Storebrand ASA

Capital adequacy regulations (Basel II), Pillar 3

4th Quarter 2010

Contents

1 Introduction

The purpose of this document is to disclose information about capital, risk exposures and risk management in accordance with Pillar 3 of the capital adequacy regulations (Basel II), which stipulates a set of requirements concerning the disclosure of financial information. Storebrand operates a financial entity subject to strict requirements with respect to the control and management of risk. Good risk management is an important strategic means of creating value in the entity. Its goals are to maintain good risk-bearing capacity while continuously tailoring the financial risk to the entity's solvency.

This document primarily discloses information about Storebrand's business areas that are subject to the Basel II regulations. Please refer to Storebrand ASA's annual report for more information about the insurance business and other activities in the Storebrand Group.

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

2 Capital adequacy regulations/Basel II

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

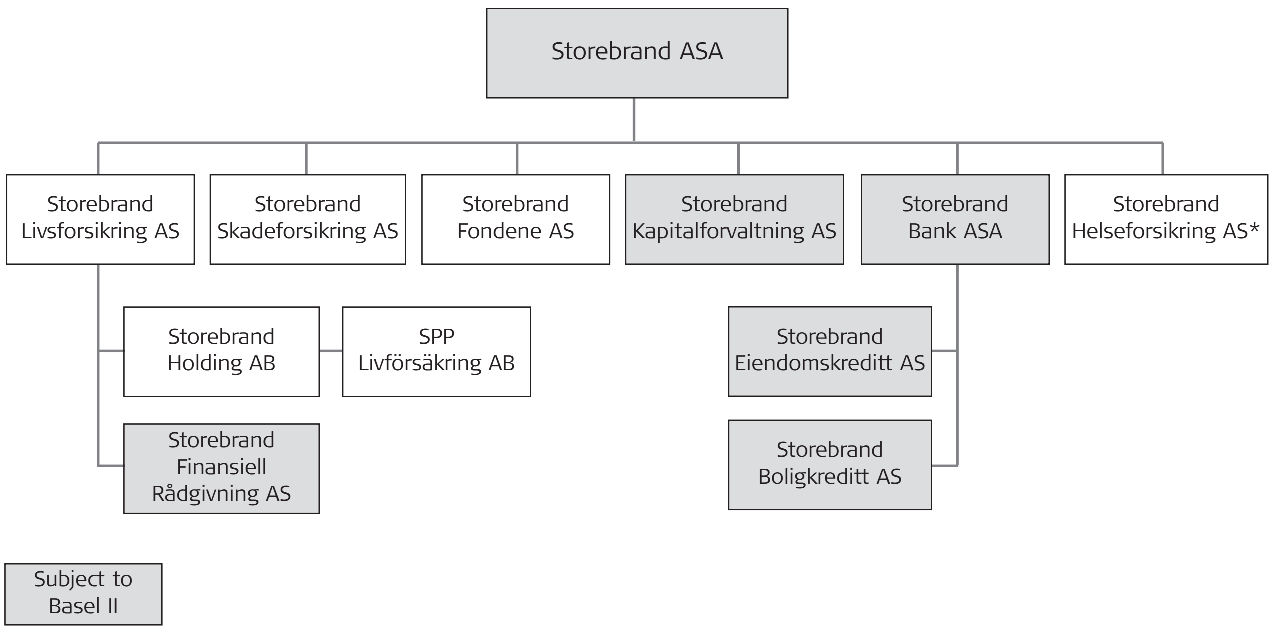
3 Description of the consolidation rules

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

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

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

Simplified legal structure:



* 50 percent ownership interest

The following subsidiaries were subject to Basel II regulations:

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

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

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

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

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

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

4 Risk and capital management

4.1 Capital management

Storebrand emphasises tailoring the level of equity and borrowing in the group to the company's financial risk and capital requirements. The company's growth and the composition of business areas will be important driving forces behind its capital requirements. The aim of the capital management is to ensure an efficient capital structure and maintain an appropriate balance between internal goals in relation to regulatory and ratings based requirements.

