Storebrand

Storebrand´s business model

- a guide for investors and analysts

10.04.24

Contents

Introduction 2

Group Strategy 3

1. Savings (Non-Guaranteed) 6

2 Insurance 10

3 Guaranteed Pension 12

4 Other/Eliminations 22

5 Balance sheet, solidity and capital adequacy 22

6 Cash remittance and dividends 26

7 IFRS Reporting 28

8 Outlook 28

Introduction

Storebrand's ambition is to ensure customers financial freedom and security by being the best provider of long-term savings and insurance. We deliver sustainable solutions tailored to each customers' life situation, so that everyone can have a future to look forward to in a more sustainable world.

The Storebrand group offers a broad range of products within life insurance, property and casualty insurance, asset management, savings and banking to companies, public sector entities and private individuals.

This document is a guide describing the key elements of Storebrand's business model. The guide focuses mostly 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 publishes 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.

Important notice

The Storebrand Group assumes no responsibility to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make. This document contains alternative performance measures (abbreviated 'APM' hereafter) as defined by The European Securities and Market Authority (ESMA). A guide that provides an overview of Storebrand's Alternative Performance Measures is published at www.storebrand.com/ir.

Investor Relations contacts

Kjetil R. Krøkje
Group Head of Finance, Strategy and M&A
kjetil.r.krokje@storebrand.no
+47 934 12 155

Johannes Narum
Head of Investor Relations
johannes.narum@storebrand.no
+47 993 33 569

Group strategy

The European savings and life insurance sector has faced significant changes the past years. Regulatory conditions for long-term pension savings have led to a shift away from traditional pension plans with guaranteed annual returns towards unit-linked based saving plans without guarantees. This means that individual customers are taking greater responsibility for their own pensions.

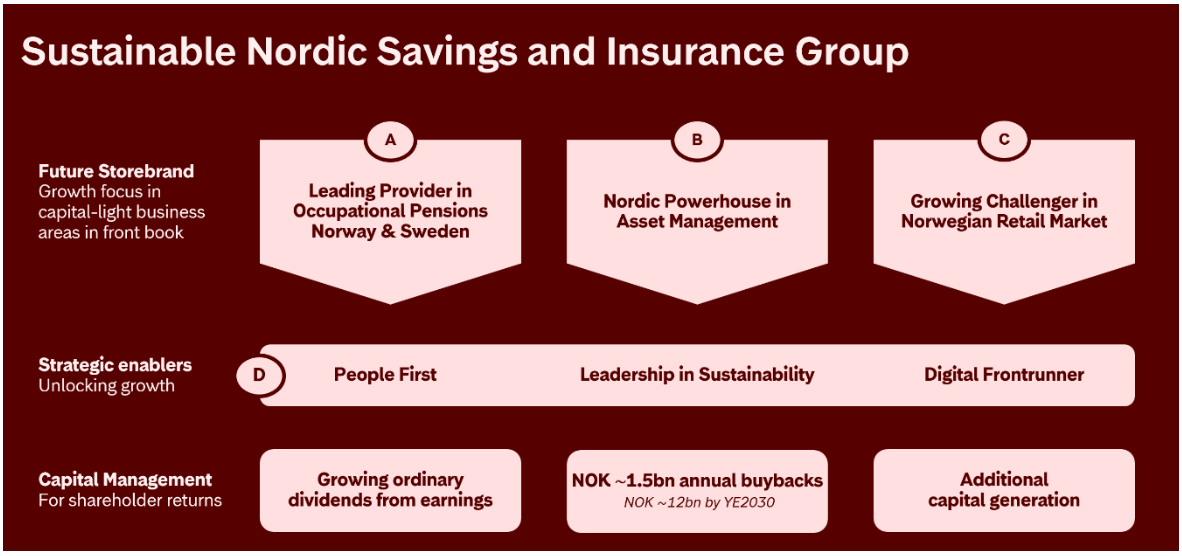
The strategy involves transitioning its business mix from capital-intensive guaranteed business (the “back book”) to capital-light products in savings and insurance (the “front book”), leveraging the company’s strategic advantages. To achieve this shift in business mix and execute on the corporate strategy, Storebrand aims to take three strategic positions:

A. Leading provider of occupational pensions in both Norway and Sweden
B. Nordic powerhouse in asset management
C. Growing challenger in the Norwegian retail market

At the same time, Storebrand aims to efficiently manage the guaranteed back-book and keep a strict cost discipline. Storebrand is regulated under the requirements in Solvency II and aims to manage the business with a ratio of minimum 150 per cent. Storebrand has a maturing back book of guaranteed reserves from the traditional pension plans with high regulatory capital requirements. These products are closed for new sales and the reserve is slowly trailing off and replaced by a capital light front-book, which will free up capital. This transformation drives the ongoing capital release on top of result generation. When the solvency ratio exceeds 175% extraordinary dividends or share buybacks would be considered.

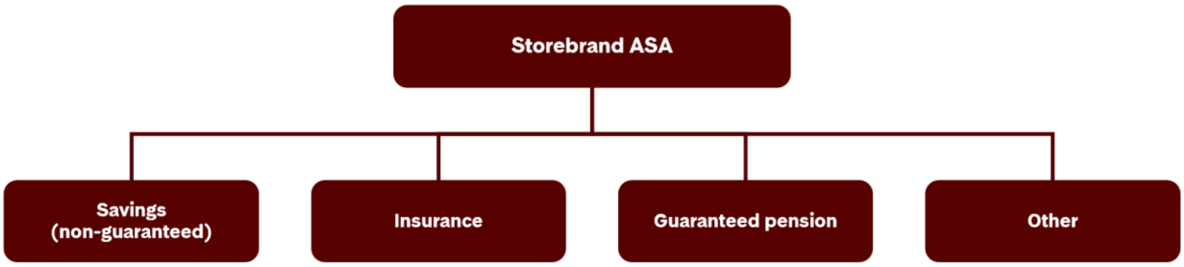
Shareholder value is generated by growing the profits in the capital-light front book, together with profits and capital release from the maturing guaranteed reserves in the back book.

