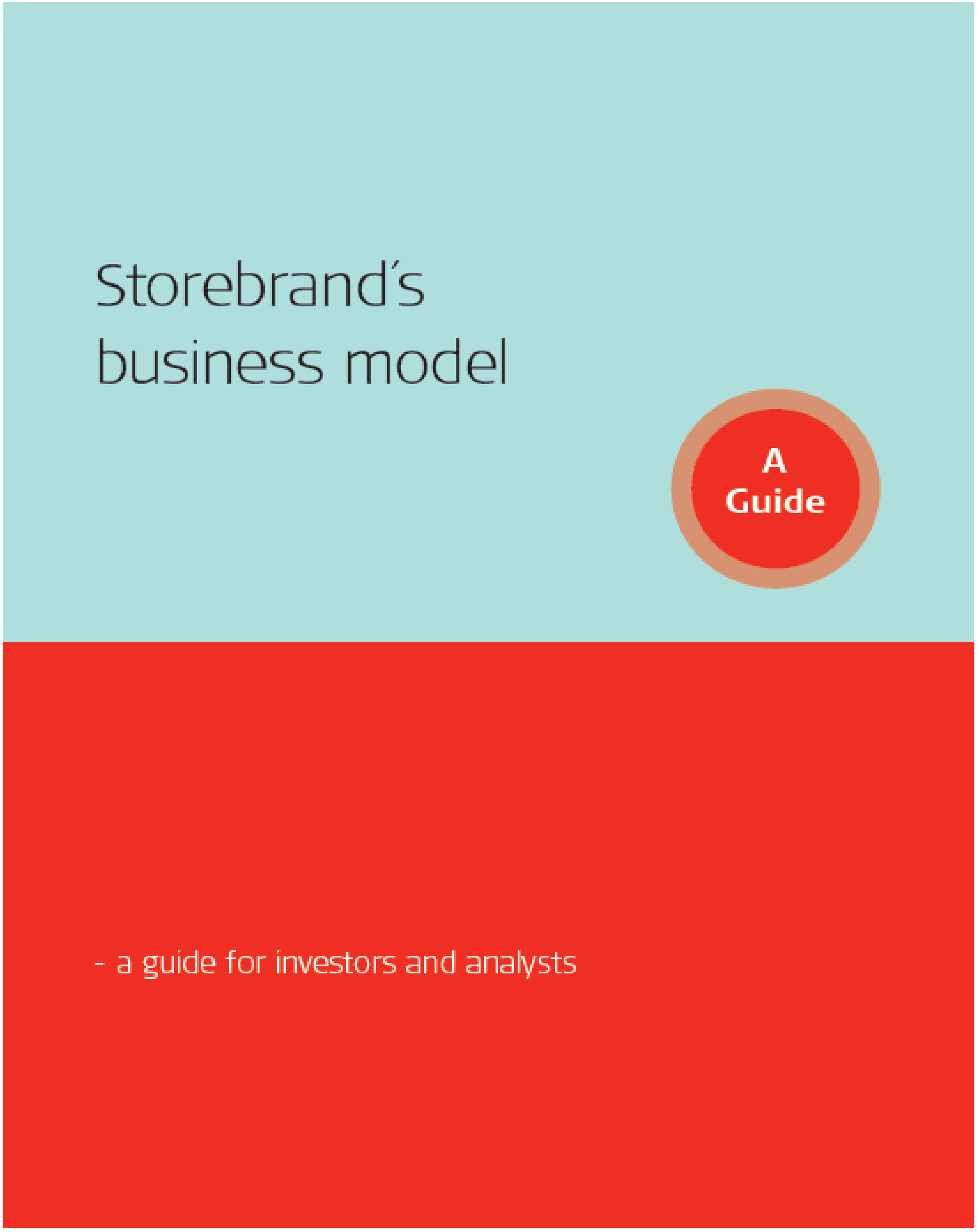
Storebrand´s business model

- a guide for investors and analysts

storebrand



Contents

Introduction

Storebrand's ambition is to deliver better pensions – simple and sustainable. The group offers a broad range of products within life insurance, property and casualty insurance, asset management and banking, to companies, public sector entities and private individuals. Storebrand's core business is within life and pension insurance, which represents the majority of the Group's operations. Life and pension insurance has several products with dissimilar regulations and product structures across borders.

This document is a guide describing the key elements of Storebrand's business model. The guide focuses on the life and pension insurance business in Norway and Sweden. We hope this document will be useful, and related comments and questions may be directed to Storebrand's Investor Relations department. The Storebrand Group also publish annual reports, quarterly reports, presentations and supplementary Information on www.storebrand.com/ir. It is recommended to read this guide in association with the latest published supplementary information.

Investor Relations contacts:

Kjetil Ramberg Krøkje
Head of Investor Relations
+47 934 12 155
kjetil.r.krokje@storebrand.no

Andreas Heen Brovold
Investor Relations Officer/Advisor CEO
andreas.heen.brovold@storebrand.no

Ellen-Carine Stenrud
Investor Relations Officer/Sustainability reporting
ellen-carine.stenrud@storebrand.no

Desember 2016

Group strategy

The European life insurance sector is facing significant changes. Low interest rates and changing regulatory conditions for long-term pension savings have led to a shift away from traditional pension plans with guaranteed annual interest rates, towards unit-linked based saving plans without guarantees. This means that individual customers are taking greater responsibility for their own pensions. Storebrand has developed a two-pronged strategic response.

Firstly, Storebrand aims to manage the business under new regulatory requirements with a solvency II ratio of a minimum 150 per cent. Storebrand has implemented comprehensive measures in order to satisfy new capital requirements. and is continuously adapting in order to maintain its competitive strength and earnings power.

The second part of the strategy is to develop the business in line with Storebrand's corporate vision; "Recommended by our customers". Storebrand's ambition is to deliver better pensions – simple and sustainable. The basis for this strong customer offering lies in Storebrand's strong market share and market position in occupational pension. The aim is to build upon this position and to develop tailored customer concepts for corporates and individuals alike.

1 Manage the guaranteed balance sheet

- Continued transfer out of guaranteed reserves
- Further cost reductions through automation and outsourcing
- Manage for future capital release

>150% SII margin

2 Continued growth in Savings and Insurance

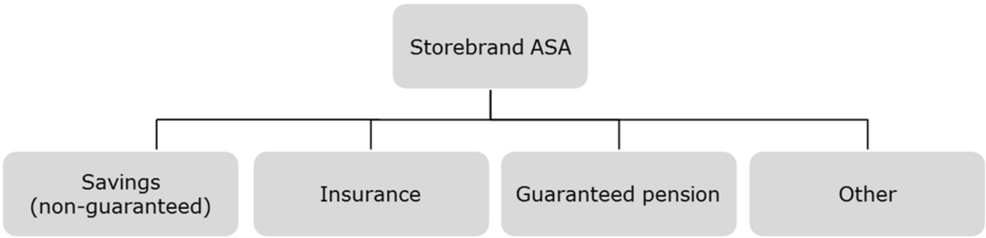
- Leading position in occupational pensions
- Asset gatherer with strong Insurance offering
- Continued retail growth