The group's goals are to achieve a solvency margin in life and pensions of more than 150 per cent and a core (tier 1) capital ratio in the bank of 10 per cent over time. The level of capital should support a level A rating of the life and pensions business. The goal of the group's parent company is to achieve a net debt-equity ratio of zero over time. This means that liquid assets shall correspond to the level of interest-bearing liabilities. The group's financial goals are listed in the table below. In addition to the solvency goal, the group aims to achieve a return on equity (RoE) of 15 per cent annually.

In general, the equity of the group can be managed without material restrictions if the capital requirements are met and the respective legal entities have adequate solidity. Capital can be transferred from foreign legal entities with the consent of local supervisory authorities.

KEY FIGURES	TARGET	31.12.2009	31.12.2008
Return on equity*	15%	11%	8%
Rating Storebrand Life Insurance	A	A-/A3	A-/A3
Solvency margin Storebrand Life Insurance Group	>150%	164%	170%
Core (tier 1) capital ratio Storebrand Bank Group	10%	10.6%	10.4%
Net debt-equity ratio Storebrand ASA	0%	9%	11%

* Adjusted for the amortisation of intangible assets

4.2 Storebrand's value-based management system

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

Storebrand's value-based management system

Storebrand's value-based management system is a key element of the group's internal audit function and is intended to ensure a correlation between targets and actions at all levels of the group and the overall objective of value creation. The system is based on a balanced scorecard where the four dimensions of finance, customers, processes and skills/growth reflect both short-term and long-term value creation in the group.

The Storebrand Group carries out an annual strategy and planning process in each business area. The final product is a rolling three-year plan for the group with general targets, strategies and budgets in which financial prognoses and capital plans are produced at a subsidiary and at a group level. Risk and capital assessment and internal control reporting are integral parts of the strategy and planning process. The management teams work actively to identify areas of risk and measures to promote the company's strategy and objectives. This work is summarised in an internal control report submitted to the Audit's Committee and the boards.

Storebrand's management reporting system, Storebrand Compass, provides management and the Board with monthly reports on financial and operational performance relative to approved targets. The system highlights parameters that fall short of targets so that appropriate measures can be implemented.

4.2.1 Operational and business risk

Operational risk is defined as the risk of unexpected fluctuations in results due to weaknesses or errors in internal processes and systems, inadequacies or failures by employees, or due to external events.

The group's operational risk is to a large degree associated with systemic challenges linked to adapting and managing products, and resulting from the growth in recent years in the number of customers and complexity the systems are supposed to handle. Operational risk plays a key role in the management of the group and is afforded a key position in the risk assessment process, as well as contingency and measures assessments.

Storebrand's products and customer relationships are based on solid, long-term trust between the company and the market. A poorer reputation could influence its ability to retain and attract customers and employees. Group-wide principles and internal rules are important elements of reputation risk management.

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

Risk assessments are integrated into the value-based management system by linking the risk assessment to the units' ability to achieve their business goals, comply with regulatory requirements, and the degree to which the risk will affect Storebrand's reputation. The internal auditor's reviews of various areas of risk are regarded as a very important control and risk reducing measure. Risk and measures assessments help to ensure operations can be continued and losses limited in the event of serious errors or events.

4.2.2 Organisation of the risk control and compliance functions in the Storebrand Group

The organisation of the risk control and compliance functions in the group is based on the following basic principles:

- The control functions are organised separately from each other and from the activities they are intended to monitor and control.

- The employees cannot execute tasks that entail participation in decision-making processes for the area they are supposed to monitor and control.

- The managers of the control functions must not report to a person who is responsible for the activities being monitored and controlled.

- The managers of the control functions report directly to the Board of Directors and/or general manager (executive management).

- The remuneration of people involved in risk control and compliance functions may not be structured in a manner that influences or could influence their objectivity.

Overarching group responsibility for risk control is borne by a key staff position, Chief Risk Officer (CRO), who reports to the Executive Vice President Economy/Finance (CFO). The CRO's main duty is to ensure the group's activities comply with the strategies and parameters for risk taking as defined by the group's financial strategy, 3-year rolling plan, and the individual companies' investment strategy. The position is also responsible for coordinating the processes in the group's business units and group-wide functions for identifying, assessing and reporting operational risk, including reputation risk and compliance risk. The position is responsible for preparing the group's executive management's risk meetings.

