk-free reference rates. In order to align with the expected method of extrapolation of the risk-free rate within the Solvency II framework, in the MCEV calculations Storebrand has as of year-end 2014 applied the Solvency II yield curve. The management has selected this approach to facilitate a comparison with Storebrand's Solvency II results and also with results from other companies.

Compared to the approach of the past years, the extrapolation enters later and at a slower pace.

Volatility and credit risk adjustments has been applied in accordance with the Solvency II specifications from EIOPA.

No liquidity premiums have been added to the risk-free reference rate.

The spot yield curve table below shows the risk free yields by currency (including the quoted 20-year and 30-year rates which are assumed to be non-liquid):

	2013				2014			
	NOK		SEK		NOK		SEK	
Year	mark to market	mark to model	mark to market	mark to model	mark to market	mark to model	mark to market	mark to model
1	1.7 %	1.7 %	1.0 %	1.0 %	1.2 %	1.2 %	0.2 %	0.2 %
2	1.9 %	1.9 %	1.3 %	1.3 %	1.2 %	1.2 %	0.2 %	0.2 %
3	2.1 %	2.1 %	1.6 %	1.6 %	1.2 %	1.2 %	0.3 %	0.3 %
5	2.6 %	2.6 %	2.2 %	2.2 %	1.4 %	1.4 %	0.6 %	0.6 %
10	3.5 %	3.5 %	2.9 %	2.9 %	2.0 %	2.0 %	1.2 %	1.2 %
20	3.7 %	4.7 %	3.3 %	4.2 %	2.3 %	2.7 %	1.9 %	2.5 %
30	3.6 %	4.7 %	3.3 %	4.2 %	2.3 %	3.1 %	2.0 %	3.1 %

The stochastic scenarios have been calibrated to implied volatilities of swaptions at the money. The economic scenario generator (ESG) used for generating the scenarios simulates rates and returns on a monthly basis. A set of correlated normal random samples is created based on a specified correlation matrix. The first random sample generated at each time is for the short rate process (a Cox-Ingersoll-Ross model), which in turn guides the movement of the other asset classes. Asset class returns are produced with no allowance for an asset class specific risk. The stochastic element is then applied by means of the multivariate standard normal samples already derived.

The model parameters are usually calibrated to the market conditions at the valuation dates, i.e. swaption prices and equity option prices.

The table below shows implied volatilities for options on 1 year swaps at the money for various option maturities:

	2013		2014	
Year	NOK	SEK	NOK	SEK
1	29.1 %	33.1 %	31.9 %	62.3 %
5	24.3 %	25.4 %	31.4 %	37.9 %
10	19.0 %	20.8 %	25.3 %	30.3 %

Various equity indices are considered in the stochastic models. Equity volatilities are based on implied volatilities of equity options at the money. Real estate volatility is based on historic market data.

The following table shows volatility assumptions used for generating stochastic scenarios:

	2013				2014			
	SBL			SPP	SBL			SPP
Year	Int eq	Dom eq	Real Estate	Int and Dom eq	Int eq	Dom eq	Real Estate	Int and Dom eq
1	16.3 %	16.0 %	7.0 %	15.2 %	17.7 %	19.8 %	7.0 %	17.0 %
10	23.5 %	17.5 %	6.5 %	21.9 %	24.4 %	19.9 %	6.5 %	22.6 %
20	3,7 %	4,7 %	3,3 %	4,2 %	2,3 %	2,7 %	1,9 %	2,5 %
30	3,6 %	4,7 %	3,3 %	4,2 %	2,3 %	3,1 %	2,0 %	3,1 %

Int eq: International equities
Dom eq: Domestic equities

REAL WORLD ASSUMPTIONS FOR IDR AND IRR CALCULATIONS
For the calculation of IDRs and IRRs the following risk premiums have been added to the interest rates used in the certainty equivalent projection:

	2013	2014
Risk premiums by asset class		
- equity	4.0 %	4.1 %
- corporate bonds / loans	0.7 %	1.5 %
- real estate	2.5 %	2.5 %
- cash	-0.5 %	0.0 %

INFLATION
Price inflation for SPP has been set equal to implied inflation for the Swedish market. This implied inflation in Sweden equals approximately 50% of the implied forward rates. For SBL, price inflation is set to be 50% of the 1-year forward rate as a proxy for implied inflation which is not available for the Norwegian market.

