DNB Livsforsikring AS

A company in the DNB Group

Solvency and Financial Condition Report (SFCR) Extract

2021

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INTRODUCTION[1]

DNB Livsforsikring AS (DNB Liv) is a 100 per cent owned subsidiary of DNB Bank ASA with a license to conduct life insurance business in Norway. All activities in DNB Liv are organized as part of the business area Wealth Management (WM) in DNB. The company's operations will deliver competitive returns to customers and owners, as well as achieve profitable growth in pensions and life insurance products. Risk and capital management is an important part of the business and shall contribute to the customers' pension funds being secured in a prudent way so that pensions and claims can be paid to the policyholders in accordance with the contracts entered into. Throughout 2021, the company's operations have experienced strong growth in total assets, and the company has consolidated its position as market leader within defined contribution pensions.

DNB Liv achieved a profit before tax in 2021 of NOK 1.52 billion, a decrease of NOK 1.26 billion from 2020. Profit after tax ended at NOK 925 million. Extraordinary income of NOK 1.2 billion for the sale of personal risk products to Fremtind AS is included in the financial year for 2020.

Value-adjusted and book returns in the common portfolio were 4.5 and 4.3 per cent respectively at the end of 2021, up from 1.4 and 2.9 per cent from the previous year. The average interest rate guarantee was about 3 per cent. The return for the standardized defined contribution pension profiles DNB Pensjonsprofil 30, DNB Pensjonsprofil 50, DNB Pensjonsprofil 80 and DNB Pensjonsprofil 100 were 6.8 per cent, 10.8 per cent, 17.1 per cent and 21.1 per cent, respectively.

Covid 19

With regard to Covid-19, there are a number of incidents and situations that may have a direct and indirect effect on the company's risk in both the short and long term. Repeated shutdowns that have affected unemployment in society, changes in NAV's treatment routines, uncertainty associated with long-term effects of disease progression and side effects of vaccines are examples of this. As of today, DNB Liv has not registered any significant increases in insurance claims which Covid-19 is the direct or indirect cause.

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[1] Disclaimer: DNB Livsforsikring AS (DNB Liv) does not present accounting information in English, except for accounting information presented in Group reporting. This means that the company's Solvency and Financial Conditions Report (SFCR) for 2021 is only available in Norwegian.
Due to the interest shown by international investors and analysts, an extract from the SFCR has been translated into English. The extract primarily includes parts of the quantitative aspects described in the SFCR. The description of the system for risk management and internal control is omitted in its entirety.
The translated extract from the SFCR does not replace the Norwegian version and does not fulfil the requirements which must be met by the SFCR.

THE WAR IN UKRAINE

At the end of February, Russia invaded neighboring Ukraine, and severe sanctions have been imposed on Russia and Belarus. The consequences of the acts of war are uncertain. DNB Liv has no activity in the countries, but follows developments closely to capture increased cyber risk as well as other indirect consequences that can be triggered by the conflict. DNB Liv is not exposed to the countries through direct investments in customer portfolios or company capital. Through the Emerging Market index fund, exposure is insignificant and amounts to approx. 30 million kroner. Going forward, exposure to Russia will also be phased out through the country being taken out of portfolios that are subject to index management.

The available own funds was at NOK 34 617 million, up against the solvency capital requirement(SCR) of 18 138 million. The ratio of available own funds to SCR was at 191 percent, reduced from 194 percent by end of 2020. The ratio of available own funds to SCR without transitional measures ended at 155 percent compared to 125 percent at the beginning of 2021.

The solvency capital requirement without transitional measures, which best expresses the company's risk and solvency, has been reduced by NOK 0,9 billion through 2021. Lower solvency capital requirements are mainly due to higher risk absorption as a result of higher interest rates. Improved methodology for calculating the capital requirement has contributed to somewhat higher capital requirements. Higher interest rates have led to a reduction in guaranteed pension obligations without the use of the transitional regulations. This increases the available own funds.