The central risk control function is divided into control functions for financial market risk, business risk, and operational risk.

Local risk control and compliance positions have also been established in the business units and key management teams. These are responsible for coordinating the processes for identifying, assessing, and reporting operational risks (including reputation risk and compliance risk) within the respective organisational units.

The Internal Audit's audit plan includes an independent assessment of the risk control and compliance function's procedures and control systems.

4.3 Internal capital adequacy assessment process (ICAAP)

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

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

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

4.4 Risk management and control

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

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

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

4.4.1 Risk management - bankgroup

The bank group's core business is linked to value creation through exposure to acceptable risk. Storebrand Bank Group is conscious of the risks that are taken and continuously works with the further development of risk management systems and processes.

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

The bank group's risk strategy lays the foundation for the management of all forms of risk to achieve the bank's desired risk profile. The risk strategy is determined by the Board of Directors and is updated at least once a year. All forms of risk are managed in accordance with respective policies. Credit risk policies are handled by the bank's credit committee, policies linked to financial risk are handled by the bank's balance management committee, while the policy for operational risk is handled by the bank's management group. All policies are determined by the bank's Board of Directors or the Administrative Director by power of attorney. The credit companies' Boards of Directors can adopt limits beyond these policies according to the individual company's goals and applicable regulations.

In its ICAAP (Pillar 2) the bank has assessed the total capital requirement for the banking group. The bank is regarded as being well capitalised in relation to its risk profile.

Credit risk

Credit risk is defined as the risk of losses as a result of the customer's lack of capability or willingness to fulfil their requirements, and includes the risk that collateral is less effective than expected (residual risk), concentration risk and counterparty risk.

The Corporate Market Portfolio has been assessed as maintaining good quality, and in 2010 the bank has carried out further work in building up a good quality loan portfolio for real estate. As of 31 December 2010, the portfolio consists of 80 per cent loans for income generating properties, and 20 per cent loans for building projects. Loans for income generating properties have collateral in rental properties that are characterised by a well-diversified tenant profile and long-term rental contracts.

The largest risk in the portfolio is assessed as being linked to loans to development properties. This segment mainly consists of loans to building projects within the home and office segment in the central Oslo area. A high ratio of advance sales is required for loans for new housing projects, and the risk is assessed as satisfactory.

The credit risk has improved throughout the year through the establishment of new customers in satisfactory risk classification groups and through the migration of existing customers to better risk classes. The concentration risk linked to large commitments in the corporate market has reduced in recent years. At the end of 2010, large commitments constituted 78 per cent of primary capital (111 per cent in 2009).

Storebrand Bank ASA emphasises the importance of having close relations with corporate market customers. The bank has set rules for reviewing commitments. A significant part of the bank's loan volume to the corporate market is linked to real estate in the Østland area. Storebrand follows the economic development in the region and within the real estate market closely. Credit over a certain size within the corporate segment is decided upon by a credit committee managed by the Administrative Director or the bank's Board of Directors. Credit risk is monitored through the bank's risk classification system, where each individual customer is classified according to solvency, solidity and security. The risk classification is assessed against the probability for default in a commitment (solvency/solidity) and estimated degree of loss in the case of default (security).

The retail market portfolio is assessed to be maintaining excellent quality. Loans with collateral in property constitute 95 per cent of private loans. The portfolio's high level of security suggests limited risk of loss. The bank has only a small amount of unsecured credit in the private market.

The retail market portfolio has historically had very low losses. For the bank as a whole, a high share of private loans is assessed as being important to reduce the bank's total risk. The share of mortgages in per cent of the bank's total loans has fallen from 69 per cent to 65 per cent in 2010. This marginally increases the risk in the bank's total loans, but the share is still assessed to be satisfactory.

The loan-to-value ratio of mortgages is relatively low, and loans beyond 80 per cent of the market value are only given on a very limited basis. The average weighted loan-to-value ratio in the bank group is approximately 54 per cent for mortgages, and approximately 95 per cent are within a 90 per cent loan-to-value ratio. Approximately 56 per cent of the mortgages are within 60 per cent of the loan-to-value ratio in the bank group.

