



# European Embedded Value Vital Forsikring and Vital Link 31 December 2006

# Why Embedded Value?

- Life insurance contracts are long-term; need for additional information beyond what can be read from accounts.
- EV captures profit generating activities such as new business (and lapses) in a more appropriate way than traditional accounting.
- Change in Embedded Value expresses value creation.
- Future new business is not a part of Embedded Value.

## Embedded Value elements

**Value of  
in-force  
business**

**(+) Future profit  
(-) Value of options**

**Adjusted Net  
Asset Value**

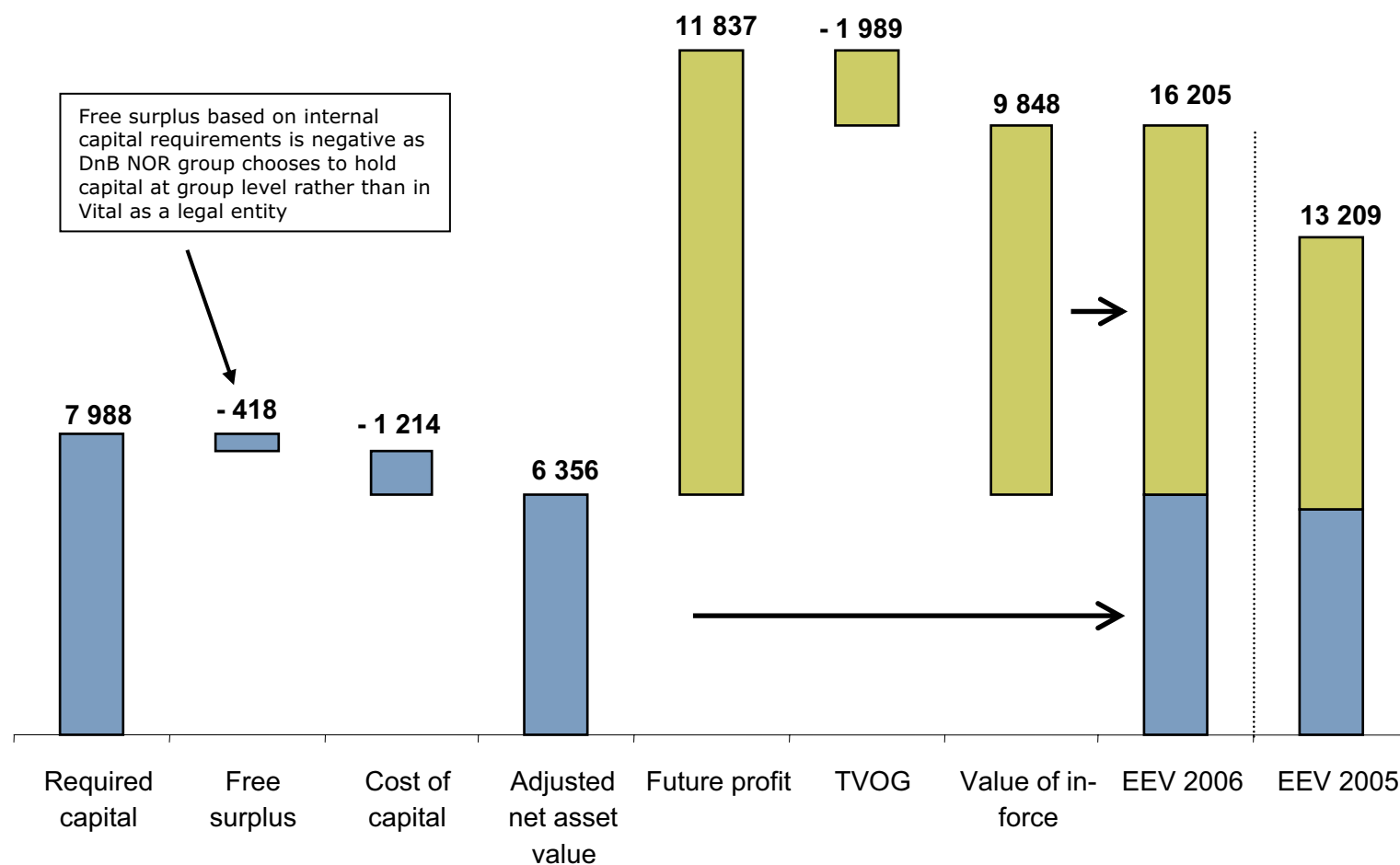
**(+) Required capital  
(+) Free surplus  
(-) Cost of Capital**

