Storebrand ASA

Capital adequacy regulations (Basel II), Pillar 3

Q2 2012

Table of contents

1 Introduction

The purpose of this document is to disclose information about capital, risk exposures and risk management in accordance with Pillar 3 of the capital adequacy regulations (Basel II), which stipulates a set of requirements concerning the disclosure of financial information. Storebrand is involved in financial business activities which place significant requirements on the management and control of risk. Good risk management is an essential strategic tool for value creation within the entity. Its goals are to maintain good risk-bearing capacity while continuously tailoring the financial risk to the entity's solvency.

This document mainly provides information on the business segments within Storebrand which are governed by the Basel II regulation. More detailed information on insurance activities and other activities within the Storebrand Group can be found in Storebrand ASA's annual report.

The information about primary capital and minimum primary capital requirements in this document is updated quarterly. Otherwise the document is updated annually.

2 Capital adequacy regulations / Basel II

The capital adequacy regulations/Basel II are divided into three pillars (areas). Pillar 1 defines the regulatory minimum capital requirements, and therefore represents a further development of the former Basel I regulations. Pillar 2 addresses institutions' internal processes for overall capital adequacy and supervisory review and evaluation Internal Capital Adequacy Assessment Process (ICAAP), while Pillar 3 addresses the requirements for the disclosure of financial information.

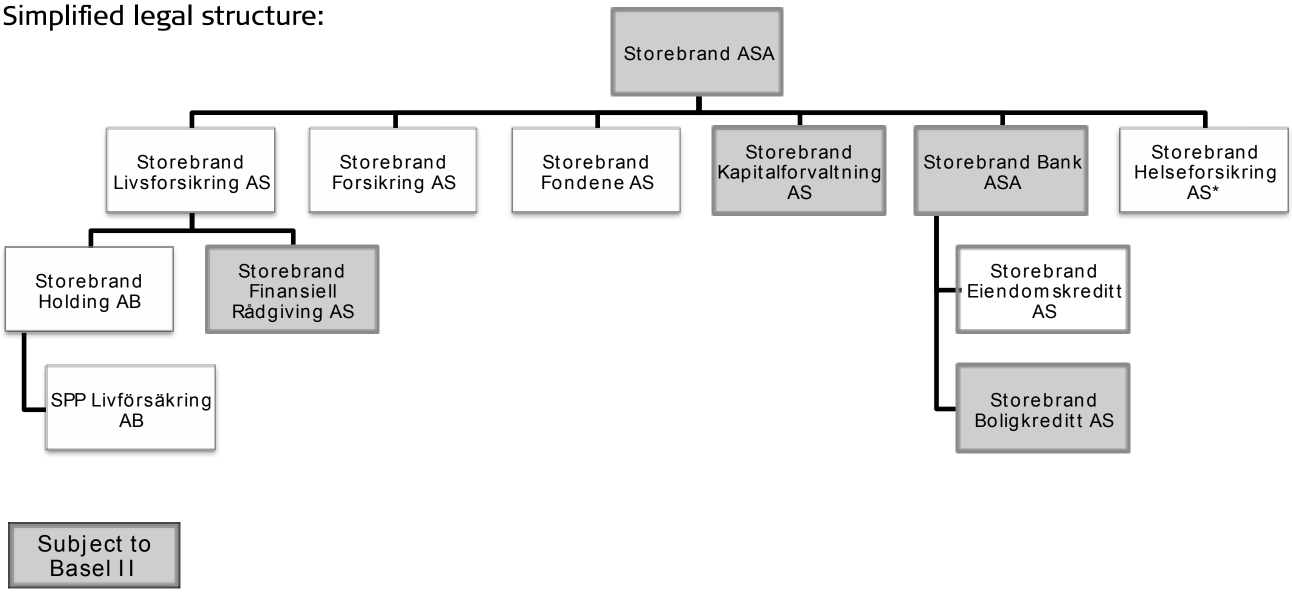
3 Description of the consolidation rules

The consolidated financial statements of Storebrand ASA encompass the holding company, Storebrand ASA, as well as its subsidiaries, jointly controlled companies (joint ventures) and associated companies. The companies in the group subject to the capital adequacy regulations operate in the areas of banking, life insurance, P&C insurance, investment advice, and asset management.

The consolidated financial statements are prepared in accordance with IFRS. Transactions carried out within the group between different units of the group are eliminated in the consolidated financial statements.

The dominant business of the Storebrand Group is insurance, and the various business areas of the group are subject to different capital adequacy rules. Basel II is primarily intended for banks, credit institutions, capital management companies and investment firms, while insurance companies continue to follow the Basel I framework. Insurance companies will in due course be subject to new solvency regulations as part of the Solvency II process. Since insurance companies are not subject to Basel II, which applies different capital adequacy rules to Basel I, consolidated capital adequacy will be the result of differing capital adequacy principles.

Simplified legal structure:



* 50 percent ownership

The following subsidiaries are governed by the Basel II regulations:

- Storebrand Bank ASA
- Storebrand Boligkreditt AS
- Storebrand Kapitalforvaltning AS
- Storebrand Finansiell Rådgivning AS

The calculation of capital adequacy is subject to the specific rules on consolidation stipulated in the consolidation regulations. In the case of ownership interests in companies of between 10-20 per cent a capital adequacy reserve of 100 per cent of the carrying amount is set aside in the primary capital, as long as the company is not consolidated.

For the purposes of capital adequacy calculations, all subsidiary companies are fully consolidated, while joint ventures and associated companies are consolidated on a proportional basis. Associated companies are consolidated pursuant to the equity method in the consolidated financial statements, while jointly controlled companies are consolidated pursuant to the gross method.

Consolidated capital adequacy is based on the valuation rules applied in the unconsolidated financial statements. The unconsolidated financial statements are prepared in accordance with generally accepted accounting principles in Norway (N GAAP), with the exception of the unconsolidated financial statements of Storebrand Bank ASA, which are prepared in accordance with simplified IFRS.

Storebrand is classified as a cross-sectorial financial group. Companies involved in P&C insurance and life insurance must carry out calculations pursuant to both the capital adequacy regulations and the solvency margin regulations. The group includes the following insurance companies: Storebrand Livsforsikring AS and its subsidiaries SPP Livsförsäkring AB and Benco, as well as Storebrand Forsikring AS and Storebrand Helseforsikring AS. The Norwegian insurance companies in the group are subject to capital adequacy regulations, but these do not apply to the foreign insurance companies.