Retail market loans are provided on the basis of a credit scoring combined with an individual solvency assessment. The weighted loan-to-value ratio for mortgages is between 55 and 65 per cent, and approximately 92 per cent of mortgages for retail market customers have collateral in real estate within 80 per cent of the market value.
The risk in Storebrand Boligkreditt AS is extremely low, and is low in Storebrand Eiendomskreditt.

The bank and credit companies' counterparty risk in relation to investment, which includes the securities/liquidity portfolios, or exposure, including derivatives, against other institutions is determined based on rating and management size. The counterparty risk limits take into account both pure investments and settlement risk. Measurement and reporting is carried out on at least a monthly basis by the Mid-office in Storebrand Bank's risk management department.

Liquidity risk

Liquidity risk is the risk that the bank group, parent bank or subsidiaries are not able to fulfil their obligations without incurring significant extra costs in the form of price reductions in assets that must be realised, or in the form of particularly expensive financing.

The risk strategy sets the overall limits for how much liquidity risk the bank group is willing to accept. The liquidity risk policy builds upon the strategy and describes liquidity management principles. It also specifies stress testing, minimum liquidity holdings and financial indicators for measuring liquidity risk. In addition, the bank's Treasury department prepares an annual funding strategy and funding plan which set overall limits for the bank's funding activities.

The stress tests are based on the various scenarios used to visualise the expected effects on the balance and cash flows. The result of the tests is also used to set the bank's goals for minimum liquidity holdings. The stress tests presume full utilisation of the limits set by the Board of Directors. Based on the stress tests, the actual risk capability is evaluated against the desired level of acceptable risk.

The bank prepares an annual contingency plan to ensure effective management of the liquidity situation in stressed periods.

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

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

The bank has established good liquidity buffers, and monitors the development of the liquidity holdings in relation to internal limits on an on-going basis. Credit agreements are established with other banks, and can be draw upon if this should be necessary. Storebrand Bank ASA is rated by S&P and Moody's, and is also focused on relations with several international banks. This ensures access to the international capital market and gives breadth to the group's financing sources.

Market risk

Market risk is defined as the risk of losses on open positions in financial instruments as a result of changes in market variables and/or market conditions within a specific time horizon. Market risk includes counterparty risk on trading in financial instruments, as well as equity risk, interest risk, and currency risk.

The bank group's aggregate interest and currency exposure and maximum risk of loss is limited through low exposure limits. The bank has no active investment strategy for shares, and limits for shares are only established to cover needs linked to the management of non-performing credit commitments (acquired assets).

Borrowing and fixed rate lending are mainly swapped to three months floating NIBOR. Other items have an interest rate duration of a maximum of three months. The interest risk is monitored continuously and there are defined risk limits for the Storebrand Bank Group, Storebrand Bank ASA, Storebrand Boligkreditt AS and Storebrand Eiendomskreditt AS that are measured at least once a month and reported monthly to the bank's Board of Directors.

Storebrand Bank ASA and Storebrand Boligkreditt AS have a policy regarding full exchange rates. The goal is to minimise currency risk linked to investments, lending and borrowing in foreign currency. Storebrand Bank does not carry out proprietary trading in foreign currency. Risk limits are established that are followed up on an on-going basis with monthly reports to the Bank's Board of Directors.

The mid-office in Storebrand Bank's Risk Management department carries out monthly monitoring and reporting of market risk.

Operational risk

Operational risk (defined in section 4.2.1) includes risk of economic losses as a result of ineffective, insufficient or weak internal processes or systems, human error, external events or internal guidelines not being followed.

In the Storebrand Group, operational risk management and adherence to legislation and corresponding regulations and internal regulations is an integral part of the management responsibility of all managers where risk assessment and internal control reporting is linked to the unit's ability to achieve its goals.

The Group Control department in Storebrand is responsible for coordinating the risk assessment process. The management structure for operational risk management follows the organisation of the group. Operational risk in Storebrand Bank is managed through the policy for operational risk.

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

The last risk review was carried out in the autumn of 2010. The result of the risk review, including documentation of identified risks and descriptions of measures and deadlines, are registered in the bank's internal control system. In 2010, Storebrand Bank was particularly focused on ethics and the updating of internal regulations and routines.

