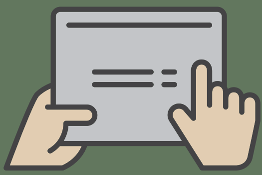


# Manage your personal finances efficiently in an integrated manner. Storebrand offers all the products and services you need, including banking.

Cecilie Andersen
Storebrand

Annual report 2017
Storebrand Bank ASA

# Company information

**ADDRESS:**

Storebrand Bank ASA
Professor Kohts vei 9
PO Box 474
N-1327 Lysaker

| | |
|---|---|
| Telephone: | +47 - 22 31 50 50 |
| Call center (within Norway): | 915 08 880 |
| Website : | www.storebrand.no |
| E-mail address: | bank@storebrand.no |

**CONTACT PERSONS:**

Bernt H. Uppstad. Managing Director. E-mail: bernt.uppstad@storebrand.no. Phone: + 47 9160 2270.
Kjetil R. Krøkje. Head of Investor Relations. E-mail: kjetil.r.krokje@storebrand.no. Phone: +47 9341 2155.

# Content



This document contains Alternative Performance Measures as defined by the European Securities and Market Authority (ESMA). An overview of APMs used in financial reporting is available on storebrand.com/ir.

# Key figures Storebrand Bank Group

| (NOK million) and percentage | 2017 | 2016 |
|---|---|---|
| **Profit and Loss account: (as % of avg. total assets)** | | |
| Net interest income | 1.14% | 1.11% |
| Other operating income [2] | 0.40% | 0.39% |
| | | |
| **Main balance sheet figures:** | | |
| Total assets | 31,982.2 | 32,373.0 |
| Average total assets [1] | 32,709.2 | 33,720.3 |
| Gross lending to customers | 27,326.4 | 27,333.5 |
| Deposits from customers | 14,628.0 | 15,238.4 |
| Deposits from customers as % of gross lending | 53.5 % | 55.7 % |
| Equity | 2,352.9 | 2,546.3 |
| | | |
| **Other key figures:** | | |
| Loan losses and provisions as % of average total lending [4] | 0.03% | 0.06% |
| Gross non-performing and loss-exposed loans as % of total average lending | 1.0 % | 0.7 % |
| Cost/income ratio [3] | 59.6 % | 55.3 % |
| Return on equity after tax [6] | 6.2 % | 6.4 % |
| Core capital ratio excl. Hybrid Tier 1 capital | 14.8 % | 14.0 % |
| LCR [5] | 154.0 % | 183.0 % |

Definitions:

1) Average total assets is calculated on the basis of monthly total assets.

2) Other operating income includes net fee and commission income.

3) Total operating expenses as % of total income.

4) Loan losses and provisions for Storebrand Bank Group includes the items loan losses for the period and losses real estate at fair value, assets repossessed, in the profit & loss account.

5) Liquidity coverage requirement.

6) Profit after tax for continued operations as % of average equity.

# 2017 ANNUAL REPORT

(Figures in brackets are the comparative figures for 2016)

## MAIN TRENDS

Storebrand Bank ASA is a wholly owned subsidiary of Storebrand ASA. The activities of the bank are managed as an integrated part of the activities of the Storebrand Group. Storebrand Bank ASA is a commercial bank with licenses under the Securities Trading Act. Its head office is in Lysaker, in the municipality of Bærum.

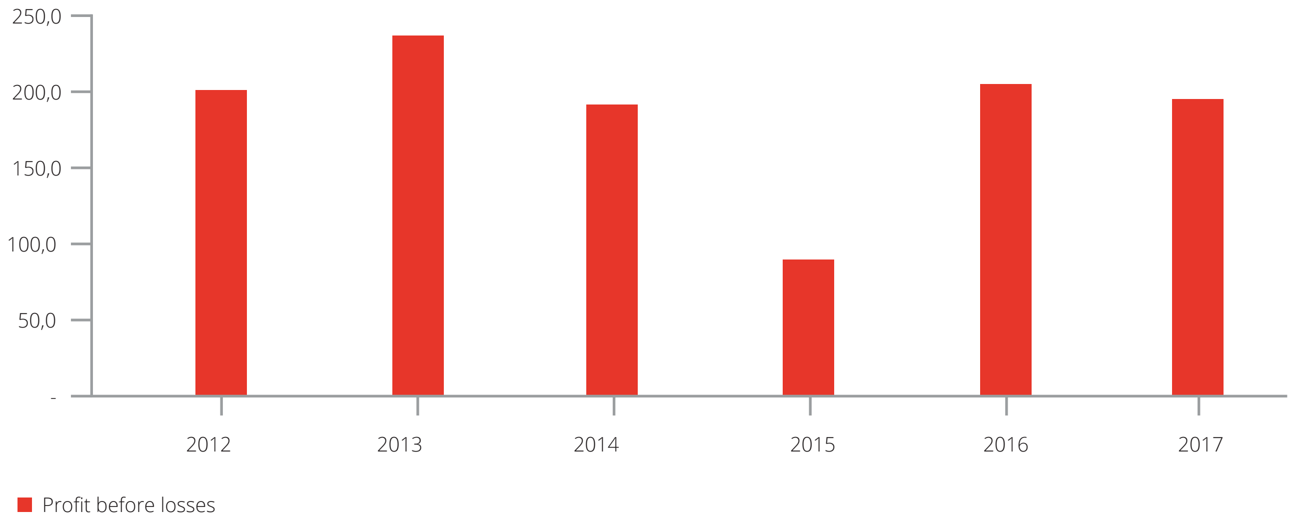
Storebrand Bank ASA is a web-based bank that offers traditional bank products to the Norwegian retail market. The bank is positioned as a provider of favourable home loans, combined with account and card products that provide customers with an easy and efficient everyday banking experience via internet or mobile phone. The bank has the objective of promoting sustainable choices by its customers through the products that it offers. The bank actively seeks to recruit new retail market customers to Storebrand, and has experienced strong growth in recent years.

Storebrand Bank ASA has decided to wind up the corporate market at the bank. The market is being wound up in a controlled manner over time.

Storebrand Bank AS has a wholly owned subsidiary, Storebrand Boligkreditt AS, which is a finance company with a licence from the Financial Supervisory Authority of Norway to issue covered bonds.

## FINANCIAL PERFORMANCE

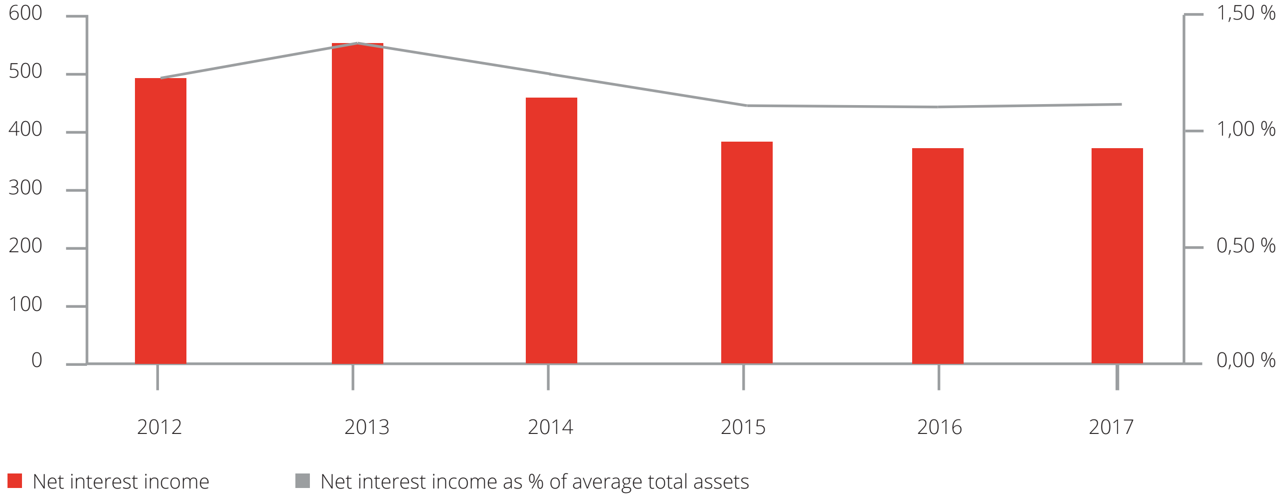
### TRENDS IN PROFIT BEFORE LOSSES




The bank group achieved a profit before tax of NOK 194 million for 2017 compared with NOK 203 million in 2016 for continued operations. Net interest income in 2017 was at approximately the same level as in 2016, with an increase of NOK 1 million on the previous year. The result was negatively impacted by an increase in operating expenses of NOK 15 million in 2017 compared with 2016. The increase was primarily due to higher costs associated with pensions and IT. The bank group achieved a profit after tax of NOK 146 million in 2017, compared with NOK 158 million in 2016.

## NET INTEREST INCOME

### NET INTEREST INCOME AND NET INTEREST INCOME AS A PERCENTAGE OF AVERAGE TOTAL ASSETS




Net interest income for the bank group amounted to NOK 374 million in 2017 compared with NOK 373 million in the previous year. Net interest income as a percentage of average total assets was 1.14 per cent in 2017, an increase of 0.03 per cent compared with 2016. The interest margin improved as a result of increased margins on home loans. Net interest income as a percentage of average total assets related to the retail market of the bank group was 1.20 per cent (1.12 per cent) for the year.

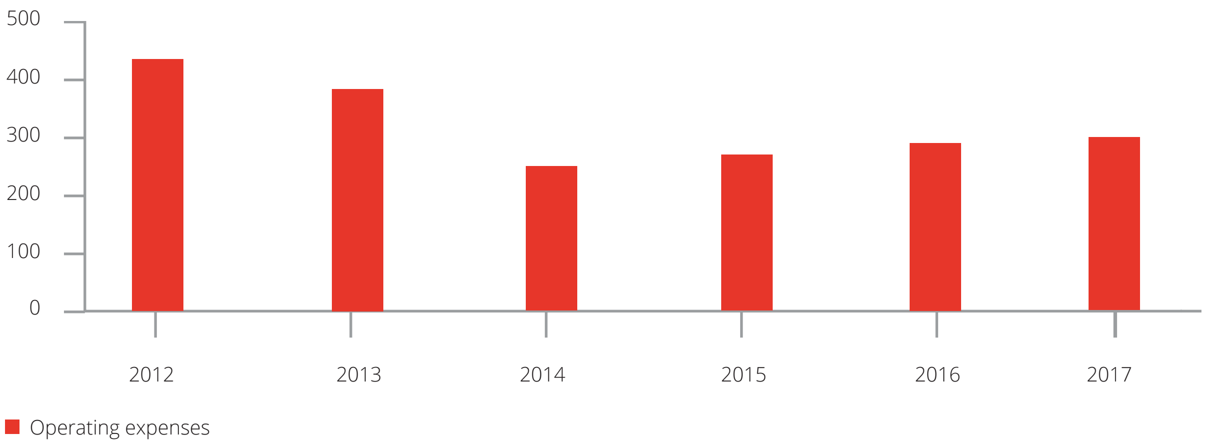
## OTHER INCOME

The bank group's net commission income totalled NOK 76 million, compared with NOK 48 million in 2016. The income is largely positively influenced by management fees from the managing of loans on behalf of Storebrand Livsforsikring AS.