Storebrand’s Group Strategy overview as illustrated on the Capital Markets Day in 2023

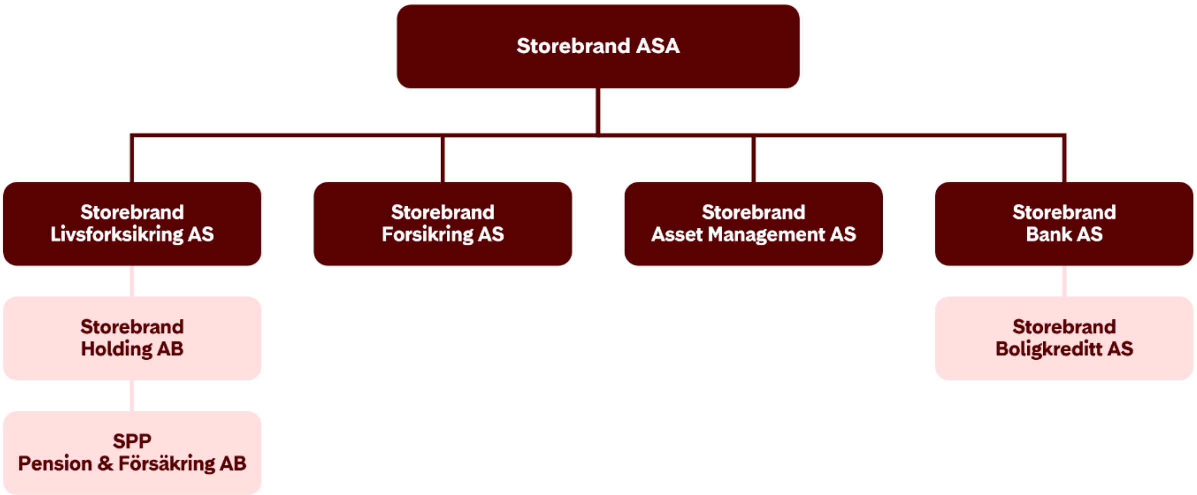


Overview of the Storebrand Group

Reporting structure (external)



Legal structure (simplified)



Legal structure \ Reporting structure	Saving (non-guaranteed)	Insurance	Guaranteed pension	Other
Storebrand Livsforsikring AS	Unit Linked (administration)	Group Life DC Disability Pension Individual Life	Defined Benefit Fee Based Paid-up & Individual Insurance (guaranteed)	Company Portfolio Subsidiaries (net result)
SPP Pension & Försäkring AB	Unit Linked Insurance (non-guaranteed)	DC Disability Pension	Guaranteed Portfolios (IF+KF) Insurance (guaranteed)	Company Portfolio Subsidiaries (net result)
Storebrand Forsikring AS		Retail Personal Risk Retail Object Risk		
Storebrand Asset Management AS	Complete Result of Asset Management			
Storebrand Bank AS	Retail Banking			
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.

Million NOK	2023	Explanation
Fee and administration income	6 782	Fee and administration income all segments except Insurance
Insurance result	1 122	Insurance premiums net of claims from the Insurance segment
Operational cost	-5 787	Operational costs from all segments
Cash equivalent earnings from operations	**2 117**	**High quality earnings**
Financial items and risk result life	1 362	Return on company portfolios, debt cost, profit sharing and risk result [1]
Cash equivalent earnings before amortisation	**3 480**	
Amortisation and write-downs of intangible assets	-379	Amortisation of intangible asset established through acquisitions [2]
Cash equivalent earnings before tax	**3 101**	
Tax	116	The estimated normal tax rate is 19-22 per cent[3]
Cash equivalent earnings after tax	**3 217**	

For a detailed description of each result line, please see the document Alternative Performance Measures – Overview of APMs used in Storebrand's reporting on this link. 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 Retail Banking and Retail savings products. Savings (non-guaranteed) consequently includes results from legal entities Storebrand Livsforsikring, SPP, Storebrand Asset Management and Storebrand Bank.[4]

The value creation in the Savings segment is driven by the asset under management multiplied with a margin.

Insurance consists of Storebrand's short-tailed Insurance products from Storebrand Forsikring (P&C company) and the majority of risk products written within life and pension in Norway and Sweden (Storebrand Livsforsikring & SPP), 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, disability coverages and workers' compensation and group life insurance for the corporate market.

The value creation in the Insurance segment is driven by the premium income f.o.a. multiplied with an inverse combined ratio.

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

The value creation in the Guaranteed segment is driven by the asset under management multiplied with a margin, +/- the financial result stemming from profit sharing and risk results.

Other includes the results of Storebrand ASA (holding company), smaller subsidiaries and the company portfolios of Storebrand Livsforsikring and SPP.

[1] Includes loan losses and other financial items in Retail Banking, Asset Management and more
[2] Amortisation of intangible assets on Group level (not in subsidiaries) is not included
[3] Depending on the contribution of each legal entity to the consolidated result
[4] The segment also includes the result from the legal entity Kron AS, a Norwegian Fintech platform.

The value creation in the Other segment is driven by the company portfolios assets under management multiplied with the investment return, deducted for cost of debt.

1. Savings (Non-Guaranteed)

1.1. Product categories - overview

The products offered within **Savings** include Defined Contribution (Unit linked) in Norway and Sweden, Asset Management and Retail Banking & Savings products, and the product categories as follows corresponds to the results lines in company's reporting. The segment Savings consequently includes results from Storebrand Life Insurance, SPP, Storebrand Asset Management, Storebrand Bank and Kron AS. 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 limited period of time compared with the interest guarantee products described below. Consequently the volumes are still 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. The segment also includes results from smaller legal subsidiaries in Storebrand Life Insurance and SPP such as Storebrand Pensions Systems that handles closed pension funds in Norway.
- **Asset Management:** Storebrand's asset management activities include the companies Storebrand Asset Management, SPP Fonder, Storebrand Eiendom and Skagen. Storebrand Asset Management manages intragroup assets, including for Storebrand Life Insurance and SPP. Storebrand offers a wide range of asset management solutions to retail customers and institutions under the Storebrand, Delphi, Cubera, Capital Investment and Skagen brand names.
- **Retail Banking:** Storebrand Retail banking offers traditional banking services such as current accounts and home mortgages 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[5]. The maximum tax-deductible saving rate is 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. The premium payments are invested in underlying mutual funds, and the customer receives the related return. The contracts have no return guarantee. If an employee leaves the active defined contribution scheme an individual capital certificate (pension capital certificate) 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.

[5] G = NOK 118 620 as of April 2024, the amount is regulated (increased by inflation proxy) by the Parliament as of 1 May every year.

Market trends

The market for defined contribution pensions in Norway was established in 2001. 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. The average customer is below 50 years. Because of the product's shorter history with only a fraction of the customers having reached pay-out age, continued strong growth is expected 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, supported by a unit price). 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:

- The size of the customer portfolio: Strong growth due to a large fraction of the customers being in working age
- 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 to the direct effect on assets under management. The risk management focuses on compliant administration and efficient operations.