# EEV 2006 highlights

---

- Embedded Value as at 31 December 2006 of NOK 16,205 million after net dividend of NOK 2,018 million.
- Restated European Embedded Value (EEV) as at 31 December 2005 decreases from NOK 14,757 million to NOK 13,209 million, due to inclusion of time values of options and guarantees (TVOG) and transition to internal capital requirements.
- Embedded Value earnings for financial year 2006 of NOK 5,014 million, 38.0 % of opening embedded value.
- Value of new business of NOK 517 million, with improved new business margins for unit link products.
- Decrease in TVOG of NOK 1,058 million (34.7 %) from year-end 2005 to 2006, due to a significant increase in buffers and higher risk-free interest rates.
- Embedded Value is calculated based on current legislation. We believe that new legislation provides a potential boost in Embedded Value.
- Vital's EEV calculations are compliant with CFO Forum Principles and have been reviewed by Deloitte.

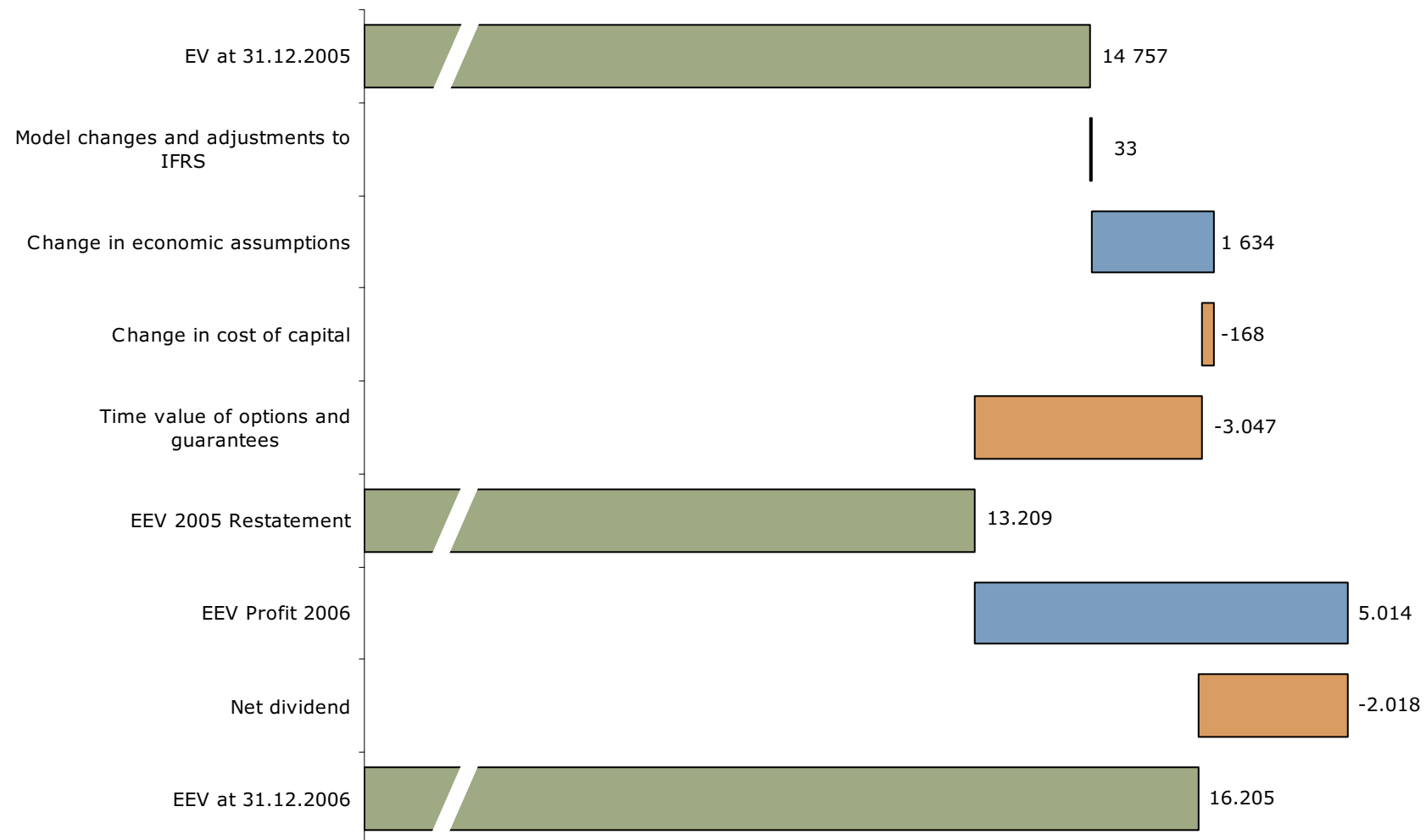
# EEV composition at 31 December 2006



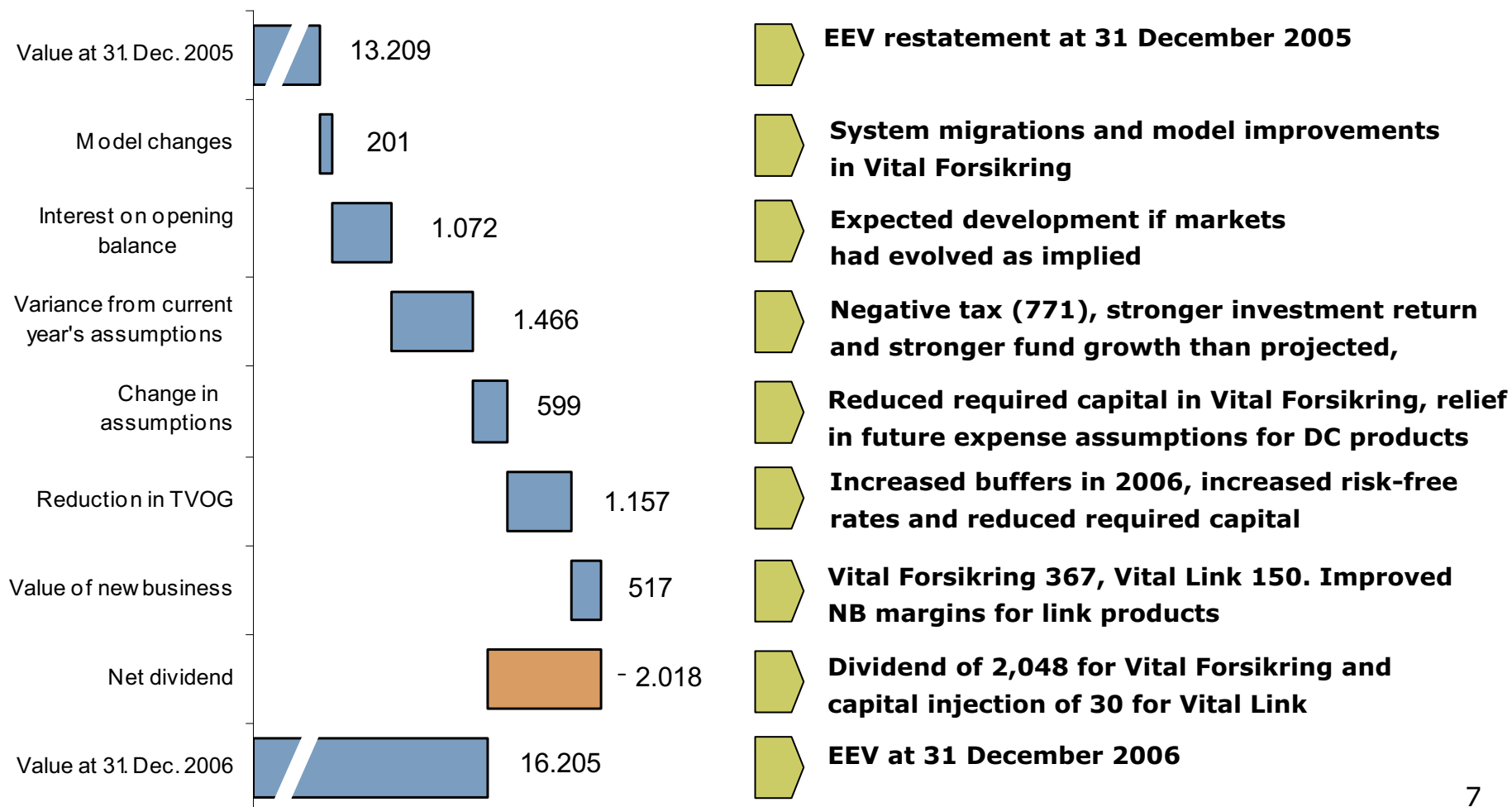
# European Embedded Value results

| NOK million                          | EV 2005       | EEV 2005<br>Restatement | EEV 2006      |
|--------------------------------------|---------------|-------------------------|---------------|
| <b>EEV Vital Forsikring</b>          | <b>13.845</b> | <b>12.163</b>           | <b>14.082</b> |
| <b>Adjusted net asset value</b>      | <b>5.999</b>  | <b>5.824</b>            | <b>6.000</b>  |
| Required capital                     | 3.383         | 8.458                   | 7.876         |
| Free surplus                         | 3.773         | (1.271)                 | (668)         |
| Cost of capital                      | (1.158)       | (1.363)                 | (1.208)       |
