Storebrand ASA

Capital adequacy regulations (Basel II), Pillar 3

1st Half 2009

storebrand

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 undertaking that results in a need to manage and administer risk. Good risk management is an important strategic means of creating value in the undertaking. Its goals are to maintain good risk-bearing capacity while continuously tailoring the financial risk to the undertaking's solvency.

This document primarily discloses information about capital, risk exposures and risk management in Storebrand's business areas that are subject to the Basel 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.

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 (ICAAP), while Pillar 3 addresses the requirements for the disclosure of financial information. The introduction of the new regulations has resulted in changes to the method for calculating capital adequacy. Basel II also introduces the calculation of operational risk as a new element. The transition to the Basel II framework has had only a limited effect on Storebrand's treatment of market risk.

3 Description of the consolidation rules

The consolidated accounts 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, and asset management.

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

The dominant business of the Storebrand Group is insurance, and the various business areas of the group are subject to differing rules on capital adequacy. Basel II is primarily intended for banks, credit institutions, fund 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 capital adequacy rules as part of the Solvency II process, and Pillar 2 of Solvency II is expected to address these rules. Since insurance companies are not subject to Basel II, which applies different capital adequacy rules to Basel I, the consolidated capital adequacy of the Storebrand Group will the result of differing capital adequacy principles.

The following subsidiaries were subject to Basel II as per 31 March 2009:

- Storebrand Bank ASA
- Storebrand Kredittforetak 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.

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 accounts, while jointly controlled companies are consolidated pursuant to the gross method.

Consolidated capital adequacy is based on the valuation rules applied in the unconsolidated company accounts. The unconsolidated company accounts are prepared in accordance with generally accepted accounting principles in Norway (N GAAP), with the exception of the unconsolidated accounts of Storebrand Bank ASA, which are prepared in accordance with simplified IFRS. In these accounts, most of the changes arising from the transition to IFRS that affected equity were applied as deductions to core capital.

Storebrand is classified as a cross-sectoral financial group. This means that capital adequacy for the P&C insurance and life insurance business must be calculated in accordance with both the capital adequacy rules and the solvency margin regulations. The group includes the following insurance companies: Storebrand Livsforsikring AS and its subsidiaries SPP Livförsäkring AB, Euroben Ltd and Nordben Life and Pension Ltd, as well as Storebrand Skadeforsikring AS, Oslo Reinsurance ASA 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 overheads. This applies to Storebrand Kapitalforvaltning AS and Storebrand Finansiell Rådgivning AS. Following the reissuing of its asset management licence, Storebrand Fondene AS is a funds management company subject to separate rules concerning financial strength. The primary capital in this type of company shall as a minimum equal the highest of initial capital and 25% of the previous year's overheads.

4 Risk and capital management

4.1 Capital management

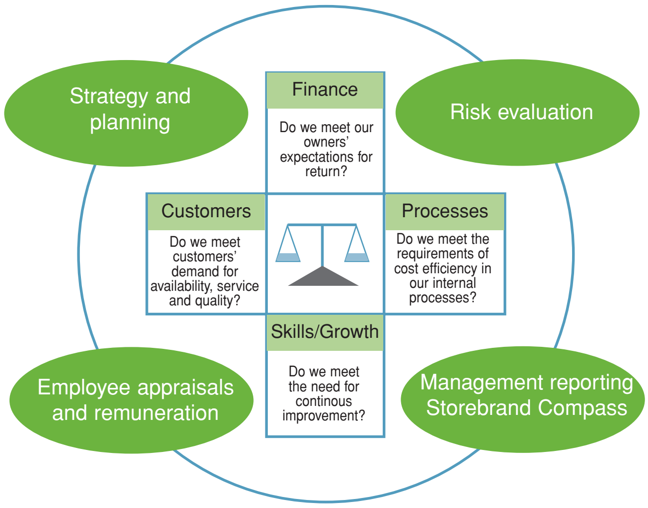
The Storebrand Group aims to be adequately and effectively capitalised, taking into account the risk in the business. Storebrand pays particular attention to actively managing its equity and borrowings in a planned manner. This management is tailored to the financial risk and capital requirements of the group's businesses, and the composition of its business areas and their growth will be important drivers for the group's capital requirements. An effective capital base is one of the prerequisites for delivering a satisfactory annual result in relation to the group's equity. The goals of the capital management are to ensure an efficient capital structure and to maintain an appropriate balance between internal goals and the requirements of the regulatory authorities and the rating agencies. The level of capital is intended to support an 'A' level rating for the life insurance business. The group's long-term target for the capital ratio of its banking activities is 10% and the target for its life insurance solvency margin is to be at least 150%. The holding company aims to have a net debt ratio of zero over the longer term. This means that liquid assets shall correspond to the level of interest-bearing liabilities. The group's goal for return on equity (RoE) is 15%.

In general, the group is able to manage its capital without suffering any material restrictions so long as it meets the capital adequacy requirements and the various legal entities that make up the group maintain prudent solvency. Capital can be transferred from foreign legal entities subject to the approval of the local supervisory authorities.

