2013 Market Consistent Embedded Value

Supplementary information – 12 February 2014

storebrand

Market Consistent Embedded Value

Supplementary information regarding Market Consistent Embedded Value 2013 of Storebrand Life Group.

MAIN FEATURES

- Embedded value of Storebrand Life Group was NOK 27,709 million at year-end 2013.
- The total embedded value earnings for the financial year 2013 were NOK 5,394 million, representing 24.7% return on the opening embedded value. The operating earnings were NOK 3,007 million, representing an operating return of 13.8%.
- The value of new business written in 2013 was NOK 471 million (at point of sale).
- The embedded value calculations are compliant with EEV Principles using a market consistent approach.
- An external review of the embedded value has been carried out by Towers Watson.

I. INTRODUCTION

This document discloses the 2013 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 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 2013 for the life insurance business of Storebrand Life Group after capital movements is NOK 27,709 million. The value of in-force business (VIF) at year-end 2013 is NOK 15,685 million while shareholder surplus is NOK 12,023 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), 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 2013 as well as the published embedded value at year-end 2012:

NOK mill.	MCEV 2012	MCEV 2013
Total shareholder surplus at market value	**10,417**	**12,023**
comprising		
- Free surplus	2,407	2,989
- Required capital	8,010	9,034
Value of In-force business	**11,385**	**15,685**
comprising		
- PVFP	22,290	26,944
- TVOG	-6,847	-5,984
- FCRC	-975	-1,102
- CNHR	-3,084	-4,173
Total embedded value	**21,802**	**27,709**
Look through value included in the PVFP	2,245	2,518

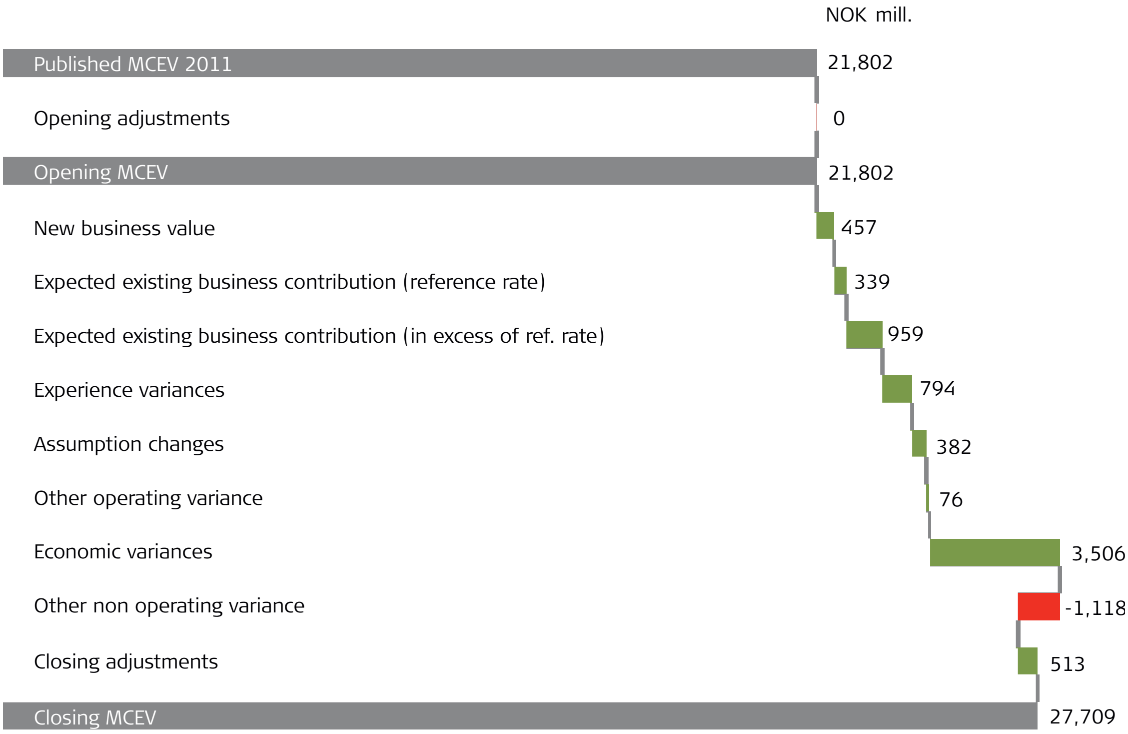
An implied discount rate (IDR) of 11.1% at year-end 2013 has been derived for Storebrand Life Group (11.6% for SBL and 10.6% for SPP). The approach for deriving the IDR is described in Section V.

