Storebrand ASA

Regulation relating to capital requirement
(Basel II), third pillar
Q4 2013

storebrand

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1 Introduction

The purpose of this document is to provide information on risk, risk management and capitalisation in line with the Third Pillar in the regulation relating to capital requirement (Basel II), in which requirements are made on 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 enterprises, and is utilised in order to sustain a high risk-bearing capacity and to continually adapt financial risk to an enterprise's solvency.

This document only gives information about the business areas within Storebrand which are subject to the Basel II regulatory framework, primarily Storebrand Bank. More detailed information on insurance activities and other activities within the Storebrand Group can be found in Storebrand ASA's annual report.

The information in this document regarding net primary capital and the minimum requirement for net primary capital is updated every quarter. Moreover, the document is updated on an annual basis.

2 The regulation relating to capital requirements / Basel II

The regulation relating to capital requirement / Basel II is divided into three pillars (areas). The first pillar pertains to the minimum requirement for capital adequacy and is a further development of the former regulation according to Basel I. The second pillar pertains to the institutions' evaluation of the total capital requirement and monitoring by the supervisory authorities (ICAAP), while the third pillar pertains to the requirement for disclosure of financial information.

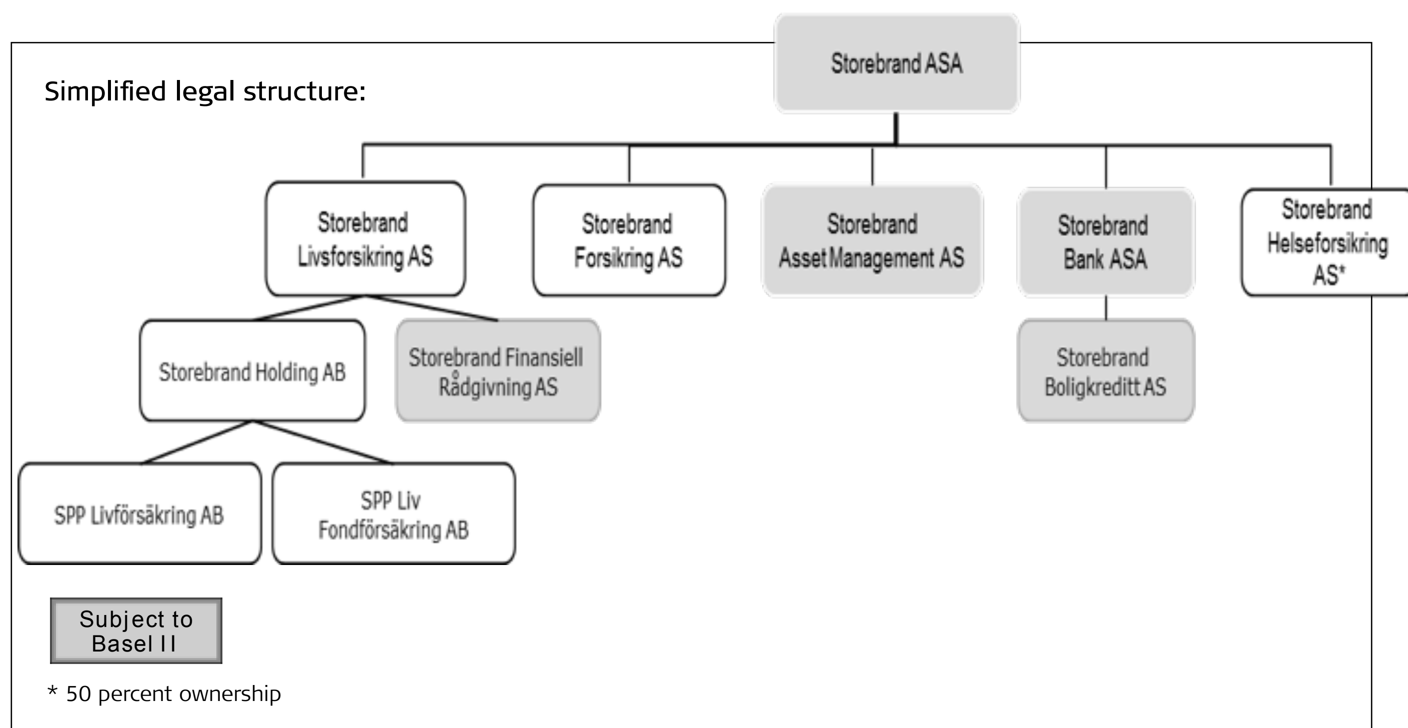
3 Description of the consolidation rules

Storebrand ASA's consolidated accounts cover the holding company Storebrand ASA and its subsidiaries, joint ventures and associated companies. The consolidated companies governed by the capital requirement regulations are involved in banking, life insurance, P&C insurance, investment consultation and asset management.

The consolidated accounts are presented in accordance with the International Financial Reporting Standards (IFRS). When preparing the consolidated accounts, all intragroup transactions between units in the Group are eliminated.

The Storebrand Group is predominantly a group of insurance companies, and the different business segments in the Group are governed by different regulations regarding capital adequacy. Basel II applies for banks, credit institutions, asset management enterprises and investment firms, while the insurance companies are still governed by the regulations in Basel I. For the insurance companies, the new solvency regulation will come into effect as a result of the Solvency II process. As the insurance companies are not governed by Basel II, which has a different capital requirement than Basel I, varying principles will be utilised to calculate the consolidated capital requirement.

Simplified legal structure:



The following subsidiaries are governed by the Basel II regulations:

- Storebrand Bank ASA
- Storebrand Boligkreditt AS
- Storebrand Asset Management AS
- Storebrand Finansiell Rådgivning AS

A separate set of consolidation regulations, governed by the Regulation relating to consolidation, apply for calculation of capital adequacy. For 10-20 percent shareholdings in companies, a capital adequacy reserve of 100 percent of the carried value in the net primary capital is set aside, provided that the company is not consolidated.

For calculation of capital adequacy, all subsidiaries are consolidated, while joint ventures and associated companies are proportionally consolidated. Associated companies are consolidated on the consolidated accounts according to the equity method, while joint ventures are consolidated according to the proportionate consolidation method.

The valuation regulations for the company accounts form the basis for consolidated capital adequacy. The company accounts are based on Norwegian accounting rules (N GAAP), with the exception of Storebrand Boligkreditt which uses IFRS and Storebrand Bank ASA which uses a simplified form of IFRS.

Storebrand is classified as a multi-segment financial group. Both the capital adequacy regulations and the solvency margin regulations apply to calculations for the P&C insurance and life insurance companies. The Group is made up of the following insurance companies: Storebrand Livsforsikring AS and its subsidiaries SPP Livsförsäkring AB, Benco, and Storebrand Forsikring AS and Storebrand Helseforsikring AS. The Norwegian insurance companies have a capital adequacy requirement, but this does not apply to the foreign insurance companies.

Storebrand's asset management activities are governed by a separate set of solvency regulations, and these vary according to the licences granted to each company. These comprise the highest requirements on initial capital, capital adequacy with and without operating risk or net primary capital in relation to fixed costs from the previous year. This applies to Storebrand Asset Management AS and Storebrand Finansiell Rådgivning AS.

4 Risk and capital management

4.1 Capital management

Storebrand pays particular attention to the levels of equity and loans in the Group, which are continually and systematically optimised. The level is adjusted for the financial risk and capital requirements. The growth and composition of business segments are important driving forces behind the need for capital. The purpose of capital management is to ensure an efficient capital structure and ensure an appropriate balance between internal goals and regulatory requirements.

The group's target is to achieve a solvency margin cover of more than 150 per cent in the life business over time. At the start of 2013, the bank's target core capital adequacy was 11 per cent by the end of 2013. Based on the ICAAP 2013 results and following the legal changes on new capital requirements from summer 2013, Storebrand Bank's board has resolved to set a target of compliance with the applicable buffer capital requirements at all times. Storebrand Livsforsikring AS also aims to achieve an A level rating. The Group parent company has established a goal of achieving a net debt-equity ratio of zero over time. 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 10 percent per year.

4.2 Business management

Storebrand's board has adopted an overall policy document which provides guidelines for the Group's management and control. The starting point for the group's management model is the company legal structure. The group's management model is intended to ensure that the individual legal entities are run as independent units with their own decision-making bodies. Decisions should be taken based on the interests of the individual company and be grounded in that company. All decisions about the business of the individual company are taken by the correct bodies in that company; the general meeting, shareholders' representatives, the board and managing director or people who have been authorised by that company.

KEY FIGURES	TARGETS	31.12.2011	31.12.2010
Return on equity*	10%	12,1%	7,5%
Rating Storebrand Livsforsikring	A	A-/A3	A-/A3
Solvency margin Storebrand Livsforsikring Group	>150%	176%	162%
Core capital adequacy Storebrand Bank Group	11%	12.8%	11.2%
Net debt ratio Storebrand ASA	0%	9%	9%

*) Adjusted for amortisation of intangible assets

In general, equity in the Group can be controlled without material limitations if the capital requirement is met and the respective legal units have sufficient solvency.

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Storebrand's value-based management system

The group has established areas of functional responsibility which partly cut across the legal structure, in a matrix structure headed by each group director participating in the group management. The interfaces between the respective group directors' legal and operational responsibilities are established by means of different internal cooperation models.

Storebrand ASA's board has specified instructions for group subsidiaries. The object of such instructions is to ensure that group subsidiaries, including their boards, keep to the strategies, plans and guidelines adopted by the group management within the framework of the various subsidiaries' relevant governance. The instructions are also intended to ensure a consistent implementation of the guidance on handling and managing risk, and the internal control systems, ensure an efficient flow of information across the group, make sure that risks material to the group can be managed effectively at group level and ensure that matters of great importance to the group are covered by roles and responsibilities defined for the business areas.