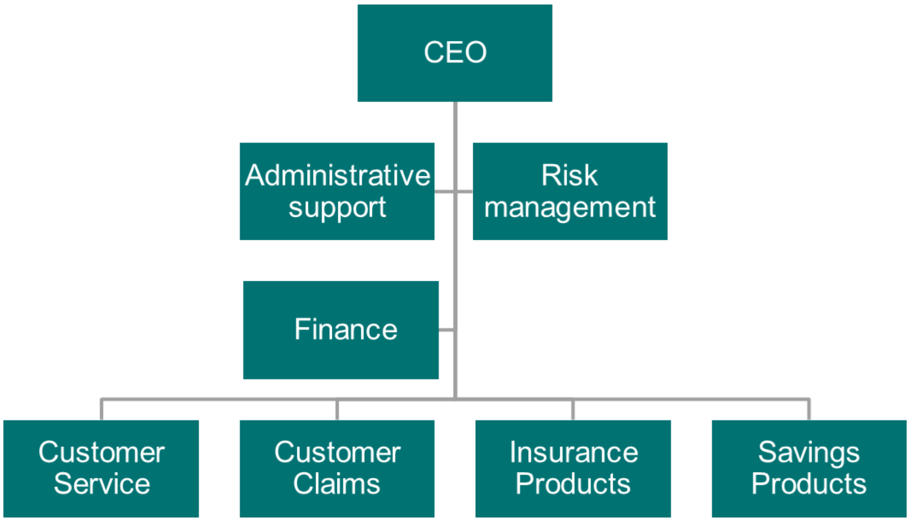
The regulatory capital requirement is measured with transitional measures and is at a high level. Only very severe market movements can bring the level downunder the legal level of 100. The transitional measuress gives a protection to the solvency capital against an eventual further fall in interest rates.

Throughout 2021, the company has satisfied the regulatory capital requirement calculated both with and without transitional measures by a robust margin. In 2021, the company has achieved satisfactory results at the same time as the calculation interest rate for technical provisions increased significantly in the fourth quarter. This means that by the end of 2021, the company has good margins to current solvency capital requirements and is well capitalized.

A. DNB LIV – OPERATIONS AND PRODUCTS

DNB Liv as part of Wealth Management in DNB has a customer- oriented organisation. Including corporate functions, DNB Liv is organised as follows:

Figure 1. DNB Liv organization



Customer Service

Customer service provides service to all private - and corporate customers.

Customer Claims

Customer Claims is responsible for all claims of insurance and pension products to both private- and corporate customers. The unit is also responsible for preventing fraud and uncover betrayal and swindle.

Insurance Products

The section Insurance Products has the total responsibility for life-insurance products to both corporate- and individual customers.

Savings Products

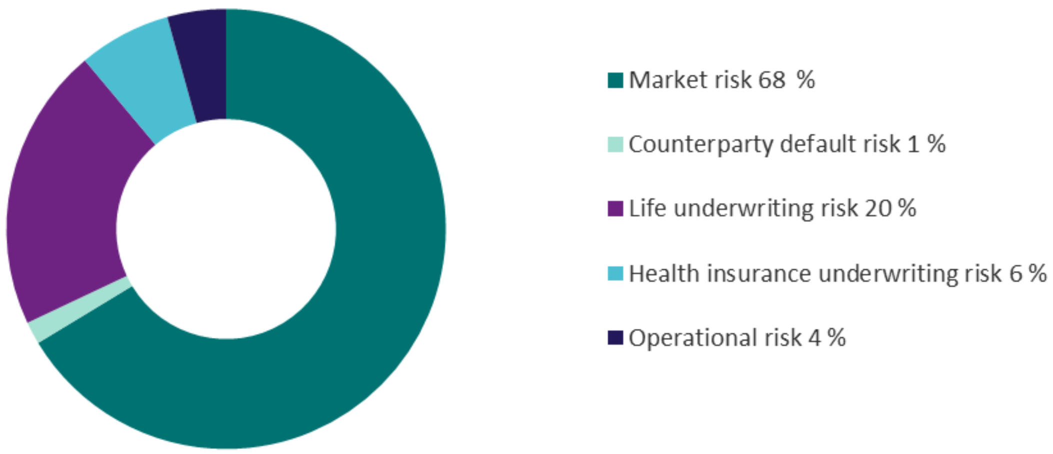
The section Savings Products has the total responsibility for all pension products offered to both corporate- and individual customers.

The products are distributed mainly through the DNB Group's sale channels. The sale channels are organised as part of DNB Bank ASA.

B. RISK PROFILE

The company's largest risk categories are market risk, life insurance risk, health insurance risk and operational risk. Market risk is defined as the risk of reduced market values as a result of fluctuations related to financial assets. Insurance risk is primarily risk associated with development in disability, death and life expectancy. Operational risk is the risk of loss due to inadequate or failing internal processes, human error or external events. Risk calculated within these areas is a quantification of losses and incidents that may occur during a 12-month period. The quantification is designed so that it takes into account losses that may occur in 1 in 200 years. The figure 2 below shows the various risk factors' share of net solvency capital requirements at the end of 2021.