1.3 Unit Link defined contribution pensions - Sweden

Product characteristics

SPP's unit linked business consists of defined 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 still growing at a healthy pace. 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 to the direct effect on assets under management. 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 fund-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 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. 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. 7).

Risk management

See Unit Link defined contribution pensions (p. 7).

1.5 Storebrand Asset Management

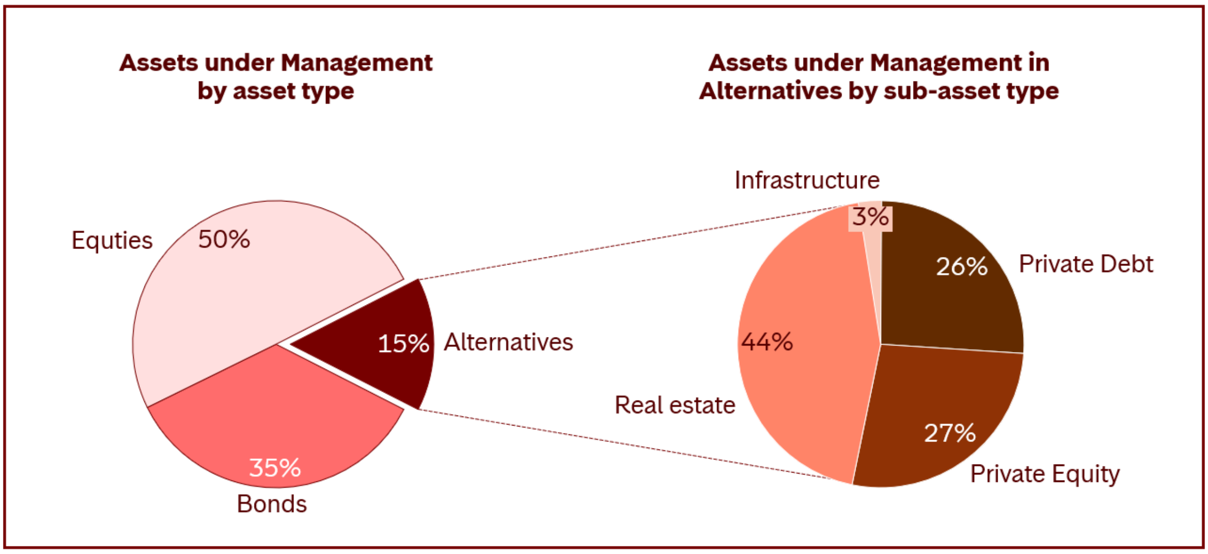
Product Characteristics

Storebrand's asset management activities include the companies Storebrand Asset Management AS, Storebrand Fonder AB, SKAGEN AS, Storebrand Fastigheter AB, Cubera Private Equity AS and Capital Investment A/S. Storebrand Asset Management manages intragroup assets from both guaranteed and non-guaranteed business in Norway and Sweden. Storebrand also manages assets for institutional clients, mainly in the Nordics, and retail clients in Norway. Internal and external assets are contributing roughly 50% each to the total assets under management.

Conventional offering:
Storebrand offers mutual funds, both equity and fixed income funds, through the brands Storebrand, Delphi and SKAGEN and discretionary mandates under the Storebrand brand in Norway and Sweden.

Alternatives investments:
Storebrand offers the asset classes private equity, infrastructure, real estate and private debt. Private equity is offered by Cubera Private Equity, real estate is offered by Storebrand Asset Management AS, Storebrand Fastigheter AB and Capital Investment, while infrastructure and private debt are offered by Storebrand Asset Management AS.

Assets under management by asset class in Storebrand Asset Management (as of Year End 2023):



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 costs side primarily consists of personnel costs, distribution costs and other costs (including IT). Personnel costs are, to some degree, related to the asset management performance, as stronger results generate higher performance-based salaries paid to asset managers in certain funds. The asset management business usually expresses income and costs as basis points in relation to the capital under management.

Performance based elements

In Storebrand's alternative reporting, the performance fees and performance-based costs are both booked on ongoing basis from 2024. This is a deviation from IFRS, where costs are booked on continuous basis whilst performance related income is booked in the fourth quarter. The fee structure varies across funds. For investors and analysts that seek to track performance fees on ongoing basis, the below table serve as a starting point. In 2023 *Skagen Kon-Tiki* and *Skagen Vekst* generated a significant share of the total performance fees.

Active funds with performance fees	AUM 2023	Fund information and performance structure (based on A-share class)
SKAGEN Global	38,3 bn	**Performance fee:** *Performance fee is calculated daily as 10 percent of the relative value development in the NAV compared to the reference index. Performance fee for a given year is only calculated if the cumulative relative performance between the share class and the reference index from the last settlement up to and including the end of the given year is greater than zero. To the extent of underperformance, it must be recovered before new a performance-based fee can be charged (high water mark).* *Performance:* https://www.skagenfondene.no/fond/skagen-global-a/
SKAGEN Kon-Tiki	14,9 bn	**Performance fee:** *Performance fee is calculated daily as 10 percent of the relative value development in the NAV compared to the reference index up to maximum 20%-points positive relative performance. Total management fee cannot exceed 4%* **Hybrid fee*:** *In the event of a negative relative performance, 10 percent is deducted of the relative value development in the NAV compared to the reference index, up to 10%-points negative relative performance. Minimum total management fee is 1%.* *Performance:* https://www.skagenfondene.no/fond/skagen-kon-tiki-a/
SKAGEN Vekst	10,2 bn	**Performance fee:** *With an absolute performance above 6%, performance fees is calculated a 10 percent of the relative value development in the NAV compared to the reference index. Performance fees can only be charged if the NAV on December 31st is higher than the NAV at the previous settlement of performance fees (high water mark)* *Performance:* https://www.skagenfondene.no/fond/skagen-vekst-a/
Skagen Focus	2,4 bn	**Performance fee:** *Performance fee is calculated daily as 10 percent of the relative value development in the NAV compared to the reference index up to maximum 20%-points positive relative performance. Total management fee cannot exceed 3,2%* **Hybrid fee*:** *In the event of a negative relative performance, 10 percent is deducted of the relative value development in the NAV compared to the reference index, up to 10%-points negative relative performance. Minimum total management fee is 0,8%.* Performance: https://www.skagenfondene.no/fond/skagen-focus-a/
Delphi Global	2,5 bn	**Performance fee:** *Performance fee is calculated daily as 10 percent of the relative value development in the NAV compared to the reference index up to maximum 20%-points positive relative performance. Total management fee cannot exceed 3%* **Hybrid fee*:** *In the event of a negative relative performance, 10 percent is deducted of the relative value development in the NAV compared to the reference index, up to 20%-points negative relative performance. Minimum total management fee is 0%.* Performance: https://www.delphi.no/vare-fond/delphi-global
Skagen m2	1,5 bn	**Performance fee:** *Performance fee is calculated daily as 10 percent of the relative value development in the NAV compared to the reference index up to maximum 20%-points positive relative performance. Total management fee cannot exceed 3%* **Hybrid fee*:** *In the event of a negative relative performance, 10 percent is deducted of the relative value development in the NAV compared to the reference index, up to 10%-points negative relative performance. Minimum total management fee is 0,75%.* *Performance:* https://www.skagenfondene.no/fond/skagen-m2-a/