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 a corporate governance model, whereby management is based on group-wide policies 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



The management system is a key element of the group's internal control and is intended to ensure a correlation between goals ad actions at all levels of the group and the overarching principle of creating value in Storebrand's partners. The system is built upon the principle of balanced goal-oriented management in which four parameters: finance, customers, internal processes and learning/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,

KEY FIGURES	TARGET	30.06.2009	31 DEC 2008	31 DEC 2007
Return on equity*	15%	-1%	-9%	24%
Rating Storebrand Livsforsikring	A	A-/A3	A-/A2	A/A2
Solvency margin Storebrand Livsforsikring	>150%	154%	160%	136%
Capital adequacy Storebrand Bank subgroup	>10%	11.8%	10.8%	10.5%
Net debt-equity ratio Storebrand ASA	0%	9%	13%	22%

* Adjusted for the amortisation of intangible assets

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 in the various business areas identify areas of risk and improvement measures based on the company's goals and strategy. The work is summarised in an internal control report, which is discussed by the Audit Committee and the Board of Directors.

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

4.2.1 The risk and capital adequacy assessment process (ICAAP)

The risk and capital adequacy assessment process is part of the group's strategy and planning process. 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 Kredittilsynet. The insurance business in Storebrand is not subject to the guidelines and an ICAAP is not 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. However, an equivalent risk and capital adequacy process, including the preparation of an investment strategy and financial plan with 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 retirements 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. In addition to credit risk, market risk and operational risk as calculated in Pillar 1, the calculated capital requirements in Storebrand Bank also take account of extra capital requirements associated with concentration risk, liquidity risk, residual risk, market risk and reputation risk, etc. Stress tests and scenario analyses are carried out to assess the company's risk-bearing ability 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 produced on the basis of the target capital level, expected growth in the balance sheet as well as composition of the balance sheet, and result prognoses.

Vurdering av kapitalnivået baseres på resultatene fra de kvantitative analysene samt kvalitative vurderinger av hva som er forretningsmessig forsvarlig. Målsatt kapitalnivå utledes dermed basert på at virksomheten skal ha en tilstrekkelig og akseptabel kapitalbuffer utover regulatoriske minstekrav, og hvor størrelsen på kapitalbufferen er et resultat av ICAAP-analysen. Med bakgrunn i målsatt kapitalnivå, forventet vekst i balansen samt balansesammensetting, og resultatprognoser utarbeides det en kapitalplan for å vedlikeholde kapitalnivået i virksomhetene.

4.3 Risk management and control

Storebrand assumes risk as part of its core activities. Good risk control and management are prerequisites 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, risk control and compliance 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 stipulated by the Board of Directors of Storebrand ASA and describe i) the group's organisation of risk management, risk control and compliance functions, ii) the agenda and reporting from fixed meeting forums, as well as iii) group-wide processes in the form of management documents and control systems within the various categories of risk to which the group is exposed. The guidelines are revised at least annually or as needed.

The risks and risk management in the business areas subject to the Basel II regulations, management of operational and business risk, and the organisation of risk control and compliance functions in the group 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.

4.3.1 Risk management in the banking group

The financial risks Storebrand Bank ASA and it subsidiary Storebrand Kredittforetak AS face primarily consist of credit, liquidity, interest rate, and currency risks. Credit risk is regarded as the most significant of these. The Board of Directors emphasises that the bank should have a moderate financial risk.

Credit risk er is the risk of experiencing losses if the bank's customers or counterparties fail to fulfil their obligations. Credit risk represents the bank's largest category of risk and relates to all accounts receivables, primarily lending to customers. The overarching goal for the credit institution is to have lending portfolios of a quality and composition that ensure the banking group's profitability in the short-term and long-term. The quality of a portfolio must be compatible with Storebrand Bank's goal of a moderate risk profile.

Storebrand Bank places great importance on maintaining close relationships with its corporate customers and monitoring credit risk, and has credit review policies in place. A significant proportion of the bank's corporate lending is linked to real estate in the greater Oslo area. Storebrand follows economic conditions and the real estate market in this region closely.

Lending to corporate customers over a certain limit requires the approval of a credit committee chaired by the bank's managing director, or from the bank's Board. Credit risk is monitored through a risk classification system that ranks each customer by ability to pay, financial condition and collateral.

The risk classification system estimates the likelihood of a borrower defaulting (ability to pay/solvency) and the likely loss in the event of default (collateral). All loans on the bank's watch list are reviewed at least quarterly in respect of the condition of the borrower and collateral, and of the steps being taken to protect the bank's position.

Storebrand Bank has significantly upgraded its lending policies and credit approval procedures over recent years. Separate credit approval processes are now used for retail lending. Loans to personal customers are approved on the basis of credit scoring, combined with case-by-case evaluation of the borrower's ability to repay. The weighted historic loan-to-collateral value is approximately 55%, and approximately 94% of lending to retail customers is secured by mortgages with loan to value ratios not exceeding 80%. In January 2008, the bank decided stop offering lending to retail customers secured against investments in structured products.