Asset management activities are subject to separate capital adequacy rules, and the requirements vary depending on the type of license under which a particular company operates. This represents whichever is the highest of the requirement for initial capital, capital adequacy with and without operational risk or primary capital in relation to the previous year’s fixed costs. This applies to Storebrand Kapitalforvaltning AS and Storebrand Finansiell Rådgivning AS.

4 Risk and capital management

4.1 Capital management

The primary objective of capital management is to optimise the balance between return and risk, whilst maintaining economic and regulatory capital in accordance with risk appetite. The rate of growth and composition of business segments are important factors for the need for capital. Storebrand places a significant emphasis on adapting the level of equity and loans within the Group to financial risk and capital requirement.

The Group aim to maintain a solvency margin for the life insurance companies of more than 150 percent and a core capital adequacy within its banking activities of 10 percent. The level of capital shall support an A-level rating for the life insurance companies. The Group’s parent company has established a goal to achieve a net debt ratio of zero. This implies that liquid assets shall equal interest-bearing liabilities. The Group’s financial targets are displayed in the table below. In addition to the solvency targets, the Group also has a target to achieve a rate of return on equity (RoE) of 15 percent per year.

4.2 Business management

The board of Storebrand has adopted guidelines for overall management and control. The internal audit function in Storebrand is founded on an operational corporate governance model, whereby management is based on group-wide principles and internal regulations in areas such as ethics, information management and information security, as well as a value-based system for financial and operational risk. The group has a common internal audit function which carries out an independent review of the robustness of the management model. The internal auditor is appointed by and reports to the boards of the respective group companies.

KEY FIGURES	TARGETS	31.12.2011	31.12.2010
Return on equity*	15%	6%	11%
Rating Storebrand Livsforsikring	A	A-/A3	A-/A3
Solvency margin Storebrand Livsforsikring Group	>150%	161%	164%
Core capital adequacy Storebrand Bank Group	10%	11.4%	10.6%
Net debt ratio Storebrand ASA	0%	12%	9%

*) Adjusted for amortisation of intangible assets

Storebrand's value-based management system

Storebrand's management system shall ensure a correlation between goals and actions at all levels of the Group and an overall policy for creating value for Storebrand's stakeholders. The system is based on a balanced scorecard, where four dimensions – finance, customer, internal processes and learning/growth – reflect both short-term and long-term value creation in the Group.

The Storebrand Group carries out an annual strategy and planning process for each business segment. The end product is a rolling three-year strategic and financial plan with principal targets, plans of action and budgets, in which financial prognosis and capital plans are prepared for each subsidiary and at Group level. Risk and capital assessments, in addition to internal control reports, are an integrated part of business management. The management teams in the various business areas identify risk areas and improvement measures based on the company's goals and strategy. This work is summed up in an internal control report that is reviewed by the Audit Committee and Boards of Directors.

"Storebrand Kompass" is the company's supervisory tool, providing the management and the Board of Directors with reports on financial and operating goals prepared during the strategy and planning process. In the event that any parameters have a low level of goal achievement, necessary measures are identified.

4.2.1 Operational risk

Operational risk is defined as unexpected fluctuations in result caused by deficiencies or faults within internal processes and systems, insufficiencies or errors among employees or as a result of external events.

Operational risk for the Group is principally related to system-related problems when adapting and managing products, and as a result of growth in the customer base and increased complexity. Storebrand's products and customer relationships are based on solid and long-term trust built up between the company and the market. Damage to the company's reputation may have an effect on the capacity to sustain and attract customers and employees. The Group's core values and internal regulations are important factors for managing risk related to reputation.

The group uses the Easy Risk Manager risk management tool in the risk assessment process and for monitoring operational risk. Easy Risk Manager supports the identification of areas of risk and helps assess the likelihood and consequences of a risk scenario occurring. The tool also documents who is responsible for implementing risk reducing measures.

The risk assessment process is integrated into business management by linking risk assessment to the unit's capacity to achieve its business goals, comply with regulatory requirements and the degree to which risk impacts on Storebrand's reputation. The audits carried out by the internal auditor of different risk areas are regarded as an extremely important measure for control and reduction of risk. Assessments of risk and measures to reduce risk help ensure that operations can continue and loss is minimised in the event of severe errors or events.

4.2.2 The organisation of control functions for risk management, internal control and compliance

All regulated entities in the Group are required to establish control functions for risk management, internal control and compliance, in addition to an internal auditor.

The control functions are organised so that each function is fully independent from any influence which may undermine the function's capacity to execute its duties in an objective and independent manner.

Smaller Group companies with a low level of complexity may appoint several control functions to one person or one organisational unit. This does not apply however to the internal auditor function, which must be completely independent of operational functions and other control functions.

It is essential to emphasize sufficient independence for the control functions in order to prevent possible conflicts of interest. Situations in which individuals may participate in a decision-making process for which they also act as control function must be avoided.

The control functions have access to the same databases and reports as defined for the operational activities, and have the authority to define their own reports.

Furthermore, the control functions shall monitor all recorded events which have resulted in a notable financial loss, shall take part in the process of identification, assessment and reporting of operational risk when new financial instruments are implemented within risk management and/or asset management.

The audit plans for the internal audit shall contain an independent assessment of control functions for risk management, internal control and compliance.

The principal corporate responsibility for the Group's risk management system and internal control/risk control is organised under a central staff function, the Chief Risk Officer (CRO), who reports to the CFO. The main task of the CRO is to ensure that the Group's activities comply with strategies and limits for risk-taking, defined within the Group's financial strategy, the 3-year rolling plan and the investment strategies for each company. Furthermore, the CRO shall coordinate the processes within the Group's business units and intragroup functions for identification, assessment and reporting of operational risk, including reputation risk and compliance risk. The central CRO function is divided into several control functions for financial market risk, commercial risk and operational risk.

Moreover, risk control and compliance functions have been established for each company. These are responsible for the coordination of processes for identification, assessment and reporting of operational risk (including reputation risk and compliance risk) within their respective organisational units.