Figure 2. Risk profile



Market risk was the highest risk calculated with Solvency II, of which spread was the main as well as interest risk, -driven by the liabilities, equity and property. Life insurance risk was 20 per cent, of which longevity risk is the largest part. There were no significant changes in the various risk categories' relative shares.

INSURANCE RISK

The insurance risk in DNB Liv is in varying degrees divided between policyholders and the company. The risk result reflects differences in the results related to mortality, disability and settlement payments and the assumptions in the company's basis of calculation for premiums and provisions. The company is exposed to insurance risk related to non-life insurance products (employer’s liability insurance), and disability pensions and dependant's pensions.

For group pension agreements, new individual pension and endowment insurance products, up to 50 per cent of a positive risk result can be transferred to the risk equalisation fund. This fund can be used during years with a negative risk result. The risk equalisation fund cannot exceed 150 per cent of the company's total risk premiums for the accounting year.

For existing contracts, the insurance risk is routinely monitored through analysis and follow-up of risk results within each industry. The company also uses reassurance as an instrument to reduce insurance risk. The company currently has reassurance agreements covering disasters and major individual risks within group and individual insurance. The reassurance agreements entail that DNB Liv is responsible for risk up to an agreed level, while the reassurer covers the excess risk up to an upper defined limit.

To reduce the insurance risk, an individual health assessment is also carried out for small-scale group schemes. In connection with the sale of disability pensions, customers will be categorised according to risk based on a concrete assessment of the risk related to the individual customer. The table 1 below show the risk result for the last two years according to products.

Table 1. Risk results

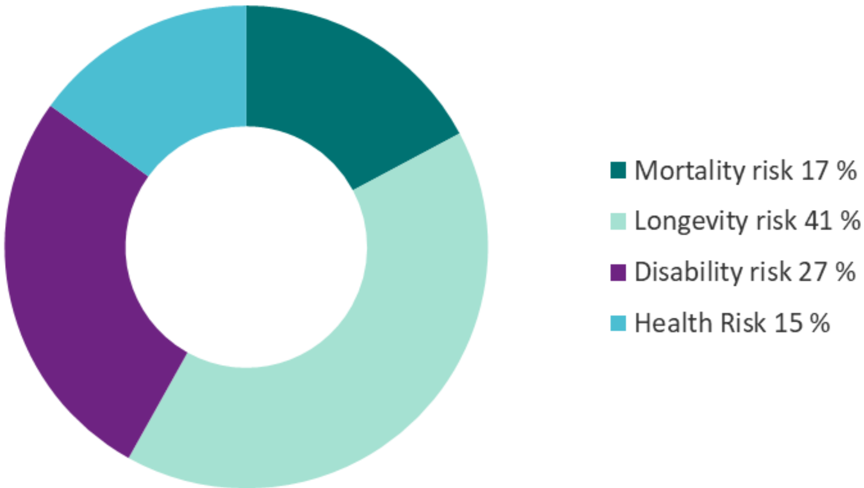
NOK million	Risk Premium	Risk contribution	Risk result
31.12.2021			
Defined benefit pension	194	(209)	(15)
Paid-up policies	2 048	(1 769)	280
Defined contribution pension with disability coverage	756	(893)	(136)
Group association pension	71	(65)	6
Individual endowment insurance	67	(26)	40
Individual pension insurance	460	(419)	42
Group Life policies	406	(304)	102
Health insurance similar to non-life insurance	779	(884)	(105)
Total	4 874	(4 664)	210

NOK million	Risk Premium	Risk contribution	Risk result
31.12.2020			
Defined benefit pension	211	(208)	3
Paid-up policies	1 999	(1 828)	171
Defined contribution pension with disability coverage	719	(708)	12
Group association pension	64	(53)	11
Individual endowment insurance	82	(52)	29
Individual pension insurance	410	(403)	6
Group Life policies	368	(330)	38
Health insurance similar to non-life insurance	663	(694)	(31)
Total	4 517	(4 276)	240

The risk result is dominated by a good disability result on paid-up policies in 2021.

DNB Liv's total insurance risk is mainly generated by longevity risk and disability risk for defined-benefit pensions and paid-up policies. The figure 3 below shows mortality exposure, longevity, disability and health risk in terms of risk premiums at year-end 2021.