Capital-light and profitable growth

We work hard to reach our vision:
Recommended by our customers

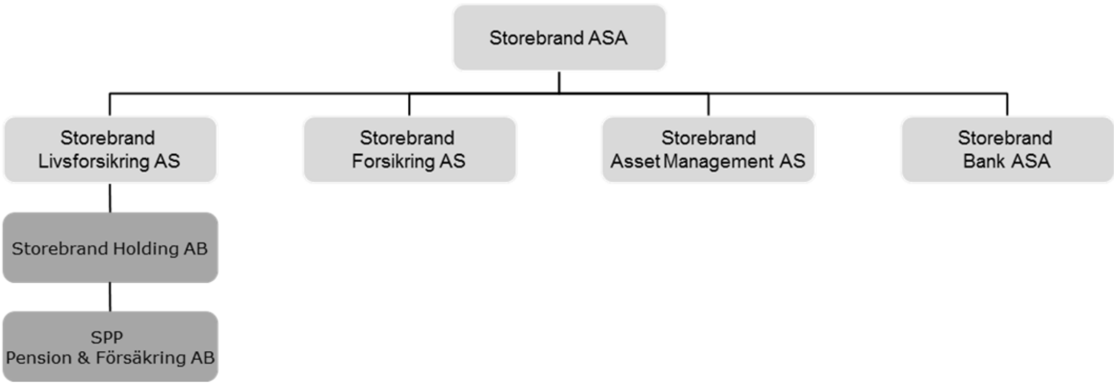
Overview of the Storebrand Group

Reporting structure



Legal structure

(Simplified)



Legal structure	Savings (non-guaranteed)	Insurance	Guaranteed pensions	Other
Storebrand Livsforsikring AS	DC/UL (administration) Subsidiaries	Group Life DC diability pension Individual life	Defined Benefit Fee Based Paid-up & Individual Insurance - guaranteed	Benco Company Portfolio
SPP Pension & Försäkring AB	Unit Linked Subsidiaries	DC diability pension	Guaranteed portfolios (IF+KF) Insurance - guaranteed	Company Portfolio
Storebrand Asset Management AS	Complete result of Kapitalforvaltning			
Storebrand Bank AS	Retail Banking			Corporate Banking
Storebrand Forsikring AS, Storebrand Helseforsikring AS		Retail personal risk, retail object risk Net result Health Insurance		
Holding Company				Complete result of Storebrand ASA

Group Reporting

The Storebrand Group publishes a simplified income statement that reflects the main drivers of the business. The table below offers a short description of the lines in the income statement.

NOK million	Full year 2015	
Fee and administration income	4 317	Fee and administration income from all segments
Insurance result	820	Net of insurance premiums and claims from segment Insurance
Operational cost[1]	-3 268	Operational costs from all segments
Operating profit	1 869	High quality earnings
Financial items and risk result life	-107	Return on company portfolios, cost of debt, net profit sharing and loan losses and risk results
Profit before amortisation and longevity	**1 762**	
Provision longevity	-1 764	Longevity strengthening in Norway, direct result impact finished in 2015
Amortisation and write-downs of intangible assets	-437	Mainly amortisation of Value-in-Force from SPP acquisition
Result before tax	-438	
Tax	1 821	Expected tax rate of 20-25%
Sold/liquidated business	-0	
Profit after tax	**1 382**	

The Group is divided into the segments Savings, Insurance, Guaranteed pension and Other.

Savings (non-guaranteed) includes Defined Contribution in Norway and Sweden, Asset Management and Bank products to the retail market. Savings (non-guaranteed) consequently includes results from legal entities Storebrand Life Insurance, SPP, Storebrand Asset Management and Storebrand Bank.

Insurance consists of Storebrand Insurance, Storebrand Health Insurance and the majority of risk products written within life and pension in Norway (Storebrand Livsforsikring AS), with the exception of risk coverage bundled to the guaranteed life products. Storebrand Insurance offers standard property and casualty insurance products, one-year risk products and health insurance in the Norwegian retail market and workers' compensation and group life insurance for the corporate market.

Guaranteed pension includes long-term pension savings products that give customers a guaranteed rate of return. The business area covers guaranteed pensions in Norway and Sweden, paid-up policies and closed books of individual capital and pension insurance.

Other includes the results of Storebrand ASA (holding company), smaller subsidiaries and the company portfolios of Storebrand Life Insurance and SPP. In addition, the results associated with corporate lending by Storebrand Bank (in run off) and the activities at BenCo are reported in this segment.

1. Savings (Non-Guaranteed)

1.1. Product categories – overview

The products offered within Savings include Defined Contribution in Norway and Sweden, Asset Management and Bank products to the retail market. The segment Savings consequently includes results from Storebrand Life Insurance, SPP, Storebrand Asset Management and Storebrand Bank. From a financial perspective it is useful to divide the products into the following categories:

- Unit linked - Defined contribution pensions and Retail savings: This category represents fee-based and mutual fund based products without interest guarantees. These products represent the new generation of pensions and savings products that are based on mutual funds as building blocks. Unit linked and defined contribution pension products have only been on the market for a relatively short period of time compared with the interest guarantee products described below. Volumes are consequently limited at the moment, but are growing substantially. The life insurance company's earnings are based on the asset management and administration fees paid by customers. Customers often buy risk coverage linked to the products.
  - Subsidiaries owned by Storebrand Life Insurance (Norway): Storebrand Pensions Systems an Storebrand Actuary Systems handles closed pension funds. Results are reported under the line Unit Linked Norway
  - Subsidiaries owned by SPP (Sweden): Other legal subsidiaries, reported under the line Unit Linked Sweden
- Asset Management: Storebrand's asset management activities include the companies Storebrand Asset Management, SPP Fonder and Storebrand Eiendom. Storebrand Asset Management manages intragroup assets, including for Storebrand Life Insurance and SPP. Storebrand offers a wide range of mutual funds to retail customers and institutions under the Storebrand and Delphi brand names.
- Retail Banking: Storebrand Retail banking offers traditional banking services such as accounts and loans in the retail market. The bank aims to actively recruit new customers to Storebrand's existing customer base.

1.2. Unit Linked defined contribution pensions – Norway

Product characteristics

A defined contribution pension is a product in which companies buy pension plans for their employees from Storebrand. Occupational pension is mandatory for all Norwegian employers. The minimum savings rate is 2 per cent up to 12 G[1]. The maximum saving rate were raised to 7 per cent of income between 1 and 7.1 G and 25.1 per cent of income between 7.1 and 12 G. The premiums the customer pays are normally a percentage of salary and are invested on the basis of the underlying mutual funds. The employee's balance and pension is generated by the payments made and the return achieved. The contracts have no return guarantee. If an employee leaves a company an individual capital certificate (non-guaranteed paid up policy) will be issued. Risk coverage (typically in the event of death or disability) is in most cases an integral part of the product. Risk results are reported under the segment Insurance.

Market trends

The market for defined contribution pensions was established in 2001, when the product's tax status became (almost) equal to that of defined benefit plans. The market has grown rapidly since its inception, and the growth was further strengthened by the introduction of mandatory occupational pension plans in 2006. This event resulted in many companies establishing pension plans, and nearly all chose defined contribution plans. In 2014 the level of maximum savings rates was increased, fuelling further growth in terms of annual premiums and assets under management. Because of the product's short history the current portfolio is limited, but due to strong growth it is expected that the size of the defined contribution portfolio will surpass that of defined benefit plans in the foreseeable future.