All group companies whose business requires a license should have established independent monitoring functions for relevant legal requirements (for example risk management, compliance, actuarial and internal audit).

4.2.1 Operational risk

Operational risk is defined as unexpected fluctuations in result caused by weaknesses or faults within internal processes and systems, insufficiencies or deficiencies 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 affect 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's risk management tool, Easy Risk Manager, is utilised for the risk assessment process and to follow up on operational risk. Easy Risk Manager supports the identification of risk areas, evaluation of probability and the consequences of risk being realised. Moreover, the tool documents responsibility for execution of measures to reduce risk.

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. The assessment of risk and measures helps ensure that operations can continue and helps minimise loss in the event of severe errors or events.

4.2.2 The organisation of risk management

The Group's organisation of risk management follows a model based on three lines of defence. The objective of the model is to safeguard the responsibility for risk management at both company and Group level.

Storebrand ASA's board has overall responsibility for and will ensure that the Storebrand group has established an effective and appropriate system of risk management and internal control.

The first line of defence

As the first line of defence, the group management has ownership of and responsibility for assessing, handling and managing risk and also for compliance with regulations and internal controls.

The term "internal control" includes everything the organisation does to set targets and limit undesired events so that values are maintained and created for customers, owners, employers and for society as a whole. So internal control involves more than pure control measures. It includes ensuring focused and cost-effective operation, reliable reporting and compliance with external and internal regulations. Managers at all levels in the organisation are responsible for risks, risk management and internal control within their own area of responsibility, and should continuously assess the implementation of risk management and internal control. The units' own risk-control functions must be organised in such a way that they can perform their duties in an objective and independent manner. It is essential to emphasise sufficient independence for the control functions in order to prevent possible conflicts of interest. Situations in

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which individuals are responsible for a decision-making process for which they also act as control function must be avoided.

Second line of defence - Risk and control functions
The CRO, compliance and actuarial functions are the second line of defence and support the board and the management's responsibilities with processes for:

1. Identifying, measuring, controlling and reporting risks (CRO).
2. Compliance with laws, regulations and other relevant standards (Compliance function).
3. Correct valuation of insurance liabilities (Actuarial function)

FThe boards of Storebrand ASA and the subsidiaries are responsible for there being second line of defence risk and control functions adapted to the types of businesses in the respective companies (consideration of proportionality). Guidelines for the functions are included in the guiding documents that are stipulated by the respective boards. The managing directors of the Group companies are responsible for establishing functions within their respective companies in cooperation with the Group CRO.

The principal model is that the second lines of defence risk and control functions in the subsidiaries are functionally affiliated with the Group CRO. The functions shall be able to report directly to the respective boards and may only be terminated after the approval of the board. The Group CRO reports to the CEO, independent of the members of the Group management. The board of Storebrand ASA stipulates guidelines for the responsibility and duties of the function.

Third line of defence - Internal audit
The third line of defence is the internal audit function which should give the boards of relevant Group companies confirmation of the suitability and effectiveness of the organisation's assessment and management of risk, including how the first and second lines of defence are functioning.

4.2.3 Remuneration

A description of the remuneration of the board and executives at Storebrand can be found in the annual report for Storebrand ASA.

4.3 The risk and capital adequacy assessment process (ICAAP)

The risk and capital adequacy assessment process is part of the Group's strategy and planning process. For companies governed by the Basel II regulation, a risk and capital adequacy assessment process (ICAAP) is carried out on the basis of the capital requirement regulation and guidelines from the Financial Supervisory Authority. Storebrand's insurance activities are not governed by this regulation and ICAAP is therefore not carried out according to the regulation for this type of business. As a result, ICAAP is currently only carried out at company level, for the companies governed by the regulation, and not at Group level. Neither is Storebrand ASA governed by the ICAAP process. However, the Group's strategy and planning process does include a similar risk and capital adequacy assessment process, with the preparation of investment strategy and a financial plan which covers a capital plan for the insurance companies and other activities in Storebrand.

The process and the results from ICAAP with the evaluation of risk profile and related capital requirement are documented in writing, and are subject to assessment and decision-making by the Boards of Directors. The capital requirement is adjusted on the basis of regulatory minimum requirements (first pillar), with supplementary buffers for other risk areas. The minimum requirement for credit and market risk is calculated according to the standard method. The basis method is utilised for operational risk.

In June 2012, Storebrand Bank and its subsidiary Storebrand Boligkreditt applied for permission to use the IRB method for calculating the minimum primary capital requirement for credit risks. IRB models have been developed for the portfolio of home loans, and portfolio reporting based on the IRB method is expected to be possible from 2013/14. The bank has also developed F-IRB models for the portfolio of business loans. It is expected that the bank will be granted permission to use these models as the basis for capital requirement reporting from 2015/16. When calculating risk-weighted volume based on the IRB method for the retail market, own models for calculating the risk parameters Probability of Default (PD), Loss Given Default (LGD) and Credit Conversion Factor (CCF) are employed in order to determine Exposure At Default (EAD). For calculating risk-weighted volume based on the F-IRB method for the corporate market, the PD risk parameter is calculated based on the bank's own models. The CCF risk parameter is used to determine EAD, and the LGD risk parameter is determined by template rules contained in the capital adequacy regulations.

For Storebrand Kapitalforvaltning and Storebrand Finansiell Rådgivning, stress test scenarios are applied which have a direct impact on operating revenues, such as a fall in new sales and customer base, and an indirect impact such as impairment of customer's assets resulting in a lower earnings base.

The assessment of capital ratio is based on the results from the quantitative analyses and qualitative evaluations of what is commercially appropriate. The goal for capital ratio is therefore derived from an assumption that the company shall have a sufficient and acceptable capital buffer in addition to the regulatory minimum requirement, and where the size of the capital buffer is derived from the ICAAP analysis. Based on the goal for capital ratio, result and growth prognoses and the composition of the balance sheet, a capital plan is prepared in order to maintain the required level of capital within the companies.

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4.4 Management and control of risk in companies subject to Basel II

Below is a description of risk and risk management within the business segments which are governed by the Basel II regulation. A more detailed description of risk management for the insurance companies in the Group can be found i Storebrand ASA's annual report.

Of the four companies within the Storebrand group which are subject to Basel II only Storebrand Bank and Storebrand Boligkreditt bear significant balance sheet risk. The Bank Group is preparing a supplementary Pillar III report which is included in its entirety in this report as section 6. A high level description of risks and risk management in the other two companies is given in the sections below.

4.4.1 Risks and risk management in Storebrand Asset Management AS (SAM)

Risks

Storebrand Asset Management manages securities funds and provides active management and management of fund-in fund structures for the client's account and at the client's risk. It does not bear any risks over and above normal business and operational risk for this type of business.

The credit risk is regarded as low. The fees are deducted from the portfolio and paid to the management company monthly in arrears. A large part of the income associated with active management comes from other group companies, and for other clients the fees are largely drawn direct from the client portfolio. The company has very little by way of bad debts. The Company's excess liquidity is invested in securities funds and Norwegian government bonds which are not regarded as constituting any credit risk.

The asset management business has a very limited level of direct exposure to market risk as the company's investments in securities are limited to investments of excess liquidity. The company's own investments are in Norwegian government bonds and it is exposed to the market risk associated with this. The company's profits are indirectly affected by developments in the securities markets, primarily through fees being linked to the market value of assets under management. Furthermore, a weak return can affect the customers' capacity and willingness to take risks through actively managed mandates, as well as affecting the customers' asset composition, which in turn can result in a shift from products with high margins to products with lower margins.

Operational risks are the primary risks for this company. Operational risk in the asset management business refers to the risk of incurring direct or indirect losses due to deficiencies in internal processes, staff competence or systems.

Risk management

Storebrand Asset Management has established a compliance function which reports to the board. Functionally, compliance sits under the Group Compliance Manager. The Compliance function works together with group Legal Affairs and the CRO and monitors compliance within the different licensed areas. It is a line management responsibility to ensure compliance with rules and processes, but the compliance function has a driving role in the assessment of risk (Easy Risk) and maintenance of processes.

The CRO for banking and asset management is responsible for making sure that the company has a framework and procedures to ensure that risk management is sufficient and effective. The CRO reports regularly to the board on the established internal management and control, identified risks and new initiatives.

Risk monitoring and mandate control in the administration is organised in the department called 'Independent control of operations'. Any compliance failures are reported to the board and the Financial Supervisory Authority of Norway. Breaches of laws and regulations for securities funds and mandate breaches for discretionary portfolios are regarded as compliance failures. Only possible breaches of the law are reported to the Financial Supervisory Authority of Norway.

The board is given a quarterly status report on the company's risk and compliance position.

The company's principles for internal control and the organisation of the business shall support the internal management and control. This is reflected in a clear division of work between the various units.

- Funds are responsible for fund rules, prospectuses, investment mandates and product information
- Institutional Distribution establishes distribution and management agreements.
- Client Services is responsible for the establishment of the management assignment after the agreement is signed and for financial reporting to the client.
- Asset Management is responsible for management of the client's assets in accordance with the mandate. This includes initiating the buying and selling of securities and financial instruments for the purpose of creating the highest possible return in accordance with the risk limits stipulated.
- Operations is responsible for confirmation and settlement of the transactions initiated by the managers, as well as transactions related to Corporate Actions (such as dividends, coupons or mergers). The unit is also responsible for establishing bank accounts for the client and reconciling these accounts.
- Independent Control ensures correct pricing, follows up on risks associated with the investments and continuously checks that management is accordance with the investment mandates.

The company requires undesired activities to be reported to the compliance officer as soon as possible. Event reporting gives an overall view of things that go wrong and is an important tool in identifying problem areas. This gives line management a good basis on which to assess and implement measures to reduce the unit's operational risk.