Figure 3. Insurance risks



MARKET AND CREDIT RISK

DNB Liv shall be an active and responsible asset manager which, through good diversification and comprehensive management of market risk, shall ensure a sufficient return on customers' funds and an acceptable return on the company's invested capital. DNB Liv assumes that exposure to market risk in the portfolios will provide a higher return over time than risk-free (low-risk) alternatives. Both internal and external funds and mandates are used in the management of DNB Liv's portfolios. The investment portfolios are well diversified between different asset classes, regions, sectors and individual investments.

Asset management in DNB Liv is divided between three main investment portfolios: the common portfolio, the investment choice portfolio and the corporate portfolio. Policyholders' funds are managed in the first two portfolios, while the company's assets are managed in the corporate portfolio. The table 2 below shows exposures and returns in the common and corporate portfolios.

Table 2.The exposures and returns

	31.12.2021		31.12.2020	
NOK million	Exposure 31.12	Return in %	Exposure 31.12	Return in %
Common portfolio	199 997	4,3 %	199 737	1,4 %
Corporate portfolio	35 513	2,7 %	34 351	2,5 %

The table 3 shows the composition of the assets in sub-portfolios in the common and corporate portfolios.

Table 3. The composition of the assets

NOK million	Norwegian equities	International equities	Norwegian bonds	International bonds	Money market	Held to maturity	Loans and receivables	Real estate	Other	Total
Common portfolio	1 308	22 999	29 058	10 126	10 612	80 077	16 788	28 284	746	199 997
Individual savings with guarantee	69	1 607	2 385	797	2 465	5 160	2 038	1 714	64	16 300
Paid-Up policies	278	2 012	1 663	555	859	2 882	1 113	1 412	32	10 806
Paid-Up Policies (provisions for higher life expecancy)	164	3 815	5 663	1 894	1 455	16 980	3 513	5 121	152	38 757
Disability coverage for defined contribution	379	7 282	7 751	2 980	597	25 694	3 671	8 828	202	57 383
Health insurance similar to life insurance	187	4 362	6 475	2 165	1 664	19 415	4 017	5 856	174	44 314
Health insurance similar to non-life insurance	22	480	490	134	2 721	1 973	405	540	12	6 777
Defined benefit pension -with guarantees for private market	210	3 441	4 632	1 601	851	7 974	2 031	4 812	110	25 661
Corporate portfolio	-	1 894	30	215	15 088	15 068	-	1 334	1 883	35 513
Total portfolio	1 308	24 893	29 088	10 341	25 700	95 146	16 788	29 618	2 629	235 510

The investment choice portfolio includes all assets where customers themselves make investment decisions. The customer chooses investment profile among the options made available in DNB Liv's product solutions, and the customer is responsible for the market risk. Customer portfolios at year-end 2021 are shown in the table 4.

Table 4. The portfolio sizes at the end of 2021

Common portfolio	NOK billion
Corporate market	**20,0**
Defined benefit pension	16,3
Disability coverage for defined contribution pension	3,7
Private market	**180,0**
Defined benefit pensjon with guarantees	25,7
Individual endowment insurance	10,8
Paid-up policies	140,5
Health insurance similar to non-life insurance	3,1
Total	**199,997**
Defined contribution with investment choice	
Corporate market	**126,8**
Profile <=30	31,4
Profile 50	33,3
Profile >=80	57,0
Mutual fond menu	5,1
Private market	**11,9**
Profile <=30	0,7
Profile 50	2,2
Profile >=80	1,7
Mutual fond menu	7,3
Total	**138,747**
Corporate Portefolio	
Share capital	24,3
Subordinated liabilities	7,0
Replacement provision	2,3
Other	1,9
Total	**35,513**

EXPECTED RETURN AND GUARANTEED RATE OF RETURN

DNB Liv carries the risk of fulfilling the company's commitments in contracts with policyholders. The return on financial assets must be sufficient to meet the guaranteed rate of return specified in insurance policies. Otherwise, inadequate returns will have to be covered by applying the market value adjustment reserve, additional statutory reserves, equity or subordinated loan capital. The guaranteed rate of return must be complied with on an annual basis.
Measured in relation to the customer funds, the company had an overall average interest rate guarantee of 2.9 per cent for 2021, marginally down from the previous year.

The table 5 below shows long-term developments in the guaranteed rate of return for individual group of products. In step with the payment of pensions, the guaranteed rate of return as a percentage of pension commitments will be somewhat reduced each year.