4.2.3 Remuneration

4.2.3.1 Remuneration of the Board of Directors for Storebrand ASA

The AGM fixes the Board's annual remuneration on the basis of the recommendations of the Nomination Committee. The fees paid to the members of the Board are not linked to earnings, option schemes or similar arrangements. The members of the Board and Board Committees do not receive incentive-based remuneration; instead they receive a fixed annual compensation. The shareholder-elected members of the Board do not participate in the company's pension schemes. None of the shareholder-elected members of the Board carry out any duties for the company beyond their appointment to the Board. More detailed information on the remuneration, loans and shareholdings of board members can be found in notes 24 (Group) and 5 (ASA) in the annual report. Board members are encouraged to hold shares in the company.

4.2.3.2 Remuneration of executive personnel

The Board determines the structure of the remuneration of executive personnel at Storebrand, and a statement on the fixing of remuneration is presented to the AGM. The remuneration consists of fixed salaries, bonuses, pension schemes and other fringe benefits deemed to be natural in a financial group. In the opinion of the Board, the overall remuneration shall be competitive, but not leading. An annual assessment is carried out based on external market data to ensure remuneration is adequate in relation to equivalent positions in the market. The Storebrand Group has established remuneration comprising fixed salary only for employees who are principally employed for control functions. This is to ensure independence in the execution of the control functions. For other executive personnel and employees who influence the company's risk, as defined by the authorities, the most important objectives of the bonus model are for the bonuses to guide their actions so that they are generally commensurate with the owners' long-term interests, promote good management and control of the company's risk, counter high levels of risk-taking, and act as an incentive. Specific goals are set annually for how the company's creation of value shall finance bonuses. The level of financing is based on value creation over the past two years, and the goal for value creation is based on risk-adjusted result. Value creation and the bonuses awarded are determined according to the results reported for the unit and the individual. The units' results are measured by means of a scorecard, which incorporates both quantitative and qualitative goals, and these goals are both financial and operational. The employees' performance is followed up by a special monitoring system, in which performance is measured in relation to both the execution of individual action plans and compliance with the Storebrand Group's corporate policies. The unit and individual results are weighted equally, and the maximum total goal achievement is 150 percent. The unit's scorecard and the individual's action plan are directly linked to the strategy adopted by the Board. This helps to further strengthen the agreement between the owners and the management. For Norwegian executive personnel, half of the awarded bonus is paid in cash, while the remaining half is converted to a number of synthetic shares based on a weighted average price before payment. The number of shares is registered in a share bank and will remain there for three years. Actual shares are not purchased. At the end of the period, an amount corresponding to the market price of the shares awarded is paid. Half of the amount paid (after tax) from the share bank is used to purchase actual shares in Storebrand with a lock-in period of 3 years. No payments are made from the share bank until the end of the 3-year period, even if the employee withdraws from the scheme or leaves the company.

4.3 Internal capital adequacy assessment process (ICAAP)

The risk and capital adequacy assessment process is part of the group's strategy and planning process. Companies subject to the Basel II regulations undergo a risk and internal capital adequacy assessment process (ICAAP) based on the capital adequacy regulations and guidelines issued by Finanstilsynet. The insurance business in Storebrand is not subject to the guidelines and therefore no ICAAP is carried out pursuant to the regulations for this part of the business. Given this, an ICAAP is currently only carried out at a company level in the companies subject to the regulations and not at a group level. Storebrand ASA is not subject to the ICAAP process either. However, an equivalent risk and capital adequacy process, including the preparation of an investment strategy and financial plan that includes a capital plan, is carried out as part of the group's strategy and planning process for the insurance business and other business areas in Storebrand as well.

The process and results from an ICAAP along with an evaluation of the risk profile and pertinent capital requirements are documented in writing and separately discussed and adopted by the various boards of directors. The capital requirements are assessed on the basis of regulatory minimum requirements (Pillar 1) with additional buffers for other areas of risk. The minimum requirements for credit and market risk are calculated using the standard method. The basic method is used for operational risk. Apart from credit, market and operational risk as calculated in Pillar 1, Storebrand Bank's calculated capital requirement also takes into account extra capital requirements linked to concentration, liquidity, residual, market and reputation risk. Scenario analyses are carried out to assess the company's risk-bearing capacity and the effect of stress tests on the capital base that could occur and during periods of economic downturn. The stress scenario used for Storebrand Bank is an economic downturn with falling real estate prices and an increasing likelihood of non-performance over a 3-year period. Concentration risk is also stressed in the scenario. The stress scenarios used for Storebrand Kapitalforvaltning AS and Storebrand Finansiell Rådgivning AS affect operating revenues directly, e.g. falls in new sales volumes and customer portfolios, and indirectly, through falls in the value of customers' assets which result in a lower earnings base.

The assessment of the capital level is based on the results from the quantitative analyses and qualitative assessments of what is justifiable from a business perspective. The target capital level is thus derived at on the basis of the company having an adequate and acceptable capital buffer that exceeds the regulatory minimum requirements and in which the size of the capital buffer is a result of the ICAAP analysis. A capital plan for maintaining the capital level in the companies is prepared on the basis of the target capital level, result prognoses, and expected growth and composition of statement of financial position.

4.4 Risk management and control

Storebrand assumes risk as part of its core activities. Good risk management is a prerequisite for achieving the group's financial goals and ensuring the group has the financial strength to withstand and limit losses in its operations.

Storebrand has stipulated guidelines for risk management and internal control at a group level. The purpose of the guidelines is to ensure that the Storebrand Group has effective and robust functions in place for risk management, risk control and compliance, which ensure the implementation of the group's and group companies' strategies and compliance with the framework for risk taking. The guidelines are approved each year by the boards of Storebrand ASA and the subsidiaries.

The risks and risk management in the business areas subject to the Basel II regulations are described below. Please refer to Storebrand ASA's annual report for a more detailed description of risk management in the group's insurance business.

4.4.1 Risk management for the banking group
The bank's core activities are linked to creating value through exposure to acceptable risks. The Storebrand Bank Group is proactive in managing the risk involved in its business activities and continuously works to develop its systems and processes for risk management.

Storebrand Bank ASA and its subsidiary Storebrand Boligkreditt AS are exposed to the following significant risks: credit risk, liquidity risk, market risk and operational risk.

