

# Storebrand

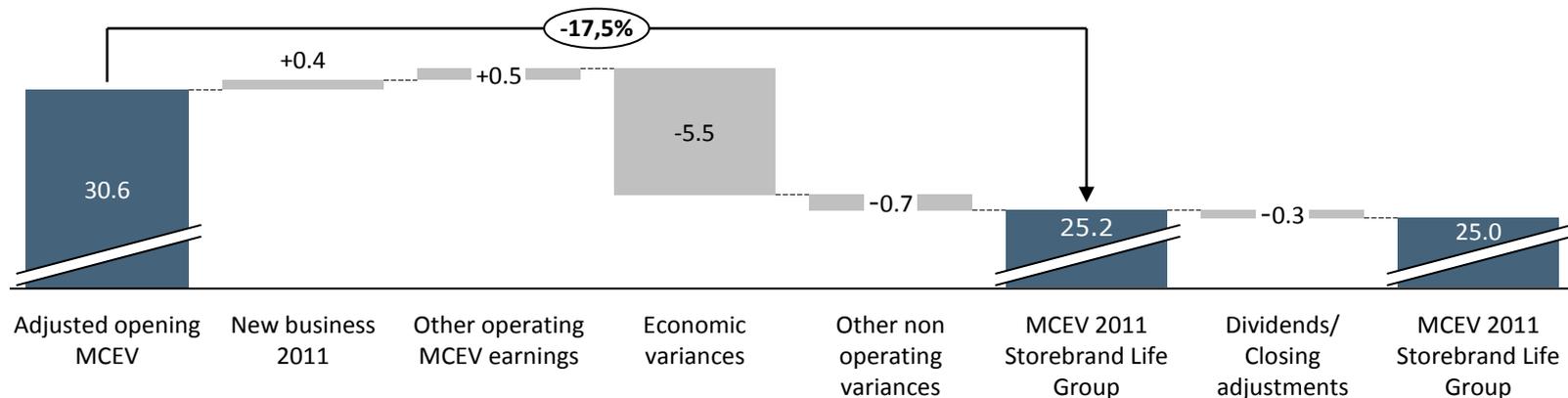
2011 Market Consistent Embedded Value

7 March 2012

# Storebrand Life Group

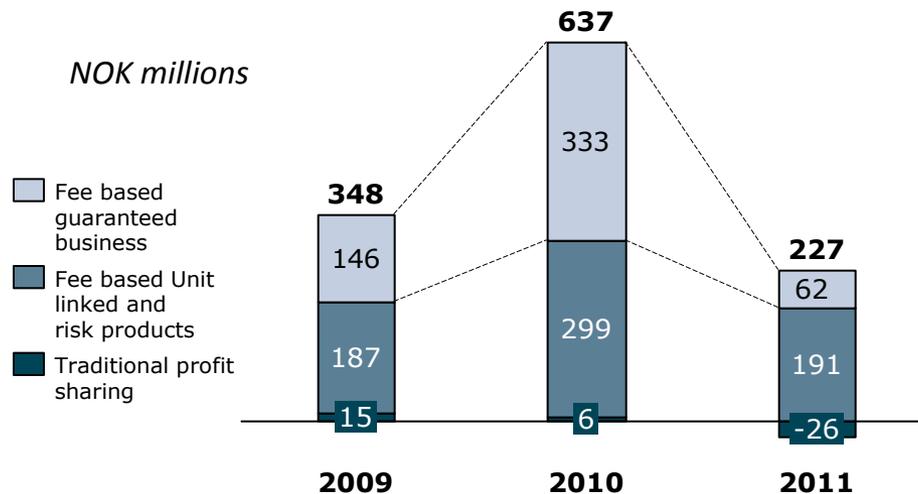
## - highlights MCEV 2011

- 2011 embedded value earnings of minus 5.4 billion NOK
  - - 17.5 % return on opening embedded value
  - + 2.8 % operating return
- Lower interest rates explains most of the MCEV reduction
- Growth in underlying business compensate for reduced VNB
- Proposed changes in tax legislation, not included in MCEV for 2011
- Storebrand Group MCEV of 63.0 NOK per share (74.7 NOK in 2010)



# Storebrand Life (Norway)

- Value of New Business of 227 million NOK



- Booked transfers 2.3 bn in 2011 vs 5.4 bn in 2010
- Inherent growth in existing business, not reflected in VNB

PVNB	11,044	19 060	9 083
PVNB margin	3.2%	3.3 %	2.5%
APE	1 026	1 445	713
APE margin	34%	44.1 %	31.9 %
IRR	17.6%	25.4 %	15.9 %