** Not all share classes have a hybrid fee*

1.6 Retail Banking

Storebrand Retail banking offers traditional banking services such as current accounts and home mortgages in the retail market, and is positioned as an online and app-based bank. The retail bank has experienced strong growth in recent years.

The bank is a growing distributor of private savings and insurance products offered by Storebrand. As opposed to many other Norwegian banks no distribution income for savings and insurance products are booked under 'other income' in the Retail bank.

The life insurance company owns the broad distributions platform in the group, whilst the bank offers 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. 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 good quality. The bank has 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. In addition, some loans are transferred to life insurance balance sheet based on the investment appetite. 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 customer retention and low risk lending growth will also be important.

2 Insurance

2.1 Product categories - overview

Insurance is a reporting unit consisting of Storebrand Insurance (P&C legal entity) and the majority of short-tailed risk products written within life and pension in Norway (Storebrand Livsforsikring AS), with the exception of risk coverage bundled to the guaranteed life products. The Insurance segment offers standard property and casualty insurance products, one-year risk products 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) includes payments in the event of disability, 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, sales agents and internal 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 stronger growth than the market overall.

2.3 Group Life

Product characteristics

After the disposal of the 50% ownership in Storebrand Health Insurance in Q2 2024, Storebrand offers Group Life and workers' compensation in this sub-segment. The Group Life products include both disability and death coverages. Disability coverages is a mix of disability capital which gives the right to a one-off payment in the event of confirmed disability, and disability pension which gives rise to an ongoing payment over a certain period of time. The products are distributed through key account managers, brokers, call centres and digital channels.

Market trends

Storebrand is among the market leaders in the Norwegian group life insurance market. The market for Group Life and Workers compensation is expected to grow in line with GDP on longer term basis, and also to reflect the general disability development in the society.

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.

2.5 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 financial result dynamics varies somewhat from product to product and is described closer in the next paragraph. 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, active management of costs and compensation frequency

Risk management

The risk management focuses on insurance-related underwriting, claims handling and costs management.

Financial result insurance - modelling

The premiums charged for non-life insurance is invested in portfolios primarily consisting of fixed income securities. This is the case for products sold from both Storebrand Forsikring (P&C products) and insurance products sold from the life entity Storebrand Livsforsikring. The reserves in Storebrand Forsikring are invested the same way as the company capital in the holding company Storebrand ASA, while the insurance reserves in the life entity are invested more similar to the Norwegian guaranteed products, hence with a significant share of bonds at amortised cost, albeit with shorter duration. The P&L effects from company portfolios varies from product to product:

- For P&C the investment return on the reserves is fully attributable to owner. This is primarily the reserves in the entity Storebrand Forsikring. Out of the full investment portfolio in the Insurance segment, the proportion that stems from this sub-segment has historically been approx. 25%.
- For Individual and Group life segments returns exceeding ~2% is primarily attributable to shareholders. Out of the full investment portfolio in the Insurance segment, the proportion of the investment portfolio in this category has historically been approx. 50%, split evenly by Individual and Group life.
- In Pension related disability Insurance returns are fully attributable to customer reserves. Out of the full investment portfolio in the Insurance segment, the proportion that stems from this sub-segment has historically been approx. 25%.

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

The defined benefit product segment consists of two different sub-categories, the Defined benefit product in the private sector and the Public Occupational Pension product offered to municipalities and public organisations.

Defined benefit (Private)

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. The product is in practice closed for new sales.

Public Occupational Pension

Defined benefit plans are almost universal in the public sector. Storebrand entered the market for Public Occupational Pensions again in 2019. This operation is reported as part of the Defined benefit sub-segment, although the reserves are also reported separately. The Public Occupational Pension product is a hybrid product with lower guarantees and shorter tail risk compared to the traditional guaranteed products.

Market trends

Defined benefit (Private)
Group defined benefit plans used to be a key product in the Norwegian market. Even though most of the new sales in recent years have been of defined contribution pensions, some defined benefit pensions schemes are still active (but not open for new employees) for older employees in many companies. Customers (employers) have a right to transfer their policies, but the transferred volumes have been small the last years. It has been a trend over the past years that closed pension funds are transferred to commercial pension companies due to cost, complexity & risk optimisation. Storebrand have successfully taken on five closed pension funds in the period 2020-2023, at high profitability and capital efficiency. These transfers often include various guaranteed products.

Public Occupational Pension
The Public market is larger than the private sector and is experiencing solid growth. The market is currently dominated by one single major player, the mutual entity KLP. Since 2020, Storebrand has succeeded in developing strong foundations for further growth in the market by winning all pension tenders put out in the market in 2019-2023. The ambition is to gain NOK 7 billion in annual inflow over the coming years equalling a market share gain of more than 1 percentage point annually, with further potential if more municipalities decide to tender their pension procurements.

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 fund 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 fund 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 Storebrand. 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 customers' portfolio (and premium payment) 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 fund and eventually the company's equity. Key elements of risk management: Building up and preserving buffer fund (conditional customer reserves), and the use of this 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 type of product and the customers' buffer level, 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 their employer's service or the company chooses to change from defined benefit pensions to defined contribution 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

Normal employee turn-over in companies continuously create new paid-up policies. Hence, the number of paid-up policies has increased a lot the last decade and is expected to keep on increasing the coming years. Paid-up policies premium payments are limited due to a limited number of employees choosing to continue paying for the contract (since they normally go over to a new occupational pensions scheme). It has been a trend over the past years that closed pension funds are transferred to commercial pension companies due to cost, complexity & risk optimisation. Storebrand have as mentioned successfully transferred five closed pension funds over the past years, at high profitability and capital efficiency. The transfers have included portfolios of paid-up policies.