Result elements and the life insurance company's earnings

The life insurance company's income arises from the fees customers pay (primarily asset management fees). The life insurance company's earnings are based on the relationship between these fees and the company's operating costs. The key result drivers behind the life insurance company's earnings are thus:

[1] G = NOK 92 576

• The size of the customer portfolio: Strong growth due to a very large number of newly established pension plans
• The level and structure of fees
• Operational efficiency

Risk management
Unlike for products with interest guarantees, the financial market risk associated with the defined contribution pension product is limited. The risk management focuses on correct administration of the units and efficient operations.

1.3 Unit Link defined contribution pensions – Sweden

Product characteristics
SPP's unit linked business consists of contribution-based, individualised occupational pensions. The premium payments are invested in underlying mutual funds, and the customer receives the related return. The product has no guaranteed interest.

Market trends
Unit linked is an important product in relation to new sales and the portfolio is anticipated to grow considerably. Occupational pensions are not mandated by law in Sweden, but normally employees have a company sponsored scheme.

Result elements and the life insurance company's earnings
The product's result is generated by the administration and risk results achieved. The life insurance company's earnings are based on the relationship between fees and the company's operating and insurance costs.
The key result drivers behind the life insurance company's earnings are thus:
• The size of the customer portfolio
• The level and structure of fees
• Active management of costs and insurance risk

Risk management
Unlike for products with interest guarantees, the financial market risk associated with the defined contribution pension product is limited. The risk management focuses on correct administration of the units, efficient operations and insurance risk.

1.4 Unit linked (retail) Norway

Product characteristics
Unit linked are funds-based pension policies that provide individual customers with far greater flexibility than traditional products. Customers can choose their asset allocation based on a wide range of funds. The products do not have interest rate guarantees and the insurance element in the product is limited. One of the retail unit linked products has limited tax benefits with a related lock-in period.

Market trends
Given the current limited tax incentives, this product area's future growth is expected to be modest. However, product innovation and possibilities for improved tax incentives can make the product area more attractive.

Result elements and the life insurance company's earnings
See Unit Link defined contribution pensions (p.8).

Risk management
See Unit Link defined contribution pensions (p. 8).

1.5 Storebrand Asset Management

Product Characteristics

Storebrand’s asset management activities include the companies Storebrand Asset Management AS, SPP Fonder AB and Storebrand Eiendom AS. Storebrand Asset Management manages intragroup assets from both guaranteed and non-guaranteed business in Norway and Sweden. Storebrand offers a wide range of mutual funds to retail customers and institutions under the Storebrand and Delphi brand names. Larger customers are also offered discretionary management. Storebrand Eiendom is one of Norway’s largest real estate companies and manages real estate portfolios both in Norway and abroad.

Result elements and earnings characteristics

The income consists of management fees and return-based fees (performance fees). The management fees are primarily volume-based, i.e. they are charged as a percentage of the assets under management. Performance fees are normally included in actively managed discretionary portfolios and, to a lesser extent, in mutual funds. The performance fees are mainly recognised as income on an annual basis. The costs side primarily consists of personnel costs, distribution costs and other costs (including IT). Personnel costs are related to the asset management performance, as stronger results generate higher performance-based salaries paid to asset managers. The asset management business usually expresses income and costs as basis points in relation to the capital under management.

1.6 Retail Banking

Storebrand Retail banking offers traditional banking services such as accounts and loans in the retail market, and is positioned as a charge-free online bank. The retail bank has experienced growth in recent years.
The bank is currently not, a large distributor of other savings and insurance products offered by Storebrand. Whilst most Norwegian banks sell (and own the companies that produce) savings and insurance products and through this achieve a high level of ‘other income’, the situation in Storebrand is different.
The life insurance company owns the broad distributions platform in the group, whilst the bank from 2009 has established direct distribution via the Internet and its call centre from which it aims to build up recurring revenues from cross sales of Storebrand group products and services. For now, the bank’s key source of income is the net interest margin. The bank has in the last few years experienced low losses from lending and the loan portfolio is of uniformly good quality. The bank has established a subsidiary, Storebrand Boligkreditt, to utilise the financing advantages of ‘covered bonds’. Portfolios of suitable loans are transferred to the subsidiary from the bank holding company’s balance sheet. The most important profit driver in the retail market in the future will be utilising the well-established customer base to increase cross-sales. Sustained clever and competitive pricing will also be important.

2 Insurance

2.1 Product categories – overview

Insurance is a reporting unit consisting of Storebrand Insurance, Storebrand Health Insurance and the majority of risk products written within life and pension in Norway (Storebrand Livsforsikring AS), with the exception of risk coverage bundled to the guaranteed life products. Storebrand Insurance offers standard property and casualty insurance products, one-year risk products and health insurance in the Norwegian retail market and workers' compensation and group life insurance for the corporate market.

2.2 P&C and Individual Life

Product characteristics

The retail P&C business was established in 2006, with standard P&C products such as automotive, home and travel insurances. Individual life (retail - personal risk) was merged into the Insurance segment from 1Q 2011 and includes payments in the event of injury, critical illness, child's illness, accidents, etc. The personal risk policies are designed to provide a lump sum in the event of the insurance instance occurring. The products are distributed in Norway through the Internet, call centres and own sales force.

Market trends
Storebrand has a challenger position in the Norwegian P&C market. The market is mature and premium growth rates are expected to grow in line with GDP. However, Storebrand aims for a larger market share and consequently expects substantially stronger growth than the market growth.

2.3 Health and Group Life

Product characteristics
Storebrand offers health insurance treatment plans in the Norwegian and Swedish retail and corporate market via the Internet, as well as call centres and own sales force. The health insurance business is 50 per cent owned by Storebrand.

Group Life and workers' compensation is also included in the product group. The products are distributed through key account managers, brokers, call centres and internet.

Market trends
Storebrand is among the market leaders in the Norwegian health insurance market. The market is still immature and premium growth rates are expected to strong in the near term.

The market for Group Life and Workers compensation is expected to grow in line with GDP.

2.4 Pension related disability insurance

Product characteristics
Storebrand and SPP's disability insurance consists of long-term, individual coverage. The coverage is sold as an optional extra with occupational pensions plans. The coverage consists of compensation for loss of pay and a waiver of premium in the event of disability due to an accident and/or illness. The coverage expires upon reaching retirement age. The products are distributed through key account managers, brokers, call centres and the Internet.

Market trends
In general there is an increasing focus on the financial situation of people whose living situation changes. This combined with the fact that the public safety net provides relatively limited coverage for people with higher incomes has resulted in stable growth in the sale of risk products.

The coverage is sold together with the savings element from the same provider. Margins have been under pressure in the Norwegian market.

Disability insurance is increasingly offered as a separate product from separate providers in the Swedish market. SPP has historically achieved a strong market position in this segment, but has experienced declining market shares the latter years. SPP is currently developing a stronger offering in order to capture a larger share of the growth.