| <b>Value of in-force</b>             | <b>7.847</b>  | <b>6.339</b>            | <b>8.082</b>  |
| Group Pensions                       | 5.398         | 6.467                   | 7.099         |
| Individual Pension                   | 1.397         | 1.728                   | 1.688         |
| Individual Capital                   | 382           | 408                     | 439           |
| Aggregate reserves                   | 670           | 782                     | 846           |
| Time value of options and guarantees | -             | (3.047)                 | (1.989)       |
| <b>EEV Vital Link</b>                | <b>911</b>    | <b>1.047</b>            | <b>2.123</b>  |
| <b>Adjusted net asset value</b>      | <b>174</b>    | <b>203</b>              | <b>356</b>    |
| Required capital                     | 168           | 79                      | 113           |
| Free surplus                         | 39            | 129                     | 250           |
| Cost of capital                      | (33)          | (4)                     | (6)           |
| <b>Value of in-force</b>             | <b>737</b>    | <b>843</b>              | <b>1.766</b>  |
| Total Individual products            | 589           | 632                     | 947           |
| Total Defined Contribution Schemes   | 149           | 212                     | 819           |
| <b>Total EEV Vital</b>               | <b>14.757</b> | <b>13.209</b>           | <b>16.205</b> |

# EV at 31 December 2005 is recalculated according to EEV principles



# EEV profit 2006 of NOK 5,014 million 38,0 % of opening EEV



# Strong EEV development in 2006 for Vital Forsikring and Vital Link



| NOK million                              | Vital Forsikring | Vital Link   | Total EEV     |