The banking group's risk strategy lays the foundations for management of all types of risk, in order to ensure that the bank achieves the required risk profile. The risk strategy is determined by the Board and is updated at least annually. All types of risk are managed in accordance with respective policies. The policies for credit risk are discussed by the bank's credit committee. Policies related to financial risk are discussed by the bank's balance sheet management committee. The policy for operational risk is discussed by the bank's management group. The bank's Board of Directors is authorised to adopt the policies, or can delegate this authority to the CEO. The Boards of Directors for the credit institutions are authorised to adopt limitations in addition to these policies, in accordance with the company's targets and prevailing regulations.

As part of its ICAAP (second pillar), the bank has assessed the total capital requirement for the banking group. The bank is deemed to have a satisfactory capitalisation in relation to risk profile.

4.4.1.1 Credit risk
Credit risk is defined as the risk of loss resulting from the customer's lack of capacity or willingness to fulfill their commitments, and comprises the risk that securities are less effective than expected (residual risk), concentration risk and counterparty risk.

The credit quality of the corporate market portfolio is considered to be good. Approximately 80 percent of the portfolio's loans are property loans and about 20 percent relate to development and construction loans. Property loans are characterised by a good, diversified tenant profile and good lease durations. The bank is secured a cash flow from tenants with these types of loans, in addition to having security in the property itself. Tenant diversification ensures corresponding diversification of cash flows, which significantly reduces the overall risk inherent in the portfolio.

The greatest risk in the portfolio is considered to be connected with development projects where the bank has a total exposure of approximately NOK 2.5 billion. This segment is largely composed of loans to construction projects in the housing and office sector in and around the centre of Oslo. Loans to new property projects are contingent upon a high proportion of advance sales, and the risk is deemed to be satisfactory.

The credit risk has improved during the year as new lower risk loans have been made, and the current loans have developed in a positive direction. The concentration risk connected with large loans has decreased over the last few years.

Storebrand ASA places an emphasis on maintaining close relationships with its corporate market customers. The bank has a fixed set of regulations for reviewing annual loans. Credit lines which exceed a specific figure within the corporate segment can only be processed by a credit committee, chaired by the CEO or the bank's Board of Directors.

The credit quality of the retail market portfolio is considered to be very good. Almost the entire portfolio is secured by way of property mortgages. The portfolio's high security coverage indicates a limited risk of loss. The loan to value ratio of the property loans is relatively low and only a limited number of loans have been made which exceed 80 percent of the market value.

The average weighted loan to value ratio in the banking group is approximately 55 percent for mortgages, and about 94 percent of the mortgages are within a loan to value ratio of 80 percent and almost 97 percent are within a 90 percent loan to value ratio. Approximately 58 percent of mortgages have a loan to value ratio of less than 60 percent in the banking group.

The retail market portfolio has had very few losses historically. For the bank as a whole, a high share of loans to the retail market is considered important in reducing the bank's total risk. The proportion of loans in the retail market as a percentage of the bank's total lending is 66 percent at the end of 2011, up from 65 percent in 2010.

The residential mortgage product has delivered strong growth over the last several years and is expected to grow at a slightly lower rate also in the future. This will result in a slight increase in portfolio risk, but the risk will be counteracted by stricter loan criteria for residential mortgages, monitoring customers with a high degree of utilisation and those who do not pay interest and installments on a regular basis.

Risk for Storebrand Boligkreditt AS is very low.

Counterparty risk for the bank and credit institutions related to investments, which include securities/the liquidity portfolio, or exposure, including derivatives, from other institutions is derived from ratings and the size of the management portfolio. The limits set for counterparty risk take into account both pure investments and settlement risk. Measurement and reporting take place at a minimum every month by the Middle Office in Storebrand Bank's risk management department.

4.4.1.2 Liquidity risk

Liquidity risk is the risk that the banking group, the parent bank or the subsidiaries are unable to fulfill their obligations without incurring substantial additional expense in the form of reduced prices for assets that must be realised, or in the form of especially expensive financing.

The risk strategy establishes overall limits for how much liquidity risk the bank group is willing to accept. The liquidity risk policy is based on this strategy and specifies minimum liquidity reserves and financial indicators for measuring liquidity risk. Stress tests based on varying scenarios are utilised to illustrate the estimated impact on the balance sheet and cash flows. In addition to this, the bank's Treasury Department prepares an annual funding strategy and funding plan that set out the overall limits for the bank's funding activities.

The bank prepares a contingency plan annually to safeguard proper management of the liquidity situation in stressed periods.

The Treasury function in the bank's Markets department is responsible for the bank's liquidity management, and the mid-office in the Risk Management unit monitors and reports the utilisation of limits in accordance with the liquidity strategy.

The liquidity targets in Storebrand Bank ASA and Storebrand Boligkreditt AS are within the internally established limits.

The bank has established good liquidity buffers and attaches great importance to having a balanced funding structure in relation to the various maturities and issuances in various markets. Credit facilities/agreements have been established with other banks that Storebrand Bank can draw upon as required. Storebrand Bank ASA is rated by S&P and Moody's. The bank places an emphasis on having relationships with several international banks. Such relationships provide access to the international capital market and allow for a wide range of financing sources for the Group.

4.4.1.3 Market risk

Market risk is defined as the risk of incurring losses on open positions in financial instruments due to changes in market variables and/or market conditions within a specified time horizon. Market risk encompasses counterparty risk when trading financial instruments as well as securities risk, interest rate risk and exchange rate risk.

Storebrand Bank's aggregate market risk through interest rate and exchange rate exposure and the maximum risk of loss on the liquidity portfolio are restricted through low exposure limits. Moreover, the bank does not have any active investment strategy for shares, and the limits for shares are only established to cover requirements relating to the management of non-performing loans (repossessed assets).

Interest risk is monitored continually, and risk limits are defined for both Storebrand Bank Group and Storebrand Boligkreditt AS and are measured at a minimum on a monthly basis and reported regularly to the Bank's Board of Directors.

Storebrand Bank ASA and Storebrand Boligkreditt AS follow a policy for total currency hedging. The purpose of this policy is to minimise currency risk related to investments, lending and borrowing in foreign currency. Storebrand Bank does not trade in currency on their own account. Risk limits have been established and are continuously monitored, with regular reports submitted to the bank's Board of Directors.

