EV and VNB methodology

EV and VNB valuations are the outcomes of actuarial modelling based on a complex set of assumptions. They are not management projections of the value of the company. Value measurement metrics are highly sensitive to the model's underlying assumptions. Valuations are modelled on cash flows (cash in, cash out, AUM at period end). Profit margins are assumed to be stable over time. The methodologies are consistent with Australian Standards. The table below sets out the definitions and methods of calculating Value of in-force business (VIF) for EV and VNB.

	Embedded value (EV)	Value of new businesses (VNB)
Definitions	The EV is a measure of the economic value of the shareholder capital in the business and the profits expected to emerge from the business currently in force. The EV is made up of two items: – Value of in-force business (VIF) – the discounted value of future profits and movements/releases of regulatory capital, and – Adjusted net assets – shareholder assets in excess of the regulatory capital requirements, at face value. For this purpose regulatory capital is allocated at a product-group level with a minimum of zero. This will give a different regulatory capital to the MRR disclosed in the Investor Report, which is calculated at an entity level.	The VNB is a measure of the economic value of the profits expected to emerge from new business net of the cost of supporting capital. VNB is the increase in EV over the period due to new business.
Methods of calculating VIF	Future profit margins, shareholder franking credits arising from payment of Australian tax and capital requirements are projected on best estimate assumptions (see the Investor Report for more details on assumptions). VIF is calculated by discounting these to a present value using a range of risk discount rates, expressed as margins above the 10 year bond yield.	Calculated at point of sale using the same methods as for VIF. The value at the point of sale is rolled up at the risk discount rate to the valuation date.

Key elements of cashflow included in future projections

The tables below outline the key underlying assumptions for the embedded value (EV) and value of new business (VNB) calculations for the main product groupings for the AMP Financial Services business and AXA.

AMP Financial Services business

AMP's EV and VNB methodologies include an allowance for expected recurring contributions on all Corporate Superannuation (CS), Flexible Lifetime – Superannuation (FLS), Flexible Super (FS), Retirement Savings Account (RSA), KiwiSaver (KS) and New Zealand Retirement Trust (NZRT) contracts where future contributions can be reasonably anticipated.

Main product groupings	Key elements of cashflow included in future projections[1]	
	Embedded value (EV)	Value of new business (VNB)
Regular premium Retail risk insurance, conventional, investment account and investment linked contracts[2]	Future premiums, claims, investment returns, taxes and expenses adjusted for best estimates of lapses/surrenders. Future expenses are projected using unit costs related to number of policies, annual premiums or assets under management, depending on the underlying driver of the expenses. Unit costs that are related to policies are indexed annually at 3%.	Only new contracts and increases (excluding those due to indexation and age) commencing during the period for consistency with EV approach.
Single premium Retail investment account, investment linked and eligible rollover contracts,external platforms contracts and North Guarantee (Ordinary)[4]	As above but with no future premiums.	Single premiums paid during the period are included - no future premiums assumed for consistency with EV approach.
AMP - Corporate superannuation[3],AMP flexible super (AMP FS), flexible lifetime superannuation (FLS), retirement savings account (RSA) contracts. KiwiSaver and NZRT[4] **AXA** - Business Superannuation contracts; North Guarantee (Super)	As above but with full allowance for expected future recurring contributions based on contractual policy terms and conditions and observed policyholder payment methods.[2]	All single premium and transfer values paid during the period (for both new and old policies) are included along with expected future recurring contributions for new contracts commencing in the period.[2]
Group risk contracts	AMP - As above but assuming future premiums for existing members only - ie assumes withdrawing members are not replaced. AXA - As above but assuming future premiums until the next opportunity for AXA to review pricing. This is generally 3 or 5 years.	Only new group contracts commencing during the period are included in VNB (new members replacing withdrawing members only impact EV), Plus for AXA those contracts that had their pricing reviewed.

1. Only contracts which are in force at the valuation date are included in EV calculations.
2. Fees and rebates (including small account protection) are projected over the expected life of the contract based on current contractual terms. The projections of rebates allow for the growth in AUM related to the contract.
3. For AMP corporate superannuation contracts, where member administration is at a group level, EV assumes that departing members from a continuing scheme are replaced with new scheme members. However, no allowance is made for the potential transfers of accumulated benefits with the new member from their previous superannuation scheme.

   AMP FS, FLS and RSA contracts are administered as separate accounts for each member. EV assumes there will be no replacement when existing members withdraw, and new members are included as new contracts in VNB. For AMP FS, FLS and RSA, employer sourced contributions (including salary sacrifice) are considered as recurring contributions, but member direct contributions are considered as recurring contributions only if they are sourced from a periodic direct debit or a periodic reminder notice payment facility. New business includes all new policies or schemes, all single premiums received and, in the case of retail business, any increases in regular contributions. Note that the corporate superannuation single premiums include asset transfers for new members of existing schemes, consistent with the exclusion of these transfers within the EV.
4. Includes expected rollovers of funds from AMP corporate superannuation contracts, from members leaving their current employment, into AMP FS, FLS or where applicable, the personal part of the AMP Corporate Superannuation Plan.