Alternative Performance Measures

storebrand

Alternative Performance Measures in Storebrand's financial reporting

- a guide for investors and analysts

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Introduction

This guide gives an overview of Storebrand's use of Alternative Performance Measures (abbreviated 'APM' hereafter) in its financial reporting. It is based on the guidelines on Alternative Performance Measures for listed issuers published by the European Securities and Market Authority (ESMA) in October 2015. These guidelines state that an APM is a financial measure of historical or future financial performance, financial position, or cash flows, other than a financial measure defined or specified in the applicable financial reporting framework. The guidelines apply to APMs disclosed by issuers or persons responsible for drawing up a prospectus on or after 3 July 2016, and can be found on ESMA's web page (https://www.esma.europa.eu/).

Disclaimer

This guide covers APMs which may appear in financial publications from Storebrand ASA and those of its subsidiaries with listed debt, namely Storebrand Bank ASA, Storebrand Livsforsikring AS and Storebrand Boligkreditt AS. The guide does not include APMs potentially included in other non-issuer subsidiaries of Storebrand ASA. The APMs described in the guide mainly relate to reporting of historical performance. Some APMs may be used in guiding, performance targets and general forward looking comments.

Sources and financial publications in which APMs may appear include, but are not limited to:

- Annual and quarterly reports
- Supplementary Information
- Investor and analyst presentations
- Capital Markets Day material
- Press and stock exchange releases
- Storebrand's web pages

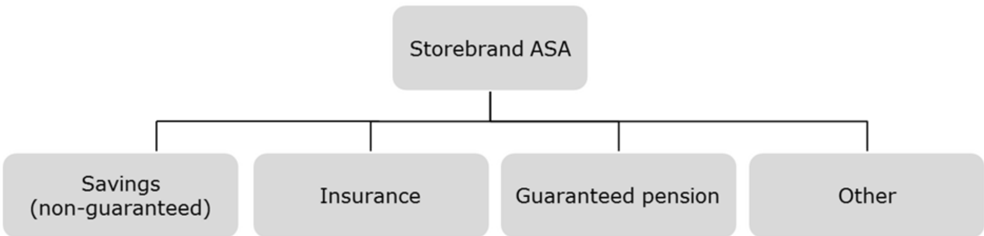
Storebrand seeks to inform external stakeholders of any changes in its APMs from quarter to quarter.

Reporting structure

Overview

As a courtesy to investors and analysts, the Storebrand Group publishes results according to a reporting structure which is designed to reflect the main drivers of the business.

The reporting structure is divided into four segments: Savings, Insurance, Guaranteed pension and Other.



Segment description

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

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

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

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

Alternative income statement

To further highlight the main drivers of the business, the Storebrand Group publishes alternative income statements in parallel with traditional IFRS statements of financial position. The income statement is typically shown in Storebrand's quarterly reporting to the financial markets.

Overall qualitative reconciliation

There are two main differences between the alternative income statement and the IFRS statement of financial position.

Firstly, the alternative income statement does not include result items related to customers' funds. The traditional IFRS statement of financial position for Storebrand Group includes gross income and costs related to both life insurance customers and the company owners. In the alternative income statement, we only show the income and costs which are directly related to owners. Example: The IFRS *premium income* includes both new customer funds paid in and the fee income for the company, among other elements. In the alternative income statement, the new customer funds paid in are eliminated, while the fee income for the company is included in the *fee and administration income* in order to only show the revenue to owners.

Second, there are some reclassifications of items between result lines in the alternative income statement. In some cases, a single result line in the IFRS statement of financial position is the base for several of the result lines in the alternative income statement. Thus, some elements may be eliminated in the reconciliation of one of the latter's result lines, but included in the reconciliation of another. Example: IFRS *premium income* includes insurance risk premiums, among other items, and is the base for several result lines of the alternative income statement, including *fee and administration income* and *insurance premiums f.o.a.* In the alternative income statement, insurance risk premiums are classified as insurance premiums f.o.a. Thus, it is included in the reconciliation of this line, but eliminated in the reconciliation of fee and administration income.

Description of each result line

Fee and administration income

Fee and administration income consists of fees and fixed administrative income. In the Group's income statement, the item is classified as premium income, net interest income from bank or other income depending on the type of activity. The Group's income statement also includes savings elements for insurance contracts and possibly transferred reserve.

Insurance premiums f.o.a.

Insurance premiums consist of premium income relating to risk products (insurance segment) that are classified as premium income in the Group's income statement.

Insurance claims f.o.a.

