



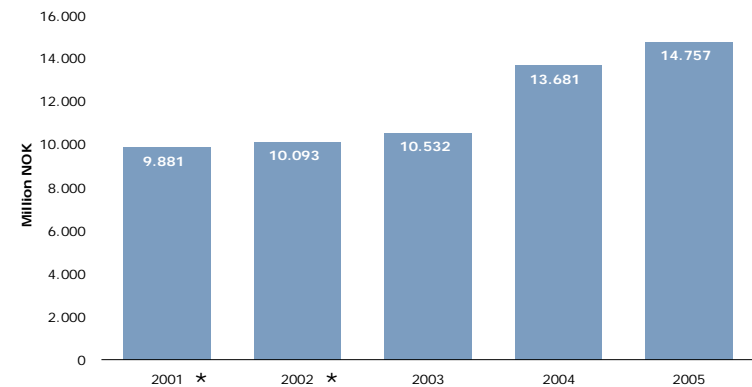
Embedded Value

Vital Forsikring and Vital Link

31 December 2005

# Embedded Value – Vital

- Embedded Value of NOK  
14 757 mill. as at 31 December 2005
- Embedded result of NOK 2 623 million.  
19.2 % of EV as at 31 December 2004
- Value added by new business in 2005  
of NOK 421 million.  
NOK 358 million in 2004



\* Separate calculations for Vital Forsikring and Gjensidige Nor Spareforsikring 2001 and 2002



## 2005 Embedded Value

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- Based on traditional deterministic EV methodology
- Calculated by Vital, reviewed by Deloitte
- Value of options and guarantees given as supplementary information



# Key Assumptions

	2003	2004	2005
Risk discount rate	8,75 %	8,50 %	8,50 %
Investment return Vital Forsikring	5,6 %	5,1 %	5,1 %
Investment return Vital Link	6,7 %	5,7 %	5,9 %
Bonds	5,0 %	4,5 %	4,2 %
Equities	7,5 %	7,0 %	7,2 %
Real estate	6,5 %	6,5 %	6,7 %
Assumed equity share	18,0 %	18,0 %	20,0 %
Expense inflation	3,5 %	3,5 %	3,5 %
Salary escalation	3%-4%	3%-4%	4,0 %
Tax rate	16,0 %	0,0 %	0,0 %

- Mortality and expenses based on recent experience
- Lapses based on recent experience, excluding transfers from Vital Forsikring to Vital Link (transfer between Vital Link and Vital Forsikring has been excluded from the Value of New Business)
- Cost of locking-in capital based on Norwegian minimum capital ratio requirements
- 50% of required solvency margin assumed to be covered by subordinated loan capital

# Embedded Value calculations are based on current legislation



- Profit sharing in Vital Forsikring between policyholders and shareholders is assumed to follow existing profit sharing model. Shareholder are entitled to:
    - Return on equity, subordinated loan capital and security reserve, after loan servicing costs and allocations to security reserve
    - 0.38 % pa of customer funds
    - Up to 12 % pa of risk premiums, varying by product
  - New legislation on life insurance will have impact on future profit sharing model between policyholders and owners of Vital Forsikring
  - New legislation is expected to become operative from 1 January 2008, with transitional periods on some key areas
  - Shareholders profit margins under new legislation are assumed to equal margins under current regime
- EV calculations are based on current legislation

# Embedded Value as at 31 December 2005 by RDR



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<b>Embedded Value 2005 by RDR</b>	<b>7,50 %</b>	<b>8,50 %</b>	<b>9,50 %</b>
Vital Forsikring	14.810	<b>13.845</b>	13.027
Vital Link	971	<b>911</b>	859
Total	15.781	<b>14.757</b>	13.886

# Embedded Value at Central Risk Discount Rate



Vital Forsikring	Reserves at 31.12.2005 (NOK millions)	2003	2004	2005
Net asset value		5.898	7.156	7.156
Value of inforce business	177,6	5.262	6.973	7.847
Group pensions	97,6	3.524	4.722	5.398
Individual pensions	46,4	1.057	1.338	1.397
Individual capital	14,6	225	332	382
Other funds *	19,0	456	581	670
Cost of lock-in capital		-978	-1.001	-1.158
<b>Embedded Value Vital Forsikring</b>		<b>10.182</b>	<b>13.128</b>	<b>13.845</b>

Vital Link	Reserves at 31.12.2005 (NOK millions)	2003	2004	2005
Net asset value (adjusted)		138	144	207
Value of inforce business	13,1	234	433	737
Defined contribution schemes	0,6	-	-	149
Individual contracts	12,5	-	-	589
Cost of lock-in capital		-22	-24	-33
<b>Embedded Value Vital Link</b>		<b>350</b>	<b>553</b>	<b>911</b>
<b>Vital Forsikring and Vital Link</b>		<b>10.532</b>	<b>13.681</b>	<b>14.757</b>