|--|------------------|--------------|---------------|
| <b>EEV at 31 December 2005</b>           | <b>12 163</b>    | <b>1 047</b> | <b>13 209</b> |
| Model changes                            | 201              |              | 201           |
| Interest on opening balance              | 1 005            | 67           | 1 072         |
| Variance from current year's assumptions | 926              | 540          | 1 466         |
| Change in assumptions                    | 309              | 289          | 599           |
| Reduction in TVOG                        | 1 157            |              | 1 157         |
| Value of new business                    | 368              | 150          | 517           |
| Net dividend                             | (2 048)          | 30           | (2 018)       |
| <b>EEV at 31 December 2006</b>           | <b>14 082</b>    | <b>2 123</b> | <b>16 205</b> |



# Increased value of New Business (NB) in 2006



| <b>NOK million</b>                           | <b>2005</b> | <b>2006</b> |
|--|-------------|-------------|
| <b>Group Pension (Vital Forsikring)</b>      | 279         | 389         |
| <b>Individual Pension (Vital Forsikring)</b> | 83          | 61          |
| <b>Individual Capital (Vital Forsikring)</b> | 95          | 81          |
| <b>Unit Link products (Vital Link)</b>       | 23          | 154         |
| <b>Cost of capital</b>                       | (59)        | (68)        |
| <b>Time value of options and guarantees</b>  |             | (100)       |
| <b>Value of new business</b>                 | <b>421</b>  | <b>517</b>  |

- **Increased margins in Vital Forsikring is caused by a relatively higher proportion of group pension in new business**
- **Improved margins for defined contribution products and for unit link business in Sweden**