Insurance claims consist of paid-out claims and changes in claims incurred but not reported (IBNR) and claims reported but not settled (RBNS) relating to risk products that are classified as claims in the Group's income statement.

Operating cost

Operating costs consist of the Group's operating costs in the Group's income statement minus operating costs allocated to products with profit sharing.

Financial items and risk result life

Financial items and risk result life consists of the following elements:

- Risk result life & pensions
- Financial result
- Net profit sharing and loan losses

Risk result life & pensions

Risk result life and pensions consists of the difference between risk premium and claims for products relating to defined-contribution pension, unit linked contracts (savings segment) and defined-benefit pension (guaranteed pension segment). Risk premium is classified as premium income in the Group's income statement.

Financial result

The financial result consists of the return for the company portfolios of Storebrand ASA, Storebrand Livsforsikring AS and SPP Pension & Försäkring AB (Other segment), while returns for the other company portfolios in the Group are a financial result within the segment which the business is associated with. Returns on company portfolios are classified as net income from financial assets and property for companies in the Group's income statement. The financial result also includes returns on customer assets relating to products within the insurance segment, and in the Group's income statement this item will be entered under net income from financial assets and property for customers. In the alternative income statement, the result before tax of some minor subsidiaries are included in the financial result, while in the Group's income statement, this is shown as other income, operating costs and other costs.

Net profit sharing and loan losses

Net profit sharing

Storebrand Livsforsikring:

Net profit sharing in the Norwegian business consists of up to 35 per cent of the overall result after allocations to additional statutory reserves for the products, traditional individual capital and pension products. Any negative returns on customer portfolios and returns lower than the interest guarantee that cannot be covered by additional statutory reserves must be covered by the company's equity and will be included in the net profit-sharing and losses line. In the Group's income statement, this item may be included in premium income, net income from financial assets and property for customers, other income, claims, change in insurance liabilities, change in buffer capital, operating costs and other costs.

SPP Pension & Försäkring:

Net profit sharing in the Swedish business consists of profit sharing if the total return on assets in one calendar year for a premium-determined insurance (IF portfolio) exceeds the guaranteed interest rate. When profit sharing is triggered, 90 per cent of the total return on assets passes to the policyholder and 10 per cent to the company. The company's share of the total return on assets is included in the financial result.

In the case of defined-benefit contracts (KF portfolio), the company is entitled to charge an indexing fee if the collective profit allows the indexing of the insurance.

Loan losses:
Loan losses consist of individual and group write-downs on lending activities that are on the balance sheet of Storebrand Bank Group. In the Group's income statement, the item is classified under loan losses. With regard to loan losses that are on the balance sheet of the Storebrand Livforsikring Group, these will not be included on this line in either the alternative income statement or in the Group's income statement, but in the Group's income statement will be included in the item, net income from financial assets and property for customers.

Provision longevity

Strengthening of longevity reserves consists of the owner's equity contributions in connection with the conversion to a new mortality tariff in 2013, K2013. In the Group's income statement, the item is classified under changes in insurance liabilities.

Amortisation and write-downs of intangible assets

Amortisation of intangible assets includes depreciation and possible write-downs of intangible assets established through acquisitions of enterprises.

Adjustments to the alternative income statement

In certain quarters and/or fiscal years, some result lines in the alternative income statement are adjusted for special items to better reflect the underlying results. Adjusted result statements are only used in presentation material such as analyst and investor presentations. Examples of special items for which result lines have been adjusted in recent quarters include effects from changes in the company's own pension scheme and restructuring costs. A detailed historical overview of special items is available on storebrand.com/ir.

Other Alternative Performance Measures used in financial reporting

In addition to the alternative income statement, Storebrand makes use of a number of APMs in its financial publications to highlight the Group's financial performance. This section gives a brief description of each APM on the Group level and within each reporting segment as well as in legal entities reporting. The APMs are listed alphabetically in the tables.

