

Interim report

Storebrand Boligkreditt AS



4th quarter
2013 (unaudited)

Storebrand Boligkreditt AS

- Quarterly report for the 4th quarter

(Profit figures for the corresponding period in 2012 are shown in parentheses.
Balance sheet figures in parentheses are for the end of 2012.)

- Profit before taxes of NOK 62 million in the fourth quarter and NOK 232 million for the year
- Good portfolio quality
- Reduced lending volume

Financial performance

Profit before taxes in the fourth quarter was NOK 62 million (NOK 47 million) and NOK 232 million (NOK 129 million) for the year. This performance is in line with general market trends.

Net interest income for the fourth quarter amounted to NOK 65 million (NOK 51 million) and NOK 256 million (NOK 150 million) for the year. Lending margins have increased in 2013, in line with market trends. As a percentage of average total assets, net interest income was 1.65 per cent (1.13 per cent) for the fourth quarter, and 1.48 per cent (0.84 per cent) for the year.

Other operating income in the fourth quarter amounted to minus NOK 0.2 million (NOK 0.1 million) and minus NOK 6 million (minus NOK 4 million) for the year, originating primarily from bond buy-backs prior to maturity.

Operating costs are stable.

Losses in the portfolio are low, and in the fourth quarter the company had plus NOK 1 million (NOK 0 million) in loan losses and minus NOK 2 million (minus NOK 1 million) for the year.

Balance sheet performance

Total lending was reduced by NOK 0.7 billion in the quarter and NOK 2.5 billion compared with the end of 2012, and amounted to NOK 14.8 billion (NOK 17.3 billion). Storebrand Bank and Storebrand Boligkreditt operate with conservative lending practices. The average loan-to-value ratio in the portfolio is 48 per cent, against 49 per cent at the end of 2012. On the date of transfer, the loan-to-value ratio never exceeds 75 per cent. The risk in the loan portfolio is considered to be very low. The company has considerable over-collateralisation.

The volume of non-performing loans at the end of the fourth quarter amounts to NOK 39 million (NOK 36 million), equivalent to 0.26 per cent of gross lending in the company (0.21 per cent). All the loans have a loan-to-value ratio within 70 per cent of market value or are fully written down. Individual loan write-downs amount to NOK 2 million at the end of the fourth quarter (NOK 2 million). At the end of the fourth quarter, group write-downs amount to NOK 1 million (NOK 1 million).

The company's total assets at the end of the fourth quarter of 2013 were NOK 15.5 billion compared with NOK 18.1 billion at the end of 2012.

At the end of the quarter, the company had issued covered bonds to the value of NOK 11.9 billion, with remaining terms of about 0.5 to 6.0 years. NOK 9.2 billion of these bonds have been placed in the market, while the remaining NOK 2.7 billion are being held in the parent bank. The bank has used NOK 1.0 billion of a swap facility with covered bonds, administered by Norges Bank.

Storebrand Boligkreditt has credit facility agreements with Storebrand Bank ASA for the day-to-day operations of the company including the purchase of loans from Storebrand Bank, and to cover interest and repayment on covered bonds for the next 12 months at any given time.

Equity in the company at the end of the year amounted to NOK 1,048 million. The net capital base at year-end, following the Group contribution, amounted to NOK 879 million (NOK 706 million). In the second quarter of 2013 the company had an increase of share capital and received NOK 175 million from Storebrand Bank ASA. The company's total capital ratio and core capital ratio are 14.7 per cent (10.4 per cent). Storebrand Boligkreditt aims to comply with the applicable buffer capital requirements at all times. Storebrand Boligkreditt AS has satisfactory solvency and liquidity based on the company's business activities.

In 2014 Storebrand Boligkreditt will continue its core activity which is the acquisition and management of home mortgages from Storebrand Bank. Provided the balance sheet in the parent company remains almost unchanged, the company has ambitions of only a limited growth in collateralisation during 2014.