Other operating income amounted to NOK 54 million in 2017, compared with NOK 83 million in 2016. The decrease in 2017 was primarily due to a dividend recognised as income from the membership in Visa Norge FLI of NOK 25 million in the second quarter of 2016 in connection with the sale of Visa Europe and a decrease in realised and unrealised gains relating to financial instruments at fair value. In 2017 other income was principally influenced by changes in unrealised gains on fixed-rate loans of NOK 7 million, changes in unrealised gains in the liquidity portfolio of NOK 16 million and realised gains in the liquidity portfolio of NOK 6 million. Realised and unrealised gains on derivatives and foreign exchange amounted to NOK 31 million in 2017. The change in value of the membership share in VISA Norge FLI was included through total comprehensive income and shows an increase of NOK 8 million for the year to date. In 2016, other income increased by NOK 25 million due to a dividend recognised as income from the membership in Visa Norge FLI, change in unrealised gains in the liquidity portfolio of NOK 18 million and realised gains of NOK 9 million, as well as gains on derivatives and foreign exchange of NOK 72 million and change in unrealised losses on fixed-rate loans of NOK 25 million.

## OPERATING EXPENSES

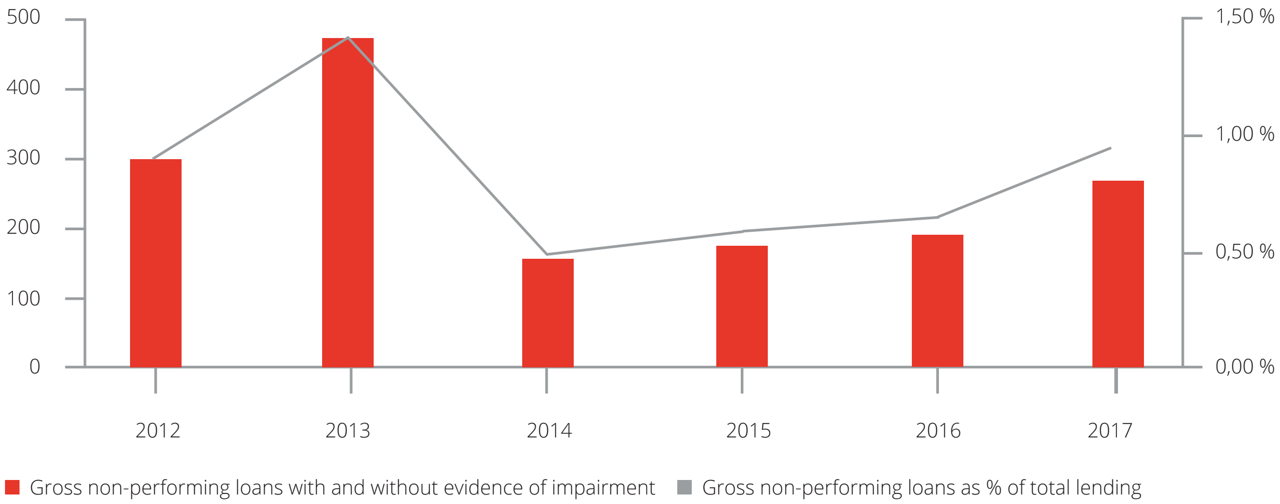
### OPERATING EXPENSES AS A PERCENTAGE OF AVERAGE TOTAL ASSETS




The operating expenses in the bank group totalled NOK 300 million (NOK 285 million). The increase is primarily due to increased pension costs and IT-cost. The cost percentage was 56 per cent in 2016 (68 per cent).

## LOSSES AND NON-PERFORMING LOANS

### DEVELOPMENTS IN GROSS NON-PERFORMING LOANS WITH AND WITHOUT IMPAIRMENT AND IN THE PERCENTAGE OF AVERAGE GROSS LENDING.

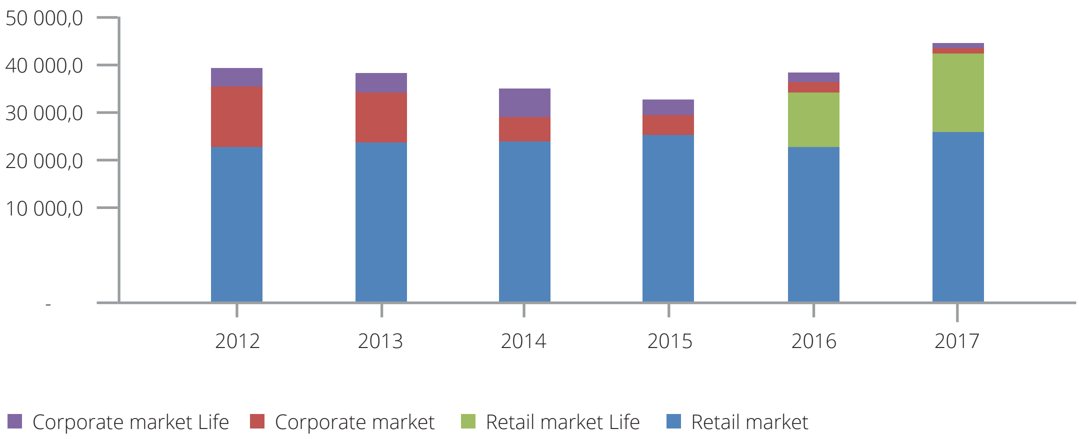


Total loan losses amounted to NOK 9 million for the bank group, compared with NOK 17 million in 2016.

Non-performing loans that are not impaired increased in 2017 and amounted to NOK 150 million (NOK 107 million). The volume of impaired non-performing loans increased to NOK 114 million (NOK 88 million) in 2017. The total volume of non-performing loans represents 1.0 per cent of gross lending (0.7 per cent).

## BALANCE SHEET

### DEVELOPMENT OF GROSS LENDING IN BOTH THE RETAIL MARKET AND CORPORATE MARKET




At the end of 2017 the bank group had NOK 32.0 billion in assets under management. Gross lending to customers was NOK 27.3 billion at year-end. This is the same level as at the end of 2016. In 2016 the bank entered into an agreement with Storebrand Livsforsikring AS for the sale of loans to the retail market. The portfolio of loans to the retail market in Storebrand Livsforsikring AS increased by NOK 5.5 billion in 2017 and amounted to NOK 15.2 billion as at 31 December 2017.

The loan portfolio in the retail market, including loans managed on behalf of Storebrand Livsforsikring AS amounted to NOK 42.1 billion at the end of the year. Retail market loans in the bank group amounted to NOK 26.9 billion. The retail market portfolio in the bank group increased by NOK 1.2 billion in 2017 and the corporate market portfolio was reduced according to plan and amounted to NOK 0.4 billion at the end of the year.

The bank group's retail market portfolio represents 99 per cent of total loans, and mainly consists of low risk home mortgages. The weighted average loan-to-value ratio in the bank group for the retail market portfolio is 57 per cent for home mortgage loans, compared with 56 per cent at the end of 2016. Loan-to-value ratio is calculated based on amounts drawn in the case of flexible secured loans. Corporate market lending accounts for 1 per cent of the portfolio.

The bank group has a balanced funding structure and bases its funding on customer deposits, issuance of securities and covered bonds, as well as borrowing in the Norwegian and international capital markets. The bank has established good liquidity buffers and attaches great importance to having a balanced funding structure with varying terms to maturity and issuances in various markets. The volume of deposits from customers was NOK 14.6 billion (NOK 15.2 billion) at the end of the year, which represents a deposit-to-loan ratio of 54 per cent (56 per cent).

The bank group issued NOK 0.9 billion in senior bonds and NOK 3.0 billion in covered bonds during 2017. Total amount maturing and repayments of bond debt were NOK 3.5 billion in 2017.

## BUSINESS SEGMENTS

### RETAIL MARKET

Storebrand Bank ASA is a web-based bank that provides traditional bank products to the Norwegian retail market. Among other things, these services include home loans, instant access accounts and cards, and mobile and internet banking. Storebrand Bank ASA also offers a wide range of options for bank savings. Storebrand is also partnered with Dreams, which launched an innovative savings app in late 2017 that makes saving simple and fun.

Storebrand strives to be at the forefront of the fight to preserve the environment and offers products intended to assist the customer in making sustainable choices in everyday life. Among other things, the bank's customers are offered sustainable home loans and credit cards. Home loans have very favourable terms and enable the customer to make smart energy-related decisions for the home. The credit card provides the customer with one of the best travel insurance policies in the market and has multiple advantages if the customer chooses sustainable travel.

Employees with an occupational pension at Storebrand are part of the group's benefit programme, which also includes favourable bank products. The bank has also entered into a cooperative agreement with the Confederation of Unions for Professionals (UNIO) that offers members home loans with lending conditions that are among the best the market.

At the end of 2017, the bank group had approximately 83,000 active retail market customers, with a lending volume of NOK 26.9 billion and a volume of deposits of NOK 14.4 billion. Loans administered by the bank group had high lending growth in 2017.

### CORPORATE MARKET

Storebrand Bank ASA decided in 2013 to wind up the corporate market at the bank. This is also a strategic assessment of the future direction of the Group, and the bank's corporate market is not a prioritised core activity.

The area is being wound up in a controlled manner over time, meaning that the bank is not becoming involved in new projects, granting new loans or through other means bringing in new customers in the Corporate Market.

## GROUP STRUCTURE AND SUBSIDIARIES

Subsidiary Storebrand Boligkreditt AS holds a licence to issue covered bonds secured by mortgages in residential property. The company's balance was NOK 14.9 billion at the end of 2017, and it mainly serves as a funding tool. NOK 11.4 million in covered bonds were issued. The portfolio had 0.2 per cent non-performance at the end of 2017. The established lending programme has a Aaa rating from S&P Global Rating Services.

## RISK MANAGEMENT

A bank's core activities are linked to creating value through exposure to acceptable risk. The bank group is proactive in managing the risks in its business activities and continuously works to develop its routines and processes for risk management. The risk profile is considered low.

The risk in the bank group is closely monitored in accordance with guidelines for risk management and internal control that have been approved by the Board. The Board specifies the appetite for risk and risk limits on an annual basis. Separate risk policies are prepared for the individual risks, with risk indicators and risk limits. The development of these parameters is monitored through risk reports to the Board.

Credit risk and liquidity risk are the principal risks for the bank group. The bank is also exposed to market risk, operational risk, including IT risk, and compliance risk.

## CREDIT RISK

The bank group has net lending to customers totalling NOK 27.3 billion, in addition to unused credit facilities and guarantees of NOK 3.5 billion as at 31 December 2017.