Storebrand Group

Overview of Alternative Performance Measures

Alternative Performance Measure	Calculation Method and/or description	Purpose of the APM	Relation with IFRS/NGAAP
Adjusted return on equity (ROE)	Profit for the year (annual numbers) adjusted for amortisation of intangible assets and share of profit allocated to hybrid capital investors, divided by equity (opening balance) minus hybrid capital, paid out dividend and half of the shares bought back during the year	The measure indicates the return generated by the management of the business based on the opening equity	APM is based on reported IFRS numbers
Adjusted return on equity (ROE), annualised	Profit after tax (quarterly numbers) adjusted for amortisation of intangible assets and share of profit allocated to hybrid capital investors, divided by equity (opening balance for the year) minus hybrid capital, annualised by the following formula: Annualised return = (1+cumulative return)^(365/days in the quarter) - 1	It is calculated as a geometric average to show what the return on the opening equity would have been over the year if the quarterly return was compounded	APM is based on reported IFRS numbers
Cost / Income ratio	Operational cost divided by the sum of fee and administration income and insurance result	Show the company's operational costs in conjunction with the income. A useful proxy for gauging cost effectiveness.	This APM is calculated using result lines in the alternative income statement, for which a separate qualitative reconciliation is shown
Earnings per share adjusted for amortisation of intangible assets	Profit for the year (majority) adjusted for amortisation of intangible assets, divided on average number of shares	Show the portion of the company's profits, adjusted for a substantial non-cash item (amortisation), allocated to each outstanding share of common stock. This gives a good proxy of relative profitability	APM is based on reported IFRS numbers
Net debt ratio holding company	Securities issued minus bonds and other fixed income securities and bank deposits divided by total assets	Net debt gives an indication of the holding company's overall financial situation by subtracting the total value of its cash, cash equivalents and other liquid assets from the total value of the company's liabilities and debts. It is meant to give an indication of the company's ability to pay off all its debt if they became due simultaneously on the day of calculation, using only its available cash and highly liquid assets. It is divided by total assets to give a frame of reference.	APM is based on reported IFRS numbers
Solidity capital (Storebrand Life Group)	The term solidity capital encompasses equity, subordinated loan capital, the risk equalisation fund, the market value adjustment reserve, additional statutory reserves, conditional bonuses, excess value/deficit of held-to-maturity bonds	The solidity capital is the sum of assets that protect life insurance policyholders funds	Equity, the risk equalisation fund, market value adjustment reserve, additional statutory reserves and conditional bonuses are found in the balance sheet. The subordinated loan capital is adjusted for accrued interest rates. The excess value/deficit of held-to-maturity bonds is the difference between the booked value and the market value of the bonds under this classification.
Solvency margin before dividends	Solvency margin calculated using the current Storebrand implementation of the Solvency II Standard model with the company's interpretation of the transition rules from the NFSA, but not including the effect of any dividend payments.	To show the Solvency margin achieved before any distribution of results to shareholders	N/A

Savings – non-guaranteed

Overview of Alternative Performance Measures

Alternative Performance Measure	Product area(s)	Calculation Method and/or description	Purpose of the APM	Relation with IFRS/NGAAP
Fee margin on reserves	Unit Linked Norway, Unit Linked Sweden	Fee and administration income for the period divided on reserves (closing balance) in the respective product areas. Quarterly numbers are annualised by multiplying the fee margin by four	To enable comparison of top line margins across historical periods	Fee and administration income is an APM described in this document. Reserves is a subset of 'Investments non-guaranteed portfolio' in the IFRS statement of financial position
Fee margin on reserves	Asset management segment	Fee and administration income for the period divided by the average of the balance of reserves on a quarterly basis. If the period is one quarter, it the starting and closing balance. Quarterly numbers are annualised by multiplying the fee margin by four.	To enable comparison of top line margins across historical periods	Fee and administration income is an APM described in this document. AuM Asset Management includes all assets managed by Storebrand Asset Management, i.e. both captive Life assets and external clients' assets
Net interest income	Retail banking	The difference between interest paid and interest received related to the retail products in Storebrand Bank Group	Net interest margin is a standard measure of how well the bank invests its assets in comparison to the borrowing cost of these assets. It is a good approximation for top line performance	The retail bank subset of the net interest income in Storebrand Bank Group's IFRS statement of financial position
Net interest margin	Retail banking	The difference between interest paid and interest received related to the retail products in Storebrand Bank Group, adjusted relative to the amount of interest-bearing assets (i.e. the retail lending portfolio)	Net interest margin is a standard relative measure of how well the bank invests its assets in comparison to the borrowing cost of these assets. It is useful for comparisons across historical periods and with peers.	Calculated using the retail bank subset of the net interest income and lending balance in Storebrand Bank Group's IFRS statement of financial position
Income earned not booked	Asset management segment	At each balance sheet date an estimate of performance fees from mutual funds is made. The estimate assumes a fund return equal to benchmark for the rest of the year, and is adjusted for time (e.g., at 30th June a full year performance fee is divided by two).	Performance fees from mutual funds cannot be recognized until a significant reversal is highly unlikely, according to IFRS. On the other side, bonus accruals (costs) related to the same performance fees have to be booked if a reliable estimate of the performance fees can be made. Income earned not booked shows the corresponding income to the booked costs.	At year-end, the actual closing value for income earned not booked will eventually be booked as a fee- and administration income.
Profit before amortisation including income earned not booked	Asset management segment	The sum of Profit before amortization and Income earned not booked (see above).	To adjust the profit before amortization for the income earned not booked that corresponds to the booked bonus accruals (costs).	At year-end, the actual closing value for income earned not booked will eventually be booked as a fee- and administration income, affecting the profit before amortization..