The Middle Office in Storebrand Bank's risk management department monitors and reports on market risk on a monthly basis.

4.4.1.4 Operational risk

Operational risk (defined in paragraph 4.2.1) is the risk of financial loss due to ineffective, inadequate or failing internal processes or systems, human error, external events or failure to comply with internal guidelines.

Operational risk management and compliance with laws, regulations and internal rules are an integral part of the management responsibilities of all managers in the Storebrand Group. Risk assessments and internal control reporting are linked to a unit's ability to achieve its goals.

The Group Control department in Storebrand is responsible for coordination of the risk assessment process. The governing structure for operational risk management follows the Group's organisation. Operational risk in Storebrand Bank is governed through the policy for operational risk

The most important measures to reduce operational risk are systematic risk reviews in all parts of the bank group at a minimum of once every quarter, as well as the implementation of projects under certain circumstances. The goal of the risk review is to achieve a common understanding of the overall risk picture for the bank group's activities, and through this contribute to a broader basis for decision making in connection with important priorities.

The last risk review was performed in the autumn of 2011. The results of the risk review, including documentation of identified risks and a description of measures with deadlines, are recorded in the bank's internal control system.

4.4.2 Risk management, Storebrand Kapitalforvaltning AS

Storebrand Kapitalforvaltning AS manages assets on behalf of customers and bears limited risk above normal commercial and operational risk for this type of activity. The credit risk is regarded as low and the business' direct exposure to market risk is limited since the company's investments in securities are limited to investments of surplus liquidity.

Storebrand manages a large portion of its assets actively. This means that its fund managers are allowed a degree of freedom with the objective of producing a better return than the market. The group's asset management activities are structured into a number of specialist groups so that each group concentrates solely on taking advantage of investment opportunities in a specific area, subject to clearly defined investment criteria and risk limits. Each specialist group works within an assigned risk framework in which performance, risk exposure and investment profile are continuously monitored. In addition, the co-variance of the groups' exposure is monitored to ensure the greatest possible independence in order to achieve the highest possible risk-adjusted return.

An operations group is responsible for the efficient management of market risk. This group's duties include currency hedging, programme trading, hedging transactions, SRI criteria and liquidity transactions. This structure permits more efficient use of resources and greater control over active risk positions in the group's investment portfolio.

Mid-office in Storebrand Kapitalforvaltning monitors compliance with investment mandates and risk factors. The compliance officer in Storebrand Kapitalforvaltning monitors the proprietary trading regulations, money laundering regulations and the Securities Trading Act, and carries out training as well as random controls. Any breaches are reported to the management group, the Board of Directors and The Financial Supervisory Authority of Norway.

The company's advisors shall follow the regulations regarding good advisory practice. All advisors shall are authorised under the authorisation scheme for financial advisors.

The company's internal control activities in the form of risk assessments, follow-up and reporting satisfy the requirements in the regulations regarding risk management and internal control. The Board of Directors carries out an evaluation of itself and its competence in this area annually.

4.4.3 Risk factors, Storebrand Finansiell Rådgivning AS

Storebrand Finansiell Rådgivning AS offers comprehensive financial advice and order channeling within a broad spectrum of products for the group. The company is exposed to limited financial risk linked beyond normal business and operational risk for this type of business. Operational risk is the largest risk in the company. This is to a significant degree linked to the regulations regarding good advisory practice and the risk linked to complaints in the event of deficient advice. The company is working actively to reduce these risks. This is being done through the training of individual advisors, utilised agents and sales managers, periodic newsletters from the compliance manager in Storebrand Finansiell Rådgivning, monthly control of all proprietary trade and regular random controls of submitted customer profile forms. In addition to the compliance manager's controls, the internal auditor also carries out annual controls. Storebrand Finansiell Rådgivning AS and its associated agents make use of authorised financial advisors only, with the exception of new recruits who are under training.

5 Net primary capital / capital requirement

The table below provides information on core capital, supplementary capital and net primary capital for the Storebrand Group and for the companies governed by Basel II.

Net primary capital as at 30.06.2012

NOK MILL.	STOREBRAND KAPITAL-FORVALTNING AS	STOREBRAND FINANSIELL RÅDGIVNING AS	STOREBRAND BANK ASA	STOREBRAND BOLIG-KREDITT AS	STOREBRAND ASA	STOREBRAND GROUP
Share capital	4	30	961	350	2,250	2,250
Other equity	97	138	1,296	382	14,093	17,085
Equity	**101**	**168**	**2,256**	**732**	**16,343**	**19,335**
Hybrid tier 1 capital			279			1,779
Interest rate adjustment of insurance obligations						-1,409
Goodwill and other intangible assets	-13	-81	-71			-6,426
Deferred tax assets	-30	-33	-1		-671	-15
Risk equalisation fund						-556
Deductions for investments in other financial institutions						-2
Security reserves						-259
Minimum requirement reassurance allocation						-7
Capital adequacy reserve						-103
Other	53		-54	-33	-46	-123
Tier 1 capital	**111**	**54**	**2,409**	**700**	**15,625**	**12,214**
Hybrid tier 1 capital						
Perpetual subordinated loan capital			9			4,963
Dated subordinated loan capital			299			299
Deductions for investments in other financial institutions						-2
Capital adequacy reserve						-103
Tier 2 capital			**308**			**5,158**
Net primary capital	**111**	**54**	**2,718**	**700**	**15,625**	**17,371**
Capital adequacy						
Capital adequacy ratio	**10.3%**	**152.1%**	**16.0%**	**10.5%**	**89.8%**	**11.9%**
Core capital adequacy ratio	**10.3%**	**152.1%**	**14.2%**	**10.5%**	**89.8%**	**8.4%**

According to Basel II, a capital requirement that amounts to 8 per cent of the basis for calculation. The net primary capital must as a minimum equal the capital requirement. At a consolidated level the capital requirement is also included for the insurance companies subject to rules pursuant to Basel I.

There are separate regulations for calculating the primary capital for capital adequacy. Pursuant to the regulations for primary capital the core capital can be substantially different to the equity on the statement of financial position. The above table specifies additions and deductions when calculating core capital in relation to equity in the financial statements.