Lending to the corporate market segment will be wound up and the portfolio is being reduced. The lending volume, including unused credit facilities and guarantees on the bank's own balance sheet, has declined from NOK 1.6 billion to NOK 466 million. The portfolio consists almost exclusively of loans to commercial property and mortgage-backed commitments in which the ongoing cash flows cover the commitment's interest expenses. The risk level is considered to be moderate.

The lending volume, including unused credit facilities and guarantees to the retail market, amounted to NOK 30.3 billion. The credit quality of the retail market portfolio is considered good, with a low to moderate risk in accordance with the bank's risk appetite. Almost the entire portfolio is secured on real estate. The portfolio's high collateral coverage indicates a limited risk of loss. New loans are granted in accordance with the regulations relating to new loans secured by a mortgage on residential property.

The weighted average loan-to-value ratio in the bank group for the retail market portfolio is 56 per cent for home loans. 88 per cent of home loans have a loan-to-value ratio within 80 per cent and 99.5 per cent are within a 100 per cent loan-to-value ratio. In the bank group, 47 per cent of home loans are within a 60 per cent loan-to-value ratio. The loan-to-value ratio of the portfolio increased during the year due to a fall in house prices. Storebrand Bank ASA continually monitors the loan-to-value ratio and updates the market values every quarter, most recently at the end of November.

The retail market portfolio has historically had low losses and the proportion of loans in the retail market as a percentage of the bank's total lending was 98 per cent at the end of 2017.

Residential mortgage products (line of credit with mortgage in residential property) are 20 per cent of the total exposure in the retail market portfolio. The average utilisation rate is 64 per cent. There are stricter lending criteria for residential mortgage products, and the bank monitors customers with a high utilisation rate and customers who do not pay interest and instalments on an ongoing basis.

The bank group's guarantee portfolio amounted to NOK 20 million at year-end. The majority of the guarantees have been made for customers in connection with property development.

At year-end, the bank group had deposited securities with a fair value of NOK 885 million as collateral for drawing rights to overnight loans and F-loans in Norges Bank. In addition, there are deposited securities with a fair value of NOK 300 million to other credit institutions.

## LIQUIDITY RISK

The Storebrand Bank Group has solid liquidity buffers. The liquidity coverage requirement (LCR) measures the size of the company's liquid assets, in relation to the net liquidity outflow 30 days in the future, in a given stress situation in the money and capital markets. The minimum LCR was 100 per cent at the end of 2017. The bank measures and reports LCR monthly and complies and has complied with internal and external requirements. The bank group's LCR was 154 per cent at the end of the year.

The deposit-to-loan ratio at the Storebrank Bank Group was 54 per cent at the end of the year. For market financing, a great deal of importance is placed on having a balanced funding structure in relation to the different maturities, instruments and issues in different markets. Among other things, The Storebrand Bank Group measures and assesses the Financial Supervisory Authority of Norway's "liquidity indicator 1" and NSFR (net stable funding ratio) when evaluating the bank's financing. It is expected that the NSFR requirement will be 100 per cent.

## MARKET RISK

The interest rate risk and spread risk in the liquidity portfolio represent the most important market risks. On the whole, the market risk is low. There are very low limits for foreign exchange risk and there is no active investment strategy for shares.

### OPERATIONAL RISK

The bank group manages operational risk by focusing on establishing good work and control routines. It also works systematically to create the right attitude among the bank group's employees. The most important measures to reduce operational risk are systematic risk reviews carried out at least every six months on all of the bank group's activities, and also when starting projects or with special events. The most recent risk review was performed in autumn 2017.

Among other things, the bank group's IT systems are vital for product establishment, credit approval, portfolio follow-up and accounting. Errors and disruptions can have consequences for operations and impact on customer trust. In the worst case, abnormal situations may result in penalties from supervisory authorities. Operations of the IT systems are outsourced to a considerable extent. The bank's system platform is based on purchased standard systems that are operated and monitored through service agreements. A lateral management model has been established with close supplier follow-up and internal control activities to reduce the risk associated with the development, management and operation of the IT systems and information security.

### COMPLIANCE RISK

The risk of incurring public sanctions or financial losses due to failure to comply with external and internal regulations is defined as the bank group's compliance risk. Storebrand Bank ASA is particularly focused on the risk relating to compliance and implementation of changes in the current legislation regarding customer protection, capital adequacy, liquidity management and the application of international accounting standards.

### LEGAL DISPUTES

In 2017, Storebrand Bank ASA reported six cases to the police. Three of these concerned falsifying documents and the others involved ID theft or fraud.

The bank received a total of thirteen customer complaints in 2017, compared to four in 2016. The complaints can be generally categorised as pertaining to information. Of the complaints received, five were heard by the Financial Complaints Board. None of the complaints were upheld. Seven of the complaints concerned investments in Storebrand Privat Investor ASA (SPI). The primary reasons given for the complaints were insufficient information about the investment risk, the stock's poor liquidity and inadequate return. The bank has not accepted the complaints nor agreed to any settlement.

In December 2017, the bank received notice of a possible lawsuit from Klagehjelp AS on behalf of a number of investors who subscribed for shares issued at Storebrand Privat Investor ASA (SPI) from 2005-2007 The bank does not consider there to be grounds to assert that there were errors and/or omissions in the customer advice and/or the product, including the product information, which would provide a basis for claims for compensation from the bank. Therefore, no provisions have been made in the accounts as at 31 December 2017.

## CAPITAL MANAGEMENT

### CAPITAL ADEQUACY

The bank group had net primary capital of NOK 2.3 billion (NOK 2.4 billion) at the end of 2017. The capital adequacy ratio was 18.9 per cent and the pure core capital ratio was 14.8 per cent, compared to 17.7 per cent and 14.0 per cent respectively at the end of 2016. The bank group has adapted to the new capital requirements and aims to comply with the applicable buffer capital requirements at any given time. The company has satisfactory financial strength and liquidity based on its operations. The bank group, parent bank and home mortgage company all satisfy the current statutory requirements.

Due to the discontinuation of the corporate market, the bank will not enter into new projects, grant new loans or otherwise acquire new corporate market customers.

## PERSONNEL, ORGANISATION, CORPORATE BODIES AND THE ENVIRONMENT

### SUSTAINABILITY - A FUTURE TO LOOK FORWARD TO

The Storebrand Group has worked on sustainability in a systematic and goal-oriented manner for almost 20 years. Our sustainability work originated in asset management, where sustainability is currently part of the fundamental pillar of Storebrand's investment strategy.
During 2016 we established our driving force. Our driving force is what Storebrand stands for. We create security today and a future you can look forward to. Our objective describes what we work towards every day: a safe, sustainable future with financial freedom to experience what you want to experience. We shall ensure that our customers have a future they can look forward to. We shall do this by thinking long-term, demonstrating that this together with sustainability is the way forward and always putting the needs of the customers first.

Storebrand bases its work on sustainability and sustainable investments on global standards for environmental and human rights. We also support UN conventions and guidelines and have signed the UN Principles for Responsible Investment (PRI) and the UN Principles for Sustainable Insurance (PSI).

Sustainability is integrated into everything we do and is based on 10 clear guidelines for the Group. The Group has published environmental reports since 1995 and sustainability reports since 1999 and these are now an integrated part of the annual report of Storebrand ASA. The reports follow the GRI 4 guidelines for reporting.

### ETHICS AND TRUST

Trust is the lifeblood of Storebrand. The company sets strict requirements concerning high ethical standards for the Group's employees. Storebrand also has ethical rules, which are an important tool in our daily operations, and are followed up every year through training and monitoring. Management teams at all levels of the Group discuss ethical dilemmas and review the rules at least annually. The Group's rules relating to anti-corruption, notification and work against internal fraud are included in the ethical rules and apply to all employees and consultants that work for Storebrand.

### THE ENVIRONMENT

The company makes a focused effort to reduce the impact of its business activities on the environment, through their own operations, investments, purchasing and property management. The emissions that we nevertheless have, through travel and the consumption of energy, are compensated for through purchasing verified emission allowances. The Storebrand Group places strict environmental demands on its suppliers and companies in which it invests. The company's head office is a low-emission building that uses renewable energy sources like solar energy and district heating. The building is also Eco-Lighthouse certified.

### HUMAN RESOURCES AND ORGANISATION

The bank group and Storebrand Bank ASA had 105 full-time equivalents at the end of the year, compared with 110 at the beginning of the year. Gender distribution is 49 per cent men and 51 per cent women. The average age of our employees is 43. The average term of service is 11 years.

### DIVERSITY

Storebrand makes a focused effort to strengthen the development and have an even distribution of women and men in all areas and at all levels in the company. At the end of 2017, 66 per cent of the company's board members were women. At the end of the year, 38 per cent of the employees with managerial responsibility in the company were women.

The company has increased its cultural diversity along the same lines as society in general. The company seeks to ensure equal treatment and opportunities for all the internal and external recruitment and development processes. The head office is a universal design building.

## COMPETENCE

A high level of skill is one of Storebrand's most important factors for success, and it forms the foundation for renewed growth. At Storebrand, skills are synonymous with the ability that each individual employee has to perform and manage certain tasks and situations. This ability is based on knowledge and experience, skills, motivation and personality.

At Storebrand, all of the employees should have an opportunity to develop in step with the company's needs. In 2017, the company has focused on the fact that the greatest and most important part of skills development takes place through facilitating development as part of the everyday work. Skills development should take place be assigning challenging tasks to employees in their positions, and that they are allowed to develop themselves for new requirements and tasks.

## WORKING ENVIRONMENT AND ABSENCE DUE TO ILLNESS

Storebrand has worked systematically to prevent absence due to illness for several years, and it has placed health and satisfaction high on its agenda. The company had absence due to illness of 4.1 per cent in 2017, which is a decrease of 0.2 percentage points over the previous year. The company has been an "inclusive workplace (IA)" company since 2002, and the managers have over the years built up good routines for following up sick employees. All managers must complete a mandatory HSE course, in which part of the training involves following up illnesses. Storebrand has its own health clinic to reduce absence due to illness. Employees can exercise in the spinning room, weights room and in a separate sports hall during working hours. The company sports association is responsible for activities in the hall.

No personal injuries, property damage or accidents were reported in the company in 2017.

## CORPORATE GOVERNANCE

The bank group's systems for internal control and risk management linked to the accounting process adhere to Storebrand Group guidelines. The Board decides upon the guidelines annually. In addition, the bank group purchases all bookkeeping and financial reporting services from Storebrand Livsforsikring through service contracts.

The management and Board of Storebrand ASA consider the principles for corporate governance every year. Storebrand ASA established principles for corporate governance in 1998. In accordance with Section 3-3b of the Accounting Act and the Norwegian recommendation for corporate governance (most recently revised on 30 October 2014), Storebrand presents a report on its principles and practices for corporate governance. For a more detailed report on Storebrand's corporate governance in accordance with Section 3-3b of the Accounting Act, see the specific article on this in the Storebrand Group's annual report for 2016.