Insurance

Overview of Alternative Performance Measures

Alternative Performance Measure	Product area(s)	Calculation Method and/or description	Purpose of the APM	Relation with IFRS/NGAAP
Claims ratio	Segment Insurance as well as all product areas within the segment: P&C & Individual life, Health & Group life and Pension related disability insurance Nordic	Claims f.o.a. for the period, divided by insurance premiums f.o.a. for the same period	To show the magnitude of claims f.o.a. in relation to insurance premiums f.o.a. This ratio is a standard KPI within insurance and is useful for comparisons across historical periods and with industry peers	This APM is calculated using result lines in the alternative income statement, for which a separate qualitative reconciliation is shown
Combined ratio	Segment Insurance as well as all product areas within the segment: P&C & Individual life, Health & Group life and Pension related disability insurance Nordic	The combination of the claims and cost ratios. I.e. claims f.o.a. and operational costs for the period, divided by insurance premiums f.o.a. for the same period	To show the magnitude of claims f.o.a. and operational costs in relation to insurance premiums f.o.a. This ratio is a standard KPI within insurance and is useful for comparisons across historical periods and with industry peers	This APM is calculated using result lines in the alternative income statement, for which a separate qualitative reconciliation is shown
Cost ratio	Segment Insurance as well as all product areas within the segment: P&C & Individual life, Health & Group life and Pension related disability insurance Nordic	Operational costs for the period, divided by insurance premiums f.o.a. for the same period	To show the magnitude of operational costs in relation to insurance premiums f.o.a. This ratio is a standard KPI within insurance and is useful for comparisons across historical periods and with industry peers	This APM is calculated using result lines in the alternative income statement, for which a separate qualitative reconciliation is shown

Guaranteed pension

Overview of Alternative Performance Measures

Alternative Performance Measure	Product area(s)	Calculation Method and/or description	Purpose of the APM	Relation with IFRS/NGAAP
Booked return guaranteed products	This APM relates to the Norwegian product areas: Defined benefit (fee based), Norway, Paid-up policies, Norway, Individual life and pension, Norway	The difference between book values of reserves in the end and beginning of the period.	To show the relevant return for covering the interest rate guarantee, i.e. the booked return.	Change from one fiscal period to the next in the booked value of a subset of the customer portfolio in the IFRS statement of financial position
Excess value of bonds at amortised cost	This APM relates to the Norwegian product areas: Defined benefit (fee based), Norway, Paid-up policies, Norway, Individual life and pension, Norway	Difference between market value and IFRS book value of bonds at amortised cost	To show the true buffer capital available in the life company to cover annual interest guarantees	The IFRS book value of bonds at amortised cost is shown in the IFRS statement of financial position. The excess value shows the difference between this book value and the true market value of the bonds.
Fee margin on reserves	All product areas within the segment Guaranteed pension: Defined benefit (fee based), Norway, Paid-up policies, Norway, Individual life and pension, Norway, Guaranteed pension, Sweden	Fee and administration income for the period divided by the average of the balance of reserves on a quarterly basis. If the period is one quarter, it the starting and closing balance. Quarterly numbers are annualised by multiplying the fee margin by four.	To enable comparison of top line margins across historical periods	Fee and administration income is an APM described in this document. Reserves are subsets of insurance liabilities in the IFRS statement of financial position.
Guaranteed reserves	Segment Guaranteed pension	Reserves in the SBL and SPP customer portfolios with an interest rate guarantee	To show the magnitude of reserves with an interest rate guarantee	Guaranteed reserves is a subset of insurance liabilities in the IFRS statement of financial position
Guaranteed reserves in % of total reserves	Segment Guaranteed pension	Guaranteed life reserves divided by total life reserves (i.e. the sum of guaranteed and non-guaranteed reserves)	To show the magnitude of reserves with an interest rate guarantee relative to the total life reserves.	The ratio between two subsets of insurance liabilities in the IFRS statement of financial position
Reserves	All product areas within the segment Guaranteed pension: Defined benefit (fee based), Norway, Paid-up policies, Norway, Individual life and pension, Norway, Guaranteed pension, Sweden	Life insurance reserves	To show the magnitude of reserves within the respective product areas	Subsets of insurance liabilities in the IFRS statement of financial position
Value adjusted return guaranteed products, Norway and Sweden	All product areas within the segment Guaranteed pension: Defined benefit (fee based), Norway, Paid-up policies, Norway, Individual life and pension, Norway, Guaranteed pension, Sweden	Market return, i.e. change in market value from one fiscal period to the next	To show the market return of customer portfolios	N/A (no market return figures are provided in IFRS statements)