Table 5. Guaranteed rate of return

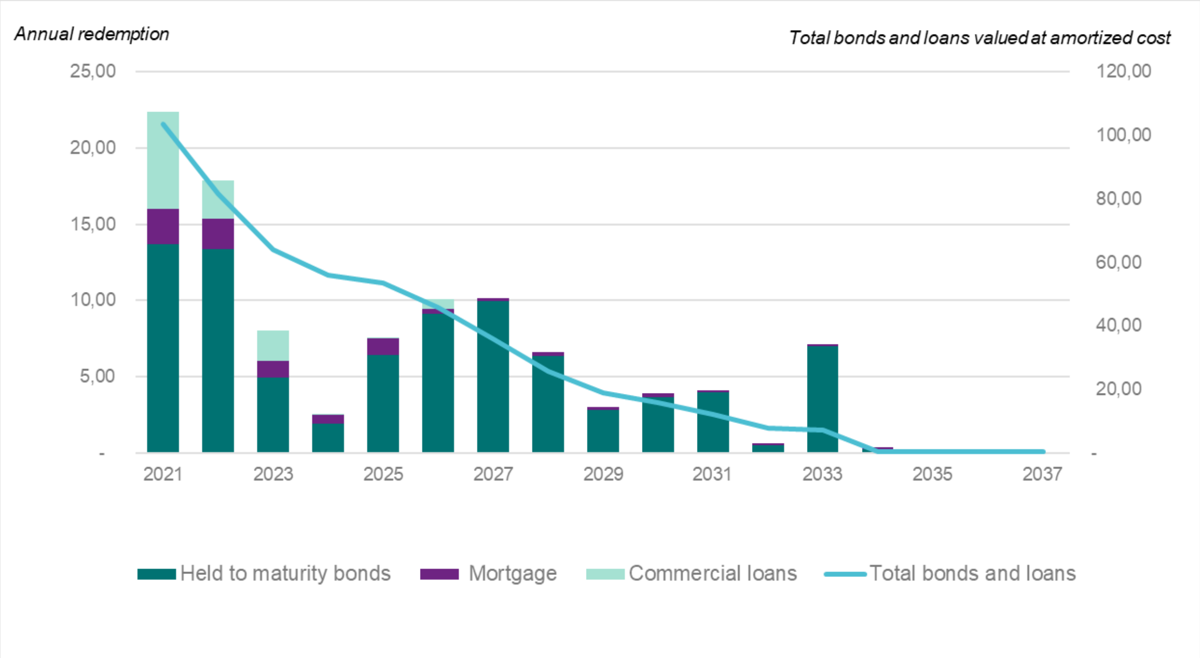
Per cent	2021	2020	2019	2018	2017	2016
Group pension	2,9 %	3,0 %	3,0 %	3,1 %	3,1 %	3,1 %
Individual endowment insurance	3,2 %	3,2 %	3,3 %	3,4 %	3,4 %	3,4 %
Individual pension insurance	2,1 %	2,1 %	2,1 %	2,2 %	2,2 %	2,3 %
Group association pension	3,8 %	3,8 %	3,9 %	4,0 %	4,0 %	4,0 %
Average	**2,9 %**	**3,0 %**	**3,0 %**	**3,1 %**	**3,1 %**	**3,1 %**

Meeting the guaranteed rate of return is important for the company's value creation and developments in the solvency position.

DEVELOPMENT IN FIXED-INCOME INSTRUMENTS

DNB Liv aims to be an active and responsible asset manager who ensures an adequate return on policyholders' funds and an acceptable return on the company's invested capital through good diversification and consistent management of market risk. The current low interest rate level makes it demanding to achieve a high return for policyholders. DNB Liv has adjusted the asset management and aligned the duration to the different profiles of the product portfolios. The figure 4 below shows the annual redemption of hold-to-maturity bonds and commercial mortgages.

Figure 4. The annual redemption of hold-to-maturity bonds and commercial mortgages.



Fixed-income instruments are essential in making the company meet the guaranteed rate of return over the coming years.

C. TECHNICAL INSURANCE PROVISIONS, SOLVENCY II

Technical insurance provisions (TIP) affect the company's own funds and solvency capital requirements. The difference between the company's assets and TIP represents the company's solvency capital. TIP equals the sum of the best estimate and the risk margin.
DNB Liv has applied to Finanstilsynet and been granted use of the transitional measures for technical provisions. When determining the solvency capital requirement, the company may apply accounting insurance liabilities instead of liabilities calculated in accordance with the solvency regulations. The transitional measuress apply for 16 years and the effect is reduced by 1/16 each year, for the first time from 1.1.2017. The transitional regulations will be phased out on 1.1.2032.