New legal requirements for capital and capital buffers have been established from 1 July 2013. In accordance with this, the overall requirements for core tier 1 capital and total capital are 9 and 12.5 per cent respectively, and 10 and 13.5 per cent respectively as of 1 July 2014. Additionally, it is expected that a counter-cyclical capital buffer of up to 2.5 percentage points core tier 1 capital will be introduced from the start of 2015. These new requirements represent an early introduction of parts of a new set of European capital adequacy regulations that

will be applicable in Norway when introduced into the EEA agreement. In addition to higher capital requirements and stricter requirements on capital quality, the new regulations entail new quantitative requirements on liquidity. The scope of reporting will increase significantly in the second half of 2014. The company is working systematically to adapt to the new solvency regulations.

The housing market and developments in total non-performing loans will be closely monitored. The work of ensuring good work routines and high data quality will continue and thereby ensure that government and rating requirements continue to be fulfilled. Developments in the Norwegian and international capital markets, interest rates, unemployment and the property market are regarded as the key risk factors that can affect the results of Storebrand Boligkreditt in 2014.

New issues of covered bonds will be made available when the company decides it is prudent to do so and if the size of the cover pool is sufficient. Storebrand Boligkreditt will continue to contribute to Storebrand Bank having diversified financing.

There have not been any adjusting events after the reporting period that require an adjustment of the interim financial statements.

Lysaker, 11 February 2014
The Board of Directors of Storebrand Boligkreditt AS

Storebrand Boligkreditt AS

PROFIT AND LOSS ACCOUNT

NOK MILLION	NOTE	Q4		FULL YEAR	
		2013	2012	2013	2012
Interest income	3, 7	149.4	161.1	645.6	645.7
Interest expense	3, 7	-84.0	-110.1	-390.0	-496.2
Net interest income	3	65.4	51.0	255.6	149.5
Commission income		0.0	0.0	0.1	0.1
Commission expense		0.0	0.0	0.0	0.0
Net commission income		0.0	0.0	0.1	0.1
Net gains on financial instruments	4	-0.2	0.1	-5.5	-4.3
Total other operating income		-0.2	0.1	-5.5	-4.3
Staff expenses		-0.1	-0.1	-0.1	-0.2
General administration expenses		0.0	0.0	-0.1	-0.2
Other operating costs	7	-3.7	-4.0	-15.9	-16.4
Total operating costs		-3.8	-4.1	-16.1	-16.7
Operating profit before loan losses		61.5	47.1	234.1	128.6
Loan losses for the period	10	0.9	0.0	-2.0	-1.1
Profit before tax		62.4	47.1	232.0	127.5
Tax	6	-17.3	-13.2	-64.8	-35.7
Profit for the year		45.0	33.9	167.2	91.8

STATEMENT OF COMPREHENSIVE INCOME

NOK MILLION	Q4		FULL YEAR	
	2013	2012	2013	2012
Profit for the period	45.0	33.9	167.2	91.8
Other comprehensive income				
Total comprehensive income for the period	45.0	33.9	167.2	91.8

Storebrand Boligkreditt AS

STATEMENT OF FINANCIAL POSITION

NOK MILLION	NOTE	31.12.2013	31.12.2012
Loans to and deposits with credit institutions	17	403.7	408.3
Financial assets designated at fair value through profit and loss:			
Derivatives	18	247.7	345.0
Other current assets	7	28.4	24.2
Gross lending	9	14 808.9	17 302.3
- Loan loss provisions on individual loans	10	-2.4	-2.1
- Loan loss provisions on groups of loans	10	-0.7	-0.5
Net lending to customers	17	14 805.9	17 299.7
Total assets		15 485.6	18 077.3
Liabilities to credit institutions	7, 11, 17	2 148.5	4 618.1
Other financial liabilities:			
Commercial papers and bonds issued	12, 17	12 219.0	12 620.1
Other liabilities	7	66.0	42.7
Deferred tax		3.9	5.0
Total liabilities		14 437.3	17 285.8
Paid in equity		844.0	669.0
Other equity		204.3	122.4
Total equity	14	1 048.3	791.4
Total liabilities and equity		15 485.6	18 077.3