Salary inflation, used to derive future premiums and benefits, is assumed to be 2 percentage points above price inflation and is based on an analysis of historic spreads.

EXPENSES
The expenses incurred have been subdivided by line of business and fully allocated into investment, acquisition and maintenance expenses. Maintenance expenses are expressed as per-policy expenses and are assumed to increase with price inflation.

The costs of SPP's and SBL's own pension schemes have been reflected on local GAAP basis (which for SBL and SPP equals the IFRS basis).

There are no material services provided by other group companies other than the one reflected in the look-through value. Also, there are no material expenses at the holding level that would have to be attributed and none have been taken into account.

No productivity gains are anticipated in the embedded value assumptions. There are no material overhead expenses incurred in other entities.

ACTUARIAL ASSUMPTIONS
The assumptions for mortality and morbidity, lapses and paid-up rates are based on recent company experience, and have been reviewed for 2014.

For SBL, the tariff and best estimate are consistently modelled with future gradually decreasing mortality for annuity business. For SPP, the mortality assumptions used in the modelled tariffs are the same as in real world pricing, whereas a generation based mortality assumption is used as best estimate.

TAX
In line with current tax regulations, a company tax rate is included in the Embedded Value calculation. A company tax rate of 27% has been applied for SBL on all value of in-force elements as well as on return on required capital. For SPP tax regulations imply company tax of 22% on returns on shareholder capital and on profits from risk business.

The Storebrand Group has a tax loss carried forward of NOK 10.8 billion. It is expected that this will be consumed over the next 5-10 years by all business lines of the Storebrand group. In the risk neutral embedded value calculation a 0% tax rate in this period would have no material impact given the low projected profits caused by the low interest rates and the reserve strengthening. Therefore, the tax loss carried forward has not been taken into account in the embedded value calculations as a simplification.

EXCHANGE RATES
An exchange rate of 0.9446 has been applied to amounts in SEK at year-end 2013 and 0.9578 at year-end 2014 consistent with the annual accounts of Storebrand Group.

STATEMENT OF THE BOARD OF DIRECTORS

The Board of Directors confirms that the embedded value as at 31 December 2014, and the embedded value earnings including the value added by new business in 2014, have been determined using methodology and assumptions which are compliant with EEV Principles. The embedded value results have been approved by the Board of Directors at the last board meeting.

TOWERS WATSON OPINION

"Towers Watson has reviewed the methodology and assumptions used to determine the 2014 embedded value results. The review covered the European Embedded Value as at 31 December 2014 and the value of 2014 new business.

Towers Watson has concluded that the methodology and assumptions used comply with the EEV Principles and Guidance, and in particular that:

- the methodology makes allowance for the aggregate risks in the covered business through the methodology as described in this supplementary disclosure document, which includes a stochastic allowance for the cost of financial options and guarantees, and a level of required capital based on regulatory and internal capital requirements and an allowance for the cost of non-hedgeable risks;
- the operating assumptions have been set with appropriate regard to past, current and expected future experience;
- the economic assumptions used are internally consistent and consistent with observable, reliable market data; and
- for participating business, the assumed bonus rates and the allocation of profit between policyholders and shareholders are consistent with the projection assumptions, established company practice and local market practice.

We note that Storebrand has not complied with the requirements of EEV Guidance in relation to the disclosure of sensitivity results, with none provided for the value of new business and a limited number for the embedded value.

Towers Watson has also performed limited high-level checks on the results of the calculations and has confirmed that any issues discovered do not have a material impact on the disclosed embedded value as at 31 December 2014 and the 2014 new business value. Towers Watson has not, however, performed detailed checks on the models and processes involved.

In arriving at these conclusions, Towers Watson has relied on data and information provided by Storebrand ASA. This opinion is made solely to Storebrand ASA in accordance with the terms of Towers Watson's engagement letter. To the fullest extent permitted by applicable law, Towers Watson does not accept or assume any responsibility, duty of care or liability to anyone other than Storebrand ASA for or in connection with its review work, the opinions it has formed, or for any statement set forth in this opinion."

Financial calender 2015

11 February	Results 4Q 2014
15 April	Annual General Meeting
16 April	Ex dividend date
29 April	Results 1Q 2015
	Embedded Value 2014
15 July	Results 2Q 2015
28 October	Results 3Q 2015
February 2016	Results 4Q 2015

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