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

The Storebrand Group has a tax loss carried forward of NOK 10.4 billion. However, this has not been accounted for given the low effect in the risk neutral valuation approach of the embedded value calculation, and that the major part of it is assumed being consumed by other business lines within the Storebrand group.

2013 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 2012 to year-end 2013:

NOK mill.	Free Surplus	Required Capital	Value of In-force	Total MCEV
(1) Published MCEV 2012	**2,407**	**8,010**	**11,385**	**21,802**
(2) Opening adjustments	0	0	0	0
(3) Opening MCEV	**2,407**	**8,010**	**11,385**	**21,802**
(4) New business value	-317	52	723	457
(5) Expected existing business contribution (reference rate)	145	0	194	339
(6) Expected existing business contribution (in excess of ref. rate)	657	11	291	959
(7) Transfers from VIF and required capital to free surplus	807	174	-981	0
(8) Experience variances	402	0	393	794
(9) Assumption changes	0	0	382	382
(10) Other operating variance	0	0	76	76
(11) Operating MCEV earnings	**1,693**	**236**	**1,077**	**3,007**
(12) Economic variances	893	-921	3,533	3,506
(13) Other non operating variance	-44	0	-1,074	-1,118
(14) Total MCEV earnings	**2,542**	**-685**	**3,536**	**5,394**
(15) Closing adjustments	-1,960	1,709	764	513
(16) Closing MCEV	**2,989**	**9,034**	**15,685**	**27,709**

Detailed description of embedded value earnings

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

1) Published MCEV 2012: *Published embedded value at year-end 2012.*

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 2012.

3) Opening MCEV: *Embedded value at year-end 2012 after opening adjustments.*

4) New business value: *Value of new business (VNB) in 2013 based on year-end 2013 assumptions.*

VNB at point of sale and using year-end 2013 exchange rates is NOK 471 million. VNB as shown in the embedded value earnings of NOK 457 million is based on year-end 2012 exchange rates and includes the unwinding to year-end 2013.

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 339 million comprises the unwinding of the value of in-force of NOK 194 million and the risk free return on the shareholder surplus of NOK 145 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 (2013). Also, the excess return includes the release of the allowance for options and guarantees (TVOG) and non-hedgeable risks (CNHR) for the year 2013.*

The total expected return over risk-free rate at the end of 2013 was NOK 959 million.

In total, the expected existing business contribution (points 5 and 6 above) amounts to NOK 1,298 million which represents an expected return of 6,0% on the opening MCEV.

7) Transfers from VIF and required capital to free surplus: *Profits for 2013 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 981 million. Additionally, the required capital has increased by NOK 174 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 2013 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 794 million, comprising NOK 836 million from SBL and NOK -41 million from SPP.

The positive variance for SBL is mainly caused by better than expected persistency on occupational pension products, with effect of NOK 475 million, and increased administration result for defined benefit business, effect NOK 238 million.

For SPP, business has been transferred from guaranteed to non-guaranteed. Transfers out are shown as negative variance while transfers in on the non-guaranteed business are included in the value of new business. Lapse rates for risk are lower than expected.

9) Assumption changes: *Changes in actuarial and operational assumptions from 2012 to 2013, which affects the VIF only.*

The total effect of changes in assumptions for the group in 2013 amounts to NOK 382 million, comprising NOK -582 million for SBL and NOK 964 million for SPP.

For SBL, new best estimate assumptions for mortality of all products lead to a negative effect of NOK -473 million. More precise cost allocation, which brings more costs to products with longer duration, has an effect of NOK -963 million. This is partially offset by increased administration fees, mainly from non-guaranteed business, with an effect of NOK 677 million.