Result elements and the life insurance company's earnings

The product result is generated by three different elements: the administration, risk and investment 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 investment result is generated by the return on invested assets being higher than the guaranteed interest. If the return on investments is lower than the guaranteed interest, the company can use buffer fund to cover any deficit. The buffer fund is individual for each policy and not subject to any cross subsidising between policies. Any remaining deficit after the buffer fund has been used will be covered by shareholders equity. The buffer fund can cover negative investment return.

Paid-up policies have a so-called modified profit-sharing model. The owner's share of the investment result is limited upwards to 20% of the investment 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 investment result. Any deficit in the risk result beyond this is covered by shareholders equity. As mentioned above, the administration result is allocated to Storebrand.

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

- The size of the customer portfolio: The portfolio has grown significantly in recent years, mainly due to a steadily increasing number of paid-up policies due to employees changing jobs, but the size of the portfolio is expected to decline over the next decade.
- 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 fund and eventually the life insurance company's equity. Building up and preserving buffer fund (conditional customer reserves), and the use of this in years with particularly low financial returns are key elements of risk management. The paid-up policies portfolio is divided into sub-portfolios based on the guaranteed rate, the level of buffer capital and the policyholders age, 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 in run-off.

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 investment 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 investment 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 the buffer fund. Any remaining deficit after the buffer fund 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 deviating from 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 fund and eventually the life insurance company's equity. Building up and preserving buffer fund (conditional customer reserves), and the use of this in years with particularly poor financial returns, are key elements of risk management. Individual annuity pensions and endowment have two own asset portfolios in which the asset profile is tailored to risk-bearing capacity.

3.5 More on buffer capital in the Norwegian business

Buffer fund

The company is allowed to make allocations to the buffer fund to ensure the solvency of its life insurance business. If the asset return is higher than the guaranteed rate of return, the company can choose to allocate the surplus, fully or partially, to the buffer fund. The buffer fund is distributed among the contracts and can be used to cover a negative investment result in the future. In the event that the company does not achieve a return that equals the guaranteed rate within any given year, the allocation can be reversed from the contract to enable the company to meet the annual guarantee. This will result in a reduction in the buffer fund and a corresponding increase in the premium reserve for the contract. Furthermore, the company can choose to release previously built-up buffer fund, and hence reduce the buffer fund. This is done on a per contract basis, and the released amount is assigned to the contract as surplus and is subject to profit-sharing for paid-up policies and individual annuities/pensions. According to accounting standard for insurance contracts, the buffer fund 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 included as part of the equity (non-distributable equity) in Storebrand Life Insurance statutory accounts.

Excess value of bonds at amortised cost

Bonds held at amortised cost is used in the accounting since the liabilities are also recognised at book value in the product accounting. If the reinvestment yield in the market at the time of reporting is higher than the average yield in the portfolio, Storebrand will have a deficit in the "excess value of bonds and loans held at amortised cost" line reported in the buffer capital table in the *Supplementary information*. The excess value of bonds and loans held at amortised cost is not included in the financial statements of Storebrand life insurance. As bonds at amortised cost mature, their excess values will trend to zero.

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 (market value of guaranteed liabilities)

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.

Prospective reserve for pension supplements (market value of pensions supplements)

In the defined benefit schemes the pension benefits will under certain conditions be increased with CPI. If such an indexation occurs after the pension payment has already started the increased amount will be attributed as a pension supplement. This pension supplement can be decreased if the consolidation level of the defined benefit scheme falls under a certain limit.

Retrospective reserve (market value of assets)

The retrospective reserve equals all historical 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 invested that 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 consists of several different schemes and each scheme has its own retrospective and prospective reserves. Common for all schemes is that the pension benefits can be increased with CPI given that a certain consolidation threshold is fulfilled. For some of the schemes the indexation of benefits is subject to profit sharing.

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. It has been a trend over the past years that closed pension funds are transferred to commercial pension companies due to cost, complexity & risk optimisation. SPP has been active is this market with several successful portfolio transfers.

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 (market value of assets) is a minimum of 107% of the prospective reserve (market value of liabilities including pension supplements), 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 (market value of assets) is a minimum of 120% of the prospective reserve (market value of liabilities including pension supplements), 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 (market value of assets) exceeds 150% of the prospective reserve (market value of liabilities including pension supplements), 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 for guaranteed benefits) the life insurance company has to set up a reserve for future expected contributions to the scheme. The reserve for future contributions made by the life insurance company to any scheme with a deficit is called deferred

capital contribution (DCC). The DCC reserve is realised first when the retrospective reserve runs out but changes to the reserve 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 discount rate of the liability is the key factor for avoiding DCC and being able to achieve indexation and hence profit sharing. A proportion of the assets equal to market value of the guaranteed liability is invested mainly in fixed income assets with a duration equal to that of the guaranteed liability, minimizing the exposure to interest rate risk. The buffer capital in the schemes is called conditional bonus (Swedish: *Villkorad Återbäring*) and is equal to the retrospective reserve (market value of assets) minus the prospective reserve (market value of guaranteed liabilities), this capital is invested in riskier assets to achieve a high return to be able to generate enough return to support indexation of benefits.

3.8 Guaranteed defined contribution plans – Sweden

Product characteristics

SPP's defined contribution plans are individualised occupational pensions plans with guaranteed benefits and where older policies have 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.

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 and without profit sharing. 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 (market value of assets) 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 (market value of assets) is lower than the prospective reserve (market value of liabilities) i.e. the contracts have a deficit, the life insurance company has to set up a reserve for expected contributions to the customers. The reserve is called deferred capital contribution (DCC). The DCC is first realised when the retrospective reserve runs out, but the DCC is recalculated on a monthly basis. If the return on the retrospective reserve is lower than the change in the prospective reserve (market value of liabilities), DCC increases, and the reverse if the return is higher than the changes in the prospective reserve. Any change in DCC will have an impact on the profit and loss statement. For some policies there is also an element of guaranteed bonuses where part of the surplus is converted to a guaranteed benefit when the policyholder reaches retirement age.

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 and defined contribution (three different portfolios) 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

In some quarters there may be special positive or negative effects not known by external market players prior to the presentation. Market participants therefore have to estimate these elements. Examples of such elements are described below. 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, 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 (such as longevity and disability), 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.