4.4.2 Risk management - Storebrand Kapitalforvaltning AS

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

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

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

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

The company's advisors shall follow the regulations regarding good advisory practice. All advisors shall be authorised under the authorisation scheme for financial advisors by 1 April 2011.

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

4.4.3 Risk management - Storebrand Finansiell Rådgivning AS

Storebrand Finansiell Rådgivning AS offers comprehensive financial advice and order channelling within a broad spectrum of products for the group. The company is exposed to limited financial risk linked beyond normal business and operational risk for this type of business. Operational risk is the largest risk in the company. This is to a significant degree linked to the regulations regarding good advisory practice and the risk linked to complaints in the event of deficient advice. The company is working actively to reduce these risks. This is being done through the training of individual advisors, utilised agents and sales managers, periodic newsletters from the compliance manager in Storebrand Finansiell Rådgivning, monthly control of all proprietary trade and regular random controls of submitted customer profile forms. In addition to the compliance manager's controls, the internal auditor also carries out annual controls. Another measure that has been worked with to a great extent in 2010 is the authorisation scheme for financial advisors. To become authorised, one must first take a theoretical exam, and then a practical test. In 2010, 70 per cent of Storebrand Finansiell Rådgivning's own employees and utilised agents became authorised advisors. The rest will be authorised by 1 April 2011, which is the deadline set by the authorisation scheme.

5 Capital adequacy and net primary capital

The table below provides information about core capital, supplementary capital and net primary capital for the Storebrand Group and the companies subject to Basel II.

Net primary capital as at 31.12.2010

NOK MILL.	STOREBRAND KAPITAL-FORVALTNING AS	STOREBRAND FINANSIELL RÅDGIVNING AS	STOREBRAND BANK ASA	STOREBRAND BOLIGKREDITT AS	STOREBRAND EIENDOMS-KREDITT AS	STOREBRAND ASA	STOREBRAND GROUP
Share capital	4	30	961	350	450	2 250	2 250
Other equity	198	135	1 329	351	300	12 718	16 168
Equity	**202**	**165**	**2 290**	**701**	**750**	**14 967**	**18 417**
Hybrid tier 1 capital			279				1 779
Conditional bonus							3 359
Goodwill and other intangible assets	-7	-78	-42				-6 918
Deferred tax assets	-24	-31	-84				-111
Risk equalisation fund							-287
Deductions for investments in other financial institutions							-44
Security reserves							-132
Minimum requirement reassurance allocation							-7
Capital adequacy reserve							-399
Other	-55					637	-372
Tier 1 capital	**116**	**57**	**2 443**	**701**	**750**	**15 604**	**15 285**
Hybrid tier 1 capital							
Perpetual subordinated loan capital			9				5 039
Dated subordinated loan capital			500				500
Deductions for investments in other financial institutions							-44
Capital adequacy reserve							-399
Tier 2 Capital			**509**				**5 097**
Net primary capital	**116**	**57**	**2 952**	**701**	**750**	**15 604**	**20 382**
Capital adequacy							
Capital adequacy ratio	**11.2 %**	**140.9 %**	**17.1 %**	**12.7 %**	**34.2 %**	**89.4 %**	**13.1 %**
Core capital adequacy ratio	**11.2 %**	**140.9 %**	**14.2 %**	**12.7 %**	**34.2 %**	**89.4 %**	**9.8 %**

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

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

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

Minimum requirements primary capital as at 31.12.2010

NOK MILL.	STOREBRAND KAPITAL-FORVALTNING AS	STOREBRAND FINANSIELL RÅDGIVNING AS	STOREBRAND BANK ASA	STOREBRAND BOLIGKREDITT AS	STOREBRAND EIENDOMS-KREDITT AS	STOREBRAND ASA	STOREBRAND KONSERN
Credit- and counterparty risk							
Local and regional authorities						4	4
Public corporates						2	2
Institutions	3	3	235	14		1 365	69
Corporates			476		150	2	620
Retail marked			54				54
Loans secured on real estate			394	406	18		818
Loans past-due			55	2			58
Covered bonds			71				14
Units in mutual securities funds	2						2
Other	5		35	7		8	62
Company using Basel I							10 672
Total minimum requirements credit- and counterparty risk	**11**	**3**	**1 320**	**428**	**168**	**1 381**	**12 373**
Of which							
Counterparty risk derivatives Basel II companies			37	4			41
Operational risk	72		66	13	7	16	132
Deductions			-7	0			-78
Minimum requirements primary capital	**83**	**3**	**1 379**	**440**	**175**	**1 396**	**12 427**