Positive assumption changes in SPP can mainly be explained by new best estimate assumption for disability recovery with effect of NOK 196 million, lower costs with effect of NOK 572 million and increased look through income with effect of 213 million.

It should be noted that no future cost reductions due to the ongoing cost program have been taken into account.

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 76 million. For SBL, the effect is NOK -721 million whereas SPP has an effect of NOK 797 million.

For SBL, higher margins in the fee-portfolio lead to increased future profits of NOK 1,041 million. Increased allocation to equities increases the TVOG with NOK -1,498 million. The increase is justified as part of a strategy to finance the longevity reserving. An updated calculation of the reserve strengthening has an effect of NOK -295 million. This includes changes to new tariffs on guaranteed business (K2013).

For SPP, the effect is mainly caused by model improvements. For the unit linked business, steady state modelling has been introduced in order to give a more correct picture of the written group contracts and to align the approach within the group. This leads to an effect of NOK 482 million. In addition there is an effect of NOK 216 million due to a more correct projection of survival pensions within the defined benefit scheme, and an effect of NOK 64 million due to improved modelling of the risk and disability business.

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 3,007 million representing a return on the opening MCEV of 13.8%.

12) Economic variances: *The economic variances are divided into effects on the 2013 profit and all future profits. The variances in the shareholder surplus comprise the impact of the investment performance in 2013 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 2013.*

Total economic variances in 2013 amount to NOK 3,506 million. Higher interest rates have a positive effect as well as better than expected investment performance in 2013. The 10-year spot rate derived from the swap curve has increased from 3.2% to 3.5% in Norway and from 2.1% to 2.9% in Sweden.

For SBL, economic variances are NOK 1,620 million, divided into NOK 1,971 million from increased value of in-force and NOK -351 million decrease of shareholder surplus. The value of in-force for guaranteed business is positively affected by higher interest rates, with an effect of NOK 1,185 million, whereas the value of non-guaranteed business has increased due to higher financial return in 2013, which gives an effect of NOK 786 million. The decrease in shareholder surplus is mainly caused by a higher market value of the shareholder debt, partially offset by the better than expected investment result.

For SPP, the effect of economic variances is NOK 1,313 million, divided into NOK 1,562 million from increased value of in-force and a decrease of shareholder surplus of NOK -249 million. As for SBL, the positive value of in-force variance is caused by higher interest rates and favorable asset returns, NOK 817 million for guaranteed business and NOK 745 million for non-guaranteed business.

13) Other non-operating variances: *Regulatory changes implemented in 2013 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 -1,118 million, mainly caused by an increase in the risk capital for lapse risk for profitable business.

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

The movements from 31 December 2012 to 31 December 2013 show MCEV total earnings of NOK 5,394 million. This represents a return of opening MCEV of 24.7%, divided into economic variances and other non-operating variances of 11.0% and operating earnings of 13.8%.

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 513 million. This includes a positive effect of NOK 689 million from the change in the SEKNOK exchange rate and a negative effect of NOK 100 million from look through profits retained by asset management.

16) Closing MCEV: *MCEV for the Storebrand Life Group at year-end 2013.*

Value of new business (VNB)

The following table shows the consolidated value of new business written in 2013:

NOK mill.	
Value of New Business	
comprising	
- PVFP	618
- TVOG	2
- FCRC	-16
- CNHR	-133
Total value of new business	**471**
Look through	84

New business margins

The following table shows the new business margins for the business written in 2013:

NOK mill.	
Value of New Business	**471**
PVNBP Margin 2013	**3.8%**
- PVNBP	12,246
APE Margin 2013	**36%**
- New Regular premiums	884
- New Single premiums	4,179
- Annual Premium Equivalent (APE)	1,302
PVNBP Margin 2012	*2.9%*
APE Margin 2012	24%

The implied discount rate for the new business amounts to 6.6%, the internal rate of return 18.0%.

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%.