4.4.2 Risk factors, Storebrand Finansiell Rådgivning AS

Storebrand Finansiell Rådgivning AS provides comprehensive financial consultation services and order brokering within a wide range of products for the Group. The Group has limited financial risk related to this activity, with the exception of normal commercial risk and operational risk. Operational risk is the largest type of risk for the company. This is mainly linked to the regulations regarding generally accepted consultation practice, compliance with own-account trading regulations and risk related to complaints of inadequate consultation. The company takes an active approach toward reducing such risk. Measures include training of own consultants, association with agents and sales managers, periodic emails from the Compliance Officer in Storebrand Finansiell Rådgivning, monthly control of all own-account trading and regular, random checks of submitted customer documentation. The internal auditor also carries out annual controls, in addition to the controls performed by the Compliance Officer. Storebrand Finansiell Rådgivning AS and its associated agents make use of authorised financial consultants 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 31.12.2013

NOK mill.	Storebrand Kapitalforvaltning AS	Storebrand Finansiell Rådgivning AS	Storebrand Bank ASA	Storebrand Boligkreditt AS	Storebrand ASA	Storebrand group
Share capital		30	961	455	2 250	2 250
Other equity	443	44	1 411	593	13 716	20 264
Equity	**443**	**74**	**2 371**	**1 048**	**15 966**	**22 514**
Hybrid tier 1 capital			427			1 927
Interest rate adjustment of insurance obligations						-1 081
Goodwill and other intangible assets	-52		-75			-6 111
Deferred tax assets	-62	-36	-18		-458	-1
Risk equalisation fund						-776
Deductions for investments in other financial institutions						-1
Security reserves						-301
Minimum requirement reassurance allocation						-4
Capital adequacy reserve						-96
Other	-166			-169	399	-31
Tier 1 capital	**163**	**37**	**2 704**	**879**	**15 906**	**16 038**
Hybrid tier 1 capital						
Perpetual subordinated loan capital			9			2 700
Dated subordinated loan capital			149			2 388
Deductions for investments in other financial institutions						-1
Capital adequacy reserve						-96
Tier 2 capital			**159**			**4 990**
Net primary capital	**163**	**37**	**2 863**	**879**	**15 906**	**21 029**
Capital adequacy						
Capital adequacy ratio	**54,4 %**	**135,6 %**	**16,0 %**	**14,7 %**	**88,9 %**	**13,4 %**
Core capital adequacy ratio	**54,4 %**	**135,6 %**	**15,2 %**	**14,7 %**	**88,9 %**	**10,2 %**

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.

Minimum requirements primary capital as at 31.12.2013

NOK mill.	Storebrand Kapitalforvalt-ning AS	Storebrand Finansiell Rådgivning AS	Storebrand Bank ASA	Storebrand Boligkreditt AS	Storebrand ASA	Storebrand group
Credit- and counterparty risk						
Local and regional authorities			9		4	13
Public corporates					5	5
Institutions	2	2	110	11	1 410	42
Corporates			774			774
Retail marked			52			52
Loans secured on real estate			256	431		687
Loans past-due			37	3		40
Covered bonds			102			24
Units in mutual securities funds	11					11
Other	10		11	10	4	34
Company using Basel I						10 813
Total minimum requirements credit- and counterparty risk	**24**	**2**	**1 351**	**455**	**1 423**	**12 494**
Of which						
Counterparty risk derivatives Basel II companies			37	4	1	42
Operational risk			80	23	9	99
Deductions			-2	0		-18
Minimum requirements primary capital	**24**	**2**	**1 428**	**477**	**1 432**	**12 575**

Specifications of subordinated loan capital

NOK mill.	Nominal value	Currency	Interest rate	Call date and other conditions	Book value Q4 2013
Issuer					
Perpetual hybrid (Tier 1) capital					
Storebrand Bank ASA	107	NOK	Fixed	2014	110
Storebrand Bank ASA	168	NOK	Variable	2014	169
Storebrand Bank ASA	150	NOK	Variable	2018	150
Storebrand Life Insurance	1 500	NOK	Variable	2018	1 502
Perpetual subordinated loan capital					
Storebrand Life Insurance	1 000	NOK	Fixed	2015	1 086
Storebrand Life Insurance	1 700	NOK	Fixed	2014	1 701
Dated subordinated loans					
Storebrand Life Insurance	300	EUR	Fixed	2023	2 540
Storebrand Bank ASA	150	NOK	Variable	2017	151
Total subordinated and perpetual loans					**7 409**

Storebrand Bank – Risk management

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Introduction

This document is intended to cover the requirements stipulated for the disclosure of information on risk in accordance with the Capital Requirements Regulation, and has been prepared in order to provide the market with the best possible information on Storebrand Bank's risk and capital management.

The information in this report supplements information contained in notes 3, 4, 5, 6 and 7 to Storebrand Bank's annual report. Unlike the information contained in those notes, the information in this report has not been audited.

The core purpose of a bank is to create value by assuming deliberate and acceptable risk. Storebrand Bank invests significant resources in further development of risk management systems and processes in line with leading international practice. In June 2012, Storebrand Bank applied to the Financial Supervisory Authority of Norway for permission to use the bank's in-house credit risk models (IRB models) to calculate the minimum requirement for primary capital.

Storebrand Bank has the bulk of its business in Oslo and Akershus where the economic trend is influenced by the population growth in the area. The overall risk exposure for Storebrand Bank is regarded as being low to moderate.

The credit quality of the corporate market portfolio is considered good, and the portfolio in its entirety consists of commercial property. Mortgage-backed commitments in which running cash flows cover the commitment's interest charges account for around 75 per cent of total exposure (loans and lines of credit). The remainder of the portfolio consists primarily of mortgage-backed commitments involving development.

The credit quality of the Retail Market portfolio is considered very good. Almost the entire portfolio is secured on real property. The portfolio's high collateral coverage indicates a limited risk of loss.

The Bank Group aims to comply with the applicable buffer capital requirements at all times. The capital adequacy target is 13.5 and 14.5 per cent by the end of 2014 and 2015 respectively, assuming that balance sheet and economic development remain the same. Actual capital adequacy was 13.6 per cent at the end of 2013. Storebrand Bank has established sound liquidity buffers and finds access to the credit markets to be good.

1. About Storebrand Bank

Storebrand Bank ASA is a wholly owned subsidiary of Storebrand ASA and, together with the asset management business, is one of five business units in the Storebrand group. Storebrand Bank is a commercial bank with licences under the Norwegian Securities Trading¬Act. Its head office is in Lysaker, in the municipality of Bærum.

Our ambition in the retail market is to establish the bank as Norway's best direct bank, while in the corporate market Storebrand Bank is a customer-focused partner for value creation that delivers a wide range of services to corporate customers in the commercial property sector. As a result of group priorities regarding use of capital at Storebrand and a strategic assessment of the future direction of the Group, the Corporate Market segment at the bank is no longer prioritised as a core activity, and will be run down and eventually wound up.

The Storebrand Bank Group has total assets of NOK 39.1 billion and has achieved a profit before tax of NOK 235 million as of the end of 2013. The Bank Group had a total of 112 employees at the end of the year.

The subsidiary Storebrand Boligkreditt AS holds a licence to issue covered bonds.

Hadrian Eiendom AS is a wholly owned subsidiary that represents the Bank Group's specialised expertise in property development and commercial property brokerage.

A considerable proportion of the bank's services across large parts of the value chain are delivered by the company Storebrand Baltic UAB, located in Vilnius, Lithuania. The company is a centre of expertise for support services for the entire Storebrand Group.

2. Regulations and regulatory development

2.1. Capital adequacy

DEFINITIONS	
Capital	The bank's available capital base.
Pure core capital	Equity; core capital after deductions, excluding other approved core capital (hybrid capital).
Core capital	Equity and hybrid capital; individual deductions and charges to be made, cf. Norwegian Regulations on Measurement of the Own Funds of Financial Institutions, Clearing Houses and Investment Firms.
Other approved core capital	Hybrid capital; perpetual hybrid Tier 1 included as other approved core capital according to specific rules.
Supplementary capital	Subordinated loan capital.
Primary capital	The sum of core capital and supplementary capital.
Risk-weighted volume	Calculation basis (RWA, risk-weighted assets); calculated in accordance with Basel II on credit risk, market risk and operational risk.
Capital adequacy	The ratio of the bank's primary capital and risk-weighted volume.
Capital needs	Expressed via economic capital, which acts as a consistent measurement of risk.
Capital requirement	Regulatory minimum requirement (8% of risk-weighted volume). Capital adequacy is reported to the Financial Supervisory Authority of Norway every quarter; capital adequacy percentage, both actual and target, is calculated according to the capital requirement.

2.1.1 Current capital adequacy regulations (Basel II)

Storebrand Bank must meet the requirements for capital adequacy contained in the Capital Requirements Regulation. The current Capital Requirements Regulation is based on the Basel Committee's second Accord, so-called Basel II, and was introduced into European regulations via the Capital Requirements Directive (CRD), effective from 2007. The purpose of Basel II is to strengthen the stability of the financial system through risk-sensitive capital requirements, improved risk management and control, tighter supervision and increased flow of information to the market. Basel II is built on three pillars:

- Pillar 1 deals with the minimum requirement for capital adequacy.
- Pillar 2 deals with the bank's internal risk and capital assessment process as well as the authorities' supervisory function.
- Pillar 3 deals with the disclosure and communication of keyinformation on capital, risk exposure, organisation and capital requirements.

2.1.2 Calculating risk-weighted volume and capital requirements (Pillar 1)

A bank may choose to use different methods when calculating risk-weighted volume.

Table 1: Alternative methods for calculating the minimum requirement for primary capital.