Specifications of subordinated loan capital

NOK MILL.	NOMINAL VALUE	CURRENCY	INTEREST RATE	CALL DATE AND OTHER CONDITIONS	BOOK VALUE Q4 2010
Issuer					
Perpetual hybrid (Tier 1) capital					
Storebrand Bank ASA	107	NOK	Fixed	2014	111
Storebrand Bank ASA	168	NOK	Variable	2014	169
Storebrand Life Insurance	1 500	NOK	Variable	2018	1 500
Perpetual subordinated loan capital					
Storebrand Life Insurance	300	EUR	Fixed	2013	2 553
Storebrand Life Insurance	1 700	NOK	Variable	2014	1 703
Storebrand Life Insurance	1 000	NOK	Fixed	2015	1 069
Dated subordinated loans					
Storebrand Bank ASA	100	NOK	Variable	2011	100
Storebrand Bank ASA	250	NOK	Variable	2012	251
Storebrand Bank ASA	150	NOK	Variable	2012	150
Total subordinated and perpetual loans					**7 606**

6 Information about credit risk

6.1 Credit risk in general

6.1.1 Definition of non-performing and loss-exposed

The definition of non-performing is:
1. If a credit facility has been overdrawn for more than 90, or
2. If a repayment loan has arrears older than 90 days, or
3. If a card has arrears older than 90 days and the credit limit has been overdrawn

The commitment and the rest of the customer's commitments will then be regarded as non-performing. The total number of days is counted from when the arrears exceed NOK 2,000. The account is given a clean bill of health when there are no longer any arrears. At the time of reporting, the amount in arrears can be less than NOK 2,000.

6.1.2 Impairment of financial assets

In the case of financial assets that are not recognised at fair value, consideration is given on each statement of financial position date to whether there is objective evidence that the value of a financial asset or a group of financial assets is impaired.

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

Losses that are expected to occur as a result of future events are not included in the financial statements; regardless of how likely it is that the loss will occur.

The bank's terms for lending are largely an administrative running fixed margin. The management of Storebrand Bank believes amortised cost is a good estimate of market value for most of the loans in the statement of financial position. The margin is fixed for some loans during the term of the loan. At year-end 2009, the bank had NOK 0.5 billion in which the setting of the interest rate is based on a margin added to the NIBOR 3 months rate with an expected term of 4 years in which there are no immediate plans to change the credit margin. This part of the portfolio, primarily corporate market loans, today has a margin that is lower than what the bank will require for new loans to borrowers of equivalent quality and security. The present value of the margin difference has been calculated at minus NOK 7.7 million based on the expected loan value and a discount rate of 5.5 per cent.

6.1.3 Assessments of write-downs of loans

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

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

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

Lending write-downs are divided into two categories:

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

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

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

6.2 Credit risk per commitment category, geographic area, counterparty and term

The tables below present those companies in the Storebrand Group subject to Basel II.

Credit risk per counterparty

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

NOK MILL.	AAA FAIR VALUE	AA FAIR VALUE	A FAIR VALUE	BBB FAIR VALUE	NIG FAIR VALUE	TOTAL FAIR VALUE
State and state guaranteed	1 458	129	4			1 591
Credit bonds	66	196	764	75	2	1 103
Asset backed securities	1 467	451				1 918
Supranational organisations	4		32			36
Total	**2 995**	**777**	**799**	**75**	**2**	**4 648**

Credit exposure for lending activities

Commitments per customer group

NOK MILL.	LOANS TO AND DUE FROM CUSTOMERS	GUARANTEES 1)	UNDRAWN CREDIT LIMITS	TOTAL COMMITMENTS
Development of building projects	1 152	36	4	1 192
Sale and operation of real estate	8 571	253	570	9 394
Service providers	1 251	7	11	1 269
Wage-earners	23 122	1	2 846	25 968
Other	365	4	42	411
Total	34 460	302	3 473	38 235
Write-downs of individual loans	-174			-174
Write-downs of groups of loans	-84			-84
Total loans to and due from customers	**34 203**	**302**	**3 473**	**37 977**

1) Guarantees include NOK 65 million in undrawn credit limits.