Sensitivity 8:
Macro extrapolation methodology as in Solvency II.*

The following table shows the sensitivity results for the embedded value at year-end 2013:

NOK mill.	Total MCEV	Total Change	Change SBL	Change SPP	Total change in%
Base	**27,709**				
1. 100 basis point pa increase in the interest rate	30,056	2,347	2,132	215	8%
2. 100 basis point pa decrease in the interest rate	22,882	-4,826	-3,992	-834	-17%
3. 10% decrease in equity/property capital	25,251	-2,458	-1,495	-963	-9%
4. 10% decrease in equity capital	26,269	-1,439	-682	-757	-5%
5. Mortality rates -5% - annuity business	27,047	-662	-41	-621	-2%
6. Mortality rates -5% - life business	27,764	56	56	0	0%
7. 10% decrease in maintenance expenses	29,213	1,504	779	726	5%
8. Solvency II interest rate curve*	24,071	-3,638	-2,666	-971	-13%

*In addition to the standard sensitivities, a macro extrapolation sensitivity is presented above:

This sensitivity reflects a potential change of the macro extrapolation methodology that Storebrand currently uses for embedded value calculations. For this sensitivity, the preliminary methodology of Solvency II, according to Storebrand's latest interpretation, is used to create the base scenario for the interest rate curve: The liquid part of the Solvency II curve is derived from swap rates with a 10 basis point subtraction for credit risk. The last liquid point is 10 years, and the convergence window to the ultimate forward rate of 4.2% is 10 years. No other adjustments to the yield curve have been applied, including no assessment of transitional measures.

The effect on MCEV for Storebrand Life Group of a change to this interest rate curve would be NOK -3,638 million (decrease on embedded value of -13%). Note that this sensitivity does not include updated CNHR or other secondary effects.

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.

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 2012 and 2013, and by portfolio:

			Guaranteed Pensions			Savings	Risk
			Fee	Profit Sharing			
NOK mill.	VIF 2012	VIF 2013	Fee	20/80	35/65	DC/UL	Risk
Value of In-force business							
comprising							
- PVFP	16,043	16,424	5,926	-184	329	8,683	1,670
- TVOG	-6,710	-6,087	-1,526	-4,511	-45	-4	0
- FCRC	-585	-577	-174	-323	-38	-17	-25
- CNHR	-1,885	-2,791	-501	-342	-53	-1,757	-138
Total Value of in-force business	**6,863**	**6,968**	**3,724**	**-5,362**	**193**	**6,905**	**1,507**
Look through value included in the PVFP	*1,543*	*1,406*	*205*	*448*	*40*	*708*	*5*

The following table shows the VNB for SBL by portfolio:

NOK mill.	Total	DC/UL	Risk
Value of New Business			
comprising			
- PVFP	373	328	45
- TVOG	0	0	0
- FCRC	-5	-5	0
- CNHR	-82	-76	-6
Total value of new business	**287**	**247**	**40**
Look through value included in the PVFP	*35*	*35*	*0*

The following table shows the new business margins for 2012 and 2013:

NOK mill.	Total	DC/UL	Risk
VNB	**287**	**247**	**40**
PVNBP Margin 2013	**4.7%**	**4.4%**	**7.7%**
- PVNBP	6,119	5,603	516
APE Margin 2013	**56%**	**58%**	**45%**
- New Regular premiums	367	279	88
- New Single premiums	1,477	1,477	0
- Annual Premium Equivalent (APE)	515	426	88
PVNBP Margin 2012	*3.4%**	*5.1%*	*10.6%*
APE Margin 2012	*37%**	*63%*	*60%*

** Total figures for PVNBP- and APE margin for 2012 include new business in 2012 from fee and 20/80 business*

Fee based business: Defined benefit group pension schemes
20/80: Paid-up policies from defined benefit 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

Results for SPP

The VIF for SPP at year-end 2012 and 2013, and by product, are shown below:

			Guaranteed Pensions Profit Sharing		Savings	Risk
NOK mill.	**VIF 2012**	**VIF 2013**	**DB**	**DC**	**UL**	**Risk**
Value of In-force business						
comprising						
- PVFP	6,247	10,520	2,558	1,438	5,989	536
- TVOG	-137	103	33	70	0	0
- FCRC	-390	-524	-184	-288	-49	-4
- CNHR	-1,198	-1,381	-446	-241	-690	-5
Total Value of in-force business	**4,521**	**8,717**	**1,960**	**979**	**5,250**	**528**
Look through value included in the PVFP	*702*	*1,112*	*252*	*208*	*652*	*0*

The following table shows the VNB for SPP by product:

NOK mill.	Total	DC	UL	Risk
Value of New Business				
comprising				
- PVFP	244	-20	222	43
- TVOG	2	2	0	0
- FCRC	-10	-2	-9	0
- CNHR	-51	-2	-48	0
Total value of new business	**185**	**-22**	**165**	**42**
Look through value included in the PVFP	*49*	*2*	*47*	*0*

The following table shows the 2012 and 2013 new business margins for SPP:

NOK mill.	Total	DC	UL	Risk
Value of New Business	**185**	**-22**	**165**	**42**
PVNBP Margin 2013	**3.0%**	**-4.9%**	**3.0%**	**25.9%**
- PVNBP	6,128	455	5,510	163
APE Margin 2013	**23%**	**-30%**	**24%**	**118%**
- New Regular premiums	517	46	435	36
- New Single premiums	2,702	290	2,412	0
- Annual Premium Equivalent (APE)	787	75	676	36
PVNBP Margin 2012	*1.9%*	*-9.7%*	*3.3%*	*3.3%*
APE Margin 2012	*10%*	*-56%*	*18%*	*13%*

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

IV. IFRS RECONCILIATION AND STOREBRAND GROUP MCEV

Storebrand Group MCEV 2013 and IFRS reconciliation

The following table shows a reconciliation of the IFRS equity for the life insurance business to embedded value at year-end 2013:

NOK mill.	
IFRS Equity Storebrand Life (incl. book value SPP)	**20,011**
NGAAP adjustments	
- Security reserve non-life	-149
- Group contribution NGAAP (provision)	0
NGAAP Equity Life (incl. SPP)	**19,862**
- Total consolidation SBL Group	234
NGAAP Equity Storebrand Life (incl. book value SPP)	**20,096**
MCEV adjustments	
- Risk smoothing fund	-776
- Market value debt	-541
- Intangible assets	-144
- Other consolidation factors	-46
Shareholders Surplus Storebrand Life (incl. book value of SPP)	**18,589**
- Book value of SPP in SBL accounts	-15,688
- Shareholder surplus SPP	9,122
Group Shareholder surplus in MCEV	**12,023**
- Value of In-force SPP	8,717
- Value of In-force SBL	6,968
Total Life MCEV	**27,709**

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 2013. 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 100 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 mill.	IFRS Segment Life	Banking, Asset Management and Other (incl eliminations)	Group MCEV
Published Group MCEV 2012	**21,802**	**2,674**	**24,476**
Opening adjustments	0	0	0
Adjusted opening values	**21,802**	**2,673**	**24,475**
Operating Earnings	3,007	-105	2,902
Non-operating Earnings	2,387	0	2,387
Total Earnings	**5,394**	**-105**	**5,289**
Other movements in IFRS equity	0	-167	-167
Closing adjustments	513	100	613
Closing Group MCEV	**27,709**	**2,502**	**30,211**

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 smoothing 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 have been introduced. For the guaranteed defined contribution business, no replacements are applied as we expect transitions to the unit-linked part.

New business: New business in 2013 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. The time value of options and guarantees has been derived as the marginal impact of the new business on the time value of options and guarantees (as described in more detail below) of business in-force. It is calculated at point of sale and based on end-year assumptions.

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 2013, 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 84% 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 CNHR includes an allowance for the illiquidity of the Norwegian and Swedish swap markets based on a cost of capital approach. The corresponding risk capital is calculated by shifting the illiquid part of the yield curve.

The total CNHR is equivalent to an annual charge of 2.4% on the diversified risk capital for non-hedgeable risks (2.0% at year-end 2012).

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.