Result elements and the life insurance company´s earnings
The result is generated in the same way as for a P&C insurance product, i.e. the total premium income paid by customers and financial income have to cover the total compensation and reserves, plus administration costs, in order to achieve profitability. The result elements, the interest, risk and administration results are allocated to the owner. The key result drivers behind the life insurance company's earnings are thus:

- The size of the customer portfolio
- Pricing (premiums) of administration and risk, and active management of costs and compensation frequency

Risk management
The risk management focuses on insurance-related underwriting and costs management.

3 Guaranteed Pension

3.1 Product categories – overview

In Norway, products offered within Guaranteed Pension include traditional defined benefit plans and individual contracts with guarantees. In Sweden, the product offering includes traditional defined benefit plans and defined contribution plans with guarantees.

3.2 Defined benefit plans - Norway

Product characteristics

Group defined benefit plans is a product in which companies buy pension plans for their employees from Storebrand. The pension guaranteed to the individual employee is normally a percentage of their expected final salary, e.g. 66% (including the expected state pension (National Insurance Scheme)).The premium paid by the corporates to Storebrand is calculated actuarially and Storebrand guarantees the company and the employees a minimum return on the funds paid in. Storebrand charges various fees; for the guarantee, for the risks associated with the product's insurance elements, and for the actual administration of the pensions. Risk coverage, typically in the event of disability or mortality which leads to a spouse- and orphan pension, is an integral part of the product.

Market trends

Group defined benefit plans are a key product in the Norwegian market. Despite the fact that most of the new sales in recent years have been of defined contribution pensions, defined benefit pensions schemes are still active for older employees in many companies. Defined benefit plans are almost universal in the public sector (including in the competitive part). Customers (employers) have a right to transfer their policies and therefore there is an active market, even though the number of brand new defined benefit plans being established is small.

Result elements and the life insurance company's earnings

The product's result is made up by three elements: the administration result, the risk result and the fee for providing the interest rate guarantee including a risk margin. However, if the portfolio return is below the interest rate guarantee, Storebrand must provide the difference between the actual return and the guaranteed return, in contracts where the buffer capital is not sufficient to cover the difference. The price charged for the guaranteed return is set as a percentage of the insurance reserves and will depend on factors such as the level of buffer capital associated with the policy, the level of exposure to risky assets in the portfolio, the level of the guaranteed return, and the current market situation, including the level of interest rates. The competitive situation will also play a part in setting the price for the interest rate guarantee. The administration result is allocated to the company. The risk result is treated asymmetrically: Up to 50% of the positive risk result can be transferred to the risk equalisation fund, which can cover any future negative risk result. The remaining part of the positive risk result is allocated to the customers. A negative risk result must be covered by the risk equalisation fund or the company's equity. The key result drivers behind the life insurance company's earnings are thus:

- The size of the customer portfolio: The market for transfers between competitors is substantial. The customers' portfolio (and premium payment) also grows when salary and employment rates increase due to a need for increased reserves. The single premium related to salary increases (for previous pension earning years) constitute a part of the premium income and reserve growth.
- Pricing of the interest guarantee and risk margin.
- Deviation from the expected levels of expenses, longevity, mortality and disability build in the reserves and premiums.

Risk management

Managing financial risk is a priority since any return below the guaranteed interest will be charged to the buffer capital and eventually the company's equity. Key elements of risk management: Building up and preserving additional statutory reserves (conditional customer reserves) and the market value adjustment reserve (unrealised gains in the investment portfolios), and the use of these in years with particularly poor financial returns are key elements of risk management. The portfolio for group pensions is divided into a number of sub-portfolios based on the customers' profile choice and in which asset allocation is tailored to the individual portfolio's risk-bearing capacity.

3.3 Defined Benefit Paid-up policies - Norway

Product characteristics

Paid-up policies are contracts which have left defined benefit group pension plans, which normally occurs when an employee leaves his or her employer's service or the company chooses to change from defined benefit pensions to defined contribution pensions. The employee has an option to continue paying premiums on an individual basis, so-called continuation policies, but the vast majority are converted to fully paid. Risk coverage (typically in the event of disability or mortality which leads to a spouse- and orphan pension) is an integral part of the product.

Market trends

Normal employee turn-over in companies continuously create new paid-up policies. Hence, paid-up policies are expected to increase in the future. Paid-up policies premium payments are limited due to that only few employees choose to continue paying for the contract (since they normally go over to a new occupational pensions scheme).

Result elements and the life insurance company's earnings

The product result is generated by three different elements: the administration, risk and interest results. When converting to a fully paid policy the future administration charges are being paid up-front as a single premium by the sponsor of the pension scheme. This single premium is calculated as a percentage of the size of the insurance reserves, and is reserved for as an administration reserve for all future expenses. The administration result shows the difference between the annual administration premium deducted from this reserve and actual operating costs. The administration result is allocated in full to the company.

The risk result comes from mortality and disability rates deviating from the assumptions in the premium tariffs.

The interest result is generated by the return on invested assets being higher than the guaranteed interest. If the return on investments is poor, i.e. lower than the guaranteed interest, the company can use buffer capital (additional statutory reserves and the market value adjustment reserve) to cover any deficit. The market value adjustment reserve is a collective buffer shared by all policies. On the contrary, additional statutory reserves are individual for each policy and not subject to any cross subsidising between policies. In addition the additional statutory reserves can only cover deficits up to one year interest rate guarantee in a single year. Thus, this buffer cannot cover any negative investment return. Any remaining deficit after the buffer capital has been used will be covered by the company's equity.

Paid-up policies have a so-called modified profit sharing model. The owner's share of the interest result is limited upwards to 20% of the interest result pursuant to the applicable rules. The risk result is treated asymmetrically: Up to 50% of the positive risk result can be transferred to the risk equalisation fund, which can cover any future negative risk result. The remaining part of the positive risk result is allocated to the customers. A negative risk result can be covered using the risk equalisation fund or thereafter a positive interest result. Any deficit in the risk result beyond this is covered by the company's equity. As mentioned above, the administration result is allocated to the company.

The key result drivers behind the life insurance company's earnings are thus:

- The size of the customer portfolio: The portfolio is growing mainly due to a steadily increasing number of paid up policies due to employees changing jobs
- The return on the investment portfolio.
- Deviation from the expected levels of expenses, longevity, mortality and disability build in the reserves.

Risk management

Managing financial risk is a priority since achieving a return that exceeds the guaranteed interest is the key factor for generating a profit, and a low return will result in a charge against the buffer capital and eventually the life insurance company's equity. Building up and preserving additional statutory reserves (conditional customer reserves) and the market value adjustment reserve (unrealised gains in the investment portfolios), and the use of these in years with particularly poor financial returns are key elements of risk management. The paid-up policies portfolio is divided into sub-portfolios based on the level of buffer capital in which the asset profile is tailored to the individual portfolios´ risk bearing capacity.