Hybrid tier 1 capital can account for a maximum of 15 per cent of core capital, while any overshoot can be included as perpetual subordinated loan capital. The hybrid tier 1 capital satisfies the Norwegian regulations for hybrid capital. Loan terms include a buy-back option for the company, and a clause regarding interest rate increase if the buy-back option is not used. The conditional bonus in SPP is capital that can, pursuant to certain methods and conditions, be included as primary capital at a consolidated level. This permit expires April 1st 2012.

Minimum requirements primary capital as at 30.06.2012

NOK MILL.	STOREBRAND KAPITAL-FORVALTNING AS	STOREBRAND FINANSIELL RÅDGIVNING AS	STOREBRAND BANK ASA	STOREBRAND BOLIG-KREDITT AS	STOREBRAND ASA	STOREBRAND GROUP
Credit- and counterparty risk						
Local and regional authorities					5	5
Public corporates					5	5
Institutions	1	2	188	13	1,371	64
Corporates			681			681
Retail marked			40			41
Loans secured on real estate			315	497		812
Loans past-due			19	3		22
Covered bonds			40			18
Units in mutual securities funds	2					2
Other	8	1	16	5	3	39
Company using Basel I						9,880
Total minimum requirements credit- and counterparty risk	**11**	**3**	**1,300**	**517**	**1,385**	**11,570**
Of which						
Counterparty risk derivatives Basel II companies			53	5	1	60
Operational risk	75		61	15	8	118
Deductions			-4			-20
Minimum requirements primary capital	**87**	**3**	**1,357**	**532**	**1,392**	**11,667**

Specifications of subordinated loan capital

NOK MILL.	NOMINAL VALUE	CURRENCY	INTEREST RATE	CALL DATE AND OTHER CONDITIONS	BOOK VALUE Q2 2012
Issuer					
Perpetual hybrid (Tier 1) capital					
Storebrand Bank ASA	107	NOK	Fixed	2014	116
Storebrand Bank ASA	168	NOK	Variable	2014	169
Storebrand Life Insurance	1,500	NOK	Variable	2018	1,501
Perpetual subordinated loan capital					
Storebrand Life Insurance	300	EUR	Fixed	2013	2,328
Storebrand Life Insurance	1,700	NOK	Variable	2014	1,702
Storebrand Life Insurance	1,000	NOK	Fixed	2015	1,039
Dated subordinated loans					
Storebrand Bank ASA	150	NOK	Variable	2012	150
Storebrand Bank ASA	150	NOK	Variable	2017	151
Total subordinated and perpetual loans					**7,156**

6 Information on credit risk

6.1 General information on credit risk

6.1.1 Definition of non-performance

The following definition of non-performance applies:

In the event that either

1. A credit line is overdrawn for more than 90 days
2. A down payment loan is in arrears of more than 90 days
3. A card is in arrears of more than 90 days and the credit limit is overdrawn

the loan and the remaining loans for the customer will be deemed as non-performing. The number of days is counted from the date the arrears total more than NOK 2,000. The account is reported as healthy again once it is no longer in arrears. On report date, the arrears figure may be less than NOK 2,000.

6.1.2 Impairment of financial assets

For financial assets not carried at fair value, an assessment is made at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

If there is objective evidence that impairment has occurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not occurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate calculated at initial recognition). The carried value of the asset is reduced either directly or by making use of an appropriation account. The amount of the loss is recognised in profit or loss.

Losses expected as a result of future events, no matter how likely, are not recognised.

6.1.3 Assessments of write-downs of loans

The group assesses on each statement of financial position date whether or not there is objective evidence that the value of a loan or group of loans is impaired. Loans or groups of loans are considered to be impaired if there is objective evidence of a fall in value that will reduce the future cash flow available for servicing the commitment. The fall in value must be the result of one or more events that have occurred since inception, and it must be possible to measure the impact of such events reliably.

Objective evidence that the value of a loan or group of loans is impaired relates to observable data of which the group becomes aware in respect of one of the following events:

- the issuer or borrower has material financial difficulties
- default of the terms and conditions of a loan agreement, with failure to pay interest or instalments of principal as they fall due
- the group grants the borrower special terms as a result of the borrower's financial situation
- it is likely that the borrower will enter into negotiations for a composition with creditors or become insolvent or be subject to some other form of financial reorganisation
- the active market for a financial asset disappears as a result of financial difficulties
- observable information indicates that there has been a measurable deterioration in the estimated future cash flows of a group of financial assets since the inception of these assets.

Lending write-downs are divided into two categories:
a) Individual write-downs
Write-downs of individual loans are based on a case-by-case evaluation if there is objective evidence of impairment. In the case of corporate and retail lending, the objective criteria for impairment are judged to be correlated with default status. In addition all lending commitments are loss evaluated when other information exists that indicates the commitment is loss-exposed. The need for a write-down is determined on the basis of a specific evaluation of the most likely future cash flow that will be received from the borrower in connection with the loan. In making this judgment, management takes into account both previous experience with the borrower and other information considered relevant.

b) Group write-downs
Group write-downs are calculated separately for corporate lending and retail lending (i.e. loans to commercial customers and loans to private individuals). In the case of groups of loans in corporate lending, the objective criteria for write-downs are considered to be closely correlated with changes in the risk classification of lending relationships. The classification model for corporate lending considers three factors: quality of the borrower/financial condition (debt servicing capacity), quality of the collateral (loan-to-collateral value ratio) and commercial factors (internal/external risk). The risk classification model states the classification based on the information recorded in the accounting module at the time the calculation of group write-downs is made, the realisable value recorded for collateral, and an evaluation of commercial factors. Account is also taken of changes in macroeconomic factors that may have a significant impact on commercial lending, including changes in interest rates, and expectations of future changes in interest rates.

The objective criteria for write-downs in the group of loans making up retail lending are considered to be correlated to the default status of the loans making up the group and the historic repayment record. Non-performance status is divided into 30-90 days and over 90 days on loans that are not subject to individual write-downs because there is objective evidence of impairment. The repayment record is updated quarterly in line with the overall performance of the portfolio.