Lysaker, 11. February 2014
The Board of Directors of Storebrand Boligkreditt AS

Storebrand Boligkreditt AS

RECONCILIATION OF EQUITY

NOK MILLION	PAID IN CAPITAL				OTHER EQUITY			TOTAL EQUITY
	SHARE CAPITAL	SHARE PREMIUM RESERVE	OTHER PAID IN EQUITY	TOTAL PAID IN EQUITY	REVENUE & COSTS APPLIED TO EQUITY	OTHER EQUITY	TOTAL OTHER EQUITY	
Equity at 31.12.2011	350.0	200.1	118.9	669.0		64.6	64.6	733.6
Profit for the period						91.8	91.8	91.8
Other comprehensive income								
Total other comprehensive income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total comprehensive income for the period	0.0	0.0	0.0	0.0	0.0	91.8	91.8	91.8
Equity transactions with the owner:								
Group contribution paid						-33.9	-33.9	-33.9
Equity at 31.12.2012	350.0	200.1	118.9	669.0	0.0	122.4	122.4	791.4
Profit for the period						167.2	167.2	167.2
Other comprehensive income								
Total other comprehensive income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total comprehensive income for the period	0.0	0.0	0.0	0.0	0.0	167.2	167.2	167.2
Equity transactions with the owner:								
Capital increase	105.0	70.0		175.0				175.0
Group contribution paid						-85.3	-85.3	-85.3
Equity at 31.12.2013	455.0	270.1	118.9	844.0	0.0	204.3	204.3	1 048.3

Storebrand Boligkreditt AS is 100 percent owned by Storebrand Bank ASA. Number of shares are 35.000.000 of nominal value NOK 13 per share.

The equity changes with the result for the individual period, equity transactions with the owners and items that are entered directly on the balance sheet. Share capital, the share premium reserve and other equity is evaluated and managed together. The share premium fund may be used to cover a loss, and other equity may be used in accordance with the provisions of the Company Act.

Storebrand Boligkreditt actively manages the level of equity in the company. The capital level is tailored to the economic risk and capital requirements in which the composition of its business areas and their growth will be an important driver. The goal of the capital management is to ensure an effective capital structure and secure an appropriate balance between internal goals in relation to regulatory and the rating companies' requirements. If there is a need for new capital, this must be issued by the parent bank Storebrand Bank ASA.

Storebrand Boligkreditt is a credit institution subject to statutory requirements regarding primary capital under the capital adequacy regulations. Primary capital encompasses both equity and subordinated loan capital. For Storebrand Boligkreditt, these legal requirements are most important in its capital management.

For further information on the company's fulfilment of the capital requirements, see note 14.

Storebrand Boligkreditt AS

CASH FLOW STATEMENT

NOK MILLION	31.12.2013	31.12.2012
Cash flow from operations		
Net receipts/payments of interest, commissions and fees from customers	648.4	645.3
Net disbursements/payments on customer loans	2 475.8	-719.8
Net receipts/payments on securities	-5.5	-4.3
Payments of operating costs	-16.2	-20.9
Net cash flow from operations	3 102.4	-99.6
Cash flow from financing activities		
Payments - repayments of loans and issuing of bond debt	-2 770.1	-3 798.9
Receipts - new loans and issuing of bond debt		4 446.1
Payments - interest on loans	-393.4	-514.9
Receipts - issuing of share capital and other equity	175.0	
Payments - group contribution	-118.5	-47.1
Net cash flow from financing activities	-3 107.0	-85.2
Net cash flow in the period	-4.6	-14.5
Cash and bank deposits at the start of the period	408.3	422.8
Cash and bank deposits at the end of the period	403.7	408.3

The company has a credit arrangement (drawing facility) with Storebrand Bank ASA that is included in the item "Liabilities to credit institutions" as at 31.12.2013. See also Note 11.

The cash flow analysis shows the company's cash flows for operations, investment and financing activities pursuant to the direct method. The cash flows show the overall change in cash and bank deposits over the year.

Operations

A substantial part of the activities in a credit institution will be classified as operational.

Investment activities

Includes cash flows from tangible fixed assets.

Financing activities

Financing activities include cash flows for equity, subordinated loans and other borrowing that helps fund the company's activities. Payments of interest on borrowing and payments of group contribution are financing activities.

Cash and bank deposits

Cash and bank deposits are defined as lending to and claims on financial institutions.