The individual customer's investment is determined by the customer's main business activities.

Average volume of total commitments per customer group

NOK MILL.	AVERAGE VOLUM LOANS TO AND DUE FROM CUSTOMERS	AVERAGE COLUME GUARANTEES	AVERAGE VOLUM UNDRAWN CREDIT LIMITS	AVERAGE VOLUM TOTAL COMMITMENTS
Development of building projects	1 294	82	77	1 453
Sale and operation of real estate	7 932	206	345	8 483
Service providers	1 286	5	7	1 298
Wage-earners	24 406	1	2 820	27 227
Other	374	22	35	431
Total	**35 292**	**316**	**3 285**	**38 893**

With relatively even balance development throughout the year and changes of industry codes in 2010, the average commitment size of 31 December 2009 and 31 December 2010 is the best estimate for the average in the portfolio.

Commitments per geographical area

NOK MILL.	LOANS TO AND DUE FROM CUKSTOMERS	GUARAN-TEES	UNDRAWN CREDIT LIMITS	TOTAL COMMIT-MENTS	NON-PER-FORMING LOANS WITHOUT EVIDENCE OF IMPAIRMENT	NON-PERFOR-MING AND LOSS-EXPOSED LOANS WITH EVIDENCE OF IMPAIRMENT	GROSS NON-PERFORMING LOANS	WRITE-DOWNS OF INDIVIDUAL LOANS	NET NON-PERFORMING LOANS
Eastern Norway	28 593	301	2 770	31 664	200	400	600	141	459
Western Norway	3 266		435	3 701	50	10	60	6	54
Southern Norway	419		70	489	1		1		1
Mid-Norway	1 294		97	1 391	5		5		5
Northern Norway	584		62	646	5		5		5
Foreign	304		40	345		26	26	26	
Total	**34 460**	**302**	**3 473**	**38 235**	**262**	**436**	**698**	**174**	**524**

Storebrand Bank does not take collateral into account when calculating capital requirements for credit risk in accordance with part IV of the capital requirement regulations, other than for a small portion of the portfolio. The portion of the portfolio where collateral is utilised are loans with security in structured products (equity index linked bonds, AIO, and bank savings with equity returns, BMA). Gross loans with such collateral constituted approx. NOK 90 million as of 32 December 2010. The loans are provided in the most part to wage earners.

Total engagement amount by remaining term to maturity

NOK MILL.	LOANS TO AND DUE FROM CUSTOMERS	GUARANTEES	UNDRAWN CREDIT LIMITS	TOTAL COMMITMENTS
Up to 1 month	112	46	22	180
1 - 3 months	192		15	207
3 months - 1 year	1 449	29	300	1 779
1 - 5 years	5 632	226	1 307	7 165
More than 5 years	27 075		1 828	28 903
Total	**34 460**	**302**	**3 473**	**38 235**

Age distribution of overdue engagements without write-downs

NOK MILL.	LOANS TO AND DUE FROM CUSTOMERS	GUARANTEES	UNDRAWN CREDIT LIMITS	TOTAL COMMITMENTS
Overdue 1 - 30 days	600		5	605
Overdue 31 - 60 days	165	1	2	168
Ovedue 61- 90 days	21			21
Overdue more than 90 days	258		4	262
Total	**1 045**	**1**	**10**	**1 056**
Engagements overdue more than 90 days by geographical area:				
Eastern Norway	197		3	200
Western Norway	49		1	50
Southern Norway	1			1
Mid-Norway	5			5
Northern Norway	5			5
Total	**258**	**0**	**4**	**262**

Loans over 90 days overdue are defined as non-performing. Only non-performing loans are divided by geographic area in this overview. The same definition of overdue loans is used as that given in the capital requirements regulations, but where the total number of days in the definition corresponds to the age distribution.