CREDIT RISK	MARKET RISK	OPERATIONAL RISK
Standard method	Standard method	Basic method
IRB method (retail market)*	Internal Model Method (IMM)*	Template method
Foundation IRB method (F-IRB, corporate market)*		Advanced Measurement Approach (AMA)*
Advanced IRB method (A-IRB, corporate market)*		

*requires approval by the Financial Supervisory Authority of Norway

The standard method for both credit risk and market risk, as well as the basic and template models for operational risk, are based on template rules. The capital requirement is determined by using template values given in the capital adequacy regulations, and does not necessarily correspond to the risk in the underlying portfolios.

Banks may also choose to develop models to calculate risk weights that replace the template values. The models are developed based on a bank's own portfolio and/or own risk assessments. These risk weights will then be used when calculating risk-weighted volume. This is the fundamental idea of Basel II (and Basel III) – that the capital requirement should correspond to the risk in the underlying portfolios and as such be more risk-sensitive. The use of internal models requires approval by the Financial Supervisory Authority of Norway.

2.1.3 Choice of methods

As of the end of 2012, the Storebrand Bank Group employs the following methods when calculating capital requirements:

TYPE OF RISK	METHOD
Credit risk	Standard method
Market risk	Standard method
Operational risk	Basic method

In June 2012, Storebrand Bank and its subsidiary Storebrand Boligkreditt applied for permission to use the IRB method for calculating the minimum primary capital requirement for credit risks. IRB models have been developed for the housing loan portfolio and reporting using the IRB method is likely to be possible by the end of 2014 The bank has also developed F-IRB models for the portfolio of business loans.

When calculating risk-weighted volume based on the IRB method for the retail market, own models for calculating the risk parameters Probability of Default (PD), Loss Given Default (LGD) and Credit Conversion Factor (CCF) are employed in order to determine Exposure At Default (EAD).

For calculating risk-weighted volume based on the F-IRB method for the corporate market, the PD risk parameter is calculated based on the bank's own models. The CCF risk parameter is used to determine EAD, and the LGD risk parameter is determined by template rules contained in the capital adequacy regulations.

2.1.4 Internal assessment of capital needs according to risk profile (Pillar 2)

According to the capital adequacy regulations (Basel II), all financial institutions must have a process in place for assessing risk profiles and corresponding capital needs – a so-called ICAAP (Internal Capital Adequacy Assessment Process) – as well as a strategy for maintaining the level of capital. This process and the results from this process must be documented in writing and submitted by the board of the institution to the Financial Supervisory Authority of Norway for evaluation.

Storebrand Bank measures developments in risk via economic capital, which is calculated for all risk categories that the bank has identified (see section 4 for an overview of risk categories).

Credit risk and concentration risk in the credit portfolio represent the most significant risk exposure for Storebrand Bank. These two risk categories are prioritised when developing methods to calculate economic capital. Statistical models are used for these risk categories. For all other risk categories, simplified approaches are used for the time being.

When calculating economic capital, a confidence level of 99.95 per cent is used. For capital requirement calculations, the confidence level is 99.9 per cent. Economic capital calculations are carried out every quarter.

The bank has an annual plan and budget process in place where a financial plan for the next three years is drawn up, submitted to the Board for consideration and coordinated with the Storebrand Group. The Storebrand Bank ICAAP is based on developments in accordance with the financial plan. Capital need is calculated for the entire plan period. Additionally, an extraordinary but probable stress scenario is defined and the capital need under these circumstances is calculated.

Developments in capital need in a stress scenario are assessed against available capital during the period and the capital and capital buffer requirements. This forms the basis of control against fixed capital targets during different phases of the economic cycle.

2.1.5 Solvency target

At the start of 2013, the target core capital adequacy was 11 per cent as of the end of 2013. Based on the results from the ICAAP 2013 and following the legal changes on new capital requirements from summer 2013, Storebrand Bank's board has resolved to set a target of compliance with the applicable buffer capital requirements at all times. As of 31.12.2013 Storebrand Bank Group has an unweighted core capital ratio (Leverage Ratio, see section 2.2) of 6.77 per cent.

2.1.6 Capital adequacy

At the end of 2013 Storebrand Bank Group had a capital adequacy of 13.59 per cent. The capital adequacy is therefore in line with targets. Capital adequacy in relation to pure core capital was 10.84 per cent.

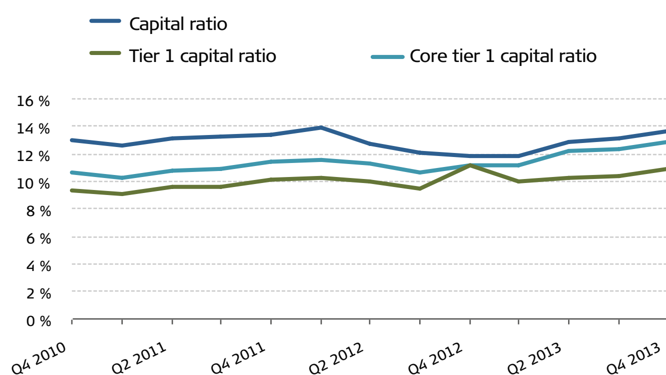


Figure 1: Capital adequacy trend at the Storebrand Bank Group.

2.2. New regulations ("Basel III")

In the wake of the 2008 financial crisis, the Basel Committee has prepared recommendations for new capital and liquidity standards that will address weaknesses in the regulatory framework. These recommendations are known as Basel III. The principles on which Basel II was based will also apply to Basel III.

When the Basel Committee's recommendations are translated into a common European regulatory framework a full harmonisation of the regulatory framework – a "single rule book" – is envisaged with restrictions on the national authorities' ability to impose stricter regulations. Parts of Basel III have been introduced into the EU regulatory framework by means of updates to the Capital Requirements Directive (CRD II and CRD III), and transposed into Norwegian law through updates to relevant laws and regulations.

The final parts of the Basel III recommendations are being introduced into EU law through CRD IV which comes into force from 1 January 2014. This is a two-part implementation of the regulatory framework:

- a regulation that affects the institutions directly and contains qualitative and quantitative capital requirements, liquidity requirements, provisions relating to large loans and Pillar 3 requirements
- a directive that regulates the activities of the supervisory authorities.

Those parts of CRD IV which relate to quantitative capital adequacy requirements have been introduced into Norwegian law by amendment to the Norwegian Financial Institutions Act. From 1 July 2013 pure core capital (common equity Tier 1, CET1) and core capital (Tier 1) should amount to 4.5 per cent and 6 per cent respectively of the basis of calculation.

To prevent the banks from experiencing any problems meeting the minimum requirements during periods of significant losses in the banking sector, the banks must maintain two different capital buffers. The requirement for a capital conservation buffer means that the banks must maintain pure core capital of 2.5 and 3.5 per cent of the basis of calculation in addition to the minimum requirement from 1 July 2013 and 1 July 2014 respectively.

In order to protect the banking system against the consequences of strong credit growth, the banks must also maintain a countercyclical buffer during periods of very strong credit growth. In the first instance this will be 1 percentage point from 30 June 2015 and must also be made up of pure core capital.

Banks that do not fulfil the combined buffer requirement composed of the capital conservation buffer and countercyclical capital buffer will face restrictions on their dividend policy. A lower combined capital buffer will result in increased restrictions. Banks that do not meet the combined buffer requirement must submit a plan to the authorities outlining how they will ensure compliance with the requirement.

The new capital adequacy requirements will be introduced in Europe in stages up to 2018, whilst the Norwegian authorities have chosen an accelerated introduction.

In addition, capital requirements linked to systemic risk have been introduced for banks defined as systemically important.
As a supplement to the risk-based capital requirements, a requirement is being introduced for the unweighted equity-to-assets ratio (Leverage Ratio). This requirement will be finalised in 2017 and become effective in 2018. The transitional period will be used to test a requirement that the core capital must amount to at least 3 per cent of the bank's exposure, including off-balance sheet items to a varying degree. Banks are required to disclose their Leverage Ratio from and including 2013.

Further quantitative liquidity requirements are being introduced. A minimum requirement for a short-term liquidity indicator – Liquidity Coverage Ratio (LCR) – will be introduced in 2015, while a similar minimum requirement for a long-term liquidity indicator – Net Stable Funding Ratio (NSFR) – will be introduced in 2018. Reporting of LCR and NSFR begins in 2014. The European Banking Authority has developed technical reporting standards. The principle of the "single rule book" is the aim, and the reporting requirements will be the same for all banks, regardless of size and complexity.

2.3. Consequences of regulatory development for Storebrand Bank

Perpetual hybrid Tier 1 capital and subordinated loans do not fulfil the new requirements contained in CRD IV for other approved core capital (hybrid capital) and primary capital. Storebrand Bank will adapt to the new requirements.

Storebrand Bank satisfies the new legal requirements for capital and buffer capital and the bank is well capitalised.

Changes to the regulatory framework have an impact on the composition of the bank's liquidity buffer. Storebrand Bank is building up a larger proportion of high-quality liquid assets in order to improve the LCR.

On the operational side the bank is experiencing a sharp increase in the scope and complexity of reporting. This could potentially result in an increase in operational risk and a possible increase in compliance risk.

3. Risk management and limit structure at Storebrand Bank

3.1. General framework for risk management

The bank's risk profile is a combination of the risk exposure in the bank's defined risk categories (see section 4). Storebrand Bank's risk strategy describes the risk profile and general limits designed to ensure the implementation of the desired risk profile. The risk strategy is adopted by the Board of Storebrand Bank once a year. The Board also adopts the bank's financial plan. On the basis of these resolutions, the management prepares risk policies, procedures and work descriptions designed to ensure goals are achieved, as well as a risk profile that is in accordance with the Board's resolutions.

3.2. Organisation of risk management responsibilities

Ownership of the various risks to which the bank is exposed follows the lines of organisation. Risk owners for the different risk categories are therefore defined according to the management of the overall company organisation and the management model used.

Risk is managed using policies that may apply to more than one business area. The main responsibility for maintaining effective risk management and internal control rests with the line managers; they are therefore the first line of defence.