Notes Storebrand Boligkreditt AS

NOTE 1 ACCOUNTING PRINCIPLES

The interim accounts for Q4 2013 are prepared in accordance with IAS 34 Interim Financial Reporting. The interim accounts do not include all the information required for full annual accounts prepared in accordance with all the current IFRS standards. The financial statements of Storebrand Boligkreditt AS have been prepared in accordance with International Financial Reporting Standards (IFRS) approved by the EU and appurtenant interpretations.

A description of rest of the accounting principles applied by the company in preparing the accounts is found in the Annual report for 2012. See www.storebrand.no. There have not been any changes of accounting principles in 2013.

NOTE 2 ESTIMATES

The preparation of the interim accounts involves the use of estimates and assumptions that have an effect on assets, liabilities, revenue, costs, the notes to the accounts and information on potential liabilities. In the future, actual experience may deviate from the estimates used. Please refer to note 1 and 2 in the annual report and accounts for 2012.

NOTE 3 NET INTEREST INCOME

NOK MILLION	Q4		FULL YEAR	
	2013	2012	2013	2012
Interest and other income on loans to and deposits with credit institutions	2.2	3.1	10.2	10.1
Interest and other income on loans to and due from customers	147.2	158.0	635.5	635.6
Interest on short-term debt instruments, bonds and other interest-bearing securities				
Other interest income				
Total interest income	149.4	161.1	645.6	645.7
Interest and other expenses on debt to credit institutions	-13.6	-30.1	-101.4	-132.0
Interest and other expenses on deposits from and due to customers				
Interest and other expenses on securities issued	-70.4	-79.9	-288.7	-364.2
Interest and other expenses on subordinated loan capital				
Other interest expenses				
Total interest expenses	-84.0	-110.1	-390.0	-496.2
Net interest income	65.4	51.0	255.6	149.5

Notes Storebrand Boligkreditt AS

NOTE 4 NET GAINS FROM FINANCIAL ASSETS AND LIABILITIES

NOK MILLION	Q4		FULL YEAR	
	2013	2012	2013	2012
<i>Fair value hedging</i>				
Realised gain/loss on derivatives and bonds issued, fair value hedging			-2.8	-1.0
Unrealised gain/loss on derivatives and bonds issued, fair value hedging	-0.2	0.1	-2.7	1.4
Net gain/loss on financial instruments at fair value hedging	-0.2	0.1	-5.5	0.4
<i>Bonds issued</i>				
Realised gain/loss on bonds issued at amortised cost				-4.7
Total gain/loss on bonds issued at amortised cost	0.0	0.0	0.0	-4.7
Net gains from financial assets and liabilities	-0.2	0.1	-5.5	-4.3

The note includes gain and loss on financial derivatives, net gain and loss on fair value hedging and bonds issued. Other financial assets and liabilities are not included in the note.

NOTE 5 KEY FIGURES

NOK MILLION	Q4		FULL YEAR	
	2013	2012	2013	2012
Profit and Loss account: (as % of avg. total assets) ¹⁾				
Net interest income	1.65%	1.13%	1.48%	0.84%
Main balance sheet figures:				
Total assets			15 485.6	18 077.3
Average total assets	15 760.0	17 930.4	17 320.1	17 705.8
Gross lending to customers			14 808.9	17 302.3
Equity			1 048.3	791.4
Other key figures:				
Loan losses and provisions as % of average total lending	-0.02%	0.00%	0.01%	0.01%
Individual loan loss provisions as % of gross loss-exposed loans ³⁾			8.6 %	7.0 %
Cost/income ratio	5.8 %	7.9 %	6.4 %	11.5 %
Return on equity before tax ²⁾			25.8 %	17.3 %
Core (tier 1) capital ratio			14.7 %	10.4 %

Definitions:

¹⁾ Average total assets is calculated on the basis of monthly total assets for the year.

²⁾ Annualised profit before tax as % of average equity.

³⁾ Gross loss-exposed loans with evidence of impairment.