The financial crisis became serious in autumn 2008. Combined with the fall in property values this has generally resulted in greater risk in Storebrand Bank and Storebrand Kredittforetak's retail lending portfolio. No material increase in the volume of non-performing and loss-exposed loans has been registered. Unemployment is increasing due to the crisis, which could affect people's future ability to pay. Storebrand Bank applied a relatively conservative lending practice in relation to the customers' ability to pay during periods of economic upturn. The collateral is still regarded as good since many of the loans were granted within 60% of the value of the collateral furnished, and very few loans exceed an 80% loan-to-collateral value. The risk in the home mortgage portfolio is therefore still regarded as low. On the other hand, increasing non-performance and losses are expected in the portfolios containing unsecured credit and the credit card portfolio.

Corporate loans are a higher risk than retail loans. Throughout the year corporate loans generally migrated towards poorer risk classes. This migration reflects the developments in the market and the bank takes account of the effects of the financial crisis and low collateral values in its risk classification. Group write-downs have therefore increased. In addition, individual write-downs of NOK 87.3 million were made, before write-backs due to redemptions and actual losses amounting to NOK 79.9 million. Few new loans were granted during the year. Corporate customers are closely monitored by the customer account managers in the bank.

The collateral for corporate loans without a fall in value is regarded as acceptable in relation to the bank's exposure. The same assessment applies for non-performing loans overdue by between 1 and 90 days. In the case of corporate loans that are non-performing and have experienced a fall in value, the collateral is not regarded as good enough and these loans have therefore been written-down.

The monitoring of developments in banking's lending portfolio includes non-performance and loss-exposed reports and risk reports. Measures and focus areas are continuously assessed on the basis of the development of the figures. Non-performance and loss-exposed reports are produced for the corporate portfolio twice a month and arrears lists are reviewed weekly in the bank's credit committee meetings. Risk reports are produced every month with more detailed versions every quarter.

The bank and Storebrand Kredittforetak manage their exposure to counterparty risk when placing liquidity or through other exposure on the basis of the counterparty's credit rating and size. The counterparties' risk limits take account of both pure investments and settlement risk. The bank and Storebrand Kredittforetak have solid counterparties, and limits their exposure to any individual counterparty in order to avoid losses and ensure high liquidity in its holdings of securities.

Other subsidiaries in the bank face limited credit risk beyond any outstanding fees. Age distributed customer lists are followed up regularly. In our experience the losses from claims against these companies have been very low, but the weak results in real estate broking mean that many franchise holders are under pressure, financially speaking, and losses have been incurred from former franchise holders in 2008. Developments are monitored closely and the outstanding amounts as of 31 December 2008 were small.

Liquidity risk refers to the risk of the bank being unable to meet all their financial liabilities as they fall due for payment. Storebrand Bank and Storebrand Kredittforetak maintain sufficient liquidity to support balance sheet growth and repay funding and deposits as they mature. The bank and Storebrand Kredittforetak manage their liquidity position on the basis of rolling liquidity gaps that show the mismatch between expected inward and outward cash flows on the balance sheet date, the long-term funding proportion and liquidity reserves.

The liquidity targets in Storebrand Bank and Storebrand Kredittforetak are within the internally established limits. Obtaining long-term funding in the market is challenging, and this market situation is expected to continue in 2009. Bonds with long terms to maturity were issued in 2008 through the establishment of Storebrand Kredittforetak. The Storebrand Bank Group is working to reduce the liquidity risk by increasing the average term to maturity. Committed credit lines from other banks are available to the bank if necessary. Storebrand Bank ASA pays close attention to maintaining relationships with a number of international banks. This ensures access to the international capital market and provides greater diversity in the group's funding.

The bank has established good liquidity buffers, and continuously monitors liquidity reserves against internal limits. The liquidity position is monitored with the aid of monthly simulation analyses of the liquidity gap for the coming 90-day period. The simulation is intended to uncover short-term and medium-term funding needs. The liquidity position in relation to the established liquidity goals and risk limits are reported monthly to the Balance Sheet Management Committee and the Board of Directors.

Market risk is the risk of unexpected and adverse movements in interest or exchange rates reducing the value of the bank's assets. The bank's goal is to minimise market risk. The bank's aggregated interest and currency exposure and maximum risk of losses for the liquidity portfolio is strictly limited through low exposure limits.

The policy of Storebrand Bank ASA and Storebrand Kredittforetak AS is to manage their exposure to interest rate risk so they have the lowest possible sensitivity to changes in interest rates. This means that Storebrand Bank has very narrow limits for interest rate risk. Borrowing and fixed rate borrowing is largely swapped for three months' variable NIBOR. The interest rate risk is continuously monitored and risk limits are defined for the Storebrand Bank Group, Storebrand Bank ASA and Storebrand Kredittforetak AS, which are reported every month to the bank's Board. The financial hedging must have minimal accounting consequences. This is done by assessing the need for hedge accounting any use of the fair value option. The purpose of hedge accounting is that the company's profit and loss does not change in response to changes in the market value of derivative contracts in isolation, but follows changes in the market value of the underlying asset and liability items since these items are also recognised in the accounts at fair value in respect of interest rate risk.