The bank group publishes four interim financial statements, in addition to the ordinary annual financial statements. The financial statements must satisfy legal and regulatory requirements and be prepared in accordance with the adopted accounting policies and published according to the schedule adopted by the Board of Storebrand ASA. The bank's accounts are prepared by the Group Accounts department of Storebrand Livsforsikring AS, which is under the Storebrand Group's CFO. Key managers in Group Accounts have a fixed annual remuneration that is not affected by the group's financial results. A series of risk assessment and control measures have been established in connection with the preparation of the financial statements. Internal meetings are held, as well as meetings in which external auditors participate, to identify risk conditions and measures in connection with significant accounting items or other circumstances. Corresponding quarterly meetings are also held with various professional centres in the group that are key to the assessment and valuation of lending and financial instruments, as well as other items for assessment. These meetings have a particular focus on any market changes, specific conditions relating to default trends, individual loans and investments, transactions and operational conditions etc. Assessments relating to significant accounting items and any changes in principles etc. are described in a separate document (assessment item memo). The external auditor participates in board meetings that deal with the quarterly accounts and annual accounts, as well as in meetings of the audit committee of Storebrand ASA. Monthly and quarterly operating reports are prepared in which the results per business area and product area are analysed and assessed against set budgets. The operating reports are reconciled against other financial reporting. Otherwise, continuous reconciliation of specialist systems, etc. takes place against the accounting system.

The work of the Board is regulated by special rules of procedure for the Board. The Board of Storebrand ASA has also adopted an executive "Steering Document for Management and Control in the Storebrand Group" and a set of instructions for the Boards of subsidiary companies.

These documents describe how guidelines, plans and strategies adopted by the Group's Board of Directors are expected to be followed, as well as how risk management and control is to be performed in the Group. The Board of Storebrand ASA has three advisory sub-committees that are common to the Storebrand Group: The Compensation Committee, Audit Committee and Risk Committee.

The bank has no provisions in the Articles of Association or authorities that enable the Board to decide that the company may buy back or issue its own shares or capital certificates.

**CHANGES IN THE COMPOSITION OF THE BOARD**

Heidi Skaaret was elected as deputy chairman of the Board in June 2017 and replaced Geir Holmgren, who then left the Board. At an extraordinary general meeting in December, Heidi Skaaret was elected chairman and Jostein Dalland was elected deputy chairman. At the same time, Odd Arild Grefstad stepped down from the Board.

**SOCIAL RESPONSIBILITY**

Reference is made to the detailed description regarding sustainability, included in the 2017 annual report of the Storebrand Group.

## GOING CONCERN

The Board confirms that the prerequisites for the going concern assumption exist and accordingly the annual report has been prepared based on the going concern principle.

## EVENTS AFTER THE BALANCE SHEET DATE

During the normal course of its business, the Storebrand Bank Group is involved in legal proceedings and disputes. The Board is not aware of any events of material importance to the annual and Group financial statements that have occurred since the balance sheet date.

## STOREBRAND BANK ASA

The annual profit for the parent bank Storebrand Bank ASA was NOK 144 million (NOK 174 million) in 2017. Net interest income for Storebrand Bank ASA was NOK 221 million (NOK 255 million) in 2017. A net amount of NOK 7 million (NOK 17 million) was expensed for write-downs on loans for the year.

The parent bank had total assets of NOK 20.8 billion at year-end. Gross lending in the parent bank amounted to NOK 12.8 billion (NOK 14.0 billion). Equity in the parent bank at the end of the year amounted to NOK 2.0 billion (NOK 2.1 billion). The net capital base at year-end after giving group contributions amounted to NOK 2.2 billion (NOK 2.3 billion). The company's capital adequacy was 23.6 per cent (21.4 per cent) and the pure core capital adequacy was 18.3 per cent (16.8 per cent).

The bank group's activities, with the exception of activities in Storebrand Boligkreditt AS, are run by the parent bank. Part of the bank group's retail market business area is in Storebrand Boligkreditt AS. Storebrand Bank ASA's corporate market portfolio is being wound up and the increased proportion of retail market loans reduces net interest income as a percentage of average total assets for the parent bank. Other profit and balance sheet trends for the parent bank are covered in the description of the bank group above.

## ALLOCATION OF PROFIT

Storebrand Bank ASA (the parent bank) achieved an annual profit for 2017 of NOK 144.3 million.

The Board proposes that a group contribution of NOK 254.0 million, of which the group contribution with tax effect is NOK 151.9 million (NOK 113.9 million after tax), be paid to Storebrand ASA. The Board considers the bank group and Storebrand Bank ASA's capital situation to be good given the risk profile and proposes the following allocation of the profit for the year to the bank's general meeting:

| (NOK million) | |
|---|---|
| Group contribution after tax | -254.0 |
| Transferred from other equity | 109.7 |
| **Total allocations** | **-144.3** |

Storebrand Bank ASA provides group contributions to subsidiaries of NOK 5.9 million without tax effect.

## STRATEGY AND OUTLOOK FOR 2018

In 2018, the Storebrand Bank group will continue to work on improving the business' profitability, combined with growth within strategic segments in the retail market. The development in the housing market in different parts of the country will be closely monitored. The bank will also prioritise maintaining a moderate to low risk profile with a good balance sheet and good funding composition.

In the retail market, the bank will continue to work on developing attractive products and digital services that support Storebrand's focus on sustainability. Improving competitiveness through better efficiency is a priority and the bank shall continue to reduce costs and increase the degree of automation in customer and work processes.

Due to the discontinuation of the corporate market, the bank will not enter into new projects, grant new loans or otherwise acquire new corporate market customers.

Sound management of the bank's credit and liquidity risk, and control of the operational risk in key work processes will also be a vital focus in 2018. The bank will continue to closely monitor developments in non-performing loans and loan losses. Developments in the Norwegian and international capital markets, interest rates, unemployment and the property market, particularly in Oslo, are regarded as the key risk factors that can affect the results of the Storebrand Bank group in 2018.

Lysaker, 6 February 2018
The Board of Directors of Storebrand Bank ASA

*Translation – not to be signed*

Heidi Skaaret
Chairman of the Board

Jostein Dalland
Deputy Chairman

Inger Roll-Matthiesen
Board Member

Leif Helmich Pedersen
Board Member

Vivi Gevelt
Board Member

Maria Skotnes
Board Member

Bernt H. Uppstad
CEO

# Notes to the account

| Content | Page |
|---|---|

**STOREBRAND BANK GROUP**



| | Page |
|---|---|

**STOREBRAND BANK ASA**

# Storebrand Bank Group
## Profit and loss account
## 1 January - 31 December

| (NOK million) | Note | 2017 | 2016 |
|---|---|---|---|
| Interest income | | 729.3 | 765.9 |
| Interest expense | | -355.3 | -393.3 |
| **Net interest income** | 11 | **374.0** | **372.7** |
| Fee and commission income from banking services | | 91.0 | 63.6 |
| Fee and commission expense for banking services | | -15.0 | -15.2 |
| **Net fee and commission income** | 12 | **76.0** | **48.5** |
| Net gains on financial instruments | 11 | 53.7 | 86.9 |
| Other income | | 0.0 | -3.5 |
| **Total other operating income** | | **53.7** | **83.4** |
| Staff expenses | 14, 15 | -105.8 | -96.8 |
| General administration expenses | 14 | -59.8 | -48.5 |
| Other operating costs | 13, 14, 26, 27 | -134.6 | -139.4 |
| **Total operating costs** | | **-300.2** | **-284.7** |
| **Operating profit before loan losses** | | **203.5** | **219.8** |
| Loan losses for the period | 16 | -9.4 | -17.2 |
| **Profit before tax** | | **194.1** | **202.7** |
| Tax | 17 | -48.1 | -45.0 |
| Result after tax sold/discontinued operations | | -0.3 | 0.5 |
| **Profit for the year** | | **145.8** | **158.1** |
| | | | |
| Profit for the year is attributable to: | | | |
| Portion attributable to shareholders | | 135.1 | 147.2 |
| Portion attributable to additional Tier 1 capital holders | | 10.6 | 11.0 |
| **Profit for the year** | | **145.8** | **158.1** |

# Statement of comprehensive income

| (NOK million) | Note | 2017 | 2016 |
|---|---|---|---|
| Profit for the year | | 145.8 | 158.1 |
| | | | |
| **Other result elements not to be classified to profit/loss** | | | |
| Pension experience adjustments | 15 | 0.4 | -6.6 |
| Tax on pension experience adjustments | 17 | -0.1 | 1.7 |
| **Total other result elements not to be classified to profit/loss** | | **0.3** | **-5.0** |
| | | | |
| **Other result elements that may be classified to profit/loss** | | | |
| Unrealised gain/loss financial instruments available for sale | | 7.6 | -2.8 |
| **Total other result elements that may be classified to profit/loss** | | **7.6** | **-2.8** |
| **Total comprehensive income** | | **153.7** | **150.4** |
| | | | |
| Total comprehensive income for the period is attributable to: | | | |
| Portion attributable to shareholders | | 143.0 | 139.4 |
| Portion attributable to additional Tier 1 capital holders | | 10.6 | 11.0 |
| **Total comprehensive income** | | **153.7** | **150.4** |

# Storebrand Bank Group

## Statement of financial position - balance sheet
## 31 December

### ASSETS

| (NOK million) | Note | 2017 | 2016 |
|---|---|---|---|
| Cash and deposits with central banks | 5 | 472.2 | 464.5 |
| Loans to and deposits with credit institutions | 5, 9, 18 | 313.5 | 272.0 |
| | | | |
| Financial assets designated at fair value through the profit and loss account: | | | |
| Equity instruments | 9 | 40.8 | 15.5 |
| Bonds and other fixed-income securities | 5,9, 19, 21 | 3,213.5 | 3,431.9 |
| Derivatives | 5, 6, 9, 22 | 179.8 | 254.1 |
| | | | |
| Bonds at amortised cost | 5, 9, 20 | 380.4 | 530.6 |
| | | | |
| Other current assets | 18 | 37.3 | 30.5 |
| | | | |
| Gross loans, amortised cost | 5, 9, 18, 24 | 26,746.3 | 25,375.0 |
| Gross loans, FVO | 5, 9, 18, 24 | 580.0 | 1,958.5 |
| Loan loss provisions | 5, 9, 18, 25 | -69.3 | -65.7 |
| Net loans to customers | 5, 9, 18, 24 | 27,257.0 | 27,267.8 |
| | | | |
| Tangible assets | 27 | 0.1 | 1.0 |
| Intangible assets and goodwill | 26 | 71.4 | 80.1 |
| Deferred tax assets | 17 | 16.1 | 24.0 |
| Assets sold/discontinued operations | | 0.0 | 0.8 |
| | | | |
| **Total assets** | | **31,982.2** | **32,373.0** |