\* PVNB – Present value of new business premiums

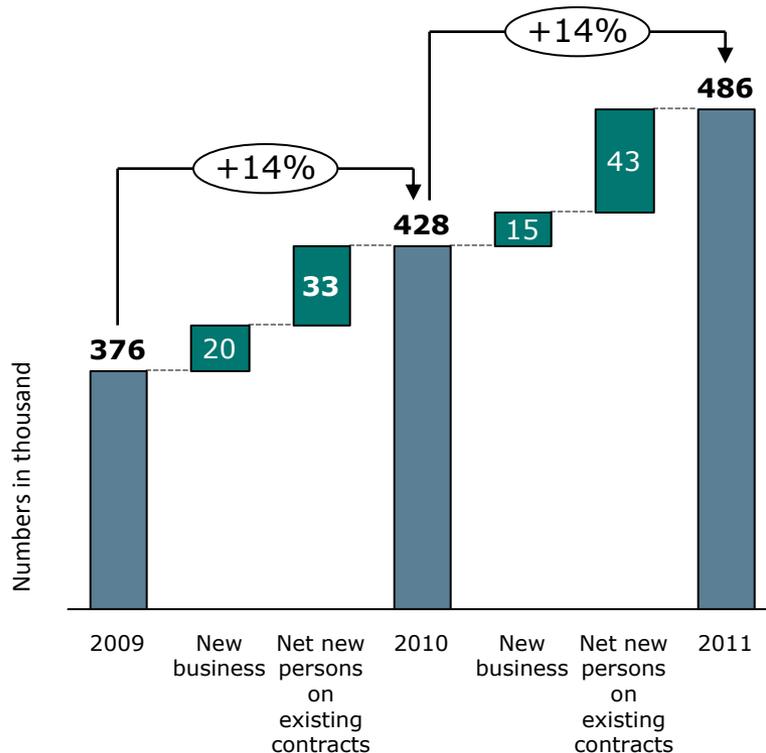
APE – Annual Premium Equivalent = Annual regular premium + 10% of single premium

IRR – Internal Rate of Return

# Storebrand Life (Norway)

- inherent growth in existing business increasingly important

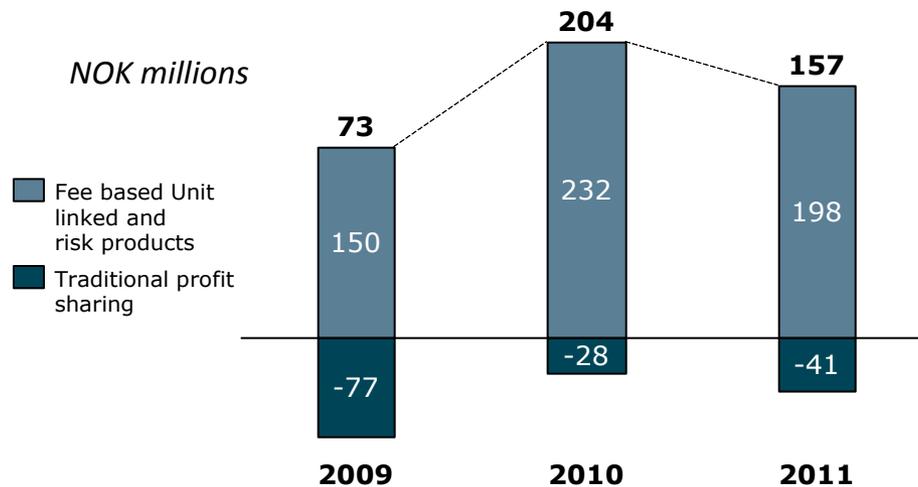
## Development in number of employees in DC schemes



- High growth in # of employees in existing contracts
  - increased growth gives 500 mill in operating variances
- High turnover → increased number of profitable capital certificates
- Low lapses

# SPP Life

- Value of New Business of 157 million NOK



- Channel mix increase average sales cost
- VNB negatively impacted by lower interest rates and increased volatility

PVNB	4 251	5 767	4 820
PVNB margin	1.7%	3.5 %	3.3 %
APE	670	857	802
APE margin	11%	23.8 %	19.6 %
IRR	8.5%	12.2 %	10.6 %