Storebrand Bank ASA's policy is to fully hedge currency exposure. The policy's objective is to minimise the currency risk associated with investments, lending and funding in foreign currency. Storebrand Bank does not trade in currency on its own account. Risk limits are established. These are continuously monitored and reported to the Board every month. Financial hedging is principally carried out by rolling short-term forward foreign exchange contracts.

4.3.2 Risk management Storebrand Kapitalforvaltning AS
Storebrand Kapitalforvaltning AS manages assets on behalf of customers and is exposed to limited risk beyond normal business and operational risk for this type of business. 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 proportion of the assets actively. This means that managers are given a degree of freedom with respect to the investments with the aim of creating returns that exceed how the market is developing generally. The investment management business is organised such that a group of specialist groups concentrate on taking advantage of active investment opportunities only within limited areas pursuant to clearly defined investment processes. Each specialist group works within assigned risk parameters in which the results, risk utilisation and investment profiles are monitored continuously. In addition, the covariation between the positions of the various groups is monitored with the aim of ensuring as much independence as possible in order to achieve the highest possible risk-adjusted return.

An operations group is responsible for effectively managing market risk. The group addresses currency hedging, programme trading, hedging transactions, socially responsible investment criteria and liquidity transactions. This structure results in more efficient utilisation of resources and strengthens the control of the active risk in the investment portfolio.

Mid-office monitors compliance with investment mandates and risk factors. The compliance officer monitors the own account trading regulations, compliance with mandates for discretionary portfolios and the Securities Trading Act. Any breaches are reported to the management group, the Board of Directors and Kredittilsynet.

4.3.3 Risk factors 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 to the business beyond nor-

mal business and operational risk for this type of business. This particularly applies to compliance risk associated with the rules for good advice provision, compliance with the own account trading regulations and the risk associated with complaints in the event of inadequate advice. The company actively works to reduce this risk. This is accomplished by training advisors and sales managers, clarifying existing routines, spot checks by the compliance officer in the company, and checks carried out by the internal audit function.

4.3.4 Operational and business risk

Operational risk is 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. Business risk is the risk of losses due to changes in external factors such as the market situation or changes in general conditions.

Risk assessments and internal control reporting are integral parts of the group's strategy and planning process. The management groups in the various business areas identify areas of risk and improvement measures based on the company's strategy and goals. Consequently the risk assessments form an important part of the basis for adopting the group's strategy and approving the level of risk in the business plan.

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 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 and contingency and measures assessments.

Storebrand's products and customer relationships are based on solid and long-term trust between the company and the market, and a weakened reputation could influence its ability to retain and attracts customers and employees. Group-wide policies and internal rules within areas such as ethics, information and information security 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 business risk. Easy Risk Manager supports the identification of areas of risk and helps assess the likelihood and consequences of a risk point occurring. The tool also documents who is responsible for implementing the identified 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.

4.3.5 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 and compliance is borne by a key staff position, Group Risk Controller (GRC), who reports to the Executive Vice President Economy/Finance. The Group Risk Controller's main duty is to ensure the group's activities comply with the strategies and parameters for risk taking defined by Storebrand's planning and 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 and compliance function is divided into control functions for i) market risk, credit risk, and liquidity risk, ii) business risk, and iii) operational risk.

Local risk control and compliance positions have also been established in the business units and in the group-wide function areas. Like the GRC these coordinate 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.

5. Capital/capital requirements

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 30.06.2009

NOK MILLION	STOREBRAND KAPITAL-FORVALTNING	STOREBRAND FINANSIELL RÅDGIVNING	STOREBRAND BANK ASA	STOREBRAND BOLIGKREDITT	STOREBRAND ASA	STOREBRAND GROUP
Share capital	4	30	917	350	2 250	2 250
Other equity	120	113	1 116	208	12 692	13 473
Equity	**124**	**143**	**2 032**	**558**	**14 941**	**15 722**
Hybrid tier 1 capital			276			1 414
Conditional bonus						2 059
Goodwill and other intangible assets	-13	-30	-50			-7 110
Deferred tax assets	-33		-165	-10		-203
Risk equalisation fund						-182
Revaluation fund						-48
Security reserves						-75
Minimum requirement reassurance allocation						-46
Unrealised gains on company portfolio						-23
Capital adequacy reserve						-130
Other	34				60	-26
Tier 1 capital	**112**	**113**	**2 094**	**548**	**15 002**	**11 352**
Hybrid tier 1 capital						363
Perpetual subordinated loan capital			9			5 066
Dated subordinated loan capital			675			675
Capital adequacy reserve						-130
Supplementary capital			**684**			**5 974**
Net primary capital	**112**	**113**	**2 778**	**548**	**15 002**	**17 326**
Capital adequacy						
Capital adequacy ratio	**12.2 %**	**216.9 %**	**13.6 %**	**11.9 %**	**85.2 %**	**13.8 %**
Core capital adequacy ratio	**12.2 %**	**216.9 %**	**10.3 %**	**11.9 %**	**85.2 %**	**9.0 %**

A capital requirement must be calculated according to Basel II and this requirement is 8% of the basis for calculation. The net 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 in the balance sheet. The above table specifies additions and deductions when calculating core capital in relation to equity in the financial accounts.