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

Result to owner

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

Result elements guaranteed Life & Pensions products Norway and Sweden

	Traditional profit sharing		Fee-based guaranteed business	
	Storebrand Life Insurance (Norway)	**SPP (Sweden)**	**Storebrand Life Insurance (Norway)**	**SPP (Sweden)**
Administration result	Result to owner in paid-up policies, profit-sharing for individual pension	Result to owner	Result to owner	Result to owner
Risk result	**Paid-up policies**: 50% of profit to REF[1]/deficit covered by REF, positive interest result or owner **Individual**: profit sharing	Result to owner	50% of profit to REF/deficit covered by REF or owner	Result to owner
Fee [2]	n.a.	n.a.	Fee calculated as share of insurance reserves	Fee calculated as share of insurance reserves
Profit sharing	If return above guarantee **Paid-up policies**: 20% to owner **Individual**: 35% to owner	**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	n.a.	n.a.

1) *Risk Equalisation Fund*
2) *Norway: Price on interest rate guarantee; Sweden: Fee-charge guaranteed benefits*

4 Other/Eliminations

4.1 Overview

The segment 'Other' consists of the following:

- **Storebrand ASA** (holding company)
- **Company portfolios** SBL (Norway) and SPP (Sweden)
- **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.

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

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 Storebrand Group is an insurance-dominated, cross-sectoral financial group with capital requirements in accordance with Solvency II. Storebrand calculates Solvency II according to the standard method as defined in the Solvency II regulations.

The Storebrand companies are subject to various capital requirements depending on the type of business. In addition to the capital requirements for the Storebrand Group and insurance companies, the banking and asset management businesses have capital requirements in accordance with CRD IV. The companies in the group governed by CRD IV are included in the group's solvency capital and solvency capital requirements with their respective primary capital and capital requirements.

Understanding the fundamentals of the Solvency II directives is necessary for understanding the capital adequacy in Storebrand and potential for capital release.

5.1 Solvency II Regulation

Since 2016 Storebrand is regulated under Solvency II, which gives directive on the amount of solvency capital the group needs to have. It is a common European regulatory framework for life insurance and 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

Pillar I gives the directives for the Solvency Capital Requirement (SCR).

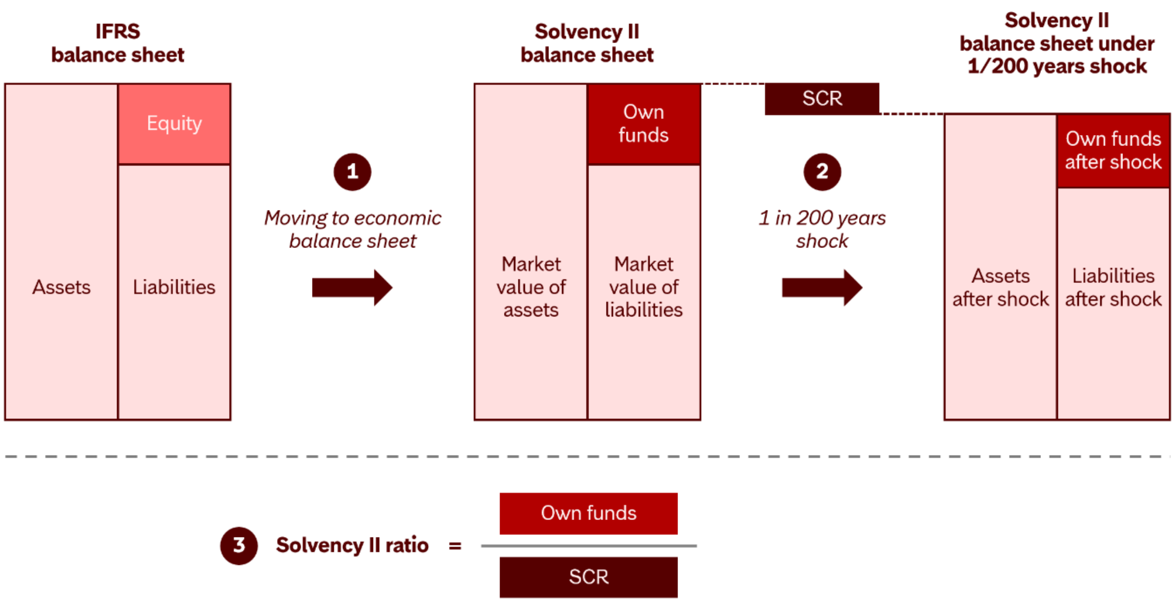
5.1.1 Calculation of SCR under Solvency II for the insurance business

The solvency capital consists of own funds which may differ from the financial accounts and IFRS Equity due to differences in valuation methods for insurance assets and liabilities. Under Solvency II, all assets and liabilities are appraised at market value. The solvency capital (own funds) is the difference between the market value of the assets and liabilities. 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 earlier in the guide.

The reduction in solvency capital after a specified stress test of the assets and liabilities will give the Solvency Capital Requirement, the SCR. The SCR is calibrated at VaR 99.5% over one year time horizon, meaning the SCR is the minimum level of capital needed to ensure the insurance company can meet all its obligations in the following 12 months with a 99.5% probability.

The solvency ratio is the total amount of solvency capital divided with the SCR.

Illustration of the steps taken to calculate the solvency ratio based on the SCR:



1. Calculate the value of assets and liabilities mark to market

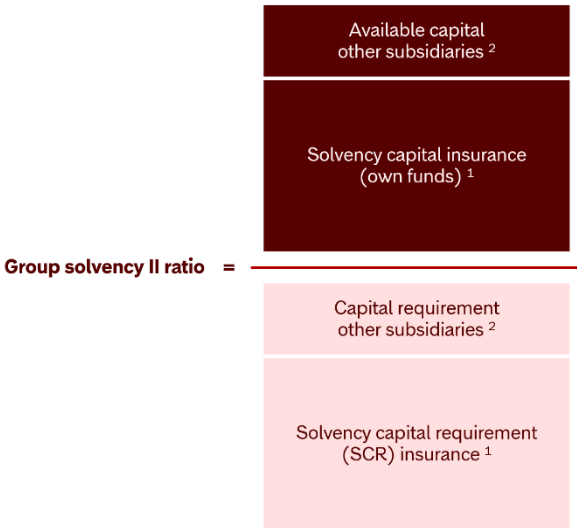
    a. Solvency capital/own funds is the difference between assets and liabilities.
        i. Market value of equity
        ii. Subordinated loans
        iii. Present value of future profits and loss
2. Estimate capital requirements by:
    a. Stress test of value of assets and liabilities, at VaR 99.5%
    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

The calculation of SCR is an incremental process, where you stress test the assets and liabilities for all major risks borne by Storebrand separately and then aggregate each reduction to the full SCR. The largest risk for Storebrand relates to financial market risk, particularly interest rates, equities, property, credit spreads and currency, followed by life insurance risk, such as the risk that pension customers may live longer than expected. The business is also subject to operational risk, non-life insurance risk and risk of loss from counterparties not fulfilling their obligations. After summing it up, total capital requirement is then reduced through diversification, i.e. it is unlikely all the risk will hit simultaneously. The capital requirement is also adjusted for the effect of reduced tax.