# Value Added by New Business Vital Link and Vital Forsikring



NOK millions	Group pensions	Individual pensions	Individual capital	Vital Forsikring	Vital Link	Total Vital
Value of new business exclusive of lock-in cost	279	83	95	457	23	480
Cost of lock-in capital	-39	-14	-1	-54	-5	-59
Value of new business	240	69	94	403	18	421
Annual premiums	349	94	0	443	162	605
Single premiums	3.208	2.299	7.224	12.730	1.801	14.531
	0	0	0	0	0	0
1) Single premiums + present value of annual premiums	6.397	2.782	7.224	16.403	2.644	19.047
2) Annual premiums + single premiums/10 (APE)	670	324	722	1.716	342	2.059
New business profit margin, based on method 1	3,8 %	2,5 %	1,3 %	2,5 %	0,7 %	2,2 %
New business profit margin, based on method 2	35,8 %	21,4 %	13,0 %	23,5 %	5,3 %	20,5 %





# Embedded Value Sensitivities

NOK millions	Vital Forsikring	Vital Link	Total
Central assumptions	13.845	911	14.757
RDR -1%	964	60	1.024
RDR +1%	-818	-52	-870
Investment return +1% pa	491	85	576
Investment return -1% pa	-2.404	-77	-2.480
20% fewer lapses	252	38	290
10% higher mortality	-10	1	-9
20% higher renewal expenses	-21	-119	-140
Tax rate +1%	-94	-8	-102



## Sensitivity - Low Investment Return Scenario

- Central EV for Vital Forsikring
  - Based on investment return of 5.1%
  - Projected critical point for 35% rule\* lower than 5.1%Central EV thus not affected by 35% rule
- Sensitivity -1% investment return for Vital Forsikring
  - Based on investment return of 4.1%
  - Projected critical point for 35% rule above 4.1%
  - EV for Vital Forsikring reduced by NOK 2 404 mill. compared to Central EV run
  - EV reduced by NOK 3 236 millioner in 2004

\* Norwegian legislation limits shareholders' profits to a maximum of 35% of total profit each year