# Storebrand Bank Group
## Statement of financial position - balance sheet
## 31 December

### LIABILITIES AND EQUITY

| (NOK million) | Note | 2017 | 2016 |
|---|---|---|---|
| Liabilities to credit institutions | 6, 9, 18 | 155.0 | 407.2 |
| Deposits from and due to customers | 6, 18, 28 | 14,628.0 | 15,238.4 |
| | | | |
| Other financial liabilities: | | | |
| Derivatives | 6, 9, 18, 22 | 138.6 | 208.3 |
| Commercial papers and bonds issued | 6, 9, 18 | 14,304.2 | 13,521.0 |
| Other liabilities | 6, 18, 31 | 109.9 | 153.7 |
| | | | |
| Liabilities sold/discontinued operations | | 0.0 | 0.0 |
| Provision for accrued expenses and liabilities | 30 | 6.0 | 7.3 |
| Pension liabilities | 15 | 11.6 | 13.6 |
| | | | |
| Subordinated loan capital | 6, 9, 18 | 276.1 | 277.2 |
| **Total liabilities** | | **29,629.3** | **29,826.6** |
| | | | |
| Other paid-in share capital | | 1,590.9 | 1,590.9 |
| Retained earnings | | 536.0 | 729.4 |
| Additional Tier 1 capital | | 226.0 | 226.0 |
| **Total equity** | **34** | **2,352.9** | **2,546.3** |
| | | | |
| **Total liabilities and equity** | | **31,982.2** | **32,373.0** |

Lysaker, 6 February 2018
The Board of Directors of Storebrand Bank ASA

*Translation – not to be signed*

Heidi Skaaret
Chairman of the Board

Jostein Dalland
Deputy Chairman

Leif Helmich Pedersen
Board Member

Inger Roll-Matthiesen
Board Member

Vivi Gevelt
Board Member

Maria Skotnes
Board Member

Bernt H. Uppstad
CEO

# Storebrand Bank Group
## Consolidated Statement of changes in equity

| | Paid-in equity | | | | Other equity | | | |
|---|---|---|---|---|---|---|---|---|
| (NOK million) | Share capital | Share premium | Other paid-in equity | Total paid-in equity | Other equity | Total retained earnings | Additional Tier 1 capital | Total equity |
| Equity at 31.12.2015 | 960.6 | 156.0 | 400.3 | 1,516.8 | 661.3 | 661.3 | 226.0 | 2,404.2 |
| | | | | | | | | |
| Profit for the period | | | | | 147.2 | 147.2 | 11.0 | 158.1 |
| | | | | | | | | |
| Pension experience adjustments (see note 15) | | | | | -5.0 | -5.0 | | -5.0 |
| **Total other result elements not to be classified to profit/loss** | **0.0** | **0.0** | **0.0** | **0.0** | **-5.0** | **-5.0** | **0.0** | **-5.0** |
| Unrealised gain/loss financial instruments available for sale | | | | | -2.8 | -2.8 | | -2.8 |
| **Total other result elements that may be classified to profit/loss** | | | | | **-2.8** | **-2.8** | | **-2.8** |
| **Total comprehensive income for the period** | **0.0** | **0.0** | **0.0** | **0.0** | **139.4** | **139.4** | **11.0** | **150.4** |
| | | | | | | | | |
| **Equity transactions with owners:** | | | | | | | | |
| Additional Tier 1 capital classified as equity | | | | | 2.7 | 2.7 | | 2.7 |
| Payment to additional Tier 1 holders | | | | | | | -11.0 | -11.0 |
| Group contribution received | | | 74.1 | 74.1 | | | | 74.1 |
| Group contribution paid | | | | | -74.1 | -74.1 | | -74.1 |
| **Equity at 31.12.2016** | **960.6** | **156.0** | **474.3** | **1,590.9** | **729.4** | **729.4** | **226.0** | **2,546.3** |
| | | | | | | | | |
| Profit for the period | | | | | 135.1 | 135.1 | 10.6 | 145.8 |
| | | | | | | | | |
| Pension experience adjustments (see note 15) | | | | | 0.3 | 0.3 | | 0.3 |
| **Total other result elements not to be classified to profit/loss** | **0.0** | **0.0** | **0.0** | **0.0** | **0.3** | **0.3** | **0.0** | **0.3** |
| | | | | | | | | |
| Unrealised gain/loss financial instruments available for sale | | | | | 7.6 | 7.6 | | 7.6 |
| **Total other result elements that may be classified to profit/loss** | | | | | **7.6** | **7.6** | | **7.6** |
| **Total comprehensive income for the period** | **0.0** | **0.0** | **0.0** | **0.0** | **143.0** | **143.0** | **10.6** | **153.7** |
| | | | | | | | | |
| **Equity transactions with owners:** | | | | | | | | |
| Additional Tier 1 capital classified as equity | | | | | 2.7 | 2.7 | | 2.7 |
| Payment to additional Tier 1 holders | | | | | | | -10.7 | -10.7 |
| Group contribution paid | | | | | -339.0 | -339.0 | | -339.0 |
| Other changes | | | | | -0.1 | -0.1 | | -0.1 |
| **Equity at 31.12.2017** | **960.6** | **156.0** | **474.3** | **1,590.9** | **536.0** | **536.0** | **226.0** | **2,352.9** |

The equity changes with the result for the individual period, equity transactions with the owners and items that are entered directly to total comprehensive income. Share capital, the share premium reserve and other equity is evaluated and managed together. The share premium and other equity may be used in accordance with the provisions of the Public Limited Liabilities Company Act.

Storebrand Bank ASA actively manages the level of equity in the company and the group. The capital level is tailored to the economic risk and capital requirements in which the composition of its business areas and their growth will be an important driver.The goal of the capital management is to ensure an effective capital structure and secure an appropriate balance between internal goals in relation to regulatory and the rating companies' requirements. If there is a need for new capital, this must be issued by the holding company Storebrand ASA.

Storebrand Bank ASA is a financial group subject to statutory requirements regarding primary capital under the capital adequacy regulations. Primary capital encompasses both equity and subordinated loan capital. For Storebrand Bank ASA, these legal requirements are most important in its capital management.
For further information on the group's fulfilment of the capital requirements, see note 34.

# Storebrand Bank Group
## Statement of cash flow
## 1 January - 31 December

| (NOK million) | Note | 2017 | 2016 |
|---|---|---|---|
| **Cash flow from operations** | | | |
| Receipts of interest, commissions and fees from customers | | 839.8 | 835.5 |
| Payments of interest, commissions and fees to customers | | -117.7 | -135.5 |
| Net disbursement/payments on customer loans | | -6.7 | 1,986.8 |
| Net receipts/payments of deposits from banking customers | | -610.4 | -2,586.3 |
| Net receipts/payments - securities | | 833.5 | 1,205.9 |
| Payments of operating costs | | -414.6 | -331.6 |
| Net receipts/payments on other operating activities | | | -0.2 |
| **Net cash flow from operating activities** | | **523.8** | **974.5** |
| | | | |
| **Cash flow from investment activities** | | | |
| Net payments on purchase/sale of fixed assets etc. | 26, 27 | -3.9 | -15.7 |
| **Net cash flow from investment activities** | | **-3.9** | **-15.7** |
| | | | |
| **Cash flow from financing activities** | | | |
| Payments - repayments of loans and issuing of bond debt | | -3,474.0 | -3,902.5 |
| Receipts - new loans and issuing of bond debt | | 3,897.9 | 3,698.6 |
| Payments - interest on loans | | -252.7 | -272.1 |
| Receipts - subordinated loan capital | | 150.0 | |
| Payments - repayments of subordinated loan capital | | -150.0 | |
| Payments - interest on subordinated loan capital | | -10.1 | -10.8 |
| Payments - interest on additional Tier 1 capital | | -11.0 | -11.0 |
| Net receipts/payments of liabilities to credit institutions | | -251.7 | -8.6 |
| Receipts - group contribution | | | 74.1 |
| Payments - group contribution | | -369.2 | -101.5 |
| **Net cash flow from financing activities** | | **-470.8** | **-533.8** |
| | | | |
| **Net cash flow in the period** | | **49.1** | **425.1** |
| | | | |
| Net cash flow in the period | | 49.1 | 425.1 |
| Cash and bank deposits at the start of the period | | 736.6 | 311.5 |
| **Cash and bank deposits at the end of the period** | | **785.6** | **736.6** |
| | | | |
| Cash and deposits with central banks | | 472.2 | 464.5 |
| Loans to and deposits with credit institutions | | 313.5 | 272.0 |
| **Total cash and bank deposits in the balance sheet** | | **785.6** | **736.6** |

The cash flow analysis shows the group's cash flows for operational, investment and financial activities pursuant to the direct method. The cash flows show the overall change in means of payment over the year.

#### OPERATIONAL ACTIVITIES
A substantial part of the activities in a financial group will be classified as operational.

#### INVESTMENT ACTIVITIES
Includes cash flows for holdings in group companies and tangible fixed assets.

#### FINANCING ACTIVITIES
Financing activities include cash flows for equity, subordinated loans and other borrowing that helps fund the group's activities. Payments of interest on borrowing and payments of group contribution are financial activities.

#### CASH/CASH EQUIVALENTS
Cash/cash equivalents are defined as claims on central banks and lending to and claims on financial institutions.

# Notes
# Storebrand Bank Group

## Note 1 - Company information and accounting policies

### 1. COMPANY INFORMATION

Storebrand Bank ASA is a Norwegian public limited company with bonds listed on the Oslo Stock Exchange. The consolidated financial statements for 2017 were approved by the Board of Directors on 6 February 2018.

Storebrand Bank ASA is a web-based bank that offers traditional bank products to the Norwegian market. The bank's main target group is persons who have an occupational pension with Storebrand. These customers are also members of the Group's loyalty programme, Storebrand Fordel. The bank's offerings are also integrated with the Group's loyalty programme. Storebrand Bank ASA comprises the business areas of Corporate Market, Retail Market and Treasury. Storebrand Bank ASA is headquartered at Professor Kohts vei 9, Lysaker.

### 2. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

The accounting policies applied in the consolidated financial statements are described below.  The policies are applied consistently to similar transactions and to other events involving similar circumstances.

Storebrand Bank ASA's consolidated financial statements are presented using EU-approved International Financial Reporting Standards (IFRS) and related interpretations, as well as other Norwegian disclosure requirements laid down in legislation and regulations.

**USE OF ESTIMATES IN PREPARING THE ANNUAL FINANCIAL STATEMENTS**
The preparation of the annual financial statements in accordance with IFRS requires the management to make judgements, estimates and assumptions that affect assets, liabilities, revenue, expenses, the notes to the financial statements and information on potential liabilities. Actual amounts may differ from these estimates. See Note 3 for further information.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR MATERIAL STATEMENT OF FINANCIAL POSITION ITEMS

The asset side of the Storebrand Bank Group's statement of financial position primarily consists of financial instruments. The majority of the financial instruments fall within the category Loans and Receivables and are stated at amortised cost. Capitalised intangible assets are also included on the statement of financial position. The liabilities side of the Group's statement of financial position comprises, for the most part, financial instruments (liabilities). With the exception of derivatives that are stated at fair value, the majority of the financial liabilities are stated at amortised cost.

The accounting policies are described in more detail below.

### 4. CHANGES IN ACCOUNTING POLICIES

New accounting standards that have a significant impact on the consolidated financial statements have not been implemented in 2017.