\* PVNB – Present value of new business premiums

APE – Annual Premium Equivalent = Annual regular premium + 10% of single premium

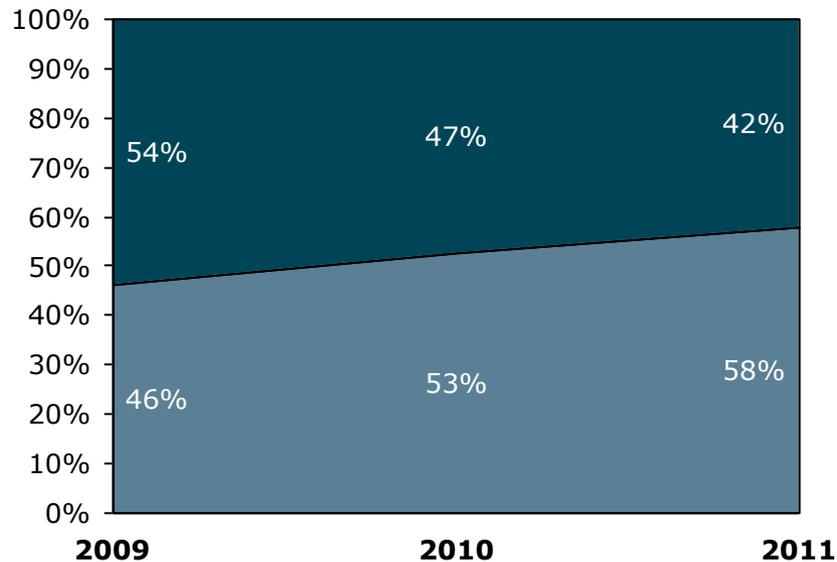
IRR – Internal Rate of Return

# SPP Life

- repositioning from guaranteed products to unit linked

## SPP Life Insurance (Sweden)

Premium income occupational pensions 2009-2011



■ Guaranteed products ■ Unit Linked

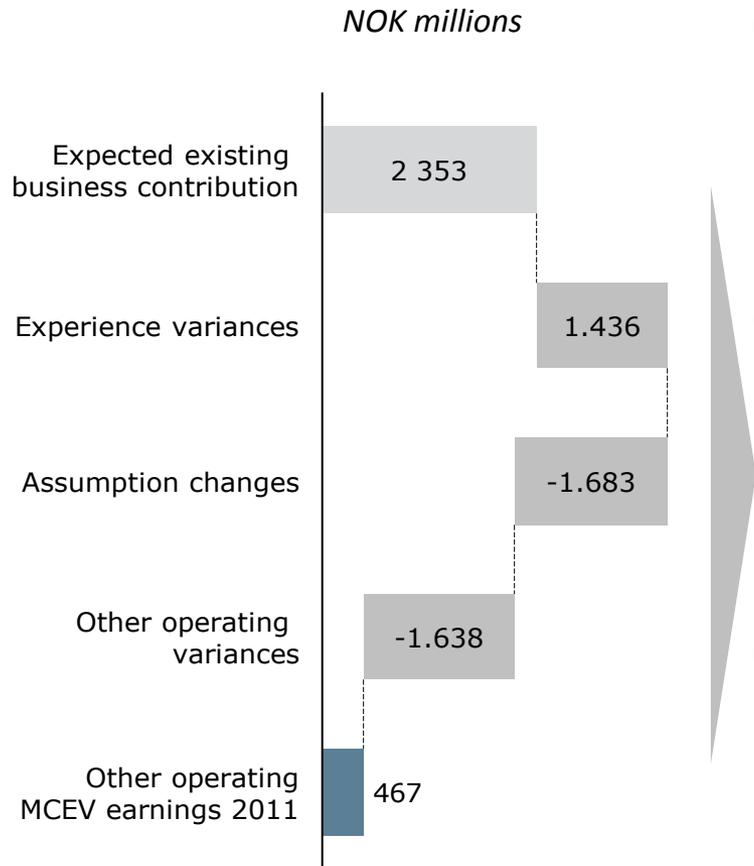
- Proportion of Unit Linked increased by 12% points last three years
- Premium income Unit Link increased by 20%
- Premium income Guaranteed products reduced by 25%
- SPP best Unit Linked provider in Sweden 4<sup>th</sup> year in a row<sup>1</sup>



<sup>1</sup> Elected by Söderberg & Partners

# Storebrand Life Group

- other operating MCEV earnings of 467 million NOK



- Experience variances

- Lower lapses
- Increased growth in employees on existing contracts
- Higher premiums than expected in SPP