# Analysis of Change 2003-2005

## Vital Forsikring and Vital Link

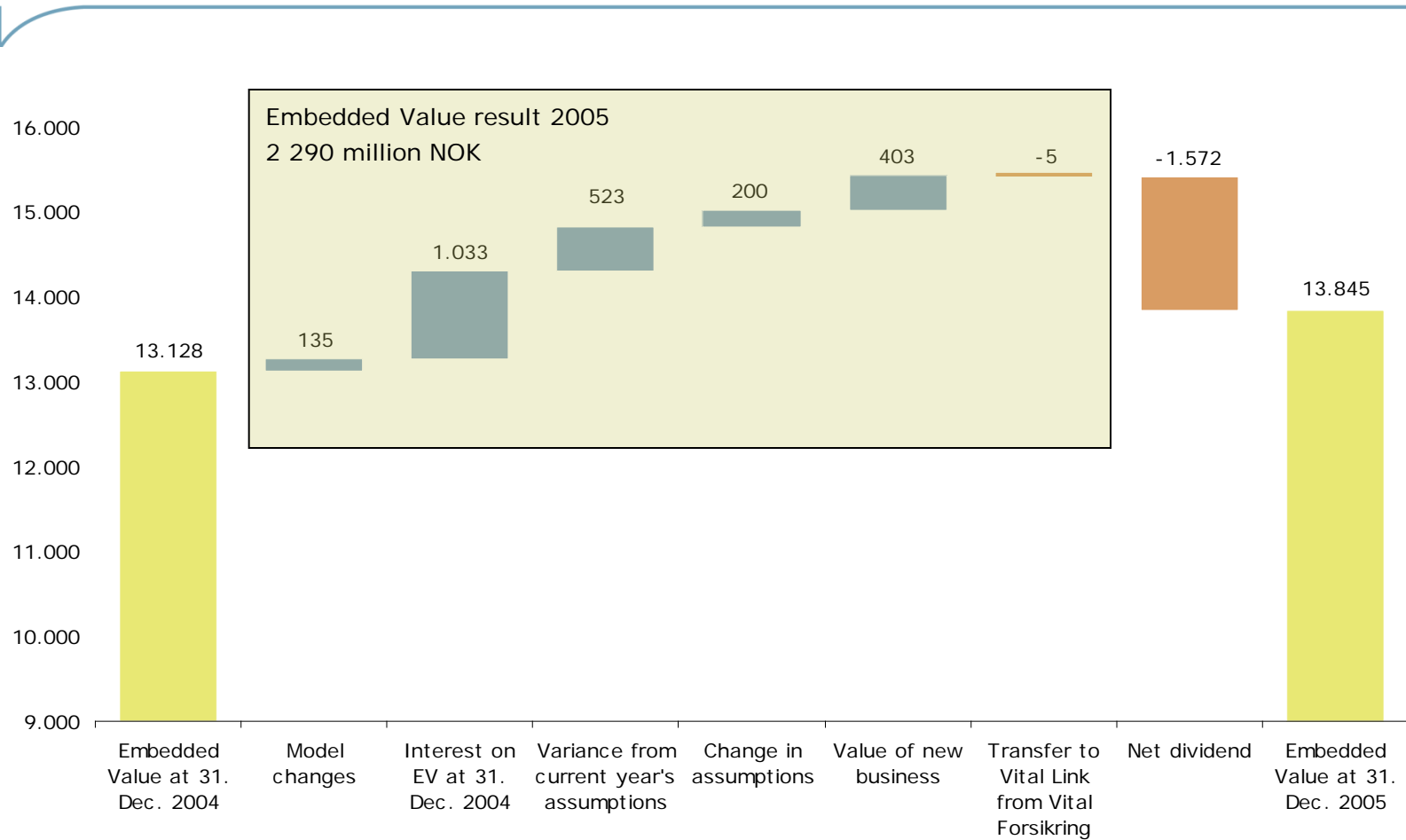


NOK millions	2003	2004	2005
Embedded Value 01.01.	10.093	10.504	13.681
Model changes		24	135
Interest on EV at 01.01.	849	860	1.079
Value of new business	184	358	421
Variance from current year's assumptions	310	586	705
<u>Change in assumptions</u>	<u>-134</u>	<u>1.349</u>	<u>283</u>
Embedded Value before dividend	11.302	13.681	16.304
Net dividend	-770	0	-1.547
Embedded Value 31.12.	10.532	13.681	14.757

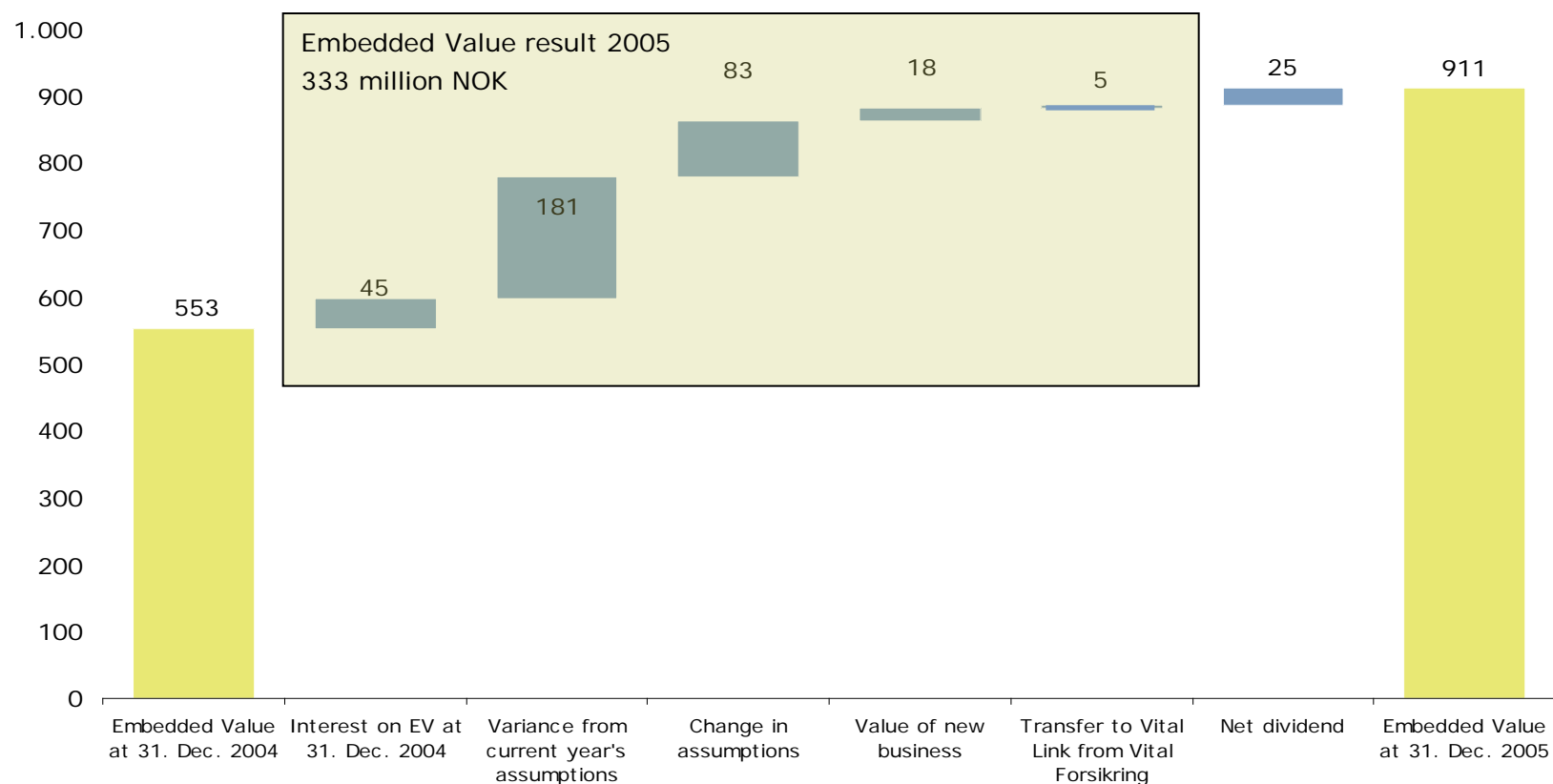
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\* The difference between the closing EV in 2003 and the opening EV in 2004 is due to change in year-end appropriations for Vital Link for 2003