3.4 Individual annuity/pensions and endowment insurance - Norway

Product characteristics

These products represent pension and life annuity insurance policies purchased by individuals, either with one-off or instalment payments. The contracts normally stipulate a lock-in period for paid in funds, for a certain number of years or until a certain age. The lock-in period is combined with tax benefits provided by the authorities aimed at promoting long-term saving. This category also includes the shorter term individual endowment insurance. The products have an annual guaranteed return (interest guarantee) and are subject to the principle of profit sharing between customers and the life insurance company at the end of the year. Risk coverage (typically in the event of death or disability) can be an integral part of the product.

Market trends

Sales of traditional individual pensions ended with the implementation of the new insurance act at the start of 2008, and the portfolio is thus being run-off. Nonetheless, the portfolio will continue to be of importance for many years into the future because of the long-term nature of the products.

Result elements and the life insurance company's earnings

The products' result that will be the basis for profit sharing is generated by three different elements: the administration, risk and interest results. The administration result shows the difference between the annual administration premium charged and the actual operating costs. The administration premium is usually calculated as a combination of fixed fees and a margin on the contract's assets under management. Operating costs include the administrative costs incurred by the life insurance company from selling and managing the product. The risk result arises from mortality and disability rates deviating from the assumptions in the premium tariffs for a period. When mortality and disability rates deviate, a result is generated due to insurance payments being lower or higher than those assumed in the tariff. The interest result is generated by the return on the invested assets being higher than the guaranteed interest. The product's total profit is shared between the customers and the life insurance company according to a profit sharing model. Pursuant to regulations, the profit allocated to the life insurer cannot exceed 35% of the product's total profit. Any deficit in the product is covered by buffer capital (additional statutory reserves and market value adjustment reserve). Any remaining deficit after the buffer capital has been used will be covered by the life company's equity.

The key result drivers behind the life insurance company's earnings are thus:

- The size of the customer portfolio: The customer portfolio is subject to long-term run-off
- The return on the investment portfolio
- Longevity, mortality and disability better than calculated in the premium tariffs
- Operational efficiency

Risk management

Managing financial risk is a priority since achieving a return that exceeds the guaranteed interest is the key factor for generating a profit, and a low return will result in a charge against the buffer capital and eventually the life insurance company's equity. Building up and preserving additional statutory reserves (conditional customer reserves) and the market value adjustment reserve (unrealised gains in the investment portfolios), and the use of these in years with particularly poor financial returns, are key elements of risk management. Individual annuity pensions and endowment have their own asset portfolio in which the asset profile is tailored to its risk-bearing capacity.

3.5 More on buffer capital

Additional statutory reserves

The company is allowed to make allocations to the additional statutory reserves to ensure the solvency of its life insurance business. These additional reserves are distributed among the contracts and can be used to cover a negative interest result up to the interest rate guarantee. In the event that the company does not achieve a return that equals the basic interest rate in any given year, the allocation can be reversed from the contract to enable the company to meet interest rate guarantee. This will result in a reduction in the additional statutory reserves and a corresponding increase in the premium reserve for the contract. For allocated annuities, the additional statutory reserves are paid in instalments over the disbursement period. If additional reserves allocated to a contract entail that the total additional statutory reserves exceed 12 per cent of the premium reserve linked to the contract, the excess amount is assigned to the contract as surplus.

Market value adjustment reserve

The current year's net unrealised gains/losses on financial assets at fair value in the group portfolio in Storebrand Livsforsikring AS are allocated to/reversed from the market value adjustment reserve in the statement of financial position assuming the portfolio has a net unrealised excess value. The portion of the current year's net unrealised gains / losses on financial current assets denominated in foreign currencies that can be attributed to fluctuations in exchange rates is not transferred to the market value adjustment reserve. Similarly, the change in the value of the hedging instrument is not transferred to the market value adjustment reserve, but is charged directly to the profit and loss account. The foreign exchange fluctuations associated with investments denominated in foreign currencies are largely hedged through foreign exchange contracts on a portfolio basis. Pursuant to accounting standard for insurance contracts (IFRS 4) the market value adjustment reserve is shown as a liability.

Risk equalisation reserve

Up to 50 per cent of the risk result for group pensions and paid/up policies can be allocated in the risk equalisation fund to cover any future negative risk result. The risk equalisation reserve is not considered to be a liability according to IFRS and is included as part of the equity (undistributable equity).

Strengthening of longevity reserves

In a letter dated 8 March 2013 the Financial Supervisory Authority of Norway (Finanstilsynet) determined that a new mortality basis, K2013, would be introduced for group pension insurance schemes in life insurance companies and pension funds with effect from 2014. This requires increased premiums and higher insurance technical reserves to cover future liabilities. On 2 April 2014 the Norwegian Financial Supervisory Authority published guidelines for escalation plans for provisions for long life, based on a letter from the Norwegian Ministry of Finance dated 27 March 2014. The period for strenghtening of reserves may have a duration of up to 7 years (up to and including 2020). The reserves may be funded using the excess return in customer portfolios, but the pension scheme must cover a minimum of 20 per cent of the total requirement for the strenghtening of reserves. Read more about this in note 3. For accounting purposes, the expected cover by the owner in the future will be considered a reduction in the expected future surplus, and no special provisions have been made for the expected total cover by the owner that will accrue from 31 December 2014. The assessment will also take into account the projected future returns.

3.6 Key terms in SPP's profit sharing - Sweden

In order to understand the profit sharing models in the traditional defined benefit plans and defined contribution plans one need to be familiar with the following different ways of calculating the size of insurance reserves:

Guaranteed reserve

The guaranteed reserve is the present value of all binding future pension payments discounted by a guaranteed rate (the premium calculation rate).

Prospective reserve

The prospective reserve equals the present value of all binding future pension payments discounted by a market rate. SPP uses a Solvency II based discounting curve to value liabilities.

Retrospective reserve

The retrospective reserve equals all historic premium payments and the actual return and profit achieved on the payments relating to the individual contract. In other words, this is the total customer assets in the portfolio. It is the retrospective reserve that is invested and which in turn generates the investment result.

3.7 Defined benefit plans - Sweden

Product characteristics

Traditional defined benefit plans is a product in which companies buy pension plans for their employees. The premiums buy a guaranteed minimum pension at a given age. The product is subject to profit sharing, and returns over the guaranteed levels provide a basis for increased pension rights and a profit for the life insurance company.

Market trends

There are limited sales in the traditional defined benefit plans and the portfolio is thus mainly in run-off. Nonetheless, the portfolio will continue to be of importance for many years into the future because of the long-term nature of the products.