- Assumption changes

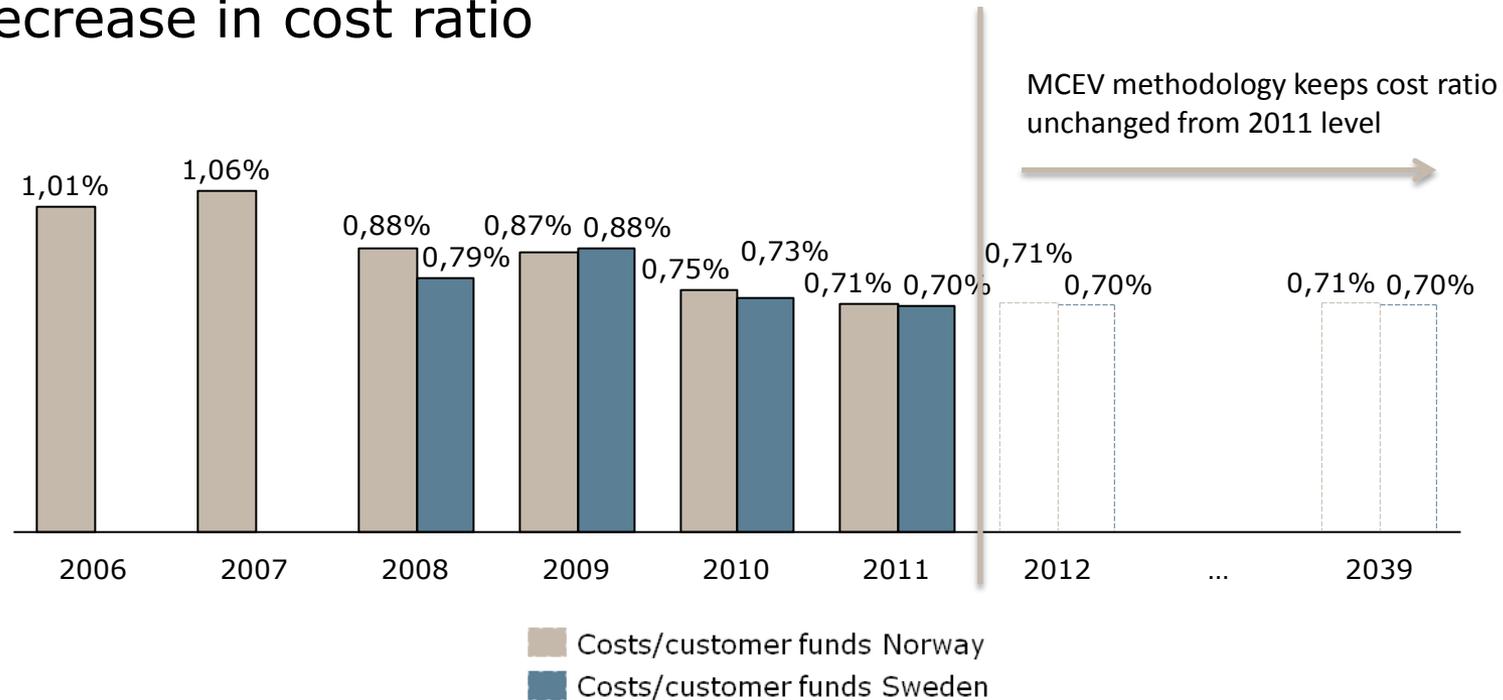
- New cost allocation
- Decreased mortality
- New asset management contract reduces the "look through" value

- Other operating variances

- Model changes increases CNHR, mainly derived from lower interest rates
- 2011 pricing unable to fully reflect current volatile market condition → reduced expected margin in SBL DB portfolio

# Storebrand Life Group

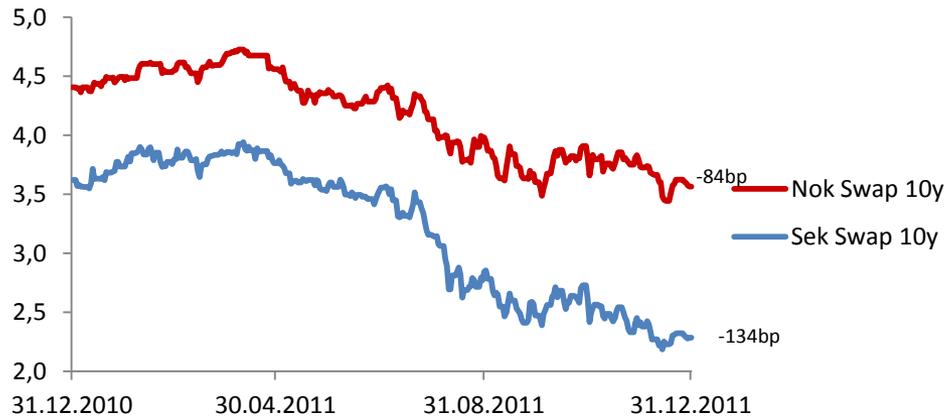
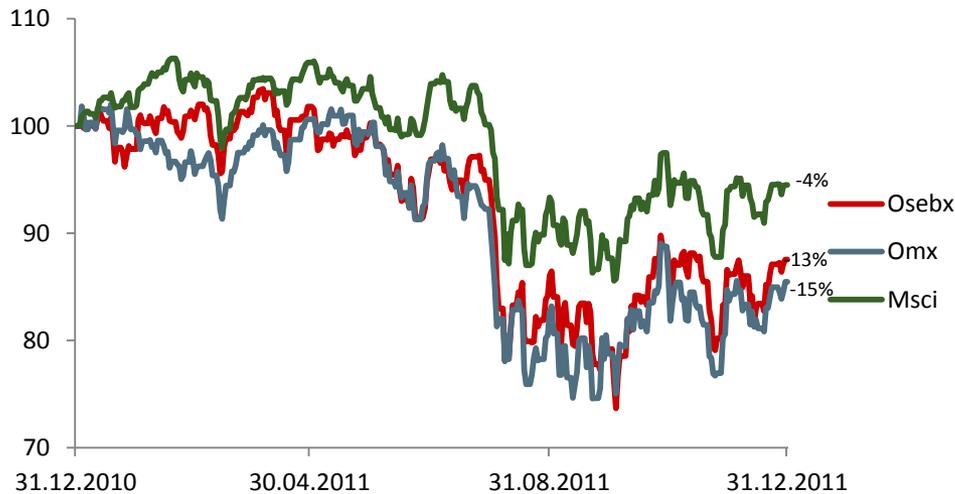
## - decrease in cost ratio