# Improved NB Margins for both Vital Forsikring and Vital Link



|  | 2004   | 2005   | 2006   |
|--|--------|--------|--------|
| <b>VITAL FORSIKRING</b>                                      |        |        |        |
| Value of new business  | 346    | 403    | 368    |
| Annual premiums  | 498    | 443    | 391    |
| Single premiums and transferred reserves                     | 8.462  | 12.730 | 9.356  |
| 1) Single premiums + present value of annual premiums        |        | 16.403 | 13.602 |
| 2) Annual premiums + single premiums/10 (APE)                | 1.344  | 1.716  | 1.326  |
| New business profit margins, based on method 1               |        | 2,5 %  | 2,7 %  |
| New business profit margins, based on method 2 (in % of APE) | 25,7 % | 23,5 % | 27,7 % |
| <b>VITAL LINK</b>  |        |        |        |
| Value of new business  | 12     | 18     | 150    |
| Annual premiums  | 156    | 162    | 1.045  |
| Single premiums and transferred reserves                     | 2.120  | 1.801  | 2.121  |
| 1) Single premiums + present value of annual premiums        |        | 2.644  | 11.816 |
| 2) Annual premiums + single premiums/10 (APE)                | 368    | 342    | 1.257  |
| New business profit margins, based on method 1               |        | 0,7 %  | 1,3 %  |
| New business profit margins, based on method 2 (in % of APE) | 3,3 %  | 5,3 %  | 11,9 % |
| <b>VITAL FORSIKRING AND VITAL LINK</b>                       |        |        |        |
| Value of new business  | 358    | 421    | 517    |
| Annual premiums + single premiums/10 (APE)                   | 1.712  | 2.058  | 2.583  |
| New business profit margins in % of APE                      | 20,9 % | 20,5 % | 20,0 % |

# EEV Sensitivities

## Vital Forsikring and Vital Link



| Vital Forsikring and Vital Link                | Total EEV | Change  | Change in % | Total value of new business | Change | Change in % |
|--|-----------|---------|-------------|-----------------------------|--------|-------------|
| <b>Central Assumptions</b>                     | 16.205    |         |             | 517                         |        |             |
| <b>Risk Discount Rate +1 %</b>                 | 14.087    | (2.118) | -13,1 %     | 395                         | (122)  | -23,7 %     |
| <b>Interest rate – 1 %</b>                     | 12.765    | (3.439) | -21,2 %     | 388                         | (129)  | -25,0 %     |
| <b>Interest rate + 1 %</b>                     | 17.416    | 1.211   | 7,5 %       | 587                         | 70     | 13,6 %      |
| <b>Equity and property market values -10 %</b> | 15.008    | (1.196) | -7,4 %      | 510                         | (7)    | -1,3 %      |
| <b>Equity and property risk premiums +1 %</b>  | 17.587    | 1.383   | 8,5 %       | 630                         | 112    | 21,7 %      |
| <b>10 % lower expenses</b>                     | 16.357    | 152     | 0,9 %       | 605                         | 88     | 16,9 %      |
| <b>10 % fewer lapses</b>                       | 16.331    | 127     | 0,8 %       | 547                         | 29     | 5,7 %       |
| <b>5 % lower mortality</b>                     | 16.222    | 18      | 0,1 %       | 518                         | 1      | 0,1 %       |

