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ADAPTATION TO INTEREST RATES IN 1998 YEAR-END ACCOUNTS

In the 1998 year-end accounts, the operating result for life and unit linked assurance will be affected by the changed level of interest rates. Falling interest rates are giving rise to downward adjustments of the assumptions concerning present value computations, fund growth and inflation, that are used to calculate the operating result. Recalculation is expected to have a positive one-time effect of MSEK 750 on the operating result for unit linked assurance for 1998 before taxes and MSEK 500 after taxes. The operating result for life assurance will show a negative effect of approximately MSEK 300.

Net asset value is positively impacted by an estimated MSEK 200 in the 1998 accounts.

BACKGROUND

In Skandia's accounts, the unit linked assurance operations are reported using the embedded value method. Embedded value refers to the sum of the operations' shareholders' equity and the present value of anticipated future surpluses from contracts in force. The total present value of surpluses in the unit linked assurance operations, after tax, is included in net asset value.

Future surpluses have been discounted to present value using a discounting rate that is based on market rates of interest and a premium that is based on the group's required rate of return. To date, Skandia has used interest rates of between 10 and 15 per cent, inflation assumptions of between 2.5 and 5.0 per cent, and assumptions of fund growth ranging between 6.5 and 9.5 per cent.

Interest rates and inflation have fallen in most markets in recent years. Therefore, in the 1998 accounts, an adaptation of the assumptions will be made which better reflects the current economic conditions. The discounting rate in the 1998 accounts will be based on the net yield (after tax) of the 10-year government bond with a risk increment of 6 per cent, but not lower than the gross yield of the same bond with a risk increment of 4 percentage points. The assumption of fund growth for equities has been set as the gross yield of the bond rate with an increment of 2.5 percentage points. After 1998 the assumptions will be continuously adapted to the current level of interest rates on each reporting occasion. Moreover, starting in 1998 the operating result will be charged with a capital cost for the operation's solvency capital.

A lower interest rate will be used to discount technical provisions for life assurance in Denmark, which will entail a charge of approximately MSEK 300 against the operating result.

The assumptions for unit linked assurance for Skandia's most important countries have been adjusted as follows:

Assumptions	1998	1997	Impact on operating result
	%	%	MSEK
Present value discounting			2,100
USA	9.25	15.00	
UK	9.00	13.50	
Sweden	9.00	14.25	
Capital cost of solvency capital			-600
Fund growth			-750
USA	7.00	8.00	
UK	6.00	8.00	
Sweden	6.00	9.50	
Total impact on operating result, unit linked assurance			750
Total impact on net asset value			500

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