The table 6 shows the insurance liabilities calculated in accordance with the Solvency II regulations and the insurance liabilities in accordance with the accounts (Solvency I). The table also shows the effect of the transitional measures after phasing out 5/16 parts in 2021 and 4/16 parts in 2020.

Table 6. The technical provisions

NOK mill	Insurance with guarantee		Insurance without guarantee	Non -life insurance	**Total**
	With profit sharing	*Without proft sharing*			
31.12.2021					
Solvency II	178 877	24 928	136 311	6 208	**346 323**
Effect of transitional measures	8 512	(0,0)	(0,0)	63	**8 574**
31.12.2020					
Solvency II	188 079	25 651	108 608	5 292	**327 630**
Effect of transitional measures	17 360	(0,0)	(0,0)	128	**17 488**

The difference between Solvency I and Solvency II gives the effect of the transitional measures for calculating the insurance obligations.

Life insurance products with profit sharing include paid-up policies and individual products with guaranteed rates of return sold prior to 1 January 2008.
Life insurance products without profit sharing include defined-benefit pensions and individual products sold after 1 January 2008. Unit linked insurance policies with no guarantee are defined-contribution pensions and unit linked products to the personal market segment.

Technical provisions have increased by NOK 18.7 billion during 2021. The increase is mainly related to the development of products without guarantee.

The risk margin is quantified through a separate model for this purpose. In the models, developments in the capital requirement for insurance risk (SCR for life and health insurance) are projected. The risk margin is 6 per cent multiplied by the present value of all future capital requirements for insurance risk. The discount rate applied is based on the supervisory authorities' market rate curve on the calculation date. In the projection, it is assumed that for most products, the insurance risk is proportionate to the development in the best estimate for the cash flow.

At year-end 2021, the transitional rules had a positive effect on solvency capital of NOK 8,5 billion before tax.

A volatility adjustment of the yield curve is used to calculate technical provisions. The adjustment is intended to prevent artificial volatility in the company's solvency margin as a result of movements in market spreads on the company's bond portfolio, among other things to reduce pro-cyclical behavior. The volatility adjustment is calculated on the basis of a benchmark portfolio based on Norwegian life insurance companies' assets, and amounted to 32 basis points in premiums in the yield curve at the end of 2021. Without a volatility adjustment, the net effect would be a reduction of NOK 2,4 billion and the solvency margin reduced by 20 percentage points.

Based on the expected settlement of defined benefit pensions with the issuance of paid-up policies, a projection of insurance obligations has been made with interest rate guarantees until 2032, which is the end of the transition period for valuation of technical provisions. Products with an interest rate guarantee are expected to be reduced from a level of approximately NOK 180 billion in 2021 to approximately NOK 110 billion in 2032.

Reduction in technical provisions with interest - guarantee and risk of development in life expectancy combined with growth in products without such guarantees will contribute to a strengthened solvency margin in the coming years.

D. CAPITAL MANAGEMENT

DNB's long-term financial ambition towards 2024 is that the Group will achieve a return on equity above 12 per cent, a long-term common equity Tier 1 capital ratio of approximately 17.6 per cent.The Group's long-term dividend policy is to have a payout ratio of more than 50 per cent of profits as cash dividends, provided that the Group's capital adequacy is at a satisfactory level. DNB's ambition is to increase the nominal dividend per share every year. Excess capital will be paid out to the owners, through a combination of cash dividends and share buy-back programmes. For DNB Liv, the aim is to achieve a 5 – 6 per cent return on equity and gradually moving towards 12 percent, a solvency margin above 140 per cent without transitional rules, and a dividend payout ratio of minimum 50 per cent.

DNB Liv's self-assessment of risk and capital concludes that the company is sufficiently capitalised and that there is a good balance between risk and capital.

The ratio of available own funds to SCR represents the degree to which the company's own funds meet the capital requirement stipulated in the solvency regulations. The ratio of available own funds to SCR is calculated in two ways, with and without the transitional measures.

In addition to the solvency capital requirement, the companies also have a minimum capital requirement (MCR). If the capital falls under MCR, the authorities take over the management of the company.