The second line of defence is maintained by the cross-group functions of Chief Risk Officer (CRO) and Chief Compliance Officer (CCO). In order to fulfil their responsibilities the CRO and CCO work together with the first line control units The second line of defence monitors the risk management of the business areas in accordance with the policies adopted. As a third line of defence, internal auditing should provide independent corroboration of risk management as a whole.

These general factors can be illustrated as follows:

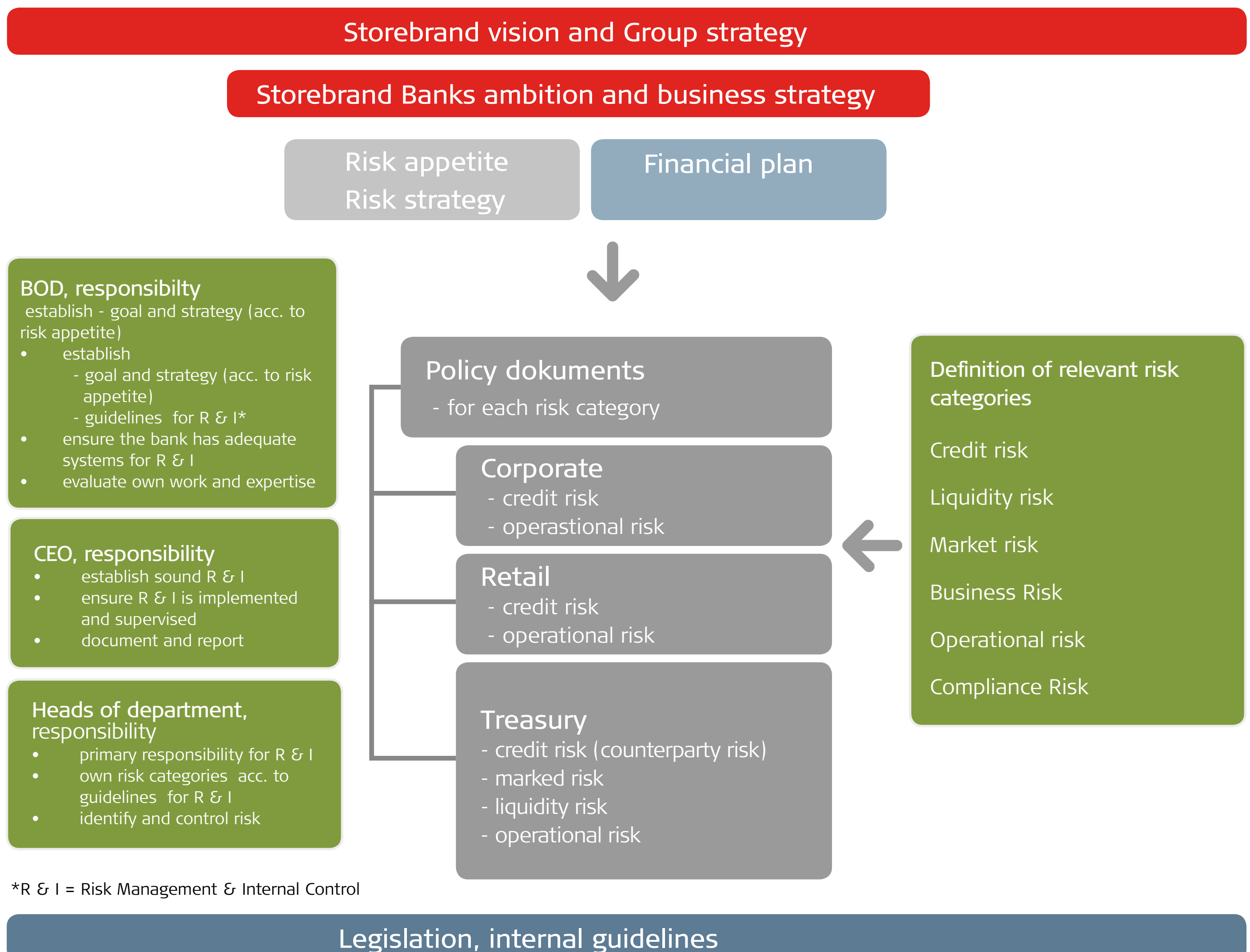


Figure 2: Risk management at Storebrand Bank.

4. Information per risk category

Storebrand Bank has identified a number of risk categories to which the bank is exposed.

Table 2: Risk categories and risk owners.

RISK CATEGORY	DEFINITION	RISK OWNER
Credit risk	The risk of loss arising from the client lacking the capacity or intent to fulfil their obligations. This includes the risk that the security is less effective than expected (residual risk) as well as concentration risk. Credit risk encompasses counterparty risk.	Head of BM Head of PM Head of Treasury
Liquidity risk	The risk of the Bank Group, the parent bank or the subsidiaries being unable to fulfil their obligations without incurring substantial additional expenses in the form of reduced prices for assets that must be realised, or in the form of especially expensive financing.	Head of Treasury
Market risk	The risk of losses on open positions in financial instruments due to changes in market variables and/or market conditions within a specified time horizon. Encompasses counterparty risk when trading financial instruments as well as securities risk, interest rate risk and exchange rate risk.	Head of Treasury
Operational risk	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. Breach of laws and regulations can obstruct the bank from achieving its objectives; this part of compliance risk is included in operational risk.	Included in the Storebrand Bank Group's definition of managerial responsibility
Business risk (incl. strategic risk)	Risk of reduction in earnings and funding due to changes in business framework conditions, poor business decisions, errors in the implementation of decisions or insufficient adaptation to changes in business framework conditions. Encompasses reputation risk, i.e. risk of reduction in earnings and funding due to a fall in confidence and a fading reputation in the market. This also includes risk of losses in subsidiaries (owner risk). Owner risk encompasses the risk assumed by the individual companies in their operations as well as the risk of a need for the injection of fresh capital. This is monitored in the same way as operational risk, and will not be mentioned further in this document.	Managing Director and heads of the business areas
Compliance risk	The risk of the Group incurring public sanctions or financial loss due to failure to comply with external and internal regulations.	Included in the Storebrand Bank Group's definition of managerial responsibility

4.1. Credit risk

4.1.1 Management and control

Risk management and control is described in note 4 to Storebrand Bank's annual report.

4.1.2 General portfolio information

Storebrand Bank has a credit portfolio made up of approximately two-thirds lending to the retail market and one-third lending to the corporate market. This distribution has remained stable in recent years.

Table 3: Structure of total loan portfolio as of 31 December 2012 (in MNOK).

Retail market

The credit quality of the retail market portfolio is considered very good. Almost the entire portfolio is secured on real property. The portfolio's high collateral coverage indicates a limited risk of loss. The loan-to-value ratio of the home loans is relatively low and only a very limited number of loans exceed 80 per cent of the market value of the collateral. These are largely only given if the customers can put up additional collateral.

The retail market portfolio has had very few losses historically. For the bank as a whole, the increase in retail market loans is considered very important in reducing the bank's total risk.

The proportion of residential mortgages from total lending in the

BUSINESS AREA	PRODUCT	GRANTED		DRAWN	UNUSED CREDIT	DEGREE OF UTILISATION
	Mortgages	16 476.8	(43.3%)	16 476.8		
	Housing credit	9 573.2	(25.2%)	7 060.7	2 512.4	73.8%
Retail market	Revolving credits	1 345.1	(3.5%)	268.8	1 076.4	20.0%
	Other	138.8	(0.4%)	101.8	37.0	73.4%
	Total	**27 533.9**	(72.4%)	**23 908.1**	3 625.8	**86.8%**
	Commercial Real Estate	9 814.0	(25.8%)	9 472.7	341.2	96.5%
Corporate market	Other	666.2	(1.8%)	577.5	88.6	86.7%
	Total	**10 480.1**	**(27.6%)**	**10 050.3**	**429.9**	**95.9%**
Total		**38 014.1**		**33 958.4**	**4 055.6**	**89.3%**

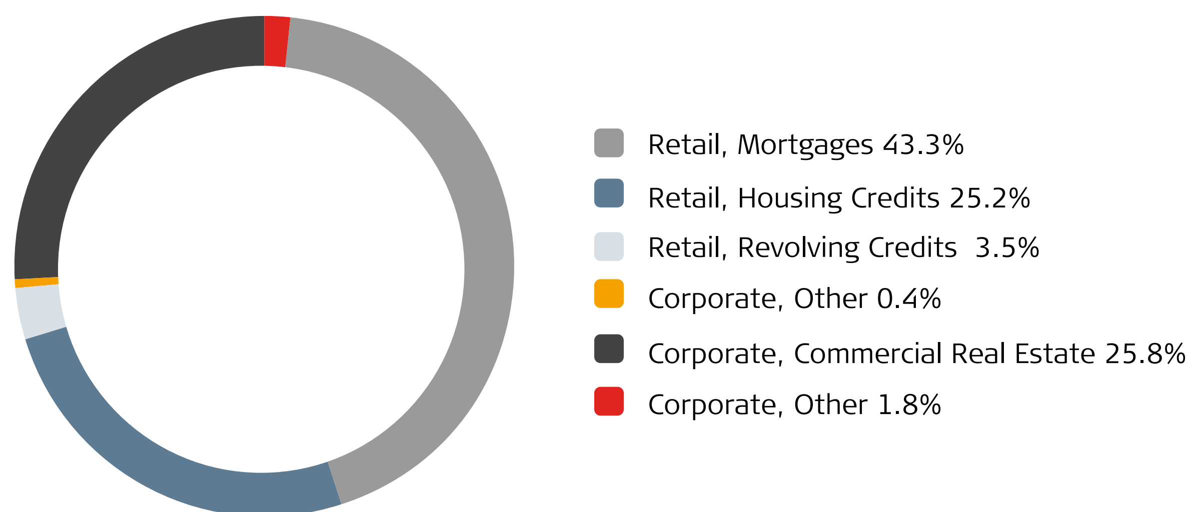


Figure 3: Distribution of total loan portfolio as of 31 December 2013.

retail market amounts to approximately 1/3 as of the end of 2013. This proportion has been stable since mid-2011 following almost constant growth for several years. There are stricter lending criteria for residential mortgages and closer monitoring of customers with a high degree of utilisation or those who do not pay interest and instalments on a regular basis.