**NEW STANDARDS AND CHANGES IN STANDARDS NOT YET APPLIED**
**IFRS9**
IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments -recognition and measurement. IFRS 9 covers recognition, classification and measurement, impairment, derecognition and general hedge accounting. IFRS 9 is effective from 1 January 2018 and the standard is endorsed by the EU-commission. Early application is permitted, but Storebrand Bank Group has not early adopted the standard.

**Transitional rules**
IFRS 9 shall be applied retrospectively, with the exception of in hedge accounting. Retrospective application means that Storebrand Bank Group shall calculate the opening balance for 1 January 2018 as if it has always applied the new principles. Storebrand Bank ASA does not intend to restate the comparative figures for 2017 in the annual report 2018 due to IFRS 9.

Storebrand Bank Group has chosen to introduce hedge accounting pursuant to IFRS 9. This means that hedge accounting shall be done pursuant to the IFRS 9 principles prospectively from the date of transition to IFRS 9.

The effects of the new principles on the opening balance for 2018 are recognised in equity.

**Classification and measurement**

*Financial assets*

Under IFRS 9, financial assets shall be classified into three measurement categories: fair value through profit and loss, fair value through other comprehensive income (OCI) and at amortised cost. For financial assets, a distinction is made between debt instruments, derivatives, and equity instruments, where debt instruments are all financial assets that are not derivatives or equity instruments.

**Financial assets that are debt instruments**

Debt instruments with contractual cash flows that consist solely of payment of principal and interest on specified dates and which are held in a business model for the purpose of receiving contractual cash flows shall be measured at amortised cost. Instruments with contractual cash flows that are solely payments of principal and interest (SPPI) on specified dates and which are held in a business model for the purpose of receiving contractual cash flows and for sale shall be measured at fair value through other comprehensive income, with interest income, foreign currency effects and impairments through profit and loss. Any value adjustments through other comprehensive income are recycled through to profit and loss on sale or other disposal of the assets. Other debt instruments are measured at fair value through profit and loss. This applies to instruments with cash flows that are not only payment of principal and normal interest, and instruments held in a business model where the main objective is not receipt of contracted cash flows.

Instruments that are to be measured at amortised cost or at fair value through other comprehensive income may be designated for measurement at fair value through profit and loss if this eliminates or significantly reduces an accounting mismatch.

**Derivatives and investments in equity instruments**

In principle, all derivatives shall be measured at fair value with all fair value adjustments recognised in profit and loss; but derivatives designated as hedging instruments shall be recognised in accordance with the principles governing hedge accounting. Investments in equity instruments shall be measured at fair value in the balance sheet. Adjustments in value must as a general rule be reported in profit and loss, but an equity instrument not held for trading purposes and which is not a conditional consideration after a transfer of business may be designated as measured at fair value with value changes presented in other comprehensive income.

**Financial liabilities**

The rules governing financial liabilities are essentially the same as in the current IAS 39. A change from IAS 39 is that for financial liabilities decided recognised at fair value through profit and loss, value adjustments attributable to the company's own credit risk must be presented in comprehensive income rather than in profit and loss, as is the case at present, unless this creates or enlarges an accounting mismatch.

**Hedge accounting**

IFRS 9 simplifies the requirements pertaining to hedge accounting in that hedge effectiveness is linked more closely to the management's risk management. The 80–125 per cent hedge effectiveness requirement has been removed and replaced by more qualitative requirements, including that there must be an economic relationship between the hedging instrument and the hedged item, and that credit risk must not dominate the value adjustments in the hedging instrument. Hedging documentation is still required.

**Impairment losses on loans**

In IAS 39, losses shall only be impaired if there is objective evidence of the occurrence of a loss event after initial recognition of the asset. Under IFRS 9, loss allowances are recognised on the basis of expected credit loss (ECL). The general model for impairment of financial assets in IFRS 9 will apply to financial assets that are measured at amortised cost or at fair value through other comprehensive income and for which no losses were determined at initial recognition. Loan commitments, financial guarantee contracts not measured at fair value through profit and loss, and lease receivables are also encompassed by the model.

Measurement of the allowance for expected loss in the general model depends on whether the credit risk has increased significantly since initial recognition. On initial recognition and when the credit risk has not increased significantly since initial recognition, provisions should be equal to 12-month expected loss. The 12-month expected loss is the loss that is expected to occur over the lifetime of the instrument, but that can be linked to events occurring during the initial 12 months. If the credit risk has increased significantly since initial recognition, a loss allowance must be made for expected loss during the lifetime of the instrument. Expected credit loss are calculated on basis of the present value of all cash flows over the remaining life expectancy, i.e. the difference between the contractual cash flows according to the contract and the cash flows expected to be received, minus the effective interest on the instrument.

In addition to the general model, there are separate principles for issued, including renegotiated, loans that are treated as new, and bought loans where there is accrued credit loss on initial recognition in the balance sheet. For these, an effective interest rate will be calculated that takes into account expected credit loss, and in the event of any changes in expected cash flows, the change will be discounted with the originally set effective interest rate and recognised in the income statement. For these assets, there is thus no need to monitor whether there has been a substantial increase in credit risk after initial recognition, as the expected losses over the whole lifetime are taken into account.
For accounts receivable without a significant financing component, a simplified model will be used, where provisions will be made for expected loss over the entire lifetime from initial recognition. The bank has chosen to use the simplified model as the accounting policy also for accounts receivable with a significant financing component and lease receivables.

**Recognition and derecognition of financial assets and liabilities**
Financial assets and liabilities are recognised on the trading day, i.e. the date on which the bank becomes party to the instruments' contractual terms.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or when the rights to the cash flows from the asset are transferred such that substantially all risks and returns relating to ownership of the asset are transferred.
Financial liabilities are derecognised when the contractual terms have been fulfilled, cancelled or expire.

**Modified assets and liabilities**
If terms of an existing financial asset or obligation are modified or changed, the instrument is treated as a new financial asset if the renegotiated terms are substantially different from the old terms. If the terms are substantially different, the old financial asset or liability is derecognised and a new financial asset or liability is recognised. In general, a loan is considered to be a new financial asset if new loan documentation is issued and a new credit granting process is undertaken, resulting in new loan terms and conditions.

If the modified instrument is not considered to be substantially different from the existing instrument, the instrument is treated as a continuation of the existing instrument in terms of accounting. In the event of modification that is treated as a continuation of the existing instrument in the accounts, the new cash flows are discounted with the instrument's original effective interest rate, and any difference compared with the existing book value is recognised.

**Effect of introduction of IFRS 9**
See note 2 for the effects of transition to IFRS 9.

**IFRS 15**
A new standard for accounting of operating revenues from contracts with customers comes into effect from 1 January 2018. IFRS 15 introduces a five-step model for recognition of income from contracts with customers. Under IFRS 15, revenue is recognised equivalent to an amount that reflects the consideration an undertaking expects to be entitled to receive in exchange for goods or services supplied to a customer. The standard applies to all contracts that are entered into starting from 1 January 2018, and to existing contracts that have not yet been fulfilled. The purpose of this standard is to remove inconsistencies and weaknesses in the current revenue recognition standards and to improve the comparability of revenue recognition between businesses, industries and geographical regions.

The new revenue standard will replace all the current revenue recognition requirements according to IFRS.

Revenue recognition in Storebrand Bank Group is primarily governed by IAS 39 / IFRS 9. Revenue that is recorded under "Other income" is assessed against IFRS 15. Implementation of IFRS 15 will not have a significant effect on Storebrand Bank Group's financial statements.

**IFRS 16**
IFRS 16 Leases replaces the current IAS 17 and comes into force from 1 January 2019. IFRS 16 sets out principles for recognition, measurement, presentation and publication of leases. The new leasing standard will not entail any major changes for lessors, but will entail substantial changes for lessees' accounting. IFRS 16 requires that lessees shall in principle recognise all lease contracts in the balance sheet in accordance with a simplified model similar to the accounting of financial leases under IAS 17. The present value of the total lease payments shall be recognised as a liability and an asset that reflect the right of use of the asset in the lease period. The recognised asset is amortised over the lease period, and the depreciation cost is recognised in the income statement on an ongoing basis as an operating cost. Interest charges on the lease commitment are recognised as a financial cost.

Storebrand is working to prepare for implementation of IFRS 16, including mapping the effects of implementation of IFRS 16 for Storebrand Bank Group's financial statements.

## 5. CONSOLIDATION

The consolidated financial statements combine Storebrand Bank ASA and companies where Storebrand Bank ASA has a controlling interest. A controlling influence is normally achieved when the Group owns, either directly or indirectly, more than 50 per cent of the shares in the company and the Group is in a position to exercise actual control over the company. Minority interests are included in the Group's equity.

Storebrand Boligkreditt AS and Ring Eiendom AS are subsidiaries that are owned directly by Storebrand Bank ASA. Bjørndalen Panorama AS and MPV 7 Holding AS have been wound up in 2017.

**ELIMINATION OF INTERNAL TRANSACTIONS**
Internal receivables and payables, internal gains and losses, interest, dividends and similar between companies in the Group are eliminated in the consolidated financial statements. This also includes Storebrand Bank ASA's investments in covered bonds issued by Storebrand Boligkreditt AS.

## 6. BUSINESS COMBINATIONS

The acquisition method is applied when accounting for acquisition of businesses. The consideration is measured at fair value. The direct acquisition expenses are recognised when they arise, when the exception of expenses related to raising debt or equity (new issues).

When making investments, a decision is made as to whether the purchase constitutes acquisition of a business pursuant to IFRS 3. When such acquisitions are not regarded as an acquisition of a business, the acquisition method pursuant to IFRS 3 Business Combinations is not applied, and a provision is not set aside for deferred tax as would have occurred in a business combination.

## 7. INCOME RECOGNITION

### INTEREST INCOME – BANKING
Interest income related to loans and bonds is recognised in the income statement using the effective interest method.

### INCOME FROM FINANCIAL ASSETS
Income from properties and financial assets is described in Section 9.

### OTHER INCOME
Fees are recognised when the income can be measured reliably and earned, fixed fees are recognised as income in line with delivery of the service, and performance fees are recognised as income once the success criteria have been met.

## 8. GOODWILL AND INTANGIBLE ASSETS

Intangible assets with limited useful economic lives are measured at the acquisition cost less accumulated amortisation and any write-downs. The useful life and amortisation method are measured each year. If new intangible assets are carried, it must be possible to prove that it is likely that future economic benefits that can be attributed to the asset will pass to the group. In addition, there must be possible to estimate the cost price of the asset reliably. The write-down needs will be assessed if there are indications of an impairment in value, and the writedown of intangible assets and reversal of write-downs will otherwise be handled in the same manner as described for tangible fixed assets.