Credit risk per customer group

NOK MILL.	NON-PERFORMING LOANS WITH-OUT EVIDENCE OF IMPAIRMENT	NON-PERFORMING LOANS WITH EVIDENCE OF IMPAIRMENT	GROSS NON-PERFORMING LOANS	TOTAL WRITE-DOWNS OF INDIVI-DUAL LOANS	NET NON-PERFORMING LOANS	TOTAL VALUE CHANGES	TOTAL VALUE CHANGE RECOGNISED IN PROFIT AND LOSS DURING PERIOD
Development of building projects	9		9	10			3
Sale and operation of real estate	262		262	49	214		-5
Service providers	4	7	11	4	6		-4
Wage-earners	135	255	389	85	305		-5
Other	26		26	26			3
Total	**436**	**262**	**698**	**174**	**524**	**0**	**-8**

Write-downs of loans and guarantees

NOK MILL.	2009
Write downs om individual loans 01.01	219
Losses realised in the period on individual loans previously written down	-103
Write-downs of individual loans for the period	79
Reversals of write-downs of individual loans for the period	-68
Other corrections to write-downs [1])	47
Write-downs of individual loans at 31.12	**174**
Write-downs of groups of loans and guarantees 01.01	107
Grouped write-downs for the period	-23
Write-downs of groups of loans and guarantees etc. 31.12	**84**
Total write-downs	**258**

[1]) Other corrections to write-downs relates to effects of amortisation.

Losses on loans and guarantees

NOK MILL.	2010
Write-downs of loans and guarantees for the period	
Change in individual write-downs for the period	64
Change in grouped write-downs for the period	23
Other corrections to write-downs	-2
Change in individual write-downs on guarantees for the period [1])	0
Realised losses in period on commitments specifically provided for previously	-103
Realised losses on commitments not specifically provided for previously	-1
Recoveries on previously realised losses	5
Write-downs of loans and guarantees for the period	**-14**

Credit risk derivatives

COUNTERPARTIES NOK MILL.	AAA FAIR VALLUE	AA FAIR VALLUE	A FAIR VALLUE	BBB FAIR VALLUE	NIG FAIR VALLUE	TOTAL FAIR VALLUE
Derivates	82	94	268	303		747

Counterparty risk associated with the companies' investments or through exposure to other institutions is managed on the basis of the counterparty's credit rating and size. Storebrand places great importance on the quality of its counterparties, and it limits its exposure to any one counterparty in order to avoid loss and ensure high liquidity in the financial instruments.

Equity positions outside the trading portfolio

NOK MILL.	BOOK VALUE	BOOK VALUE
Shares and units	5	5

Investments in equity positions outside the trading portfolio by companies subject to Basel II are limited. These investments are financial and do not include shares that are not listed. Unrealised gains and losses are included in capital and amount to a total loss of under NOK 1 million. The investments are recognised at fair value through profit and loss in accordance with the fair value option. The valuation is based on observable assumptions or by using models when observable assumptions are unavailable. There were no sales during the period.

6.3 Counterparty risk derivatives

Nominal volume

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

Derivatives

NOK MILL.	GROSS NOM. VALUE 1)	AVERAGE NOM. VALUE 2)	NET NOM. VALUE 2)	FAIR VALUE 1) ASSET	FAIR VALUE 1) LIABILITY
Share derivates	173	437	22		
Interest rate derivates	28 545	33 328	10 503	695	315
Currency derivates	4 424	4 393	-42	52	56
Total derivates	**33 142**	**38 158**	**10 483**	**747**	**372**

The above table includes net positions in indirect investments.

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

6.4 Rating agencies

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

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

6.5 Collateral

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

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

6.6 Interest risk

Storebrand Bank has no trading portfolio. The interest risk in the bank is generated by ordinary lending to customers, the investment portfolio, and positions in relation to counterparties and derivative trades in connection with this. This is explained in more detail in chapter 4.4.1. For changes in market risk that arise during the course of 1 year, the effect on the result and equity will be as presented below, based on the statement of financial position as per 31 December 2010.

Change in market value

NOK MILL.	TOTAL
Interest rate -1.5%	32
Interest rate +1.5%	-33

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

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

6.7 Limitations

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