- Improved cost ratio
- Operational improvement in traditional business, decreased cost ratio
- Investments in new growth products with long cash flows penalize MCEV in the short term

# Storebrand Life Group

- economic variances of -5.6 bn



- Lower interest rates  $\sim -3.0$  bn\*
- Falling equity markets  $\sim 1.8$  bn\*:
  - Lower 2011 result
  - Reduced market value of customer funds
- Increased volatility in all asset classes  $\sim 0.8$  bn\*

\* Movements are approximations. A contribution between the different market factors will depend on the order you are changing each of them

# Storebrand Life Group

## - Embedded values 2010 and 2011

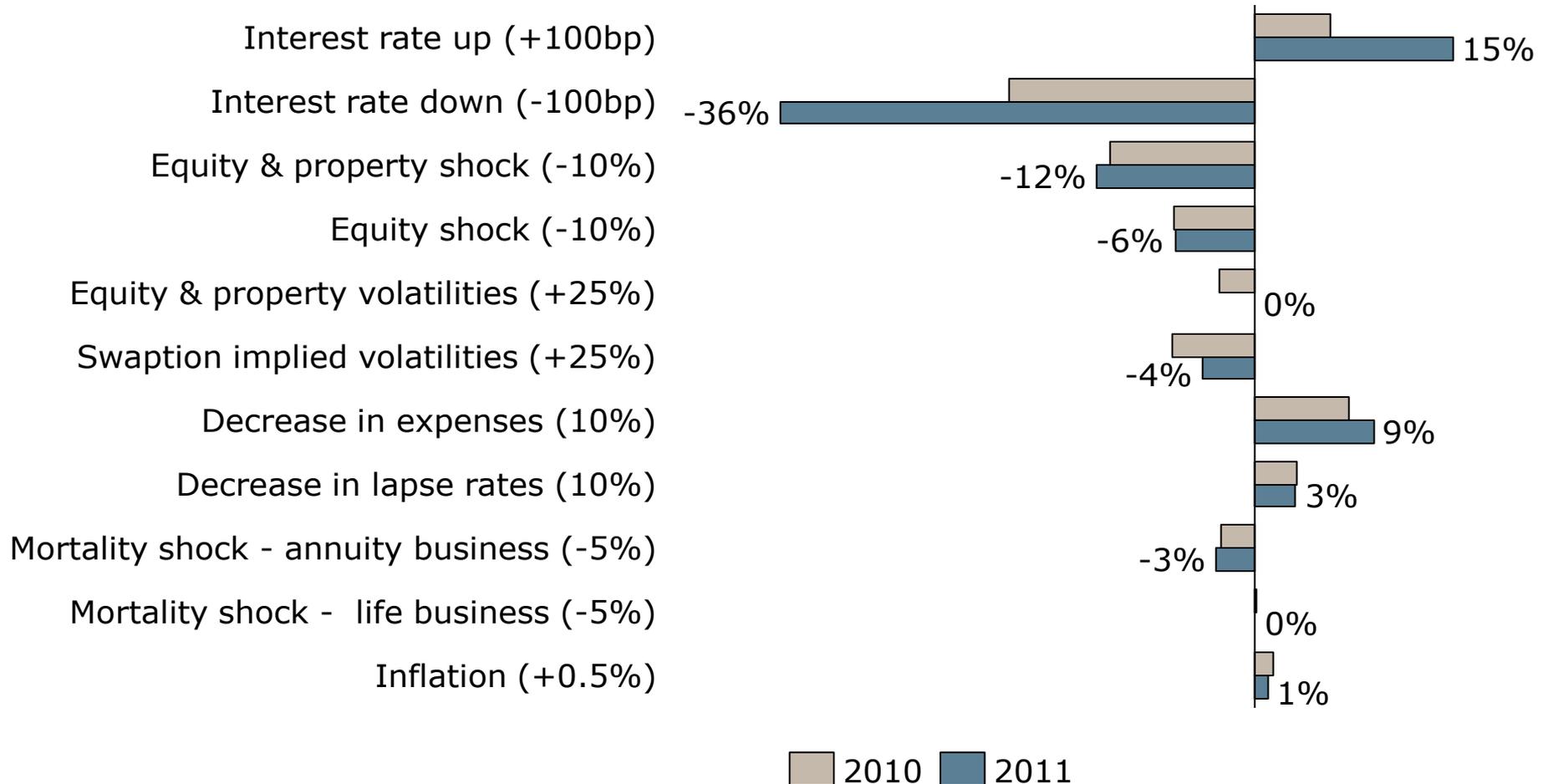
NOK mill.	MCEV 2010	MCEV 2011
<b>Total shareholder surplus at market value</b>	<b>8 951</b>	<b>8 575</b>
comprising		
- Free surplus	1 671	606
- Required capital <sup>1</sup>	7 280	7 969
<b>Value of In-force business</b>	<b>21 648</b>	<b>16 406</b>
comprising		
- PVFP	33 226	29 778
- TVOG	-7 766	-8 543
- FCRC	-159	-186
- CNHR	-3 653	-4 643
<b>Total embedded value</b>	<b>30 599</b>	<b>24 981</b>
<i>Look through value included in the PVFP</i>	<i>3 498</i>	<i>3 098</i>