Notes Storebrand Boligkreditt AS

NOTE 6 TAX

Tax charge for the year

NOK MILLION	2013	2012
Tax payable for the period	-65.9	-33.2
Changes in deferred tax/deferred tax asset	1.1	-2.5
Total tax charge	-64.8	-35.7

Reconciliation of expected and actual tax charge

NOK MILLION	2013	2012
Ordinary pre-tax profit	232.0	127.5
Expected tax on income at nominal rate	-65.0	-35.7
Change in tax rules	0.1	
Tax charge	-64.8	-35.7
Tax payable	-65.9	-33.2
- tax effect of group contribution paid		
Tax payable in the balance sheet	-65.9	-33.2

Analysis of the tax effect of temporary differences and tax losses carried forward

NOK MILLION	2013	2012
Total tax increasing timing differences	176.8	264.9
Total tax reducing timing differences	-162.4	-247.2
Net timing differences	14.4	17.7
Losses/allowances carried forward		
Net base for deferred tax/tax assets	14.4	17.7
Net deferred tax/defferd tax asset in the balance sheet	-3.9	-5.0

Notes Storebrand Boligkreditt AS

NOTE 7 CLOSE ASSOCIATES

Transactions with group companies as of 31 December 2013:

NOK MILLION	STOREBRAND BANK ASA	OTHER GROUP COMPANIES
Interest income	5.0	
Interest expense	164.4	
Services sold		
Services purchased	13.1	0.9
Due from	308.4	
Liabilities to	2 148.5	

Covered bonds are not included in the overview. Storebrand Bank ASA has invested a total of NOK 2.7 billion in covered bonds issued by Storebrand Boligkreditt AS as of 31 December 2013.

Storebrand Boligkreditt AS has no employees, and purchases personnel resources from Storebrand Bank ASA and services including accounting functions from Storebrand Livsforsikring AS. All loans made by the company are purchased from Storebrand Bank ASA pursuant to an agreement entered into with Storebrand Bank ASA to purchase loans, as well as a management agreement with Storebrand Bank ASA for management of the loan portfolio. In outline terms, the management agreement involves the company paying fees to Storebrand Bank ASA for management of the company's loan portfolio. In addition, the company has entered into agreements with Storebrand Bank ASA for two credit facilities to finance loans purchased and settlement of covered bonds (see Note 11).

NOTE 8 SEGMENT INFORMATION

Business segments are the company's primary reporting segments. The company has only one segment, Retail Lending. This segment comprises lending to private individuals, and all loans are purchased from Storebrand Bank ASA. The company's accounts for 2013 therefore relate entirely to the Retail Lending segment.

Notes Storebrand Boligkreditt AS

NOTE 9 LOAN TO VALUE RATIOS AND COLLATERAL

NOK MILLION	31.12.2013	31.12.2012
Gross lending ¹⁾	14 808.9	17 302.3
Average loan balance	1.5	1.5
No. of loans	9 861	11 704
Weighted average seasoning (months)	39	33
Weighted average remaining term (months)	202	209
Average loan to value ratio	48%	49%
Over-collateralisation ²⁾	109.5 %	143.2 %
Cover pool:		
Residential mortgages ¹⁾	14 715.0	17 217.3
Supplementary security	403.3	406.5
Total	15 118.3	17 623.7

¹⁾ In accordance with the Regulation for credit institutions that issue covered bonds, lending cannot exceed 75% of the value of collateral (i.e. value of properties pledged as collateral). As per 31 December 2013 the company had NOK 55.9 million that exceeds the loan to value limit and has therefore not been included in the cover pool. As per 31 December 2012, the company has 14 non-performing loans, equivalent to NOK 27.5 million. There are 8 non-performing loans with evidence of impairment of NOK 11.0 million where the impairment is assessed to be NOK 2.4 million. Non-performing loans are not included in the cover pool.

²⁾ Over-collateralisation has been calculated based on total volume of issued covered bonds of NOK 11.9 billion (nominal value).