Corporate market

The credit quality of the corporate market portfolio is considered good. Mortgage-backed commitments in which running cash flows cover the commitment's interest charges account for around 75 per cent of total exposure (loans and lines of credit). The remainder of the portfolio consists primarily of mortgage-backed commitments involving development.

Cash flow loans are characterised by a good, diversified tenant profile and long leases. 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.
Development projects involve somewhat greater risk and the total exposure here is almost NOK 2.0 billion. This segment is largely composed of loans to construction projects in the housing and office sector in and around the centre of Oslo.

The bank relieves parts of the largest loans by selling them to Storebrand Livsforsikring. In this case, the bank takes out a second mortgage. These loans are characterised by the debtors generally being of good quality.

As a result of group priorities regarding use of capital at Storebrand and a strategic assessment of the future direction of the Group, the Corporate Market segment at the bank is no longer prioritised as a core activity, and will be run down and eventually wound up.

4.1.3 Securities

Storebrand Bank ASA and Storebrand Boligkreditt AS's loans are mainly secured on real estate. Loans to retail market customers are largely secured on homes, principally within 80 per cent of market value. Small credit accounts are opened without security and credit cards are issued with short-term credit limits to retail market customers. However, such unsecured loans represent an extremely small share of the bank's total loans to retail market customers. Each quarter, Eiendomsverdi (an enterprise which monitors developments on the property market) carries out a valuation of the property mortgages in Storebrand Bank's retail market portfolio.

Similar loans are provided to the corporate market secured on real estate in the form of leased properties and project financing. A very limited number of unsecured loans are granted. The bank does not offer unsecured short-term financing to the corporate market. The value of the assets pledged on the corporate market is updated at least once a year.

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

4.1.4 Risk classification

Retail market

Storebrand Bank has developed internal models for risk classification of home loans. The models estimate a loan's exposure at default (EAD), probability of default (PD) and loss given default (LGD).

EAD	The estimate represents the total loan amount. In assessing the EAD, a Credit Conversion Factor is used for any unused credit.
PD	The estimate represents the probability of default over the course of one year and is a result of a logistic regression model that encompasses loan- and customer-specific explanatory variables as well as behaviour variables.
LGD	The estimate represents the loss given default and is a result of an expert model that has calculated the loan-to-value ratio and expenses associated with the realisation of non-performing loans as significant explanatory variables.

Definition of non-performance

Underlying all of the bank's internal models is a definition of non-performance that applies to both home and business loans, and which has been drawn up in accordance with the Capital Requirements Regulation. Storebrand Bank deems a loan to be non-performing if a demand for payment is overdue by more than 90 days, and the outstanding amount is at least NOK 2,000 (payment default). Non-performance over and above a payment default arises when defined objective events indicate that the customer will not meet their obligations.

PD

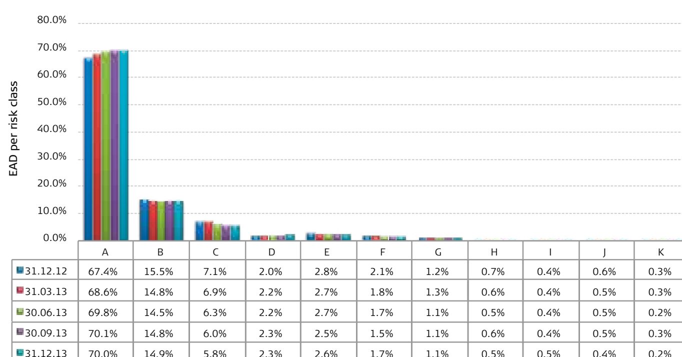
PD is estimated using a continuous scale. The estimated PD is ascribed to a security margin and a PD adjusted for type of security is assigned to a risk class used for granting credit. Storebrand Bank employs a master scale composed of 10 risk classes as well as a class for non-performing loans. Each risk class has an upper and lower limit for PD. The master scale is displayed in the table below.

The purpose of the master scale is to score all of the loans and allocate them a risk class. Non-performing loans are allocated to risk class K. Allocation takes place automatically.

In 2013 there was a risk reduction in the portfolio of home loans. Figure 4 shows a positive trend in EAD per risk class over the course of 2013. At the end of 2013, more than two-thirds of EAD for home loans was classified in risk class A, based on PD adjusted for type of security.

Table 4: Storebrand Bank's master scale for risk classes.

RISK CLASS		LOWER LIMIT PD (STARTING FROM)	UPPER LIMIT PD (UP TO)
A	A1	0.00%	0.03%
	A2	0.03%	0.05%
	A3	0.05%	0.10%
B		0.10%	0.25%
C		0.25%	0.50%
D		0.50%	0.75%
E		0.75%	1.25%
F		1.25%	2.50%
G		2.50%	5.00%
H		5.00%	8.00%
I		8.00%	15.00%
J		15.00%	100.00%
K		100.00%	



	A	B	C	D	E	F	G	H	I	J	K
31.12.12	67.4%	15.5%	7.1%	2.0%	2.8%	2.1%	1.2%	0.7%	0.4%	0.6%	0.3%
31.03.13	68.6%	14.8%	6.9%	2.2%	2.7%	1.8%	1.3%	0.6%	0.4%	0.5%	0.3%
30.06.13	69.8%	14.5%	6.3%	2.2%	2.7%	1.7%	1.1%	0.5%	0.4%	0.5%	0.2%
30.09.13	70.1%	14.8%	6.0%	2.3%	2.5%	1.5%	1.1%	0.6%	0.4%	0.5%	0.3%
31.12.13	70.0%	14.9%	5.8%	2.3%	2.6%	1.7%	1.1%	0.5%	0.5%	0.4%	0.2%

Figure 4: Development of EAD per risk class over the course of 2013, based on PD adjusted for type of security.

LGD

The model for estimating LGD has been developed based on a combination of observed relationships between incidents of non-performance loans and observed loan losses and qualified subjective assessments. The loan-to-value ratio is a significant explanatory variable in the LGD model. The above loan-to-value ratio is also included in the LGD model.

The valuation of the mortgaged property substantially affects the calculation of the loan-to-value ratio. When arranging home loans Storebrand Bank gathers information of significance to the value of the property. Each quarter the bank obtains an updated, independent valuation of residential properties from Eiendomsverdi. For properties for which Eiendomsverdi has not updated a valuation (for instance, individual housing cooperative flats, shared ownership flats and individual holiday homes), the last updated market value will be used until the next update. To the extent that Eiendomsverdi cannot state with a high degree of certainty the market value of a residential property, a "haircut" is employed to ensure that the risk of quoting an estimated market value that is too high is reduced. If Eiendomsverdi has never received information regarding the property's market value, the value recorded at the time of entering into the contract will be used. Loans such as those mentioned here constitute just under 1 per cent of the total portfolio exposure. The bank regularly checks the list of mortgaged properties that have not been given an updated value in the last three years, and then implements measures to reduce the number of properties on the list.

The weighted average loan-to-value ratio in the Bank Group is approximately 55 per cent on home loans. In Table 5, the loans are categorised in different groups depending on the loan-to-value ratio. The table shows the development in the groups over the course of 2013.

Figure 4: Development of EAD per risk class over the course of 2013, based on PD adjusted for type of security.

AS %	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013
0-50	48.1%	48.1%	48.7%	47,7%	44,3%
50-75	45.3%	45.2%	45.9%	46.4%	45.6%
75-85	4.9%	5.2%	4.3%	4.7%	7.7%
OVER 85	1.8%	1.5%	1.1%	1.2%	2.4%

Validation and stress testing

Validation is central to the quality assurance of the bank's classification system. The system is post-tested (validated) at least once a year both quantitatively and qualitatively. The models' ability to distinguish between good customers and customers who default on their loans is assessed during quantitative validation. Estimated values for PD, LGD and EAD are also collated along with actual observed outcomes. Among other things, the utilisation of the internal models in the credit-granting process, work and decision-making processes, control mechanisms and IT systems connected to the classification system are checked during the qualitative validation.

In addition, sensitivity analyses of the impact of macro-economic disturbances in the PD, LGD and EAD – so-called stress testing – are carried out at least once a year.

Reports documenting the results from validation and stress testing are prepared. The reports are reviewed by a separate committee before being presented to the boards of the bank and mortgage company for consideration.

Corporate market

In 2013, Storebrand Bank adopted an internal model for classification of the bank's Corporate Market loans. The model estimates the probability of default (PD) of the loans. The portfolio of income-generating properties (IGE) and development properties consists of few customers and few defaults, and there is comprehensive and complex risk assessment of debtors. The PD model for the Corporate Market has accordingly been developed as an expert model, unlike the statistical model for the Retail Market.

The PD is set in two steps. First a PD score is calculated based on a risk assessment of the debtor and affiliated project that Storebrand Bank finances for each debtor. The PD score is a number between 0 and 100. The PD score is then mapped over to the risk class and associated PD, where the bank's master scale is applied. The master scale consists of 11 risk classes from A to K, with A indicating the lowest default probability and K containing non-performing loans.