For the new business, the TVOG is determined by means of a marginal method, i.e. by attributing to the new business the impact of the new business written during the year on the TVOG of the entire portfolio.

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 behaviour has been assumed (dynamic policyholder behaviour 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 2013 amounts to NOK -541 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. However, Storebrand does not consider the quoted swap rates for NOK and SEK beyond 10 years as a robust basis for embedded value calculations or other valuations. Research performed by Storebrand shows a lack of liquidity in the Norwegian and the Swedish swap market. In 2008, the following approach was developed by Storebrand, and has been adopted for statutory reserving in SPP (note that the solvency accounting does not reflect this). Consequently, this approach has also been adopted for the embedded value calculations.

The following approach to deriving the risk-free reference rates (for NOK and SEK) has been adopted in the embedded value at year-end 2013:

- Swap market interest rates are applied from the liquid part of the risk-free interest rate curve up to 10 years. No adjustment is made for credit risk.
- A long-term equilibrium level for spot rates is applied from 20 years and onwards, where the market is not functioning well. This equilibrium level is based on assumptions for growth in real economy, inflation and a term premium.
- Linear interpolation of the spot rate is used between 10 years and 20 years.

No liquidity premiums have been added to the risk-free reference rate derived as described above.

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):

	2012				2013			
	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	2.0%	2.0%	1.2%	1.2%	1.7%	1.7%	1.0%	1.0%
2	2.1%	2.1%	1.2%	1.2%	1.9%	1.9%	1.3%	1.3%
3	2.2%	2.2%	1.3%	1.3%	2.1%	2.1%	1.6%	1.6%
5	2.5%	2.5%	1.5%	1.5%	2.6%	2.6%	2.2%	2.2%
10	3.2%	3.2%	2.1%	2.1%	3.5%	3.5%	2.9%	2.9%
20	3.4%	4.7%	2.4%	4.0%	3.7%	4.7%	3.3%	4.2%
30	3.4%	4.7%	2.4%	4.0%	3.6%	4.7%	3.3%	4.2%

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:

Year	2012		2013	
	NOK	SEK	NOK	SEK
1	23.3%	36.8%	29.1%	33.1%
5	21.0%	29.8%	24.3%	25.4%
10	15.9%	23.3%	19.0%	20.8%

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:

	2012				2013			
	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	19.0%	20.1%	7.0%	18.0%	16.3%	16.0%	7.0%	15.2%
10	24.8%	21.5%	6.5%	23.5%	23.5%	17.5%	6.5%	21.9%

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:

	2012	2013
Risk premiums by asset class		
- equity	4.0%	4.6%
- corporate bonds / loans	0.7%	2.0%
- real estate	2.5%	2.3%
- 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 2013.

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, an effective tax rate is included in the Embedded Value calculation. An effective 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, new 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 10.4 billion. However, this has not been accounted for given the low effect in the risk neutral valuation approach of the embedded value calculation, and that the major part of it is assumed being consumed by other business lines within the Storebrand group.

Exchange rates

An exchange rate of 0.8555 has been applied to amounts in SEK at year-end 2012 and 0.9446 at year-end 2013 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 2013, and the embedded value earnings including the value added by new business in 2013, 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 2013 embedded value results. The review covered the European Embedded Value as at 31 December 2013 and the value of 2013 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 2013 and the 2013 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."

IMPORTANT NOTICE:
This document may contain forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that may be beyond the Storebrand Group's control. As a result, the Storebrand Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in these forward-looking statements. Important factors that may cause such a difference for the Storebrand Group include, but are not limited to: (i) the macroeconomic development, (ii) change in the competitive climate, (iii) change in the regulatory environment and other government actions and (iv) market related risks such as changes in equity markets, interest rates and exchange rates, and the performance of financial markets generally. The Storebrand Group assumes no responsibility to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make.

Financial calender 2014

12	February	Results 4Q 2013 Embedded Value 2013
9	April	Annual General Meeting
10	April	Ex dividend date
7	May	Results 1Q 2014
16	July	Results 2Q 2014
29	October	Results 3Q 2014
	February 2015	Results 4Q 2014

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