6.2 Credit risk by loan category, geographic area, counterparty and maturity

Credit risk per counterparty

Bonds and other fixed-income securities at fair value
Category of issuer or guarantor

NOK MILL.	AAA FAIR VALUE	AA FAIR VALUE	A FAIR VALUE	BBB FAIR VALUE	NIG FAIR VALUE	SUM FAIR VALUE
State and state guaranteed	284	251				535
Credit bonds	66	26	834	269	2	1,196
Asset backed securities	2,047	550		0		2,597
Supranational organisations			0	0	0	1
Total	**2,396**	**827**	**834**	**270**	**2**	**4,329**

Credit risk per counterparty

Bonds at amortised cost
Category of issuer or guarantor

NOK MILL.	AAA FAIR VALUE	AA FAIR VALUE	A FAIR VALUE	BBB FAIR VALUE	NIG FAIR VALUE	SUM FAIR VALUE
State and state guaranteed	526					526
Credit bonds	97	26				123
Total	**624**	**26**				**650**

Credit risk loans

Commitments per customer group

NOK MILL.	UTLÅN TIL OG FORDRINGER PÅ KUNDER	GARANTIER 1)	UBENYTTEDE KREDITTRAMMER	SUM ENGASJEMENTER
Development of building projects	1,236	40	18	1,295
Sale and operation of real estate	7,944	300	505	8,749
Service providers	1,384	5	2	1,392
Wage-earners	22,587	0	3,142	25,729
Other	324	2	36	362
Total	33,475	348	3,704	37,526
Loan loss provisions of individual loans	-103			-103
Loan loss provisions of groups of loans	-53			-53
Total loans to and due from customers	**33,318**	**348**	**3,704**	**37,369**

1) Guarantees include NOK 55 million in undrawn credit limits.

Customer categorisation is determined by the customer's main business.

Average volume of total commitments per customer group

NOK MILL.	AVERAGE VOLUME LOANS TO AND DUE FROM CUSTOMERS	GUARANTEES 1)	UNDRAWN CREDIT LIMITS	TOTAL COMMITMENTS
Development of building projects	1,194	38	11	1,244
Sale and operation of real estate	8,269	276	537	9,083
Service providers	1,317	6	7	1,330
Wage-earners	22,854	1	2,994	25,849
Other	344	3	39	386
Total	**33,979**	**325**	**3,588**	**37,892**

With a relatively regular development in balance sheet throughout the year, the average size of the loan from 31 December 2011 and 31 December 2010 provides the best estimate for the portfolio average.

Commitments per geographical area

NOK MILL.	LOANS TO AND DUE FROM CUSTOMERS	GUARANTEES	UNDRAWN CREDIT LIMITS	TOTAL COMMITMENTS	NON-PERFORMING LOANS WITHOUT EVIDENCE OF IMPAIRMENT	NON-PERFORMING AND LOSS EXPOSED LOANS WITH EVIDENCE OF IMPAIRMENT	BRUTTO MISLIGHOLDTE ENGASJEMENTER	INDIVIDUELLE NEDSKRIVNINGER	NETTO MISLIGHOLDTE ENGASJEMENTER
Eastern Norway	28,095	332	2,946	31,373	118	150	268	83	185
Western Norway	3,267	15	506	3,788	26	1	27	1	26
Southern Norway	396	0	54	451	8	0	8	0	8
Mid-Norway	934	0	103	1,037	4	0	4	0	4
Northern Norway	499	0	63	562	2	0	2	0	2
Foreign	284	0	32	317	2	20	21	19	2
Total	**33,475**	**348**	**3,704**	**37,526**	**159**	**171**	**330**	**103**	**227**

Group impairment losses and other changes in value are not categorised by geographic area as this is estimated at group level, irrespective of geographic area. As a result, group impairment losses are not categorised by geographic area.

Storebrand Bank does not take into account securities when calculating its capital requirement for credit risk according to part IV of the capital requirement regulation.

Total engagement amount by remaining term to maturity

NOK MILL.	LOANS TO AND DUE FROM CUSTOMERS	GUARANTEES	UNDRAWN CREDIT LIMITS	TOTAL COMMITMENTS
Up to 1 month	37	0	5	41
1 - 3 months	371	1	26	398
3 months - 1 year	1,641	3	184	1,828
1 - 5 years	3,877	338	606	4,821
More than 5 years	27,549	6	2,883	30,438
Total	**33,475**	**348**	**3,704**	**37,526**

Age distribution of overdue engagements without write-downs

NOK MILL.	UTLÅN TIL OG FORDRINGER PÅ KUNDER	GARANTIER	UBENYTTEDE KREDITTRAMMER	SUM ENGASJEMENTER
Overdue 1 - 30 days	1,372	10	0	1,383
Overdue 31 - 60 days	132	0	2	134
Ovedue 61- 90 days	27	0	4	32
Overdue more than 90 days	158	0	1	159
Total	**1,690**	**10**	**7**	**1,708**
Engagements overdue more than 90 days by geographical area:				
Eastern Norway	117	0	1	118
Western Norway	26	0	0	26
Southern Norway	8	0	0	8
Mid-Norway	4	0	0	4
Northern Norway	2	0	0	2
Total	**158**	**0**	**1**	**159**

Loans overdue by more than 90 days are defined as non-performing. Only non-performing loans are categorised by geographical area in this overview. The same definition as that in the capital requirement regulation is applied to overdue loans, but where the number of days in the definition equals the age distribution.

Credit risk per customer group

NOK MILL.	NON PERFORMING AND LOSS-EXPOSED LOANS WITH EVIDENCE OF IMPAIRMENT	NON-PERFORMING LOANS WITHOUT EVIDENCE OF IMPAIRMENT	GROSS DEFAULTED AND LOSS-EXPOSED LOANS	TOTAL PROVISIONS FOR INDIVIDUAL LOAN LOSSES	NET DEFAULTED AND LOSS-EXPOSED LOANS	TOTAL VALUE CHANGES	TOTAL VALUE CHANGE RECOGNISED IN PROFIT AND LOSS DURING PERIOD
Development of building projects	2	0	2	3	-1	0	-7
Sale and operation of real estate	69	0	69	44	25	0	-4
Service providers	0	0	0	0	0	0	-4
Wage-earners	81	157	238	37	201	0	-48
Other	20	2	21	20	2	0	-7
Total	**171**	**159**	**330**	**103**	**227**	**0**	**-70**

Loan loss provisions

NOK MILL.	2011
Loan loss provisions of individual loans 01.01	174
Losses realised in the period on individual loans previously written down	-95
Loan loss provisions of individual loans for the period	39
Reversals of loan loss provisions of individual loans for the period	-11
Other corrections to loan loss provisions *)	-2
Loan loss provisions of individual loans at 31.12	**103**
Loan loss provisions of groups of loans and guarantees 01.01	84
Grouped loan loss provisions for the period	-31
Loan loss provisions of groups of loans and guarantees etc. 31.12	53
Total loan loss provisions	**157**

*) Other corrections to loan loss provisions relates to effects of amortisation.