# EV Profit Analysis 2005 Vital Forsikring



# EV Profit Analysis 2005 Vital Link





# Comments to Analysis of Change Vital Forsikring



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- Variance from current year's assumptions relates mainly to
    - Stronger investment return than projected
    - Tax refund in 2005
  - Model changes are due to moving portfolio from one EV system to another system due to merger between Vital Forsikring and Gjensidige Nor Spareforsikring
  - Changes in future assumptions are mainly due to harmonising of parameters regarding lapse and salary escalation when changing EV system for part of the portfolio

# Comments to Analysis of Change Vital Link



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- Variance from current year's assumptions relates mainly to
    - Stronger increase in fund than predicted
    - Tax refund in 2005
  - Changes in future assumptions are mainly due to new evaluation of expenses and charges in the defined contribution product

# Interest Rate Guarantee (1)

- The time value of the interest rate guarantee has been assessed as supplementary information to the embedded value
- The time value of the interest rate guarantee is estimated as the difference between (a) the corresponding shareholder value from a deterministic model using risk free rate assumptions and (b) the estimated shareholder value using a model with stochastic Monte Carlo projections
- A simplified stochastic model has been used, in particular with reference to projection of asset returns. Further details of the economic assumptions used are given later
- It is assumed that the asset mix remains constant throughout the projections
- No allowance has been made for policyholder behaviour linked to development in capital markets



## Interest Rate Guarantee (2)

- The model is simplified to work with only one asset return and hence the model does not reflect a full interest rate term structure. This single asset is a weighted average of the assets shown in the table below
- The stochastic asset returns are based on the following assumptions:

Correlations	Money market	Norwegian bonds	Intern. Bonds	Norwegian equities	Intern. Equities	HTM bonds	Real estates
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 %

	Total	Money market	Norwegian bonds	Intern. Bonds	Norwegian equities	Intern. Equities	HTM bonds	Real estates
% of total balance	100,0 %	13,0 %	13,0 %	4,0 %	6,0 %	14,0 %	35,0 %	15,0 %
Expected inv return	5,1 %	3,5 %	4,2 %	4,2 %	7,2 %	7,2 %	4,2 %	6,7 %
Volatility (sd)	3,3 %	0,5 %	3,3 %	2,8 %	19,4 %	14,7 %	0,2 %	5,0 %

## Interest Rate Guarantee (3)

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- The model allows for use of available to meet the cost of guarantees and options, such as additional allocations, unrealised capital gains fund and unrealised gains on the Hold-to-Maturity bonds
- The calculated value of the interest guarantee is sensitive to the assumed strategy for building and using buffers
- Based on the modelled buffer strategy, the time value of the interest guarantee is calculated to be NOK 2 274 million
- Given the level of the risk discount rate it could be considered to include an allowance for the time value of options and guarantees. The risk discount rate of 8.5% could be considered constructed from the risk free rate of 4.2% plus 2.1% in respect of the time value of options and guarantees and 2.2% in respect of other risks