At the end of 2021, the solvency margin was 191 per cent with transitional rules. This means that the company's capital is almost twice as large as the capital requirement. Without the transitional regulations, DNB Liv had a solvency margin of 155 per cent. The company's solvency capital and solvency capital requirements are shown in the table 7.

Table 7. Available own funds and solvency capital requirement

Available own funds and solvency capital requirement		
NOK million	**31.12.2021**	**31.12.2020**
With transitional measures		
Available Own Funds	34 617	36 859
Solvency Capital Requirement	18 138	19 015
The ratio of available own funds to meet the SCR	**191 %**	**194 %**
Without transitional measures		
Available Own Funds	28 186	23 743
Solvency Capital Requirement	18 138	19 015
The ratio of available own funds to meet the SCR	**155 %**	**125 %**

The solvency capital requirement, which expresses the company's risk, has been reduced through 2021 by NOK 0.9 billion. Lower solvency capital requirements are mainly due to higher risk absorption as a result of somewhat higher interest rates. Improved methodology for calculating the capital requirement has contributed to somewhat higher capital requirements. Higher interest rates

have led to reduced guaranteed pension obligations without the use of the transitional regulations and increase the solvency capital.
At year-end 2021 the solvency capital was 16,5 billion above the capital requirements and DNB Liv was well capitalised. This implies that the company will meet the solvency requirements if the interest rate level is lower than current market rates. Based on a normalised return over the coming two to three years, the solvency margin without transitional rules will increase reflecting returns and profit generation.
DNB Liv Own Risk and Solvency Assesment (ORSA) concludes that the company is adequately capitalized in the financial planning period going forward.

After the outbreak of Covid-19 and until the end of the third quarter of 2020, the solvency capital was lower than the solvency capital requirement without transitional rules. This entailed a preparation of an action plan that shows how the solvency margin without transitional rules would be brought above 100 per cent by the end of the transitional period. The action plan is part of the company's long-term strategy and stated that the company was satisfactory capitalized at the end of the transition periode. Throughout 2020 and 2021, the company has had a solvency margin with transitional rules that are significantly above the capital requirement. In 2020 and 2021, the company has achieved good results at the same time as interest rates have risen so that the market value of technical provisions has been reduced. The capitalization has therefore been further strengthened in 2021 and the company has good margins to current solvency capital requirements and is sufficiently capitalized. The company will also be able to meet the solvency requirements at a significantly lower interest rate level than current market interest rates.

Own funds

At the end of 2021, the company's composition of own funds was as presented in the table 8.

Table 8. Own funds

NOK mill	31.12.2021	31.12.2020
Own funds Tier 1		
Ordinary share capital	1 641	1 641
Share premium reserve	6 016	6 016
Subordinated liabilities	1 500	1 500
Reconciliation reserve	19 030	21 394
Impact of transitional measures	6 431	13 116
Total basic own funds Tier 1	28 187	30 551
Own funds Tier 2		
Subordinated liabilities	5 500	5 500
Risk equalisation fund	929	808
Total basic own funds Tier 2	6 429	6 308
Own funds Tier 3		
Deferred tax	0	0
Total basic own funds Tier 3	0	0
Total available own funds to meet the SCR	34 617	36 859
Total available own funds to meet the SCR without transitional measures	28 186	23 743

In total, subordinated capital with transitional rules has been reduced by NOK 2.2 billion, while subordinated capital without transitional rules has increased by NOK 4.4 billion in 2021.

The capital includes the reconciliation reserve where the effect of valuing assets and liabilities at market values emerges.

The reconciliation reserve specified above table includes other earned equity which has increased by NOK 0.8 billion and funds for unrealized gains have increased by NOK 7.4 billion. The effect of the transition to market value has increased by NOK 3.9 billion and the reduced effect of the transitional measures amounts to NOK 6.6 billion. The transitional regulations have been further phased out by 1/16 per 1.1.2021.

Subordinated loans under subordinated capital group 1 consist of a perpetual subordinated loan of NOK 1.5 billion with possible repayment in 2028. Subordinated loans under subordinated capital group 2 consist of a perpetual subordinated loan of NOK 3 billion that can be repaid in 2025 and a time-limited loans of NOK 2.5 billion maturing in 2025. The subordinated loans are internal loans in the DNB Group. In the regulations for the composition of subordinated capital, there is a limit to how much group 2 capital can cover the minimum requirement (MCR), and the capital in this category is reduced in relation to the starting point. Capital included in group 3 cannot cover the MCR requirement.