A scorecard has been drawn up for projects in both IGE and development properties. Development properties are further split into three scorecards to identify different characteristics in this type of project. The scorecard for IGE and construction loans for rental includes the property's location, tenant risk, development and zoning risk in the property assessment, at the same time that the downside risk is assessed, as well as the strength of the cash flow. The scorecard for construction loans for rental assesses cost risk, conversion risk and implementation risk in the risk dimension project risk, but tenant risk and location are part of the property assessment. Downside risk and the strength of the cash flow are also assessed. The scorecard for construction loans for sale assesses cost risk and implementation risk in the risk dimension project risk, and the residual risk, sales buffer, quality of advance sales and location in the risk dimension sales risk. The scorecard for loans for plots assesses liquidity risk, loan-to-value ratio and sensitivity of construction costs in the risk dimension financial risk, and the project complexity and the builder's experience/competence in the risk dimension execution risk. Political risk is another dimension that is assessed. A simple debtor scorecard has also been developed, where qualitative assessments are made in the risk dimensions business risk, financial risk, and ownership. The cash flow assessment is given greatest emphasis for IGE. The most important risk dimension for construction loans is project risk. Hence financial risk is the most important risk dimension for loans for plots.

When assessing the quality of the security of the loans, numerical grades of 1 to 5 are applied, with 1 being the best.

Table 6: Division of the corporate market portfolio into risk classes.

RISK CLASS (PD)	CONSTRUCTION LOAN SALE	CONSTRUCTION LOAN RENTAL	IGE	LOANS FOR PLOTS	WITHOUT PROJECT TYPE	TOTAL
A (0.10%)	8.8		250.1			258.9
B (0.25%)	212.2		1 853.4	47.2	5.0	2 11.,7
C (0.50%)	19.4	448.0	2 059.9	254.0		2 78.,3
D (0.75%)	128.7	243.5	1 084.4	91.9	24.0	1 572.6
E (1.25%)			757.7	43.7		801.4
F (2.50%)			492.9	44.7		537.6
G (5.00%)	264.4		97.2	7.5		369.0
H (8.00%)			195.8	5.0		200.8
I (15.00%)			84.6	21.3		105.9
J (50.00%)			17.5	5.0	19.4	41.8
NO SCORE					1 415.6	1 415.6
TOTAL	633.5	691.5	6 893.5	520.3	1 464.0	10 202.8
GUARANTEES						
A (0.10%)	12.5					12.5
B (0.25%)	72.6					72.6
C (0.50%)	11.1		25.0			36.1
D (0.75%)		30.0	2.2		57,6	89.7
E (1.25%)			11.8			11.8
F (2.50%)						
G (5.00 %)	20.0					20.0
H (8.00%)						
I (15.00%)						
J (50.00%)						
NO SCORE					340.7	34.7
TOTAL	116.2	30.0	38.9		92.3	277.4

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

Evaluation of impairment losses on loans
Each reporting date, the Group carries out an assessment to determine whether there is objective evidence that the value of a loan or a group of loans has been impaired. An impairment loss on a loan is established if there is objective evidence of an impairment which may result in reduced future cash flow to serve the loan. The impairment must be the result of one or more events which have occurred after the initial carrying date, and the result of the loss event must allow for reliable measurement. Objective evidence that the value of a loan or group of loans has been reduced comprises observable data of which the Group is aware for the following loss events:

- significant financial difficulties for the issuer or debtor
- breach of contract, with defaulted payment of overdue interest or overdue principal
- the Group provides the borrower with special terms as a result of the borrower's financial situation
- it is probable that the borrower will enter into debt settlement negotiations, bankruptcy or other methods of financial re-organisation
- when an active market for the financial asset disappears due to financial difficulties
- observable information indicates that there has been a measurable decline in the estimated future cash flows from a group of financial assets since the initial recognition of these assets

Impairment losses on loans are divided into two categories:

a. Individual impairment losses

Impairment losses on individual loans are based on a specific evaluation of loans where there is objective evidence of impairment. For corporate and private loans, the objective criteria for impairment are considered to be correlated with non-performance status. In addition, an impairment assessment of loans is carried out where other information indicates that the loan may be subject to losses. Any impairment figure is calculated on the basis of a specific assessment of the most probable future cash flows which the debtor could generate in relation to the loan. When making such an assessment, the management applies knowledge from previous experience of the debtor and other information available which is deemed relevant.

b. Group impairment losses

Group impairment losses on loans are calculated separately for corporate loans and for loans to private individuals. For corporate market loans, the objective criteria for impairment losses on loans are deemed to be strongly correlated to changes in the loan's risk classification. The classification model for loans to the corporate market has three parts, in relation to debtor (repayment capacity), security (degree of security/loan-to-value ratio) and commercial factors (internal and external risk). The risk classification model specifies classification on the basis of data registered in the accounting module at the time when the calculation of the group impairment losses is carried out, the realisation value recorded for the security and the assessment of commercial factors. Changes in macro-economic factors which could potentially have a major impact on corporate market loans are also taken into account, and these include changes in interest rate and changes in projections of interest rates.

For home loans a methodology which takes into account changes in expected losses as a result of negative migration has been implemented. For credit cards and revolving credit the bank bases its assessment on historical rates of repayment and discretionary impairment rates for the volume of arrears broken down by time in arrears.

4.1.6 Credit risk (counterparty risk) in the investment portfolio
Storebrand Bank ASA and Storebrand Boligkreditt AS limit their credit risk linked to investment activities by setting minimum requirements for the rating. The model for credit limits and credit ratings at Storebrand Kapitalforvaltning AS (SBK) is utilised when there is no rating available from a rating agency.

4.1.7 Capital requirement
The total capital requirement for credit risk is calculated at NOK 1,614 million. This capital requirement is specified in more detail in section 6.

4.1.8 Capital needs
The overall capital needs for credit risk cover the following elements:

- capital needs calculated according to internal models for the retail market and corporate market;
- capital needs linked to concentration risk in the corporate market;
- capital needs linked to counterparty risk in the liquidity portfolio, including the CVA (Credit Value Adjustment) charge.

The overall capital needs for credit risk are NOK 1,097 million as of the end of 2013 and NOK 1 625 million in a stress scenario by the end of 2016.

4.2. Liquidity risk

4.2.1 Management and control
Risk management and control is described in note 5 to Storebrand Bank's annual report.

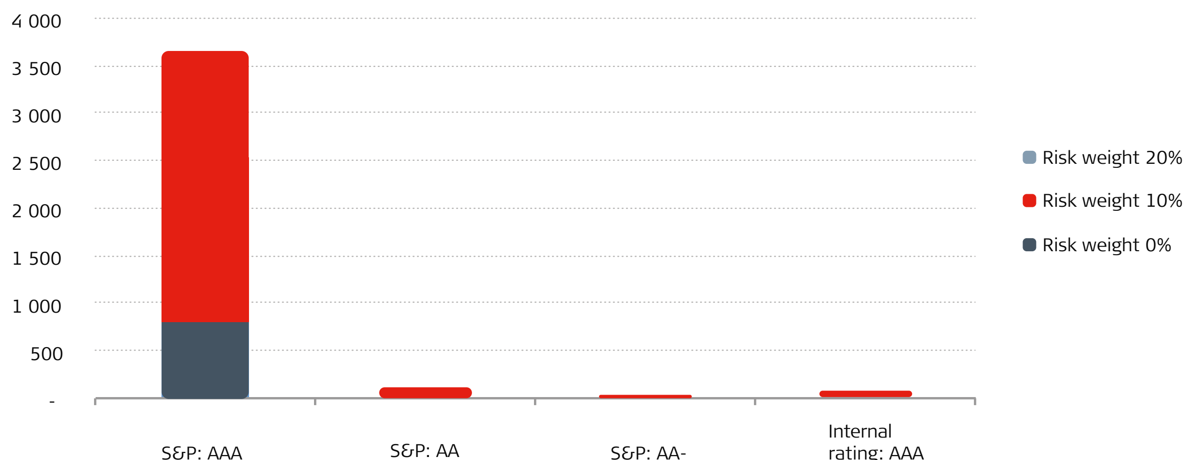
4.2.2 General portfolio information

The bank's liquidity portfolio consists solely of securities which have an "investment grade" rating (external or internal) or which can be deposited at Norges Bank (see figure 5).

The proportion of long-term funding over one year as measured by the Financial Supervisory Authority of Norway's liquidity indicator was above 100 per cent throughout 2013. The bank attaches great importance to having a balanced funding structure as regards the different maturities and issuances in different markets. The average time to maturity for external funding excluding subordinated loans is 2.9 years. The proportion of contributions below NOK 2 million has remained relatively low at a rate of between 65 per cent and 69 per cent since spring 2010, with the effect of reducing the exposure to risk.

Storebrand Bank ASA had a revolving credit facility until it matured in October 2013. The facility amounted to EUR 750 million, and has not been renewed. The bank has established good liquidity buffers and attaches great importance to having a balanced funding structure in relation to the various maturities and issues in various markets. Storebrand Bank is rated by S&P and Moody's.

Figure 5: The investment portfolio as of 31.12.2013 broken down by rating and risk weight.