## 9. FINANCIAL INSTRUMENTS

### 9-1. GENERAL POLICIES AND DEFINITIONS
#### Recognition and derecognition
Financial assets and liabilities are included in the statement of financial position from such time Storebrand Bank ASA becomes party to the instrument's contractual terms and conditions. Ordinary purchases and sales of financial assets are booked on the transaction date and financial liabilities are booked on the settlement date. When a financial asset or a financial liability is initially recognised, it is valued at fair value. Initial recognition includes transaction costs directly related to the acquisition or issue of the financial asset or the financial liability if it is not a financial asset or a financial liability at fair value through profit or loss.

Financial assets are derecognised when the contractual right to the cash flows from the financial asset expires, or when the company transfers the financial asset to another party in a transaction by which all, or virtually all, the risk and reward associated with ownership of the asset is transferred.

Financial liabilities are derecognised in the statement of financial position when they cease to exist, i.e once the contractual liability has been fulfilled, cancelled or has expired.

#### Definition of amortised cost
Subsequent to initial recognition, loans and receivables, as well as financial liabilities not at fair value through profit or loss, are measured at amortised cost using the effective interest method. The calculation of the effective interest rate involves estimating all cash flows and all contractual terms of the financial instruments (for example, early repayment, call options and equivalent options). The calculation includes all fees and margins paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

#### Definition of fair value
Fair value is the amount for which an asset could be exchanged between well-informed, willing parties in an arm's length transaction. The fair value of financial assets listed on a stock exchange or on another regulated market in which regular trading takes place is determined as the bid price on the last trading day up to and including the reporting date.

If a market for a financial instrument is not active, fair value is determined by using recognised valuation techniques. Such valuation techniques make use of recent arm's length market transactions between knowledgeable and independent parties, where available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and options pricing models. If a valuation technique is in common use by participants in the market for pricing the instrument and this method has proved to provide reliable estimates of prices actually achieved in market transactions, this method is used.

In calculating the fair value of loans the current market rate on similar loans is used. Changes in credit risk are taken into account.

**IMPAIRMENT OF DOUBTFUL FINANCIAL ASSETS**
For financial assets carried at amortised cost, an assessment is made on each reporting date whether there is any objective evidence that a financial asset or 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 the estimated future 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 initial recognition). The amount of the loss is recognised in profit or loss.

Losses expected as a result of future events, no matter how likely, are not recognised.

**9-2. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES**
**Financial assets are classified into one of the following categories:**
- Financial assets held for trading
- Financial assets at fair value through profit or loss in accordance with the fair value option
- Financial assets, loans and receivables

**Held for trading**
A financial asset is classified as held for trading if:
- it has been acquired principally for the purpose of selling or repurchasing it in the near term, is part of a portfolio of identified financial instruments that are managed together and there is evidence of a recent actual pattern of short-term profit-taking, or
- it is a derivative that is not designated and effective as a hedging instrument.

With the exception of derivatives, only a limited proportion of Storebrand's financial assets fall into this category.

Financial assets held for trading are measured at fair value on the reporting date, Changes in the fair value are recognised through profit or loss.

**At fair value through profit or loss account in accordance with the fair value option**
- A significant proportion of Storebrand's financial instruments are classified in the category fair value through profit or loss because:
- such classification reduces the mismatch in the measurement or recognition that would otherwise arise as a result of the different rules for measuring assets and liabilities, or that
- the financial assets form part of a portfolio that is measured and reported at fair value on an ongoing basis

The accounting is the same for the group held for trading (the instruments are assessed at the fair value and changes in value are listed on the income statement).

**Loans and receivables**
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, with the exception of assets that the company intends to sell immediately or in the near term that are classified as held for trading and those that the company upon initial recognition designates at fair value through profit or loss.

Loans and receivables are carried at amortised cost using the effective interest method.

Loans and receivables that are designated as hedged items are subject to measurement under the hedge accounting requirements.

**9-3. DERIVATIVES**
**Definition of a derivative**
A derivative is a financial instrument or other contract within the scope of IAS 39, with all three of the following characteristics:
- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (sometimes called the 'underlying')
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors
- it is settled at a future date.

**Accounting treatment of derivatives that are not hedging**
Derivatives that do not meet the criteria for hedge accounting are treated as financial instruments held for trading. The fair value of such derivatives is classified as either an asset or a liability with changes in fair value through profit or loss.

The majority of the derivatives used routinely for asset management fall into this category.

#### 9-4. HEDGE ACCOUNTING

**Fair value hedging**
Storebrand Bank ASA uses fair value hedging, where the items hedged are financial assets and financial liabilities measured at amortised cost. Derivatives are recognised at fair value through profit or loss. Changes in the value of the hedged item that are attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised through profit or loss.

#### 9-5. FINANCIAL LIABILITIES

Subsequent to initial recognition, all financial liabilities are measured at amortised cost using an effective interest method, or at fair value in accordance with the fair value option.

### 10. PENSION LIABILITIES FOR OWN EMPLOYEES

In Storebrand Bank ASA, the pension scheme from 1 January 2015 changed from a defined benefit to a defined contribution scheme. The scheme is recognised in accordance with IAS 19. The effect of this change was recognised in the accounts as at 31 December 2014. Storebrand participates in the Norwegian AFP scheme (collective agreement pension). The Norwegian AFP scheme is regarded as a defined-benefit scheme, but there is insufficient quantitative information to be able to estimate reliable liabilities and costs for accounting purposes. In connection with new rules for disability pensions in the Norwegian Occupational Pensions Act, Storebrand has altered the disability pension scheme for own employees in Norway in 2016.

#### 10-1. DEFINED BENEFIT SCHEME

Pension costs and pension liabilities for defined benefit pension schemes are determined using a linear accrual formula and expected final salary as the basis for the entitlements, based on assumptions about the discount rate, future salary increases, pensions and National Insurance benefits, future returns on pension plan assets as well as actuarial estimates of mortality, disability and voluntary early leavers. The net pension cost for the period comprises the total of the accrued future pension entitlements during the period, the interest cost on the calculated pension liability and the expected return on pension plan assets.

Actuarial gains and losses and the effects of changes in assumptions are recognised in total comprehensive income in the income statement for the period in which they occur. Storebrand Bank ASA has insured and uninsured pension schemes. The insured scheme in Norway is managed by Storebrand Livsforsikring AS. Employees who resign before reaching retirement age or leave the scheme will be issued ordinary paid-up policies.

#### 10-2. DEFINED-CONTRIBUTION SCHEME

The defined contribution pension scheme involves the Group in paying an annual contribution to the employees' collective pension savings. The future pension will depend on the size of the contribution and the annual return on the pension savings. The Group does not have any further obligation related to work performed after the annual contribution has been paid. There are no provisions for accrued pension liabilities in such schemes. Defined-contribution pension schemes are recognised directly in the financial statements

### 11. TANGIBLE FIXED ASSETS AND INTANGIBLE ASSETS

The Group's tangible fixed assets and intangible assets comprise equipment, fixtures and fittings and IT systems.

Equipment, fixtures and fittings and IT systems are valued at acquisition cost less accumulated depreciation and any write-downs

The depreciation period and method are reviewed annually to ensure that the method and period being used both correspond to the useful economic life of the asset. This applies correspondingly to the disposal value. Properties are split into components if different parts have different useful economic lives. The depreciation period and method of depreciation are evaluated separately for each component.

The value of a tangible fixed asset is tested when there are indications that its value has been impaired. Any write-down is recognised in the income statement as the difference between the book value and the recoverable amount. The recoverable amount is the greater of the fair value less costs of sale and the value in use.  On each reporting date a determination is made as to whether to reverse previous impairment losses on non-financial assets.

## 12. TAX

The tax expense in the income statement comprises current tax and changes to deferred tax and is based on the accounting standard IAS 12 Income Taxes. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of total comprehensive income. Deferred tax and deferred tax assets are calculated on the differences between accounting and tax values of assets and liabilities.

Deferred tax is calculated on the basis of the Group's tax loss carryforwards, deductible temporary differences and taxable temporary differences.

### FINANCIAL TAX

In connection with the national budget for 2017, it was agreed to introduce a financial tax consisting of two elements:

- Financial tax on salaries. This is set at 5 per cent and will follow the rules for employer's National Insurance contributions.
- The tax rate on the ordinary income for companies subject to the financial tax will be continued at the 2016 level (25 per cent), while it will otherwise be reduced to 23 per cent from 1 January 2018.

The Storebrand Bank Group includes companies that are both subject to and not subject to the financial tax. Therefore, when capitalising deferred tax/deferred tax assets in the consolidated financial statements, the company tax rate that applies for the individual companies is used (23 or 25 per cent).

## 13. PROVISION FOR GROUP CONTRIBUTIONS AND DIVIDENDS

Pursuant to IAS 10, which deals with events after the balance sheet date, proposed dividends/group contributions are classified as equity until approved by the general meeting.

## 14. LEASING

A lease is classified as a finance lease if it essentially transfers the risk and rewards incident to ownership. Other leases are classified as operating leases. Storebrand Bank Group has no finance leases.

## 15. STATEMENT OF CASH FLOWS

The statement of cash flows is prepared using the direct method and shows cash flows grouped by sources and uses. Cash is defined as cash, receivables from central banks and receivables from credit institutions with no agreed period of notice.
The statement of cash flows is classified according to operating, investing and financing activities.

# Note 2 - Effects of transition to IFRS 9

## CHANGES IN CLASSIFICATION OF FINANCIAL INSTRUMENTS

| (NOK million) | Note | Classification according to IAS 39 | Classification according to IFRS 9 | Book value according to IAS 39 31 December 2017 | Book value according to IFRS 9 1 January 2018 |
|---|---|---|---|---|---|
| Cash and deposits with central banks | | AC | AC | 472 | 472 |
| Loans to and deposits with credit institutions | | AC | AC | 313 | 313 |
| Loans to and deposits with credit institutions - reverse repurchase agreements | | FVP&L (FVO) | AC | 0 | 0 |
| Loans to and receivables from customers - floating interest | | AC | FVOCI | 26,677 | 26,669 |
| Loans to and receivables from customers - fixed interest | | FVP&L (FVO) | FVP&L (FVO) | 580 | 580 |
| Equity instruments- trading | | FVOCI (TFS) | FVP&L | 14 | 14 |
| Equity instruments- non-trading | | FVP&L (FVO) | FVP&L | 27 | 27 |
| Bonds and other fixed-income securities | | FVP&L (FVO) | FVP&L (FVO) | 3,214 | 3,214 |
| Bonds and other fixed-income securities | | AC | AC | 380 | 380 |
| Liabilities to credit institutions | | AC | AC | 155 | 155 |
| Liabilities to credit institutions - repurchase agreements | | FVP&L (FVO) | AC | 0 | 0 |
| Deposits from and due to customers | | AC | AC | 14,628 | 14,628 |
| Commercial papers and bonds issued | | AC | AC | 14,304 | 14,304 |
| Fianancial derivatives | | FVP&L/Hedge accounting | FVP&L/Hedge accounting | 41 | 41 |
| Subordinated loan capital/ Additional Tier 1 capital | | AC | AC | 502 | 502 |