- Lower free surplus caused by decreased shareholder surplus and increased required capital
- Decrease in PVFP and increase in TVOG and CNHR are all strongly related to lower interest rate
- New asset management contract reduces the “look through” value

<sup>1</sup> Based on targeted level of 150% solvency I ratio

# Storebrand Life Group

## - Sensitivities



# Storebrand Group 2011

## - MCEV per share of NOK 63.0

NOK million	31.12.2009 Group	31.12.2010 Group	31.12.2011 Group
Shareholder surplus	8 896	8 951	8 575
Value of in-force business	19 588	21 648	16 406
<b>Total MCEV Storebrand Life</b>	<b>28 484</b>	<b>30 599</b>	<b>24 981</b>
IFRS equity other businesses <sup>1</sup>	1 914	2 712	3 156
<b>Storebrand Group Embedded value</b>	<b>30 398</b>	<b>33 311</b>	<b>28 138</b>
Embedded value per share <sup>2</sup>	NOK 68.2	NOK 74.7	NOK 63.0

1 IFRS shareholders' equity for businesses not included in the MCEV analysis

2 Based on 445.9m shares for 2009, 446.1m shares for 2010 and 446.4 for 2011

# Storebrand Group

## - proposed changes in Norwegian tax legislation

- Proposed changes implies gains and losses from equity investment within EEA being treated as other asset classes
- Uncertainty related to effect, likely future tax rate between 20-25%
- 7.7 bn in losses carried forward will shield future result from payable tax in the Storebrand Group