Hybrid tier 1 capital can account for up to 15% of core capital, while any excess amount can be included as perpetual supplementary capital. “Conditional bonus” is primary capital that comes from SPP and concerns the insurance capital that is not guaranteed. The “conditional bonus” increases and decreases depending on the total return and can be both negative and positive.

Minimum requirements primary capital as at 30.06.2009

NOK MILLION	STOREBRAND KAPITAL-FORVALTNING	STOREBRAND FINANSIELL RÅDGIVNING	STOREBRAND BANK ASA	STOREBRAND BOLIGKREDITT	STOREBRAND ASA	STOREBRAND GROUP
Credit risk						
Local and regional authorities			7		3	11
Public corporates					1	1
Institutions	2	4	143	15	1 365	87
Corporates			638		1	629
Retail marked			74			74
Loans secured on real estate			533	345		878
Loans past-due			67	1		68
Covered bonds			45			5
Units in mutual securities funds	2					2
Other	8		55	3	9	67
Company using Basel I						8 144
Total minimum requirements credit risk	**12**	**4**	**1 562**	**365**	**1 379**	**9 965**
Operational risk	62		77	4	30	119
Deductions			-8			-29
Minimum requirements primary capital	**74**	**4**	**1 630**	**368**	**1 408**	**10 054**

Specifications of subordinated loan capital as at 30.06.2009

NOK MILLION	NOMINAL VALUE	CURRENCY	INTEREST RATE	CALL DATE AND OTHER CONDITIONS	BOOK VALUE Q2 2009
Issuer					
Perpetual hybrid (Tier 1) capital					
Storebrand Bank ASA	107.0	NOK	Fixed	2014	107.3
Storebrand Bank ASA	168.0	NOK	Variable	2014	167.1
Storebrand Life Insurance	1 500.0	NOK	Variable	2018	1 475.8
Perpetual subordinated loan capital					
Storebrand Life Insurance	300.0	EUR	Fixed	2013	2 705.0
Storebrand Life Insurance	1 700.0	NOK	Variable	2014	1 682.5
Storebrand Life Insurance	1 000.0	NOK	Fixed	2015	980.9
Dated subordinated loans					
Storebrand Bank ASA	175.0	NOK	Variable	2010	175.0
Storebrand Bank ASA	100.0	NOK	Variable	2011	99.9
Storebrand Bank ASA	250.0	NOK	Variable	2012	249.7
Storebrand Bank ASA	150.0	NOK	Variable	2012	150.0
Interest					13.2
Total subordinated and perpetual loans					**7 806.4**

6 Information about credit risk

6.1 Credit risk in general
6.1.1 Defintion of non-performing and loss-exposed engagements

Engagements are considered non-performing and loss-exposed when a credit has been overdrawn for more than 90 days and when a repayment plan has arrears of more than 90 days and the amount is at least NOK 500.

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 balance sheet date to whether there are objective signs 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 book value 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 amount of the loss is recognised to profit and loss. If the reason for the impairment ceases to apply in a subsequent period, and the reason for the impairment ceasing can be attributed objectively to an event that has taken place after the impairment has been recognized, the impairment adjustment is reversed. The amount of the reversal cannot be so large as to cause the book value of the asset to exceed what would have been the asset's amortised cost if the impairment had not been recognized at the time the impairment adjustment is reversed. The reversal of previous impairment adjustments is presented in the profit and loss account as a change in write-down. Storebrand Bank makes use of both individual loan write-downs and write-downs of groups of loans.

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

Normally the fair value of lending is set as almost equal the amortised cost. The market for portfolio sales is currently non-existent because of the financial crisis. Previously the Storebrand Bank Group has only partially exercised its right to change running reference margins for loans in which the interest rate conditions are set on the basis of the margins in reference interest rates. The banking group's conditions for the loans are to a large extent an administrative running set margin, though for some of the loans the margin is fixed throughout the term of the loan. At year-end 2008 the banking group had NOK 7.3 billion in which the interest rate was set on the basis of a margin added to the NIBOR 3 months interest rate with an expected turnover of 4 years. The portfolio, primary business loans, currently has an average margin that is approximately 100 base points lower than the bank would demand for new loans from debtors of equivalent quality and dependability. Please also refer to note 14 for Storebrand Bank Group and note 13 for Storebrand Bank ASA in the 2008 annual report for Storebrand Bank.