Result elements and the life insurance company´s earnings

The product's result is generated by the elements: administration, risk and financial results. The administration and risk results are allocated in its entirety to the life company. The financial result is subject to sufficient funds to allow for indexations of the pension plans, before a fee is calculated. The fee to the life insurance company is calculated on the following principles:

1. If the retrospective reserve is a minimum of 107% of the prospective reserve[2], the pensions in payment will be increased by CPI, provided that the reserve level is a minimum of 107% after indexation. This will allow for a fee of 40 basis points to the life company. If the buffers (excess of retrospective reserve over 107% of prospective reserve) are not adequate to cover indexation of pensions in payment, indexation is limited to a proportion of CPI and the shareholder fee is reduced in the same proportion.
2. If the retrospective reserve is a minimum of 120% of the prospective reserve[1], the deferred pensions will be increased by CPI, provided that the reserve level is a minimum of 120% after indexation. This will allow for an additional fee of 40 basis points to the life company. If the indexation of deferred pensions is lower than CPI, the shareholder fee is reduced proportionally.
3. If the retrospective reserve exceeds 150% of the prospective reserve[1], the surplus above 150% will be credited to the customers. In this way the life insurance company receives up to 80 basis points of customers funds, subject to an adequate buffer in the retrospective reserve over the prospective reserve as long as the pensions' inflation adjustment is covered. In contracts with a deficit (retrospective reserve < prospective reserve) the life insurance company has to make a contribution to the contracts. The contribution made by the life insurance company to any contracts with a deficit is called the deferred capital contribution (DCC). The DCC reserve is repaid to the life insurance company as the return on the applicable policies implies that a greater contribution margin ratio is achieved in relation to the prospective reserve. If the return is lower than the changes in the prospective reserve, DCC is contributed, and if the return is higher than the changes in the prospective reserve, the DCC contribution is reversed. Any change in DCC will have an impact on the profit and loss statement.

The key result drivers behind the life insurance company's earnings are thus:

- The size of the customer portfolio
- Investment return
- Changes in market rates
- Consumer price index
- Deviation from the expected levels of expenses, longevity, mortality and disability build in the reserves and premiums

Risk management

Managing financial risk is a priority since achieving a return that exceeds the guaranteed rate is the key factor for generating a profit, and a low return will result in a charge against the buffer capital and eventually the company's equity. The buffer capital in the contracts is called the conditional bonus (Swedish: *Villkorad Återbäring*) and is equal to the retrospective reserve minus the prospective reserve. The guaranteed assets are allocated according to contract surplus and the duration of the liabilities. In years when investment results are below the guaranteed interest the owner will not have to contribute more capital as long as the retrospective reserve amounts to at least the prospective reserve.

3.8 Guaranteed defined contribution plans - Sweden

Product characteristics

SPP's defined contribution plans are individualised occupational pensions plans with guaranteed benefits and profit sharing. Companies buy these products as pension plans for their employees. The primary difference between SPP's defined benefit plans and defined contribution plans is that the latter have no group elements or profit sharing at a group level. The plans are individual.

[2] *Prospective reserve including conditional indexation provided in the past. As of 31.12.2014, the consolidation ratio was 108,5% in the largest sub-portfolio.*

Market trends

Sales of defined contribution plans remain a focus area for SPP. Since 1 January 2016 SPP has offered a 1.25% guarantee on 85% of the premium. Each customer's asset allocation is unique according to the customer's age and buffer level. Assets are allocated between three portfolios; "Growth", "Stable" and "Safe."

Result elements and the life insurance company's earnings

The product's result is generated by the three elements: the administration, risk and financial results. The administration and risk results are allocated in its entirety to the owner. The financial result profit is shared pursuant to the following model: The retrospective reserve provides the basis for the profit sharing.

For premiums paid in before 1 January 2016, 90% of the investment result is allocated to the customers' funds (retrospective reserve) if the investment return is higher than the guaranteed rate, The remaining 10% is allocated to the life insurance company. For premiums paid in after 1 January 2016, profit sharing is replaced by a 0.2% interest rate guarantee fee.

If the retrospective reserve is lower than the prospective reserve (i.e. the contracts have a deficit), the life insurance company has to contribute funds to the customers via a claim against the life insurance company. The sum of this claim is called the deferred capital contribution (DCC). The DCC reserve is repaid to the life insurance company as the return on the applicable policies means a better contribution margin ratio is achieved in relation to the prospective reserve. If the return is lower than the changes in the prospective reserve, DCC is contributed, and if the return is higher than the changes in the prospective reserve, the DCC contribution is reversed. Any change in DCC will have an impact on the profit and loss statement. The surplus becomes part of the customer's guaranteed benefit when he/she enters pension age, according to the relevant forecast interest rate.

The key result drivers behind the life insurance company's earnings are thus:

- The size of the customer portfolio
- Investment return
- Changes in interest rates
- Deviation from the expected levels of expenses, longevity, mortality and disability build in the reserves and premiums

Risk management

Managing financial risk is a priority since achieving a return that exceeds the guaranteed interest is the key factor for generating a profit, and a low return will result in a charge against the buffer capital and, eventually, the life insurance company's equity. The buffer capital in the contracts is called the conditional bonus (Swedish: *Villkorad Återbäring*) and is equal to the retrospective reserve minus the prospective reserve. The asset management of defined contribution plans is divided into three portfolios; 'Growth' (Tillväxt), 'Stable' (Stabil) and 'Safe' (Trygg), where each customer's assets are individually allocated to the three portfolios according to their risk-bearing capacity (age and buffer level). The customized allocation reduces the risk of additional capital contributions and gives new customers the possibility of competitive returns.

3.9 Guide to result modelling

The important result drivers for modelling Life and Pensions Norway´s and Sweden's results are described below.

Key result drivers outlined in Storebrand's quarterly and annual reporting

Norway:

- **Asset allocation and other key details in various portfolios:** Asset allocation is reported for paid-up policies, individual annuity/pensions and endowment, and group defined benefit pensions individually, i.e. portfolios with interest guarantee. In addition the portfolios' expected return, funds under management, guaranteed interest per annum and historically achieved portfolio return are stated in the quarterly reporting.
- **Level of buffer capital in various products:** The additional statutory reserves, market value adjustment fund and result year to date, i.e. all buffer elements that can be used in the event of weak returns to cover the interest guarantee, are described for the same products as listed above.
- **Asset allocation, level of interest expenses and size of company portfolio:** The following is reported for the company portfolio: size of the capital, asset allocation, expected return and the interest expenses for subordinated loans.
- **Historic levels of administration and risk results, as well as results of subsidiaries:** The administration and risk results per product are reported as part of the financial statements. The subsidiaries' result is reported on a separate line in the profit and loss statement.

Sweden:

- **Asset allocation and other key details in various portfolios:** Asset allocation is reported for defined benefit, defined contribution (three different portfolios) and Euroben respectively. The expected return, funds under management and guaranteed interest per annum, DCC, duration of liabilities and historic achieved return, by the various portfolios, are also reported.
- **Level of buffer capital in various portfolios:** The conditional bonus (Villkorad Återbäring) and result so far this year, i.e. the buffer elements that can be used in the event of weak returns, are also described for these same portfolios.
- **The size of the company portfolio:** The size of this portfolio is reported.
- **Historic levels of administration and risk results:** The administration and risk results per product are reported as part of the financial statements.

Key result drivers known from the financial market development

Norway:

Development of Norwegian and international equities and interest markets: Storebrand uses benchmark indices in its management of equity and fixed income portfolios. Even though the management allows a degree of freedom to deviate from benchmarks (active asset management), the development of the benchmark indices still provide a good pointer to the direction of the investment result for the period. Storebrand's Life and Pensions Norway uses the following benchmarks in its equities management:

- Foreign equities and private equity: MSCI World hedged to NOK
- Norwegian equities: OSEBX

Please note that loans and receivables portfolio are recognised in the financial statements according to the rules for amortised cost and not current market value.