## Sensitivities: Tax legislation

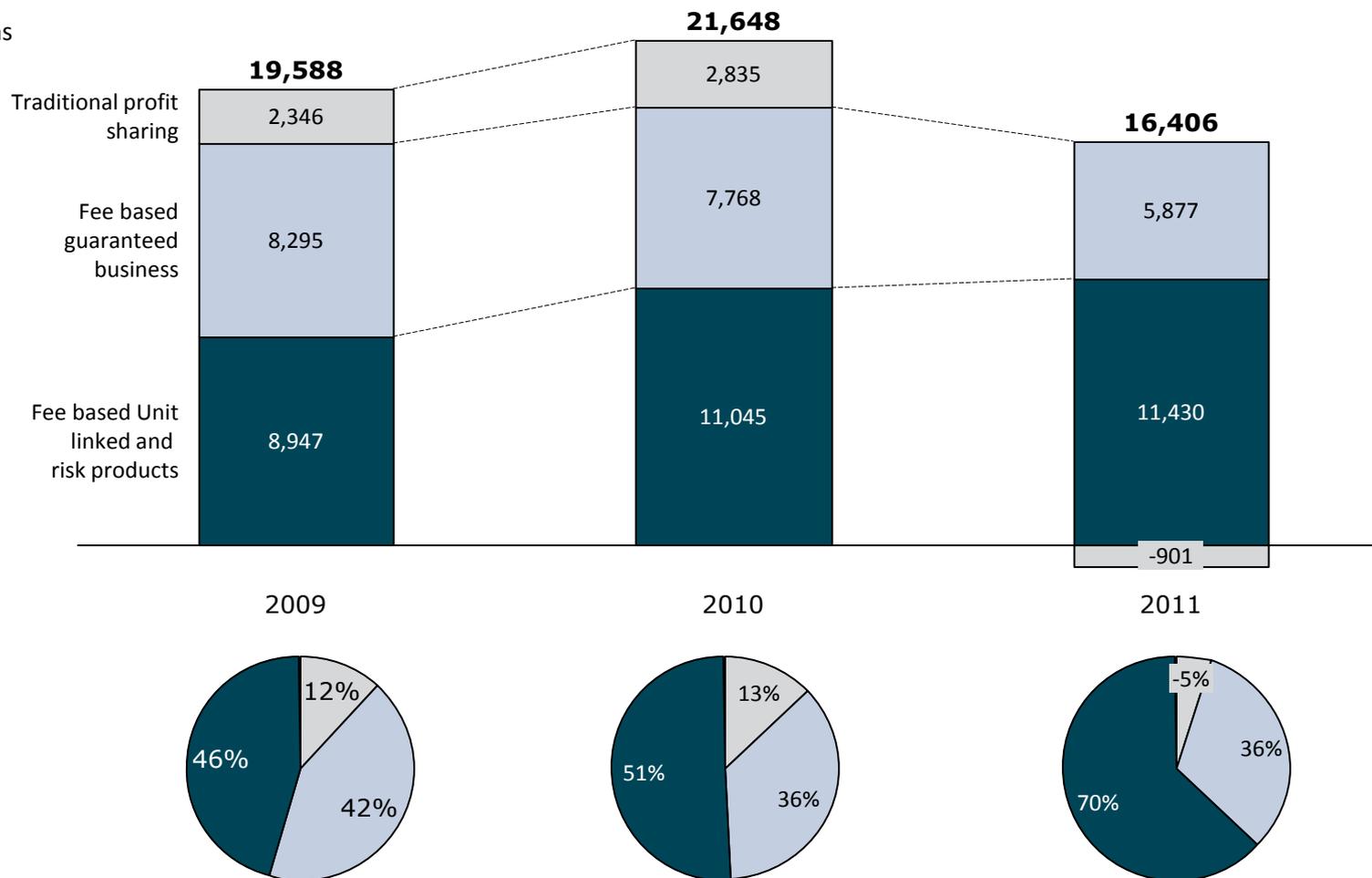
Effective tax rate	15 %	20 %	25 %	28 %
Storebrand Group MCEV effect	-1 332	-2 062	-2 792	-3 230
Storebrand Group MCEV effect (%)	-4.7 %	-7.3 %	-9.9 %	-11.5 %

*Assumptions: The sensitivities refers to tax on VIF from Storebrand Life Norwegian operations. Full company tax rate of 26.3% is used on the VIF for taxable products in SPP. Deducted from this is the net present value of losses carried forward. If the new legislation claims 25 % tax, then Group MCEV will drop by -9.9 % to 25 346 mNOK (-2 792 mNOK)*

# Storebrand Life Group

## - Value of In Force per product group

NOK millions



# Storebrand Life Group

## - MCEV summary

- Group MCEV 63.0 NOK per share
- MCEV reduced mainly due to lower interest rates and increased market volatility
- Growth in underlying business offsets reduction in VNB
- Shift from traditional guaranteed products to fee based non-guaranteed products continues

# MCEV calculations

## - external opinion 2011

### **Towers Watson Opinion**

"Towers Watson has reviewed the methodology and assumptions used to determine the 2011 embedded value results. The review covered the European Embedded Value as at 31 December 2011, the value of 2011 new business, the analysis of 2011 embedded value earnings and the sensitivities of the embedded value and new business value.

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 the 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.

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 values as at 31 December 2011 and the 2011 new business values. 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."



# Appendix

- Additional sensitivities to interest rate assumptions
- Break-down of implied discount rate
- Expected reserve development
- Projected VIF release