# Financial assumptions (1)

|                            | EV2003  | EV2004  | EV2005  | EEV2005 | EEV2006 |
|----------------------------|---------|---------|---------|---------|---------|
| Investment return          |         |         |         |         |         |
| Bonds                      | 5,00 %  | 4,50 %  | 4,20 %  | 4,20 %  | 4,33 %  |
| Equities                   | 7,50 %  | 7,00 %  | 7,20 %  | 7,20 %  | 7,33 %  |
| Property                   | 6,50 %  | 6,50 %  | 6,70 %  | 6,70 %  | 6,83 %  |
| Money market               | 4,00 %  | 3,00 %  | 3,50 %  | 3,50 %  | 4,10 %  |
| Other                      | 4,00 %  | 3,00 %  | 3,50 %  | 3,50 %  | 3,50 %  |
| Asset mix Vital Forsikring |         |         |         |         |         |
| Hold to maturity Bonds     | 35,00 % | 34,00 % | 35,00 % | 35,00 % | 35,00 % |
| Norwegian bonds            | 11,00 % | 18,00 % | 13,00 % | 13,00 % | 13,00 % |
| International bonds        | 14,00 % | 8,00 %  | 4,00 %  | 4,00 %  | 4,00 %  |
| Norwegian equities         | 9,00 %  | 6,00 %  | 6,00 %  | 6,00 %  | 6,00 %  |
| Foreign equities           | 9,00 %  | 12,00 % | 14,00 % | 14,00 % | 14,00 % |
| Property                   | 13,00 % | 13,00 % | 15,00 % | 15,00 % | 15,00 % |
| Money market               | 5,00 %  | 5,00 %  | 9,00 %  | 9,00 %  | 9,00 %  |
| Other                      | 4,00 %  | 4,00 %  | 4,00 %  | 4,00 %  | 4,00 %  |
| Asset mix Vital Link       |         |         |         |         |         |
| Hold to maturity bonds     | 20,00 % | 20,00 % | 20,00 % | 20,00 % | 20,00 % |
| Norwegian equities         | 70,00 % | 60,00 % | 60,00 % | 60,00 % | 60,00 % |
| Money market               | 10,00 % | 20,00 % | 20,00 % | 20,00 % | 20,00 % |

## Financial assumptions (2)

|                                    | <b>EV2003</b> | <b>EV2004</b> | <b>EV2005</b> | <b>EEV2005</b> | <b>EEV2006</b> |
|------------------------------------|---------------|---------------|---------------|----------------|----------------|
| Risk discount rate                 | 8,75 %        | 8,50 %        | 8,50 %        | 6,49 %         | 6,46 %         |
| Investment return Vital Forsikring | 5,56 %        | 5,08 %        | 5,08 %        | 5,08 %         | 5,25 %         |
| Investment return Vital Link       | 6,65 %        | 5,70 %        | 5,86 %        | 5,86 %         | 6,08 %         |
| Tax                                | 16,00 %       | 0,00 %        | 0,00 %        | 0,00 %         | 0,00 %         |
| Salary inflation*                  | 4,00 %        | 4,00 %        | 4,00 %        | 4,00 %         | 4,00 %         |
| Expense inflation                  | 3,50 %        | 3,50 %        | 3,50 %        | 3,50 %         | 3,50 %         |

\* In 2003 and 2004 salary inflation was 3% for some products

# Stochastic simulations are based on the following volatilities and correlations



|                        | <b>Total</b> | <b>Money<br/>market</b> | <b>Nor.<br/>bonds</b> | <b>Intern.<br/>bonds</b> | <b>Nor.<br/>equities</b> | <b>Intern.<br/>equities</b> | <b>HTM<br/>bonds</b> | <b>Real<br/>estates</b> |
|------------------------|--------------|-------------------------|-----------------------|--------------------------|--------------------------|-----------------------------|----------------------|-------------------------|
| Money market           |              | 100 %                   | 71 %                  | 19 %                     | 2 %                      | 4 %                         | 0 %                  | 14 %                    |
| Norwegian bonds        |              | 71 %                    | 100 %                 | 53 %                     | 1 %                      | 3 %                         | 0 %                  | 18 %                    |
| International bonds    |              | 19 %                    | 53 %                  | 100 %                    | -22 %                    | -15 %                       | 0 %                  | 1 %                     |
| Norwegian equities     |              | 2 %                     | 1 %                   | -22 %                    | 100 %                    | 64 %                        | 0 %                  | 33 %                    |
| International equities |              | 4 %                     | 3 %                   | -15 %                    | 64 %                     | 100 %                       | 0 %                  | 19 %                    |
| HTM bonds              |              | 0 %                     | 0 %                   | 0 %                      | 0 %                      | 0 %                         | 100 %                | 0 %                     |
| Real estates           |              | 14 %                    | 18 %                  | 1 %                      | 33 %                     | 19 %                        | 0 %                  | 100 %                   |
| % of total balance     | 100,0 %      | 13,0 %                  | 13,0 %                | 4,0 %                    | 6,0 %                    | 14,0 %                      | 35,0 %               | 15,0 %                  |
| Expected inv. ret.     | 5,3 %        | 4,1 %                   | 4,3 %                 | 4,3 %                    | 7,3 %                    | 7,3 %                       | 4,3 %                | 6,8 %                   |
| Volatility             | 3,3 %        | 0,5 %                   | 3,3 %                 | 2,8 %                    | 19,4 %                   | 14,7 %                      | 0,2 %                | 5,0 %                   |