Sweden:

Development of Swedish and international equities and interest markets: SPP uses benchmark indices in its management of equity and fixed-income portfolios. Even though the management allows a degree of freedom to deviate from benchmarks (active asset management), the development of the benchmark indices still provide a good pointer to the direction of the investment result for the period. SPP uses the following benchmarks in its equities management:

- Foreign equities and private equity: MSCI World hedged to SEK
- Swedish equities: OMXSB

The development of Swedish interest rates also affects the development of the liabilities, ref. section 3.4 above.

Key result drivers unknown to the market

Key result drivers that will not be known by external market players prior to the presentation of the results are described below. Market players therefore have to estimate these elements. The drivers outlined below apply to both the Norwegian and Swedish markets.

- **Storebrand's / SPP's changes to asset allocations during the period based on the company's risk management:** Storebrand continuously adjusts the investment portfolios based on the company's risk management. The risk management is based on the principle that the company's investment risk should always be tailored to the level of risk capital (including additional statutory reserves and the market value adjustment reserve).
- **Higher or lower returns in Storebrand's/SPP's portfolios in relation to the development of market indices:** Even though the market return for a period is known from the development of the benchmark indices, not inconsiderable higher or lower returns may be achieved due to the asset manager's better or poorer performance.
- **The buffer capital by different contracts (affects the 'quality' of the buffer capital and the ability to use the buffer capital):** Storebrand reports buffer capital for various product areas, but it is not reported per individual contract. As the buffers can seldom be used across the contracts, this could have an impact in weak markets.
- **Special factors relating to non-listed asset classes:** Non-listed portfolios, including real estate and private equity, have historic returns that can be used as references for expectations concerning next quarter's returns. However, in some quarters there may be circumstances that have a positive or negative influence.

- **Special factors that influence the period's administration and risk results, as well as the subsidiaries' results:** Administration and risk results as well as results from subsidiaries are reported quarterly and historical results can be used to estimate future results. In some quarters there may be special positive or negative effects.

3.10 Overview of result elements in guaranteed Life & Pension products – Norway and Sweden

Result to owner

The matrices below outline the owner's (i.e. Storebrand Life Insurance in Norway and SPP in Sweden) earnings from guaranteed Life & Pensions products distributed by result elements.

Storebrand Life Insurance (Norway):

	Traditional profit sharing	Fee-based guaranteed business
Administration result	Result to owner in paid-up policies, profit-sharing for individual pension	Result to owner
Risk result	**Paid-up policies:** 50% of profit to REF*/deficit covered by REF, positive interest result or owner **Individual:** profit sharing	50% of profit to REF/deficit covered by REF or owner
Price on interest rate guarantee	—	Fee calculated as share of insurance reserves
Profit sharing	If return above guarantee **Paid-up policies:** 20% to owner **Individual:** 35% to owner	—

* REF= Risk equalisation fund

SPP (Sweden):

	Traditional profit sharing	Fee-based guaranteed business
Administration result	Result to owner	Result to owner
Risk result	Result to owner	Result to owner
Fee-charge guaranteed benefits	—	Fee calculated as share of insurance reserves
Profit sharing	**DB:** Up to 80 bps of reserves to owner according to terms described **DC:** If return above guarantee up to 10% of the investment result to owner according to terms described	—

4 Other/Eliminations

4.1 Overview

The segment 'Other' consists of the following:

- Storebrand ASA (holding company)
- Company portfolios SBL (Norway) and SPP (Sweden)
- Corporate Banking (runoff), Storebrand Bank's corporate banking services. This area is in runoff.
- BenCo, a subsidiary of Storebrand Life Insurance registered in Guernsey which consists of Euroben and Nordben. Euroben offers pan-Scandinavian pension plans to the corporate market suitable for international customers who want a cross-border, flexible pension plan. Nordben offers pensions and life insurance to ex-pats outside the EU/EEA area.
- Eliminations of group internal cost and income

4.2 Storebrand ASA (holding company)

Storebrand ASA (the holding company) is a financial holding company with limited activities. However, certain group functions within group management, corporate governance, business controlling and finance functions, legal, information and branding, and investor relations are organised in the holding company.

4.3 Company portfolios

Storebrand Life Insurance (Norway):

The company portfolio consists of the life insurance company's equity, subordinated loan capital, and other net liability items. The company portfolio is established to provide the life insurance company with a capital base adequate to meet external and internal capital requirements, and as working capital for operations. The company capital is invested in the financial market in a separate portfolio that primarily consists of short-term fixed income securities. The net return on the company capital is generated from the return on the investments less the interest costs for subordinated loan capital and liabilities.

SPP (Sweden):

SPP's company capital consists of equity and subordinated loan capital. The company portfolio is established to provide the life insurance company with a capital base adequate to meet external and internal mandatory capital requirements, and as working capital for current operations. The company capital is invested in the financial market in a separate portfolio that primarily consists of short-term fixed income securities. The net return on the company capital is generated from the return on the portfolio less the interest costs for subordinated loan capital.

4.4 Corporate Banking

Storebrand Bank's corporate lending area is under liquidation.

4.5 BenCo (International operations)

Product characteristics
Euroben offers cross-border pension plans to Nordic corporate customers. Euroben manages a substantial pension scheme for SAS' Swedish pilots in a special product and also offers the Europlan product to other customers. The Europlan product is primarily based on single premiums that are used to purchase pension annuities. Nordben offers international pension plans, group life and disability for expatriates, third country nationals, international employees and other groups of employees where an international solution is appropriate.

Market trends
Cross-border pensions plans tailored to multinational companies simplify workplace mobility within these companies. Euroben takes advantage of the Irish regulations to design such pension plans. The company works actively with the distribution channels in SPP to offer the customers good solutions. Nordben has maintained its position as the market leader in the provision of international pension plans to the Nordic industry.

Result elements and the life insurance company's earnings
Euroben and Nordben: The administration result is allocated to the life company in its entirety, while the financial result is allocated to the customers. The risk result is allocated to clients or the life company dependent on product type. Euroben: The Company receives a fee for the underlying guarantee in the product. This fee is calculated as a percentage of the customers' reserves. The key result drivers behind the life insurance company's earnings are thus:

- The size of the customer portfolio
- Pricing (premiums) of administration and risk, and active management of costs
- Price of the interest guarantee (Euroben)
- Insurance claims

Risk management
Euroben: The Company has to contribute capital (DCC) if the value of the investment assets is lower than the reserve requirement. This potential DCC can be repaid to the company later on if the investment assets exceed the necessary level of reserves. Therefore, a key element of the risk management is ensuring proper capital management. Nordben: The key financial risk is that proceeds from financial assets are not sufficient to fund the obligations arising from its insurance and investment contracts. The company manages these positions with the principle of matching assets to the liabilities arising from contracts. In respect of insurance risk the focus is on underwriting and an appropriate reinsurance program.

5 Balance sheet, solidity and capital adequacy
The Storebrand Group aims to be adequately and effectively capitalised, taking into account the risk in the business. The composition of business areas and their growth are important drivers for the capital requirement. The goal of capital management is to ensure an efficient capital structure and to balance cost of capital considerations and the goal of a competitive return on equity with the need for adequate capitalisation based on regulatory and rating requirements.