6.1.3 Assesments of write-downs of loans

The group considers at each balance sheet date whether there are objective signs that the value of a loan or group of loans is impaired. Loans or groups of loans are considered to be impaired if, and only if, there are objective signs of a fall in value that will reduce the future cash flow available for debt service. 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 signs 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 it exists other information that indicates the commitment to be 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) Write-downs of groups of loans
Grouped write-downs are calculated separately for Corporate Lending and Retail Lending. (i.e. loans to commercial customers and loans to private indi¬viduals). 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 service capacity), quality of the collateral (loan to value ratio) and commercial factors (internal/external risk). The risk classification model shows the classification against a background of the information recorded in

the accounting module at the time the calculation of group write-downs is undertaken, the realisable value recorded for collateral and an evaluation of commercial factors. Consideration is also given to 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 of the groups 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. Default 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 cover those companies in the Storebrand Group subject to Basel II.

Credit risk investment portfolio as at 31.12.2008

Analysis of credit risk by rating
Short-term holdings of interest-bearing securities

NOK MILLION	AAA FAIR VALUE	AA FAIR VALUE	A FAIR VALUE	BBB FAIR VALUE	NIG FAIR VALUE	TOTAL FAIR VALUE
Asset backed securities	0.0	0.0	0.0	0.0	101.1	101.1
Corporated bonds	0.0	0.0	14.9	0.0	0.0	14.9
Finance, bank and insurance	710.4	874.6	506.4	49.5	0.0	2 140.9
State and state guaranteed	1 655.8	0.0	0.0	0.0	0.0	1 655.8
Local authority, county	0.0	327.2	0.0	0.0	0.0	327.2
Covered bonds	140.9	0.0	0.0	0.0	0.0	140.9
Bond funds	0.0	0.0	0.0	0.0	18.9	18.9
Total	**2 507.1**	**1 201.8**	**521.3**	**49.5**	**120.0**	**4 399.7**

Credit exposure for lending activities

Commitments per customer group as at 31.12.2008

NOK MILLION	LOANS TO AND DUE FROM CUSTOMERS	GUARAN-TEES	UNDRAWN CREDIT LIMITS	TOTAL COMMIT-MENTS	AVERAGE SIZE LOANS	GROSS NON-PERFORMING LOANS	WRITE-DOWNS OF INDIVIDUAL LOANS	NET NON-PER-FORMING LOANS
Financial aid agencies	0.3			0.3	0.3			0.0
Industry and mining	16.8	0.4	0.0	17.2	19.5			0.0
Water and power supply, building and construction	13.2	1.9	2.1	17.2	30.0	0.2	0.3	0.0
Wholesale/retail trade, hotels and restaurants	23.6	0.4	0.2	24.2	26.0	0.9	0.8	0.0
International shipping and pipelines	41.1	0.2	0.0	41.3	61.1			0.0
Other transportation and communications	25.6	1.2	0.0	26.8	45.1			0.0
Services and real estate operations	10 725.4	359.1	656.0	11 740.5	10 776.6	328.8	117.5	211.4
Other service industries	49.0	0.9		49.9	53.7	0.9	0.9	0.0
Retail customers	27 877.5	1.8	2 662.7	30 542.0	26 807.7	328.0	100.9	227.2
Other	0.2	0.4	3.0	3.6	0.9	26.1	17.7	8.4
Foreign	262.1	0.0	21.6	283.6	267.7	25.1	24.3	0.8
Total	39 034.7	366.4	3 345.6	42 746.6	38 088.7	710.1	262.4	447.8
- Write-downs of groups of loans	-88.3			-88.3				
+ Other changes in value	-33.6			-33.6				
Total loans to and due from customers	**38 912.8**	**366.4**	**3 345.6**	**42 624.7**	**38 088.7**	**710.1**	**262.4**	**447.8**

Only the average size of the lending is shown since the amounts for guarantees and unused credit limits constitute an insignificant proportion of the total commitments.

Commitments per geographical area as at 31.12.2008

NOK MILLION	LOANS TO AND DUE FROM CUSTOMERS	GUARANTEES	UNDRAWN CREDIT LIMITS	TOTAL COMMITMENTS	GROSS NON-PERFORMING LOANS	WRITE-DOWNS OF INDIVIDUAL LOANS	NET NON-PERFORMING LOANS
Eastern Norway	30 822.9	365.7	2 640.0	33 828.5	596.3	224.4	371.9
Western Norway	4 903.4	0.7	461.8	5 365.8	48.1	10.2	37.9
Southern Norway	564.0	0.0	66.9	630.9	6.6	0.5	6.1
Mid-Norway	1 633.3	0.0	92.5	1 725.9	11.4	0.1	11.3
Northern Norway	849.1	0.0	58.9	908.0	20.3	1.5	18.8
Foreign	262.1	0.0	25.5	287.5	27.5	25.7	1.8
Total	**39 034.7**	**366.4**	**3 345.6**	**42 746.6**	**710.1**	**262.4**	**447.8**

Group write-downs and other changes in value have not been distributed by geographic area since this is calculated at a group level, independent of the geographic area. As a consequence of this no distribution per geographic area is made for group write-downs.