# Cost of Capital

---

- Cost of Capital is the difference between investment return achieved on required capital, and the return required by shareholders
- Required capital is calculated based on internal capital requirements (group capitalisation model)
- Based on AA rating target and driven by asset mix / risk profile
- Required return based on risk free rate and market consistent equity premium
- Required capital at 31 December 2006 calculated to be 147 % of statutory capital requirements

# Time Value of Interest Rate Guarantee

- The time value of the interest rate guarantee has been calculated using a a simplified stochastic model for future investment returns. The simplification lies in the modelling of future interest rates.
- The time value of the interest rate guarantee includes both the risk associated to the interest guarantee itself, as well as the risk associated to policyholders' rights to at least 65% of total profit under current legislation.
- These risks are off-set by the funds available to meet them such as additional allocations, unrealised capital gains fund and unrealised gains on HTM bonds.
- The time value of the interest rate guarantee is estimated as the difference between
  1. the corresponding shareholder value from a deterministic model using expected economic assumptions and
  2. the estimated shareholder value using a model with stochastic Monte Carlo projections
- It is assumed that the asset mix remains constant throughout the projections
- No explicit allowance has been made for policyholder behaviour linked to development in capital markets, as the impact of such behavior has been assessed immaterial



# We believe that new legislation provides a potential boost in EEV



| Billion NOK   | Scenario A |             | Scenario B |             |
|---|------------|-------------|------------|-------------|
| Group pension active schemes  |            |             |            |             |
| Margin on administration and risk premium   | 4,00 %     | 1,4         | 8,00 %     | 2,7         |
| Margin on asset management and premium on guaranteed interest rates, % of funds                       | 0,30 %     | 4,2         | 0,50 %     | 7,0         |
|   |            | 5,6         |            | 9,8         |
| Paid-ups and individual contracts, % of funds   | 0,30 %     | 3,2         | 0,40 %     | 4,3         |
| Unit link products, no material changes   |            | 1,7         |            | 1,7         |
| <b>Indication on value in force under new legislation excluding time value of interest guarantees</b> |            | <b>10,5</b> |            | <b>15,7</b> |
| <b>EEV at 31.12.2006, value in force excluding time value of interest guarantees</b>                  |            | <b>11,8</b> |            | <b>11,8</b> |



# Deloitte opinion

## **Review of European Embedded Value of Vital Forsikring ASA as at 31 December 2006**

We have reviewed the supplementary financial information provided in the document European Embedded Value ("EEV") of the Vital Forsikring ASA ("Vital") life business as at 31 December 2006 (the "EEV report 2006"). The EEV report 2006 has been prepared in accordance with the European Embedded Value Principles issued in May 2004 by the CFO Forum ("EEV principles") using the methodology and assumptions set out in that report.

## **Responsibility of Board of Directors**

The EEV report 2006 is the sole responsibility of the Board of Directors of Vital. It has been prepared by Vital on the basis of the Vital methodology as described in the EEV report 2006.

## **Basis of Review Opinion**

Our review was conducted in accordance with International Standards on Assurance Engagements 3000 issued by the International Auditing and Assurance Standards Board and the International Actuarial Standard of Practice No. 2 issued by the International Actuarial Association.

We have planned and performed our review so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the EEV report 2006 is free from material misstatements, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of the EEV report 2006.

## **Uncertainty around EEV**

The calculation of an EEV necessarily makes numerous assumptions with respect to economic conditions, operating conditions, taxes and other matters, many of which are beyond Vital's control. Although the assumptions used represent estimates which the Directors believe are together reasonable, actual experience in future may vary from that assumed in the calculation of the EEV results and any such variations may be material. Deviations from assumed experience are normal and are to be expected. EEV does not purport to encompass all the many factors that may bear upon a market value.

## **Opinion**

In our opinion, the EEV report 2006 has been properly prepared in accordance with the EEV principles using the methodology and assumptions set out in that report.

23.02.2007

18