5.1.2 Calculation of SCR for Storebrand Group/Holding company

The SCR calculation described above gives the total capital requirement for the insurance business. In addition, there are companies in the Group that are subject to capital requirements for banks and asset management companies (CRD IV). To get the total SCR for the Storebrand Group, available capital from these non-insurance companies needs to be added to own funds and corresponding capital requirement needs to be added to the SCR for the insurance business.

Illustration of 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 (CRD IV), Storebrand Asset Management AS (CRD IV) and other subsidiaries.

The composition of the solvency capital and the solvency capital requirement is disclosed in detail as part of the annual report.

5.1.3 Details on capital need in different part of the business

Different part of business requires different amounts of capital to be fully capitalised under Solvency II. Storebrand presented during CMD 2023 an approximate allocation of how much hard capital each different business segment consumed as of Q3 2023, as shown in the below illustration.

- Guaranteed products have more financial market risk and higher buffer need to SCR because of high volatility. Storebrand bears the majority of the risk in these products.
- Insurance products have strong diversification effects and medium buffer need to SCR because of low volatility.
- Savings products generates own funds, low need to hold hard capital in the form of equity/subordinated debt and has low buffer need to SCR because of low volatility. Storebrand bears low risk in these products.

Solvency Capital allocation per line of business (CMD 2023):

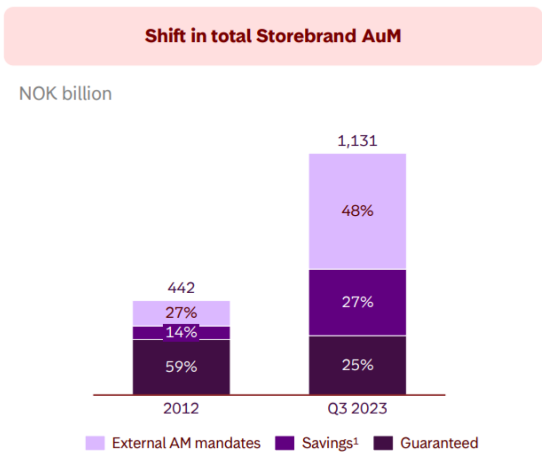
ILLUSTRATIVE PRO FORMA ALLOCATION BASED ON 175% SOLVENCY RATIO

		Reserves (NOK billion)	Contribution to Own Funds ('VIF')	SCR	Solvency ratio – before use of hard capital	Hard capital to have target Solvency ratio[1] (NOK billion)	Run off/ Growth
Back book	Paid up policies	142	0%	5%	~10%	13.6	RUN OFF
Back book	High guarantees Sweden	62	3%	6%	~40%	6.2	RUN OFF
Future Storebrand	Low guarantees and DB	58	4%	3%	~130%	1.2	GROWTH
Future Storebrand	Unit linked	353	4%	2%	~160%	0.1	GROWTH
Future Storebrand	Insurance (Premiums)[2]	7.8	15%	13%	~120%	0.4	GROWTH
Future Storebrand	Asset management (AuM)	1,131	N/A	~0%	193%	0.4	GROWTH
Future Storebrand	Retail Bank (Lending)	75	N/A	6%	116%	4.8	GROWTH

1) Hard capital is subordinated debt + solvency II equity (uT1 adjusted for Vif). The capital is allocated based on the capital consumption under SII and CRD IV. CRD IV companies consume 115% of SCR, Unit Linked and Insurance consume 160% of SCR, Guaranteed consumes ~200% of SCR. Insurance is heavily influenced by pension linked Insurance product that generates own funds.

Storebrand's asset under management development:

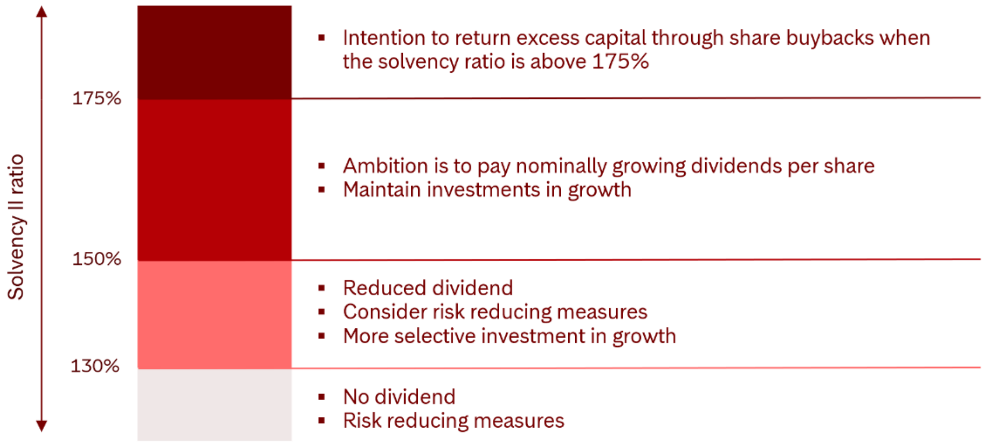
Since the Guaranteed products are all but closed for new sales and in slow run-off the portfolio mix has gradually changed since 2012, and will continue to change in the coming years. High capital consuming products will gradually be replaced by capital-light saving products. The figure illustrates Storebrand's balance sheet development over the past decade, a development that is expected to continue going forward.



5.2 Storebrand Capital Management

The group capital management policy that Storebrand presented at the Capital Markets Day 2023, shows how the distribution of dividends and share buybacks are directly related to the solvency margin in the group.

Group capital management policy sets thresholds for distribution of cash dividends:



Storebrand adapts the level of equity and debt in the group continuously and systematically. The level is adjusted for financial risk and capital requirements. The growth and composition of business segments will be important driving forces behind the need for capital. Capital management is designed to ensure an efficient capital structure and maintain an appropriate balance between internal targets and regulatory requirements. Capital should be held as high as possible in the group legal structure to ensure financial flexibility. The Group's target is to have a solvency ratio in accordance with Solvency II of at least 150 per cent.