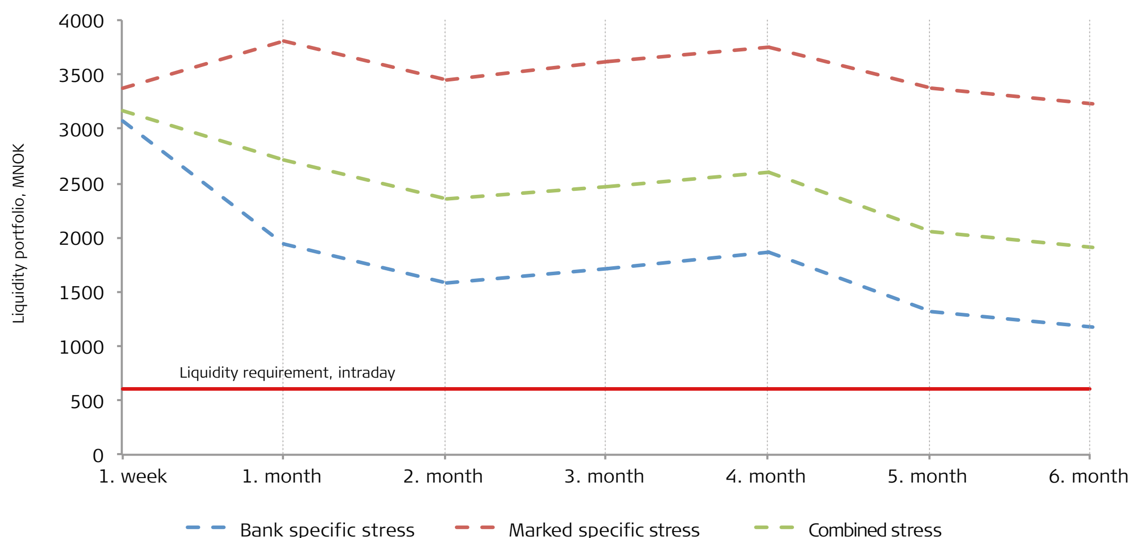


4.2.3 Stress tests

The bank prepares monthly liquidity forecasts. These forecasts are based on the updated expectations and plans of the business areas for the coming six-month period.

Liquidity stress tests for both Storebrand Bank and Storebrand Boligkreditt, with a time horizon from one week to six months, are carried out on the basis of these forecasts. Assumptions used in these stress tests describe the effects of stressful situations as a result of events specific to the bank and market, as well as combinations of these. These assumptions are well-established within the bank's balance sheet management committee.

Figure 6: Effect of stress tests on the liquidity portfolio as of December 2013.



Development in the liquidity portfolio is simulated during the stress tests. At the same time, a stressed cash flow which emerges from the difference between a stressed liquidity portfolio and total liquidity needs according to the forecast is examined. . The results from these stress tests form the basis of the formulation of the liquidity risk policy.

4.2.4 Capital requirement
Capital requirement for liquidity risk is not calculated.

4.2.5 Capital needs
Capital needs for liquidity risk are not calculated. Storebrand Bank aims to minimise this risk by employing both a good funding structure and good internal processes.

4.3. Market risk

4.3.1 Management and control
Risk management and control is described in note 6 to Storebrand Bank's annual report.

4.3.2 General portfolio information
The bank's aggregate interest and exchange rate exposure and the maximum risk of loss on the liquidity portfolio are restricted through low exposure limits. The bank does not have an active investment strategy for shares. Market risk is followed up in sub-portfolios and reported on a monthly basis to the Board in the risk report.

4.3.3 Capital requirement
Capital requirement for market risk is not calculated.

4.3.4 Capital needs
Capital needs for interest rate risk, exchange rate risk and credit spread risk in the liquidity portfolio are calculated. The overall capital needs are NOK 56 million as of the end of 2013 and NOK 203 million in a stress scenario by the end of 2016.

4.4. Operational risk

4.4.1 Management and control
Risk management and control is described in note 7 to Storebrand Bank's annual report.

4.4.2 Capital requirement
The minimum requirement for primary capital for operational risk is calculated at 15% of the average earnings of all business areas over the last three years. The total capital requirement for operational risk is calculated at NOK 1,758 million.

4.4.3 Capital needs
Storebrand Bank believes that satisfactory monitoring of the bank's operational risk is ensured by employing the processes described in note 7 to the annual report. Capital needs are NOK 107.1 million as of the end of 2013 and NOK 92 million in a stress scenario by the end of 2016.

4.5. Compliance risk

4.5.1 Management and control
Risk management and control is described in note 7 to Storebrand Bank's annual report.

4.5.2 Capital requirement
Capital requirement for compliance risk is not calculated.

4.5.3 Capital needs
Capital needs for capital risk are not calculated.

5. Calculating capital requirements

5.1. Primary capital
Table 7 below shows the minimum requirement for primary capital and capital adequacy for Storebrand Bank ASA, Storebrand Boligkreditt AS and the Storebrand Bank Group.

Table 7: Minimum requirement for primary capital and capital adequacy.

PRIMARY CAPITAL 31.12.2013	STOREBRAND BANK ASA	STOREBRAND BOLIGKREDITT AS	STOREBRAND BANK GROUP
NOK million			
Share capital	960.6	455.0	960.6
Other equity	1 410.7	593.3	1 604.9
Equity	**2 371.3**	**1 048.3**	**2 565.4**
Deductions:			
Positiv result not included		-169.5	
Goodwill			-5.2
Intangible assets	-75.4		-93.9
Dividends and group contributions se			-13.0
Deferred tax assets	-18.2		-150.0
Core Tier 1 capital (CET1)	**2 277.7**	**878.9**	**2 303.3**
Perpetual hybrid Tier 1 capital (hybrid capital)	426.8		426.8
Core capital	**2 704.5**	**878.9**	**2 730.1**
Subordinated loan capital less own holdings	158.8		158.8
Net primary capital	**2 863.3**	**878.9**	**2 888.8**

MINIMUM REQUIREMENT FOR PRIMARY CAPITAL 31.12.2013	STOREBRAND BANK ASA	STOREBRAND BOLIGKREDITT AS	STOREBRAND BANK GROUP
NOK million			
Credit risk	1 350.5	454.7	1 613.2
Of which:			
Local and regional authorities	**8.6**		**8.6**
Public sector entities			
Institutions	109.6	10.9	9.6
Corporate	773.9		773.9
Mortgages, secured	256.5	431.0	687.4
Retail	51.5		51.5
Exposures in defaul	37.2	2.9	40.1
Covered bonds	102.3		23.8
Other loans	11.0	9.9	18.3
Total minimum requirement for credit risk	**1 350.5**	**454.7**	**1 613.2**
Total minimum requirement for credit risk			
Operational risk	79.7	22.8	89.5
Deductions:			
Group impairment losses	-2.4	-0.1	-2.4
Minimum requirement for primary capital	**1 427.8**	**477.5**	**1 700.3**

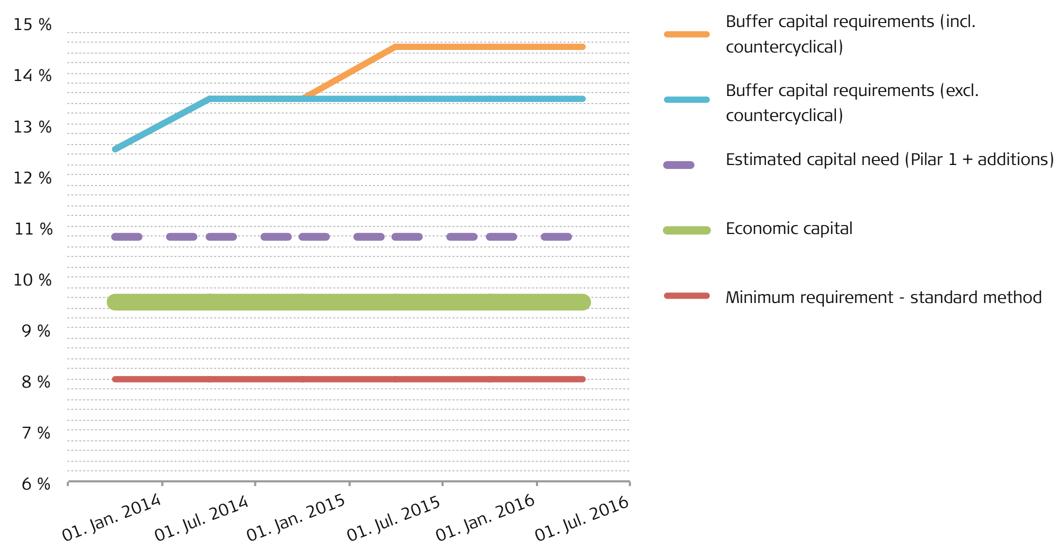
CAPITAL ADEQUACY 31.12.2013	STOREBRAND BANK ASA	STOREBRAND BOLIG-KREDITT AS	STOREBRAND BANK GROUP
Capital adequacy	**16.04%**	**14.73%**	**13.59%**
Core capital adequacy	**15.15%**	**14.73%**	**12.84%**
Pure core capital adequacy	**12.76%**	**14.73%**	**10.84%**

6. Comparison of capital needs in relation to risk profile and the capital and buffer capital requirements.

In the annual ICAAP (see section 2.1.4), Storebrand Bank and Storebrand Boligkreditt carry out an assessment of capital needs according to the risk profile. The ICAAP simulates developments in capital needs three years ahead, based on forecasts for a stress scenario representing a serious economic setback.

Figure 7 below shows i) economic capital using the bank's internal models, ii) estimated capital need based on Pillar I requirements plus any additions and iii) capital and buffer capital requirements. The bank aims to satisfy the applicable buffer requirements at all times.

Figure 7: Economic capital at the end of 2013, capital and buffer capital requirements 2014-2016.



For Storebrand Bank, the credit risk represents the most significant risk for which capital requirement and capital needs are calculated. The capital adequacy requirement for credit risk under Pillar I is calculated on the basis of template values where all loans within a segment are assigned the same risk weighting. There is therefore no connection between a loan's inherent risk and the capital requirement associated with that same loan. The risk weight for home loans is 35 per cent, while for business loans it is 100 per cent.

When calculating economic capital the bank's internal models are used to calculate a loan's risk weighting. The risk weight for home loans may vary from less than 5 per cent for the very best loans to nearly 100 per cent for the most risky loans. Home loans at the Storebrand Bank Group are of extremely good credit quality with a significant proportion of the portfolio having a risk weighting of less than 35 per cent, which means that overall the economic capital for credit risk is considerably lower than the corresponding capital requirement. The proportion of home loans that are transferred to Storebrand Boligkreditt is further evidence of the portfolio's excellent credit quality. As of the end of 2013, this proportion constitutes approximately 62 per cent.