SENSITIVITIES

The company's solvency position is vulnerable to changes in assumptions and the interest rate level. Sensitivities have been prepared in connection with the calculation of the solvency margin at year-end 2021. These are shown in the table 9 below.

Table 9. Sensitivities with transitional measures

Sensitivities with transitional measures	
Solvency margin per 31 Dec. 2021	191 %
Interest rate up 50 bp.	191 %
Interest rate down 50 bp.	184 %
Increase in mortality of 10%	197 %
Decrease in mortality of 10%	181 %
Increase in disability of 10%	190 %
Decrease in disality of 10%	191 %
Decrease value in equities of 25%	190 %
Increase in spread of 50 bp. combined by increase in VA +15 bp.	181 %
Decrease of ultimate forward rate(UFR) to 3.6 per cent	191 %

The sensitivity analysis shows that the company's largest risk relates to falling interest rates, changes in mortality and decrease in values in equities. If interest rates decline by 50 basis points, the solvency margin will be reduced from 191 per cent to 184 per cent. Increase in spread of 50 basis points combined with increase in VA by 15 basis points wil also reduce te solvency margin to 181 per cent.Changes in the mortality rate will also have a material effect on the company's solvency position. In the analysis, mortality is assumed to decline by 10 per cent, which corresponds to a 1-2 years increase in life expectancy. This reduces the solvency margin to 181 per cent.

In April 2017, EIOPA adopted new rules for the calculation of the UFR (Ultimate Forward Rate). It has been decided that the UFR can be reduced by up to 15 basis points per year, for the first time on 1 January 2018. The UFR was 3.6 per cent at 1 January 2021.

The remaining sensitivities will have a limited effect on the solvency margin.

Changes in interest rates are highly compensated for through the transitional rules, and interest rate changes have smaller effect on the company's solvency position when the transitional rules are applied. Without transitional rules the solvency margin will be reduced from 155 per cent to 131 per cent if interest rates decline by 50 basis points. A reduction of 25 percent in the values in equities will reduce the solvencymargin to 149 per cent and with no volatility adjustment the solvency margin will be reduced to 127 per cent. Based on calculations made as of 31 December 2021, the company will have a solvency margin of more than 181 per cent for all sensitivities when using the transition rules and a solvency margin above 127 per cent for all sensitivities without using the transition rules.

SOLVENCY CAPITAL REQUIREMENT AND MINIMUM CAPITAL REQUIREMENT

The table 10 provides an overview of developments in the solvency capital requirement with the transitional measures and the minimum capital requirement in 2020 -2021 in total and distributed over the main modules in the standard model.

Table 10. An overview of developments in the solvency capital requirement with the transitional measures and the minimum capital requirement

NOK mill	31.12.2021	31.12.2020
Market and counterparty default risk	30 221	27 832
Insurance risk	10 490	10 728
Operational risk	1 091	1 077
Diversification	(7 115)	(7 238)
Loss-absorbing tax	(4 428)	(4 776)
Loss-absorbing technical provisions	(12 121)	(8 608)
Sovency capital requirement	**18 138**	**19 015**
Minimum capital requirement	7 723	7 764
Solvency margin including transitonal rules	191 %	194 %
Solvency margin without transitonal rules	155 %	125 %

Market risk has increased in 2021, which is mainly due to increased equity investments and increased spread risk. Increased interest rates are the main reason for higher loss absorption in technical provisions. The composition of sub-modules for market risk in the standard method is shown in C.

Insurance risk was reduced through 2021, mainly due to higher interest rates.

The calculation of the minimum capital requirement is based on rates of best estimate provisions under Solvency II for life insurance products and non-life products. In the calculation there is a lower and upper limit in the requirement of a minimum of 25% and a maximum of 45% of the calculated solvency capital requirement. The minimum capital requirement as of 31.12.2021 is dominated by requirements related to the life insurance part of the business (95%). The non-life products account for the remaining 5%.

The Solvency Capital Requirement was reduced in 2021, while the minimum requirement was virtually unchanged at the end of 2021.

NO VIOLATIONS OF THE MINIMUM CAPITAL REQUIREMENT AND THE SOLVENCY CAPITAL REQUIREMENT

DNB Liv has reported its capital requirement to Finanstilsynet (FSA) as from 1 January 2021 and for each quarter in 2021. The company fulfilled the capital solvency requirements throughout this period.

We are here.

So you can stay ahead.

WE WILL BE CURIOUS, BOLD AND RESPONSIBLE.

DNB Livsforsikring AS

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