Further reading about Storebrand's capital management in the annual reports, and full presented material from the CMD 2023 and Capital Update 2022 can be found on the Storebrand IR webpage. https://www.storebrand.no/en/investor-relations

6 Cash remittance and dividends

As of year-end 2023, Storebrand holds a strong solvency position that exceeds the threshold set by the Board for overcapitalisation. At the CMD 2023, Storebrand also guided for strong solvency capital generation going forward. This development suggests that solvency can potentially become less of a limiting factor for capital distribution than is has been over the past decade, and that cash upstreaming from the subsidiaries to the holding company will become increasingly important and analysed.

In Storebrand cash upstreaming to holding company happens as part of the Annual Accounts in the first quarter each year. Together with holding company liquidity internal cash remittance is the base funding for dividends paid to shareholders and buyback of own shares.

6.1. Dividend policy

The Board of Directors ambition is to pay ordinary dividends per share of at least the same nominal amount as the previous year. Ordinary dividends are subject to a sustainable solvency margin of above 150%. If the solvency margin is above 175%, the Board of Directors intends to propose special dividends or share buy backs.

Storebrand communicated a long-term buyback ambition of NOK 12 billion by the end of 2030 at the CMD in 2023. In general, capital in the Group is fungible without material limitations if the capital requirements are met and the respective legal entities have sufficient solvency.

Norwegian subsidiaries

Storebrand can at its own discretion chose to remit any amount up 100% of the result after tax in the Norwegian subsidiaries, given that the solvency outlook is solid and that the boards deem the financial situation to be satisfactory. For more than 100% upstreaming from the Norwegian entities, an approval needs to be granted from the NFSA. For the first time in 2023, Storebrand remitted more than 100% of the after-tax result in the life business, streaming up NOK 500 million in addition to the result after taxes from the life company (equalling to a 120% remittance ratio).

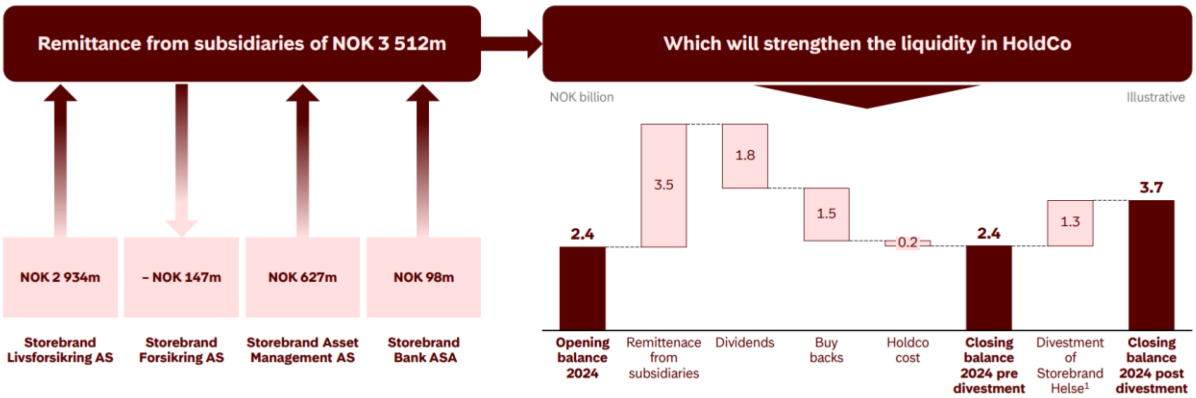
Swedish subsidiaries

In the Swedish subsidiary SPP, more than 100% of the annual result after tax can be remitted at the company's own discretion, given that the regulator is notified about the event. As the guaranteed business in SPP is more mature than for the Norwegian business, SPP has remitted more than 100% of the result after tax on regular basis since 2015.

Information regarding cash remittance

Storebrand reports cash upstreaming on annual basis as part of the notes to the financial statement in the Storebrand ASA annual report and in the relevant quarterly presentations. Below is an illustration of the cash remittance for 2023 and its effect on the liquidity position in Storebrand ASA:

Illustration: Page 12 on cash remittance from the Storebrand's 4th quarter result presentation 2023



Note: Net remittances to holdco after capital injections. Total remittances include an additional NOK 4m from other minor subsidiaries

7 IFRS Reporting

From 2023, the Storebrand Group reports its official IFRS financial statements in accordance with IFRS 17 and IFRS 9, which replaced IFRS 4 and IAS 39 on 1 January 2023. The Storebrand Group and Storebrand Livsforsikring Group have implemented IFRS 17 in the consolidated financial statements. IFRS 17 is also incorporated in the statutory reporting of Storebrand Forsikring AS (P&C insurance business). For the remaining companies within the Storebrand Group, including life insurance, the statutory reporting remains unchanged. Storebrand continues to report and comment on the alternative income statement in parallel with IFRS statements of financial position. The alternative income statement is an approximation of the cash generated to shareholders in the periods and it is used for operational reporting internally. The result in the alternative income statement (named cash equivalent earnings) can deviate significantly from the IFRS result, as IFRS includes profit-and-loss effects from updated estimates and assumptions about the timing of future cash flows and insurance services provided.

Storebrand held a Capital update on December 8 in 2022, were the high-level effects related to the implementation of IFRS 17 and IFRS 9 were outlined. The key message was that the business does not change with the implementation of IFRS 17, and that main focus for Storebrand will continue to be on cash earnings, solvency capital generation and the ability to convert earnings into free cash flow for shareholders.

8 Outlook

The latest outlook is published as part of the quarterly report and capital markets day material available on the website.

Each quarter, in addition to the legal reports, Storebrand presents the results for the four different business segments, **Savings**, **Insurance**, **Guaranteed** and **Other**, and the latest information about the current **solvency position** in both the document Supplementary Information and in the Analyst Presentations. These are essential value drivers in Storebrand's current business model.

Investor Relations contacts

Kjetil R. Krøkje
Group Head of Finance, Strategy and M&A
kjetil.r.krokje@storebrand.no
+47 934 12 155

Johannes Narum
Head of Investor Relations
johannes.narum@storebrand.no
+47 993 33 569

Storebrand ASA
Professor Kohts vei 9, P.O. Box 500, N-1327 Lysaker, Norway
Phone: +47 22 31 50 50

www.storebrand.com/ir