NOTE 10 NON-PERFORMING LOANS AND LOAN LOSSES

NOK MILLION	31.12.2013	31.12.2012
Non-performing loans		
Non-performing loans without evidence of impairment	27.5	30.2
Loss-exposed loans with evidence of impairment	11.0	5.6
Gross non-performing and loss-exposed loans	38.5	35.8
Loan loss provisions on individual loans	-2.4	-2.1
Net non-performing and loss-exposed loans	36.1	33.7
Key figures		
Net non-performing and loss-exposed loans as % of gross lending	0.26%	0.21%

Commitments are regarded as non-performing and loss-exposed:

- when a credit facility has been overdrawn for more than 90 days
- when an ordinary mortgage has arrears older than 90 days
- when a credit card has arrears older than 90 days and the credit limit has been overdrawn. If a repayment plan has been agreed with the customer and is being adhered to, the overdraft is not regarded as a non-performing loan. When one of the three situations described above occurs, the commitment and the rest of the customer's commitments are regarded as non-performing. The number of days is counted from when the arrears exceed NOK 2,000. The account is given a clean bill of health when there are no longer any arrears. The amount in arrears at the time of reporting can be less than NOK 2,000.

Notes Storebrand Boligkreditt AS

NOTE 10 NON-PERFORMING LOANS AND LOAN LOSSES (continued)

NOK MILLION	Q4		FULL YEAR	
	2013	2012	2013	2012
Change in individual loan loss provisions	-0.1	-0.8	-0.3	-1.9
Change in grouped loan loss provisions	1.3	0.7	-0.2	0.8
Other effects on loan loss provisions	0.4	0.1	0.4	
Realised losses specifically provided for previously	-0.1		-1.5	
Realised losses not specifically provided for previously	-0.5		-0.5	
Recoveries on previous realised losses				
Loan losses for the period	0.9	0.0	-2.0	-1.1

The loan portfolio is purchased from Storebrand Bank ASA. In the opinion of the Board of Directors, the quality of the loan portfolio is such that there is no need for additional loan loss provisions on individual or for groups of loans as of 31 December 2013.

NOTE 11 LIABILITIES TO CREDIT INSTITUTIONS

The company has two credit facilities with Storebrand Bank ASA. The first agreement is used for general operations, such as the acquisition of home mortgages from Storebrand Bank. The second agreement may be used for repayment of interest and principal on covered bonds and related derivatives. At all times, the size of the available credit facility should cover the interest and repayment of covered bonds for the coming 12 months.

NOTE 12 COMMERCIAL PAPERS AND BONDS ISSUED

Covered bonds:

ISIN Code	NOMINAL VALUE	CURRENCY	INTEREST	MATURITY ¹⁾	BOOK VALUE
					31.12.2013
NO0010428584	1 000.0	NOK	Fixed	06.05.2015	1 083.1
NO0010466071	850.0	NOK	Fixed	24.04.2014	893.3
NO0010548373	1 250.0	NOK	Fixed	28.10.2019	1 383.0
NO0010507809	2 040.0	NOK	Floating	27.04.2015	2 047.2
NO0010575913	646.5	NOK	Floating	03.06.2016	647.7
NO0010612294	2 000.0	NOK	Floating	15.06.2016	1 997.6
NO0010635071	2 650.0	NOK	Floating	21.06.2017	2 666.5
NO0010638307	1 000.0	NOK	Floating	17.06.2015	1 000.6
NO0010660822	500.0	NOK	Floating	20.06.2018	500.0
Total commercial papers and bonds issued					12 219.0

¹⁾ Maturity date in this summary is the first possible maturity date (Call date).

The loan agreements contain standard covenants. Under the loan programme the company's overcollateralisation requirement was 109.5 per cent fulfilled. In 2013, Storebrand Boligkreditt AS met all terms and conditions with respect to the loan agreements.

Notes Storebrand Boligkreditt AS

NOTE 13 OFF BALANCE SHEET LIABILITIES AND CONTINGENT LIABILITIES

NOK MILLION	31.12.2013	31.12.2012
Undrawn credit limits	1 732.5	1 794.7
Total contingent liabilities	1 732.5	1 794.7

Undrawn credit limits relate to the unused portion of credit limits on flexible mortgage loans.

The company has not pledged nor received any collateral.