Total engagement amount by remaining term to maturity as at 31.12.2008

NOK MILLION	LOANS TO AND DUE FROM CUSTOMERS	GUARANTEES	UNDRAWN CREDIT LIMITS	TOTAL COMMITMENTS
Up to 1 month	1 230.0	95.2	147.1	1 472.3
1 - 3 months	284.4	42.4	50.5	377.3
3 months - 1 year	2 186.4	27.4	434.4	2 648.2
1 - 5 years	3 442.1	193.6	385.1	4 020.8
more than 5 years	31 891.8	7.8	2 328.4	34 228.0
Total	**39 034.7**	**366.4**	**3 345.6**	**42 746.6**

Age distribution of overdue engagements without write-downs as at 31.12.2008

NOK MILLION	LOANS TO AND DUE FROM CUSTOMERS	GUARANTEES	UNDRAWN CREDIT LIMITS	TOTAL COMMITMENTS
Overdue 1 - 30 days	2 272.0	6.2	6.1	2 284.3
Overdue 31 - 60 days	430.0	19.0	0.9	449.9
Overdue 61 - 90 days	95.6			95.6
Overdue more than 90 days	190.2	0.0	2.3	192.5
Total	**2 987.8**	**25.3**	**9.3**	**3 022.4**
Engagements overdue by more than 90 days by geographical area:				
Eastern Norway	135.3		2.2	137.5
Western Norway	26.4			26.4
Southern Norway	2.0			2.0
Mid-Norway	11.0			11.0
Northern Norway	13.7			13.7
Foreign	1.8			1.8
Total	**190.2**	**0.0**	**2.3**	**192.5**

Commitments overdue by more than 90 days in the above table, i.e. NOK 190.2 million are included in gross non-performing loans in addition to loans with identified impairment that have also been subject to individual write-downs.

Credit risk by customer group as at 31.12.2008

NOK MILLION	TOTAL VALUE IMPAIRED ENGAGEMENTS	TOTAL DUE ENGAGEMENTS	TOTAL VALUE CHANGES	TOTAL WRITE-DOWNS	TOTAL VALUE CHANGE RECOGNISED IN PROFIT AND LOSS ACCOUNT DURING PERIOD
Water and power supply, building and construction	0.2			0.3	
Wholesale/retail trade, hotels and restaurants	0.9			0.8	
Services and real estate operations	323.3	5.5		117.5	91.0
Other service industries	0.9			0.9	
Retail customers	144.6	183.5	-33.6	100.9	6.3
Other	26.1			17.7	-6.1
Foreign	23.9	1.2		24.3	0.9
Total	**519.9**	**190.2**	**-33.6**	**262.4**	**92.0**

Write-downs of loans and guarantees as at 31.12.2008

NOK MILLION	
Write downs om individual loans 1.1.	247.1
Losses realised in the period on individual loans previously written down	-79.9
Write-downs of individual loans for the period	106.8
Reversals of write-downs of individual loans for the period	-18.6
Other corrections to write-downs *)	7.1
Write-downs of individual loans	**262.4**
Write-downs of groups of loans and guarantees 1.1.	58.1
Grouped write-downs for the period	30.2
Write-downs of groups of loans and guarantees etc.	**88.3**
Total write-downs	**350.7**

*) Other corrections to write-downs relates to effects of amortisation.

Losses on loans and guarantees as at 31.12.2008

NOK MILLION	
Write-downs of loans and guarantees for the period	
Change in individual write-downs for the period	-15.3
Change in grouped write-downs for the period	-30.3
Other corrections to write-downs	0.7
Realised losses in period on commitments specifically provided for previously	-79.9
Realised losses on commitments not specifically provided for previously	-0.6
Recoveries on previously realised losses	3.5
Write-downs of loans and guarantees for the period	**-121.8**

Credit risk derivatives as at 31.12.2008

CREDIT RISK PER COUNTERPARTY NOK MILLIONN	AAA FAIR VALUE	AA FAIR VALUE	A FAIR VALUE	BBB FAIR VALUE	NIG FAIR VALUE	TOTAL FAIR VALUE
France	10.5	0.5				11.0
England		81.8	7.2		607.5	89.0
Norway		1 392.1	0.0			1 999.6
Sweden		51.6	1.8			53.4
Denmark		1.5				1.5
Other		141.5				141.5
Total	**10.5**	**1 668.9**	**9.0**	**0.0**	**607.5**	**2 295.8**

Counterparty risk associated with the companies' investments or exposure to other institutions is determined on the basis of the rating and size of the management. Storebrand wants solid counterparties and limits its exposure per counterparty to avoid losses and ensure a high level of liquidity in the financial instruments.

Equity positions outside the trading portfolio as at 31.12.2008

NOK MILLION	BOOK VALUE	FAIR VALUE
Shares and units	75.6	75.6

The investments in equity positions by companies subject to Basel II outside the trading portfolio 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 NOK 12 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

Financial derivative contracts are related to underlying amounts which are not capitalised in the balance sheet. In order to quantify a derivative position, reference is made to underlying amounts such as nominal principal, nominal volume, etc. Nominal volume is calculated differently for different classes of derivative, 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. However nominal volume is not a measure which necessarily provides a comparison of the risk represented by different types of derivative. In contrast to gross nominal volume, net nominal volume also takes into account the direction of the instruments' market risk exposure by differentiating between long (asset) positions and short (liability) positions.