Loan losses

NOK MILL.	2011
Change in individual loan loss provisions for the period	70
Change in grouped loan loss provisions for the period	31
Other corrections to loan loss provisions	-3
Change in individual loan loss provisions on guarantees for the period	0
Realised losses in period on commitments specifically provided for previously	-95
Realised losses on commitments not specifically provided for previously	-7
Recoveries on previously realised losses	18
Loan losses for the period	**14**

Counterparty risk related to the companies' investments or exposure to other institutions is determined on the basis of credit rating and size. Storebrand shall have financially sound counterparties and shall limit exposure per counterparty in order to avoid loss and ensure high liquidity in the financial instruments.

Credit risk per counterparty

Commitments per customer group

NOK MILL.	AAA FAIR VALUE	AA FAIR VALUE	A FAIR VALUE	BBB FAIR VALUE	NIG FAIR VALUE	SUM FAIR VALUE
Derivates		51	455		469	974
Bank deposits	508	208		9		725
Lending to financial institutions		269				269

Rating classes are bases on Standard & Poors's ratings
NIG = Non-investment grade.

Equity positions outside the trading porteolio

NOK MILL.	BOKK VALUE	FAIR VALUE
Shares and units	5	5

The companies governed by Basel II have limited investments in equity positions outside of the trading portfolio. These investments are financial and do not include listed shares. Unrealised gains and losses are included in core capital.

6.3 Counterparty risk derivatives

Nominal volume

Financial derivative contracts are related to underlying amounts which are not capitalised in the statement of financial position. In order to quantify a derivative position, reference is made to the underlying nominal principal, nominal volume, etc. Nominal volume is arrived at differently for different classes of derivatives, and gives an indication of the size of the position and risk the derivative creates. Gross nominal volume principally indicates the size of the exposure, whilst net nominal volume gives an indication of the risk exposure. Unlike gross nominal volume, the calculation of net nominal volume also takes into account which direction of market risk exposure the instrument represents by differentiating between long (asset) positions and short (liability) positions. A long position in an equity derivative produces a change in value if the share price increases. For interest rate derivatives, a long position results in a positive change in value if interest rates fall. For currency derivatives, a long position results in a positive change in value if the relevant exchange rate strengthens against the NOK. Figures for average gross nominal volume are based on monthly calculations of gross nominal volume.

Derivates

NOK MILL.	GROSS NOM. VALUE 1)	AVERAGE NOM. VALUE 2)	NET NOM. VALUE 2)	FAIR VALUE 1) ASSET	LIABILITY
Share derivates		115			
Interest rate derivates	27,007	28,102	13,681	966	490
Currency derivates	5,152	5,244	-1,025	8	33
Total derivates	**32,159**	**33,461**	**12,656**	**974**	**523**

The above table includes net positions in indirect investments.

1) Value at 31.12.
2) Average for the year

6.4 Rating agencies

Storebrand Bank ASA, Storebrand Boligkreditt AS and Storebrand Eiendomskreditt AS limit the credit risk associated with investment activities by stipulating minimum criteria for rating the bank's liquidity portfolio. Storebrand Kapitalforvaltning AS' model for credit limits and ratings is used as the framework for setting the bank's lines of credit associated with the investment portfolio where no rating from a rating agency is available.

Storebrand Bank ASA, Storebrand Boligkreditt AS and Storebrand Eiendomskreditt AS do not use ratings when setting capital requirements.

6.5 Collateral

Storebrand Bank ASA's, Storebrand Boligkreditt AS' and Storebrand Eiendomskreditt AS' lending is primarily secured through real estate collateral. Loans to retail customers are secured through collateral in people's homes, largely within 80 per cent of their market value. Small overdrafts with security are made available and credit cards are issued with short-term drawing limits for retail customers. Meanwhile, unsecured credit constitutes a very small part of the bank's total lending to retail customers. Storebrand Bank regularly updates the value of the real estate pledged as collateral in the retail portfolio. In the corporate market corresponding loans are provided against real estate in the form of rental properties and project financing. Very few unsecured loans are granted. Unsecured operating credit is not provided in the corporate customer market. The value of the collateral in the corporate market is updated at least once a year. Storebrand Bank monitors and measures concentration risk in the portfolio against the stipulated limits.

Storebrand Bank ASA and Storebrand Boligkreditt AS do not use guarantees and/or credit derivatives in connection with the calculation of capital requirements.

6.6 Interest risk

Storebrand Bank has no trading portfolio. The interest risk in the bank is generated by ordinary lending to customers, the investment portfolio, and positions in relation to counterparties and derivative trades in connection with this. This is explained in more detail in chapter 4.4.1. For changes in market risk that arise during the course of 1 year, the effect on the result and equity for the companies subject to Basel II will be as presented below, based on the statement of financial position as 31 December 2011:

Change in market value

NOK MILL	2011
Interest rate -1.5%	-22
Interest rate +1.5%	22

The table includes the accounting effect over a 12 month period of an immediate parallel change in interest rates of +1.5 percentage points and -1.5 percentage points respectively. Account is taken of the one-time effect such an immediate interest rate change has on the items recognised at fair value and hedging value, and on the effects the interest rate change has on the result for the remainder of the interest rate duration period before the interest rate change has income and costs-related effect.

Items affected by one-time effects and which are recognised at fair value are the investment portfolio, fixed rate lending, borrowing via the government swap scheme, deposits with equity returns, and derivatives. The item affected by one-time effects and which is subject to hedge accounting is fixed rate borrowing.

6.7 Limitations

Storebrand Bank has not invested in or signed agreements concerning securitisation, credit derivatives and guarantees linked to assets.