NOTE 14 CAPITAL ADEQUACY

Net primary capital

NOK MILLION	31.12.2013	31.12.2012
Share capital	455.0	350.0
Other equity	593.3	441.4
Total equity	1 048.3	791.4
Share capital		
Other equity	-169.5	-85.3
Total equity	878.9	706.1
Deductions		
Net primary capital	878.9	706.1

Minimum capital requirement

NOK MILL.	31.12.2013	31.12.2012
Credit risk	454.5	526.1
Of which:		
Institutions	10.9	11.9
Loans secured against real estate	431.0	503.7
Loans past-due	2.9	2.3
Other	9.9	8.2
Total minimum requirement for credit risk	454.7	526.1
Total minimum requirement for market risk	0.0	0.0
Operational risk	22.8	15.7
Deductions		
Loan loss provisions on groups of loans	-0.1	0.0
Minimum requirement for net primary capital	477.5	541.8

Notes Storebrand Boligkreditt AS

NOTE 14 CAPITAL ADEQUACY (continued)

Capital adequacy

	31.12.2013	31.12.2012
Capital ratio	14.7 %	10.4 %
Core (tier 1) capital ratio	14.7 %	10.4 %
Core capital ratio excl. Hybrid Tier 1 capital	14.7 %	10.4 %

The standard method is used for credit risk and market risk, and the basic method for operational risk. New capital requirements came into force from 1 July 2013. The overall requirements for core tier 1 capital and the capital base are 9 and 12.5 per cent respectively as of 1 July 2013, and 10 and 13.5 per cent respectively as of 1 July 2014. The introduction of a counter-cyclical capital buffer of 1 per cent core tier 1 capital should be expected from 30 June 2015.

Basis of calculation (risk-weighted volume)

NOK MILLION	31.12.2013	31.12.2012
Credit risk	5 680.7	6 576.2
Of which:		
Institutions	136.3	148.9
Loans secured against real estate	5 387.1	6 296.7
Loans past-due	35.7	28.4
Other	124.2	102.2
Total basis of calculation credit risk	5 683.4	6 576.2
Total basis of calculation market risk	0.0	0.0
Operational risk	285.5	196.8
Deductions		
Loan loss provisions on groups of loans	-0.7	-0.5
Total basis of calculation of minimum requirements for capital base	5 968.2	6 772.5

Notes Storebrand Boligkreditt AS

NOTE 15 QUARTERLY PROFIT AND LOSS

NOK MILLION	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012	Q1 2012
Interest income	149.4	162.3	172.0	161.9	161.1	159.5	161.8	163.3
Interest expense	-84.0	-93.2	-105.5	-107.4	-110.1	-119.2	-122.2	-144.7
Net interest income	65.4	69.2	66.5	54.5	51.0	40.3	39.6	18.6
Fee and commission income from banking services								
Fee and commission expenses for banking services								
Net fee and commission income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net gains on financial instruments	-0.2	-0.4	-1.3	-3.5	0.1	-0.5	1.2	-5.2
Total other operating income	-0.2	-0.4	-1.3	-3.5	0.1	-0.5	1.2	-5.2
Staff expenses	-0.1				-0.1		-0.1	
General administration expenses							-0.1	
Other operating cost	-3.7	-4.3	-4.0	-4.0	-4.0	-4.1	-4.2	-4.1
Total operating costs	-3.8	-4.3	-4.0	-4.0	-4.1	-4.1	-4.4	-4.1
Operating profit before loan losses	61.5	64.5	61.2	46.9	47.1	35.7	36.4	9.4
Loan losses for the period	0.9	-1.2	-0.3	-1.4		-0.8	-0.5	0.3
Profit before tax	62.4	63.2	60.9	45.5	47.1	34.9	35.9	9.6
Tax	-17.3	-17.7	-17.1	-12.8	-13.2	-9.8	-10.1	-2.7
Profit for the year	45.0	45.5	43.9	32.8	33.9	25.1	25.8	6.9

Notes Storebrand Boligkreditt AS

NOTE 16 RISK

The market value of Storebrand Boligkreditt's financial assets and liabilities varies due to financial market risks. Note 3 to note 7 of the 2012 Annual report explains the company's financial risks which also is representative of the financial risks as per 31 December 2013.

Storebrand Boligkreditt AS is exposed to credit risk, liquidity risk, market risk, operational risk and compliance risk.

Credit risk

The risk of losses resulting from a customer's inability or unwillingness to fulfill its obligations. Covers the risk of the collateral being less effective than expected (residual risk) and concentration risk. Credit risk includes counterparty risk.