A long position in an equity derivative produces a gain in value if the share price increases. For interest rate derivatives, a long position produces a gain if interest rates fall, as is the case for bonds. A long position in a currency derivative produces a gain if the currency strengthens against the NOK. Average gross nominal volume is based on monthly calculations of gross nominal volume.

Derivatives as at 31.12.2008

NOK MILLION	GROSS NOM. VALUE 2)	AVERAGE NOM. VALUE 3)	NET NOM. VALUE	FAIR VALUE 2) ASSET	FAIR VALUE 2) LIABILITY	FAIR VALUE - HEDNING 4) ASSET	FAIR VALUE - HEDNING 4) LIABILITY
Equity options	1 128.1	1 310.2	27.6	18.3	17.8	0.0	0.0
Interest rate swaps 1)	30 708.9	27 172.4	6 599.2	566.2	300.5	352.5	0.9
Basis swaps	3 950.0	3 950.0	3 950.0	914.8	0.0	0.0	0.0
Forward foreign exchange contracts	6 669.2	7 205.7	2 979.3	444.8	148.8	0.0	0.0
Total derivatives	**42 456.2**	**39 638.3**	**13 556.1**	**1 944.1**	**467.1**	**352.5**	**0.9**

1) Interest rate swaps are included acrued interest.

2) Value at 31.12.

3) Average for the year.

4) Market value of derivatives included in hedge accounting are classified together wiht the underlying item hedged.

6.4 Rating agencies

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

Storebrand Bank ASA and Storebrand Kredittforetak AS do not use ratings when stipulating capital requirements.

6.5 Collateral

Storebrand Bank ASA's and Storebrand Kredittforetak AS's lending is primarily secured through real estate collateral. Loans to retail customers are secured through collateral in people's homes, largely within 80% 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. 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.

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

6.6 Interest rate risk

The exposure of Storebrand Bank and Storebrand Kredittforetak in the interest rate market is managed in such a way that the sensitivity between assets and liabilities is as little as possible. As a rule of thumb all long-term fixed rate loans/investments and borrowing are subject to interest rate hedging through the identification of corresponding cross entries on the other side of the balance sheet or through derivative transactions.

In the event of market risk changes that occur during the first year, the affect on the result and equity will be as shown below based on the balance sheet as of 31 December 2008:

Effect on income

	INTEREST RATE		FOREIGN EXCHANGE	
NOK MILLION	-1.5 %	+1.5 %	-12 %	+12 %
Bonds and other fixed-income securities	-67.5	67.7	0.0	0.0
Loans to and deposits with credit institutions	-26.9	26.9	-2.1	2.1
Loans to and due from customers	-464.2	466.1	-43.0	43.0
Derivatives	531.8	-506.6	-911.0	911.0
Liabilities to credit institutions	17.0	-17.8	254.9	-254.9
Deposits from and due to customers	9.2	-9.2	8.9	-8.9
Commercial paper and bonds issued	-32.5	12.7	692.5	-692.5
Subordinated loan capital	33.1	-39.7	0.0	0.0
Total	**0.1**	**0.1**	**0.2**	**-0.2**

Effect on net profit/equity

	INTEREST RATE		FOREIGN EXCHANGE	
NOK MILLION	-1.5 %	+1.5 %	-12 %	+12 %
Bonds and other fixed-income securities	-67.5	65.1	0.0	0.0
Loans to and deposits with credit institutions	-26.9	26.9	-2.1	2.1
Loans to and due from customers	-464.2	320.1	-43.0	43.0
Derivatives	531.8	-168.4	-327.0	327.0
Liabilities to credit institutions	17.0	-3.6	254.9	-254.9
Deposits from and due to customers	9.2	-9.2	8.9	-8.9
Commercial paper and bonds issued	-32.5	384.4	320.9	-692.5
Subordinated loan capital	33.1	-39.7	0.0	0.0
Total	**0.1**	**575.5**	**212.6**	**-584.2**

Specification of currency

NOK MILLION	INCOME -12 %	INCOME +12 %	NET PROFIT / EQUITY -12 %	NET PROFIT / EQUITY +12 %
USD	0.2	-0.2	0.2	-0.2
EUR	0.2	-0.2	0.2	-0.2
SEK	0.0	0.0	0.0	0.0
DKK	0.0	0.0	0.0	0.0
JPY	0.0	0.0	0.0	0.0
Other currencies	-0.1	0.1	-0.1	0.1
Total	**0.2**	**-0.2**	**0.2**	**-0.2**

The overview demonstrates 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. Account has been taken of the one-time effect such an immediate change in interest rates would have on the items recognised at fair value and hedging value and of the effects the change in interest rates would have on the result for the remainder of the interest rate duration period before the change in interest rate has income and cost related effects. The sensitivity calculation was carried out using the ORM risk management system.

6.7 Limitations

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