Other[1]

Overview of Alternative Performance Measures

Alternative Performance Measure	Product area(s)	Calculation Method and/or description	Purpose of the APM	Relation with IFRS/NGAAP
Total-non interest income as % of average total assets	Storebrand Bank Group	Total non-interest income divided by the average of total assets over the period	A relatively large proportion of the income from sources other than interest, indicates that the bank has a relatively high proportion of income originating from non capital-intensive products/services.	Figures for other income and total assets have been obtained from the IFRS numbers. Other income includes net commission income. Average total assets during, for example a quarter, are calculated by taking the average of: The value of the opening balance for the quarter and the value of the closing balance for each month of the quarter.
Net interest income as % of average total assets	Storebrand Bank Group	Net interest income divided by the average of total assets over the period	Shows whether the income from lending money to customers is greater than the cost of financing these loans.	Figures for net interest income and total assets have been obtained from the IFRS numbers. In the figures for net interest income, the fee to the Norwegian Banks' Guarantee Fund is accrued over 12 months. Average total assets during, for example a quarter, are calculated by taking the average of: The value of the opening balance for the quarter and the value of the closing balance for each month of the quarter.
Loan losses and provisions as % of average total lending	Storebrand Bank Group	Loan losses in the period divided by the average of total lending over the period	Shows how the proportion of loan losses develops	Figures for loan losses have been obtained from the IFRS numbers. Loan losses for the bank group include the result items, write-downs on loans, guarantees, etc. for the period and loss on investment properties and repossessed assets. Average gross lending during, for example a quarter, is calculated by taking the average of: Value of the opening balance for the quarter and value of the closing balance for each month of the quarter.
Gross non-performing and loss-exposed loans as % of total average lending ratio	Storebrand Bank Group	Gross non performing and loss-exposed loans divided by the average total lending	Shows how the proportion of defaults develops.	Figures for non-performing loans and gross lending have been obtained from the IFRS numbers. Loan losses for the bank group include the result items, write-downs on loans, guarantees, etc. for the period and loss on investment properties and repossessed assets. Average gross lending during, for example a quarter, is calculated by taking the average of: The value of the opening balance for the quarter and the value of the closing balance for each month of the quarter.
Deposits from customers as % of gross lending	Storebrand Bank Group	Deposits from customers divided by gross lending	The deposit-to-loan ratio shows the extent to which the bank is dependent on financing from the capital markets.	Figures for customer lending and gross lending have been obtained from the IFRS numbers.
Level of provisioning for individual loss-exposed loans	Storebrand Bank Group / Storebrand Boligkreditt	Provisions for individual loan losses in percent of loss-exposed loans with evidence of impairment	Shows how much that is expected to be lost on non-performing loans with identified impairment loss.	Figures for individual write-downs and non-performing loans (with identified impairment loss) have been obtained from the IFRS numbers.
Total level of provisioning	Storebrand Bank Group	Total loan loss provisions in per cent of gross non-performing and loss-exposed loans	Shows the provisioning ratio	Figures for total write-downs and gross non-performing loans have been obtained from the IFRS numbers.
Cost as % of total assets	Storebrand Bank Group	Total operating expenses divided by the average of total asset over the period	Shows the cost efficiency relative to the balance sheet.	Figures for operating costs and total assets have been obtained from the IFRS numbers. Average total assets during, for example a quarter, are calculated by taking the average of: The value of the opening balance for the quarter and the value of the closing balance for each month of the quarter.
Loan-to-value	Storebrand Boligkreditt	Gross lending to customers divided by the estimated market value of the collateral including adjustments for preceding loans and debt.	Average loan-to-value ratio shows the average capital adequacy of the lending portfolio and thereby how vulnerable the portfolio is to changes in house prices.	Gross lending to customers is obtained from the IFRS numbers. Market values are from an external system that is used for estimating the market value of properties in Norway, whereby Storebrand makes certain corrections for some loans.

[1] Includes APMs in Storebrand Bank Group, which comprises Storebrand Bank ASA and Storebrand Boligkreditt AS