Liquidity risk

The risk of the company being unable to meet its obligations without incurring significant extra costs in the form of low prices of assets which have to be sold, or in the form of particularly expensive funding. See also note 11 and 12.

Market risk

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. Covers counterparty risk in financial instruments trading, as well as stock market risk, interest rate risk and exchange rate risk.

Operational risk

The risk of financial losses resulting from ineffectiv, inadequate or failing internal processes or systems, human error, external events or non-compliance with internal guidelines. Violations of the law and regulations could prevent the company achieving its goals and this part of the compliance risk is covered by operational risk.

Compliance risk

The risk that the company incurs public sanctions or financial losses due to failure to comply with external and internal regulations.

NOTE 17 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST

NOK MILLION	31.12.2013		31.12.2012	
	BOOK VALUE	FAIR VALUE	BOOK VALUE	FAIR VALUE
Financial assets				
Loans to and deposits with credit institutions	403.7	403.7	408.3	408.3
Lending to customers	14 805.9	14 805.9	17 299.7	17 299.7
Financial liabilities				
Deposits from and due to credit institutions	2 148.5	2 148.5	4 618.1	4 618.1
Commercial papers and bonds issued	12 219.0	12 312.9	12 620.1	12 710.4

All of the loans are mortgages subject to variable interest rates in which the loan's interest rate can be adjusted at short notice. This had a minimal effect on the valuation of the loans. The fair value of lending to customers with variable interest is stated at amortised cost with deduction of individual write-downs and group write-downs. The fair value of lending and liabilities to financial institutions is based on valuation techniques. The valuation techniques use interest rate curves and credit spreads from external providers.

Notes Storebrand Boligkreditt AS

NOTE 17 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES AT AMORTISED COST (continued)

Fair value classified per level

NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	FAIR VALUE 31.12.2013	FAIR VALUE 31.12.2012
	QUOTED PRICES	OBSERVABLE ASSUMPTIONS	NON-OBSERVABLE ASSUMPTIONS		
Financial assets					
Loans to and deposits with credit institutions		403.7		403.7	408.3
Lending to customers		14 805.9		14 805.9	17 299.7
Total fair value at 31.12.2012		17 708.0			
Financial liabilities					
Deposits from and due to credit institutions		2 148.5		2 148.5	4 618.1
Commercial papers and bonds issued		12 312.9		12 312.9	12 710.4
Total fair value at 31.12.2012		17 328.5			

NOTE 18 VALUATION OF FINANCIAL INSTRUMENTS AT FAIR VALUE

Storebrand Boligkreditt AS conducts a comprehensive process to ensure that financial instruments are valued as closely as possible to their market value.

Unlisted derivatives, including primarily interest rate and foreign exchange instruments, are also valued theoretically. Money market rates, swap rates, exchange rates and volatilities that form the basis for valuations are supplied by Reuters, Bloomberg and Norges Bank.

Storebrand Boligkreditt AS carries out continual checks to safeguard the quality of market data that has been collected from external sources. These types of checks will generally involve comparing multiple sources as well as controlling and assessing the likelihood of unusual changes.

The Storebrand Group categorises financial instruments that are valued at fair value into three different levels which are described in more detail in the Annual report for 2012. The levels express the differing degrees of liquidity and different measurement methods used.

Specification of financial assets at fair value

NOK MILLION	LEVEL 1	LEVEL 2	LEVEL 3	FAIR VALUE 31.12.2013	FAIR VALUE 31.12.2012
	QUOTED PRICES	OBSERVABLE ASSUMPTIONS	NON-OBSERVABLE ASSUMPTIONS		
Interest rate derivatives		247.7		247.7	345.0
Total derivatives	0.0	247.7	0.0	247.7	345.0
Derivatives with a positive fair value		247.7		247.7	345.0
Derivatives with a negative fair value					
Total derivatives 31.12.2012		345.0			

There have not been any changes between quoted prices and observable assumptions on the various financial instruments in the quarter.

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Other sources of information:

The Annual Report and interim reports of Storebrand Boligkreditt AS are published on www.storebrand.no.