The group's long-term target is a solvency II margin of at least 130% and a capitalisation level supporting an 'A' level rating for the life insurance business.

Storebrand is regulated on a Group level by the Norwegian Financial Supervisory Authority (NFSA). The group has a capital requirement following the conglomerate directive. In addition, most of the companies within the group are regulated entities themselves. The Bank is regulated by CRR/CRD4, and the Asset Management has capital requirements following the Basel regulation. The insurance entities are currently regulated by both Basel I and solvency I. From 1.1.2016 onwards it is expected that the insurance entities as well as the group will be regulated by solvency II. Storebrand Life Insurance Group is the most capital consumptive entity in the Group and will hence be treated in most detail below.

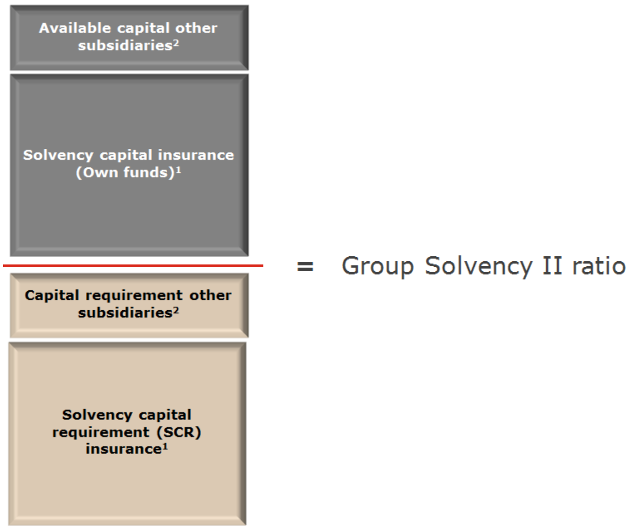
5.1 Group required capital under Solvency II

Storebrand will be regulated by the common European solvency framework Solvency II from 1.1.2016. The section below offers some conceptual guidance to understanding how Solvency II will be applied to Storebrand's legal units.

The solvency capital consists of own funds which may differ from the financial accounts due to differences in valuation methods for insurance liabilities. Under the solvency II regulation the insurance liabilities are valued using discount rates based on the swap rates up to 10 years and an ultimate forward rate from 60 years for the Norwegian business and 20 years for the Swedish business onwards. In the financial accounts the discount rates are based on the model described in the Guaranteed pension section above.

5.1.1 Storebrand Group/Holding company

Storebrand Group Solvency II calculation (Illustrative and simplified)



[1] Solvency capital and solvency capital requirement for insurance includes Storebrand Life Insurance Group, Including subordinated debt, Storebrand Forsikring AS and Storebrand ASA (Holding).
[2] Capital and capital requirement for other subsidiaries includes Storebrand Bank ASA (Basel), Storebrand Asset Management AS (ICAAP) and other subsidiaries.

5.1.2 Storebrand Life Insurance Group

Storebrand Life Insurance Group consists of Storebrand Livsforsikring AS and SPP Pension & Forsakring AB.

Solvency II

Solvency II is a common European regulatory framework for life insurance. It aims to produce more risk sensitive capital requirements than Solvency I. Solvency II is expected to come into force in 2016.

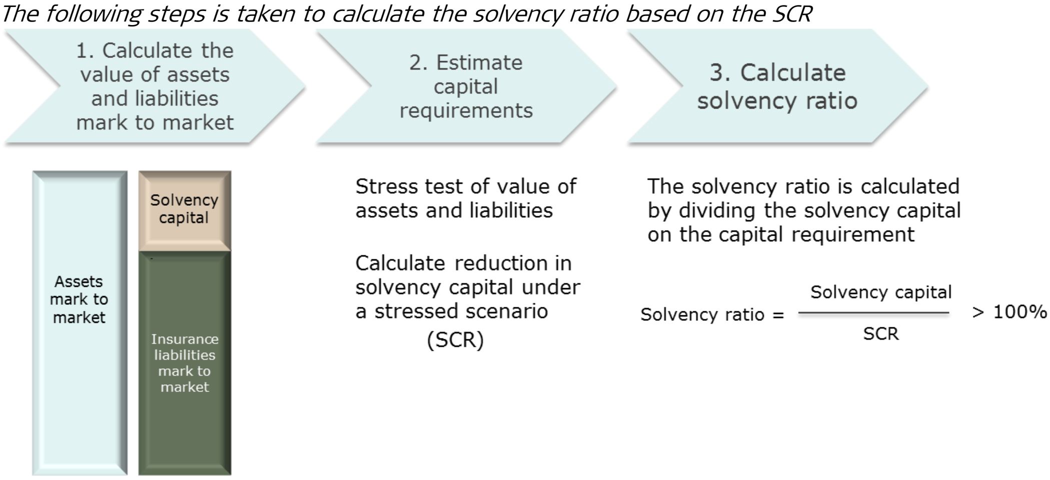
Solvency is conceptually based on three pillars.

- Pillar I: Quantitative measures, technical provisions and capital requirements
- Pillar II: Qualitative measures, governance, risk management, supervisory interaction
- Pillar III: Supervisory reporting and public disclosure

The solvency capital requirement (SCR) indicates the level of capital required to meet quantifiable risks on existing portfolio plus one year's expected new business. The SCR is calibrated at VaR 99.5% over one year time horizon. The framework takes into account all known risks for insurance companies, such as:

- Insurance risk
- Financial market risk
- Counterparty risk
- Operational risk

The following steps is taken to calculate the solvency ratio based on the SCR



1. Calculate the value of assets and liabilities mark to market
    a. Solvency capital/own funds is the difference between assets and liabilities.
        i. Market value of equity
        ii. Subordinated loans
        iii. Present value of future profits and loss
2. Estimate capital requirements by:
    a. Stress test of value of assets and liabilities
    b. Calculate reduction in solvency capital under a stressed scenario
3. The solvency ratio is calculated by dividing the solvency capital on the capital requirement

Minimum Capital Requirement (MCR)

The MCR is calibrated to 85% VaR over one year from valuation date and is subject to a corridor of 25-45% of the SCR.

Transition rules

Omnibus II opened up for transition rules under Solvency II. Storebrand commented on the most important elements of the transition rules in September 2014 following a letter from the NFSA to the Ministry of Finance.

The Norwegian FSA recommended that Norwegian insurance companies are permitted to use the Volatility Adjustment. This is a technical specification that increases the level of the discount rate used to discount insurance liabilities. This is a permanent measure.

The Norwegian FSA recommended that Norwegian insurance companies are permitted to use the transitional rule that state that any increase in insurance liabilities as a consequence of Solvency II can be phased in over a maximum period of 16 years.

The transition rules are proposed and awaiting ratification.

5.1.3 Storebrand Bank ASA
Storebrand Bank is regulated under the CRR/CRD IV framework.

5.1.4 Storebrand Forsikring AS
The legal entity is regulated under solvency I and Basel I, and will be regulated under solvency II from 2016.

5.1.5 Storebrand Asset Management AS
Storebrand Asset Management is regulated under the CRR/CRD IV framework.

6 Outlook

The latest outlook is published in the quarterly report available on the website.