# Storebrand Life Group

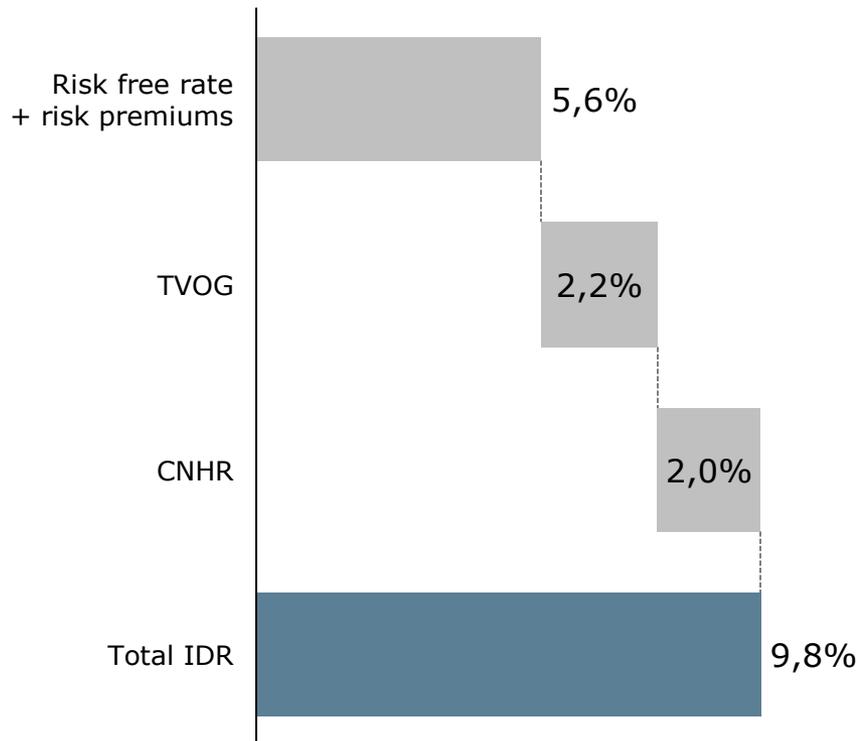
- additional sensitivities to interest rate assumptions

	Topic	Description	MCEV effect
1	Not a long liquid swap market	Storebrand has developed a macro extrapolation method for interest rates to value long dated liabilities, which is used in MCEV as well as the statutory accounting	Using the QiS5 specification <sup>1</sup> for extrapolation of the interest curve instead of Storebrands macroeconomic extrapolation will decrease MCEV by 20%

<sup>1</sup> EIOPA proposes to use such a curve to represent markets that are not “deep and liquid”. In constructing the curve, parameters must be set to specify the last liquid point of the market curve and both the level of long rates and at what point in time one should expect the long rate to materialize. This process should still be regarded as work in progress, as methodology and level of these parameters may change from EIOPA. Note that the sensitivity does not include updated CNHR or other secondary effects.

# Storebrand Life Group

- implied discount rate of 9.2%

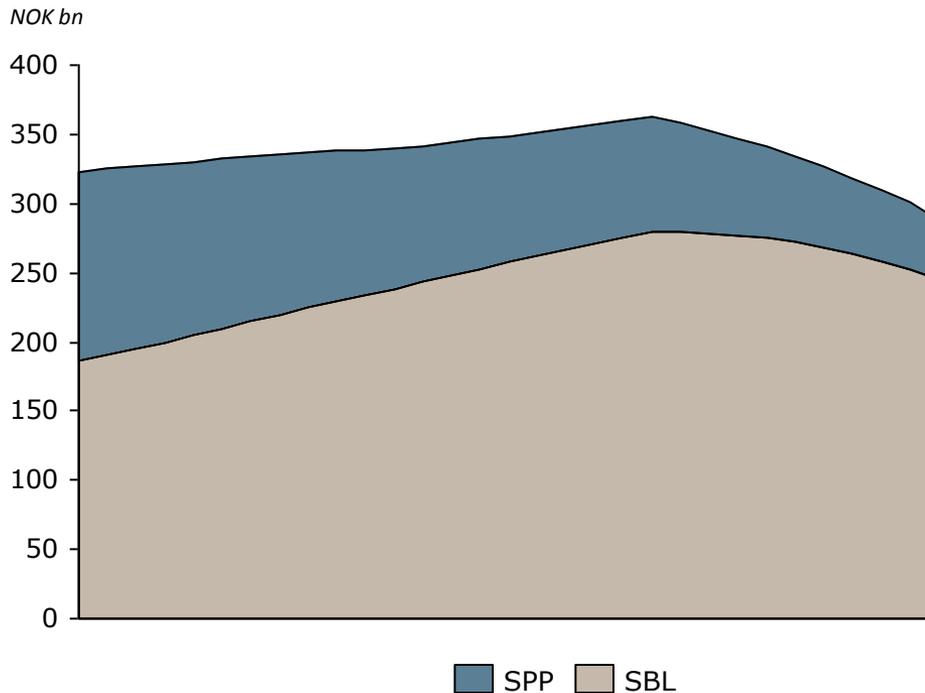


- 10.1% IDR for SBL
- 9.0% IDR for SPP

# Storebrand Life Group

- implied value of life insurance asset management (look through value) of 3.1 bn

Reserve projections 2011-2041



- 2.3 bn in look through value in SBL
- 0.8 bn in look through value in SPP
- Reserves projected to increase over the next 20 years

# Storebrand Life Group

- expected VIF release divided on SBL and SPP