### EFFECTS OF TRANSITION TO IFRS 9

| (NOK million) | Book value according to IAS 39 31 December 2017 | Change due to reclassifica-tion | Change due to remeasu-rement ECL | Book value accor-ding to IFRS 9 1 January 2018 |
|---|---|---|---|---|
| Loans and receiveavbles and instruments held to maturity according to IAS 39 which will be measured at amortised cost according to IFRS 9 | 670 | | 4 | 673 |
| Debt instruments classified as available for sale according to IAS 39 which will be measured at amortised cost according to IFRS 9 | | | | 0 |
| **Total instruments measured at amortised cost according to IFRS 9** | **670** | **0** | **4** | **673** |
| | | | | |
| Loans and receivables and instruments held to maturity according to IAS 39 which will be measured at fair value over other comprehensive income (OCI) according to IFRS 9 | 26,388 | -24 | 12 | 26,376 |
| Debt instruments classified as available for sale according to IAS 39 which will be measured at fair value over other comprehensive income (OCI) according to IFRS 9. | | | | 0 |
| **Total instruments measured at fair value over OCI according to IFRS 9** | **26,388** | **-24** | **12** | **26,376** |
| | | | | |
| Loans and receivables and instruments at fair value through profit & loss according to IAS 39 which will be measured at fair value through profit & loss according to IFRS 9 | 3,794 | | | 3,794 |
| Debt instruments classified at fair value through profit & loss according to IAS 39 which will be measured at fair value through profit & loss according to IFRS 9 | | | | 0 |
| **Total instruments measured at fair value through profit & loss according to IFRS 9** | **3,794** | **0** | **0** | **3,794** |
| **Total** | **30,851** | **-24** | **15** | **30,843** |
| | | | | |
| Financial guarantee agreements | 20 | | -4 | 15 |
| Loan committments | 2,007 | | | 2,007 |
| **Total financiel guarantees and loan commitments** | **2,027** | **0** | **-4** | **2,023** |

Below is a description of new impairment model due to implementaion IFRS 9. See also note 1 for other information about IFRS 9.

### DESCRIPTION OF NEW IMPAIRMENT MODEL DUE TO IMPLEMENTAION IFRS 9

**Generally about the model**

Under IFRS 9, impairments are based on expected credit loss (ECL). In order to estimate expected credit loss, models have been developed to calculate three indicators: probability of default (PD), loss given default (LGD) and exposure at default (EAD). These models have been derived from similar models used for internal capital needs assessments. The models used for IFRS 9 purposes are based on the current macroeconomic situation and forecasts, and the models for PD, LGD and EAD are thus point in time (PIT) models, as opposed to through the cycle (TTC) models, which are used for capital needs purposes. The risk parameters in IFRS 9 have also been calibrated to be more forward-looking. Since the future is always uncertain, different future scenarios are used to compute PD, LGD and EAD for the bank's financial instruments. The various future scenarios have different weights determined by their position in the economic cycle and the forecasts of future events and economic conditions. The final expected credit loss per financial instrument will be a weighted average of the expected credit losses in the various scenarios. Total expected credit loss for the portfolio is the sum of the weighted credit losses per financial instrument.

In the PD model, financial circumstances are a significant predictor, combined with behavioural data on the individual customer. The model is a statistical model based on logistic regression. Loan-to-value ratio is a significant factor in the LGD model. For EAD, the most significant factors are loan size for downpayment loans and credit limit for lines of credit. The models are validated annually.

Forecasts affect the PD and LGD estimates in particular.

Storebrand Bank uses future scenarios to calculate expected credit losses. Storebrand Bank bases its future scenarios on the future scenarios presented by Norges Bank in its Financial Stability Report and assessments by Statistics Norway. The scenarios build on the current macroeconomic situation, economic forecasts, and the impact the macroeconomic situation is expected to have on the credit risk of the bank's financial instruments. These expectations affect the probability of default, exposure at default, and loss given default.

Probability of default is affected by unemployment, wage growth and interest rates, among others. Higher unemployment and interest rates result in weaker capacity to service debt in the portfolio, and lower wage growth also entails weaker capacity to service debt and thus increased probability of default. Macrovariables will have different effects on the risk parameters, and the impact will vary significantly for the individual customers in the portfolio. Average probability of default will increase during periods of economic downturn.

Periods of economic downturn will per se result in weaker house price growth, which will in turn affect loan-to-value ratio and thus also loss given default. For many financial instruments, the losses will be very small, given the existing market prices. The increase in loss given default as a result of falling house prices is greater than the reduction in loss given default when house prices are rising. Nonlinearities in expected credit loss are taken into account by estimating expected credit loss in a variety of scenarios.

Corporate market loans will be individually assessed because this portfolio is being wound down. Defaulted and/or impaired financial instruments are assessed individually in stage 3, while healthy commitments are currently only assessed in stage 1. As applicable, security shortfalls where the market value of the security (property) has been cautiously assessed, so-called "fire sales", are a central instrument, together with financial assessments of servicing capacity and behavioural data.

Stress tests and sensitivity tests are used in the assessment, linked to the influence and sensitivity of various input variables on expected credit loss.  Alternative assessments are also made of the macrovariables' influence on the input variables in the models and thus the expected credit losses. Stage migration is also considered by assessing the change in expected credit losses when transitioning from 12-month PD to lifetime PD for parts of the stage 1 portfolio. Sensitivity analyses are carried out in ICAAP on a regular basis.

ECL in IFRS 9 is expected to be more volatile than under IAS 39. The provisions will be more closely aligned to the macro economic cycle than in IAS 39. ECL of the portfolio is regarded to be sensitive with respect to the default rate of the portfolio and expected life time of the financial assets. There is uncertainty in the models regarding the different estimates. There is uncertainty regarding forecasts and development of different macro variables in the different macro scenarios including the effect of these macro scenarios on the different parameters.

**Definition of default**

The Storebrand Bank Group assesses default at the account / facility level for retail customers. For corporate customers, default is assessed at the customer level. In the retail market, a facility / account is considered to be in default if the repayment instalments and/or interest on the loan is overdue by more than 90 days or credit limits have been overdrawn for more than 90 days and the amount is not insignificant. The threshold for what is considered a significant amount is NOK 2,000. In the corporate market, the entire customer relationship is regarded as in default if one facility or account is in default. A financial instrument is also considered to be in default if individual impairments are recorded on the instrument.

The definition of default has been changed for the retail market in connection with the transition to IFRS 9. The definition of default is in accordance with internal credit risk assessments, credit risk models and reporting. The credit risk models have been developed at the facility / account level in the retail market.

**Calculating impairment**

Division into stages and moving between stages

**Stage 1**

The starting point for all financial assets is stage 1. Stage 1 encompasses all financial assets that do not have substantially higher credit risk than at initial recognition. Financial assets with low credit risk will always be in stage 1. In stage 1, expected credit loss is calculated over 12 months.

**Stage 2**

Stage 2 consists of financial assets where there has been a significant increase in credit risk since initial recognition, but that are not in default or where there is objective evidence of loss. For financial assets in stage 2, expected credit loss is calculated over the expected term of the loan. Expected term deviates from contractual term and is estimated on the basis of historically observed performance. Stage 2 contains a sub-group – weak stage 2, which consists of financial assets with a 12-month PD of over 5%. For weak stage 2 assets, expected credit loss is calculated over the contractual term of the loan.

**Stage 3**

Stage 3 consists of financial instruments with a substantial increase in credit risk and where the asset is in default and/or where there is objective evidence of loss. Financial instruments in IFRS 9 stage 3 are instruments that are defined as in default (over 90 days) and/or impaired in accordance with IAS 39.

**Substantial increase in credit risk**

Substantial increase in credit risk is assessed on the basis of the financial instrument's probability of default at the time of measurement compared with at initial recognition. The assessment is based on both changes in probability of default during the expected lifetime and changes in probability of default in the next 12 months. The assessments are based on absolute changes and relative changes.

Financial instruments that are overdue by 30 days or more are always assessed as substantially deteriorated. The same applies to loans granted temporary postponement of payment (forbearance).

**Expected maturity**

Expected maturity is estimated for various financial instruments. Expected maturity is significant because for financial instruments with substantial deterioration of credit risk, including defaulted financial instruments, i.e. financial instruments in stage 2 and stage 3, expected credit loss shall be calculated over the financial instruments' expected maturity. Probability of default increases over the time horizon it is measured over, and expected credit loss over the expected maturity is therefore higher than 12-month expected credit.

Expected maturity is calculated for different products. Expected maturity is estimated to around five years for downpayment loans and six years for lines of credit. Expected maturity is estimated to nine years for credit cards and to nine years for credit accounts. For financial instruments in weak stage 2, expected maturity is contractual maturity. Contractual maturity is also expected maturity for top-up loans (loan share greater than LTV of 70%), building credit and bridging loans.

Expected maturity is reassessed and validated regularly.

**Categorisation into portfolios**

The retail market portfolio is divided into:

i) Housing loans and housing credit
ii) Credit cards
iii) Other credits

The corporate portfolio is not subdivided further, and assessment is done manually (regardless of stage).

## Note 3 - Critical accounting estimates and judgements

In preparing the Group's financial statements the management are required to make judgements, estimates and assumptions of uncertain amounts. The estimates and underlying assumptions are reviewed on an ongoing basis, and they are based on historical experience and expectations of future events and represent the management's best judgement at the time the financial statements were prepared.

Actual results may differ from these estimates.

The Group's critical estimates and judgements that could result in material adjustment of recognised amounts are discussed below:

### LOAN WRITE-DOWNS

Loans valued at amortised cost are assessed on the reporting date to see whether there is any objective evidence that a loan or group of loans is impaired. A judgement must be used in assessing whether impairment has occurred and the amount of the impairment loss. Uncertainty grows when there is turmoil in the financial markets. The assessments include credit, market and liquidity risk. Changes in assumptions for these factors will affect an assessment of whether impairment is indicated. There will thus be uncertainty concerning the recognised amounts of individual and group write-downs.

**Individual write-downs**

When write-downs for individual customers are estimated, both their current and expected future financial positions and relevant security must be assessed. When it comes to the corporate market, one must also assess the market situation of the customer and the security, market conditions within the relevant industry, and general market conditions of significance for the commitment. Opportunities for restructuring, refinancing and recapitalisation also have to be assessed. The overall assessment of these factors provides a basis for estimating future cash flows and repayment capacity. The discounting period is estimated individually or based on historical data about the period up to a solution to the circumstances that caused the commitment to be exposed to impairment.

**Group write-downs**

On the statement of financial position date, one estimates the impairment of commitments not identified by the individual assessments. The bank differentiates between the corporate market and retail customers, and further categorisation is carried out to ensure as similar risk characteristics as possible within the various categories. Group write-downs are carried out when objective impairment criteria have been met. These criteria are i) change in risk class and ii) change in macroeconomic conditions.

i. If the risk classification significantly changes in a negative direction, then a group write-down has to be made based on the portfolio's probable future cash flow. Such assessments are made at an account level and the customer's current classification is assessed in relation to the classification when the individual commitment was granted. It is the negative changes in classification from the date the commitments were established to the current classification that determine whether or not a commitment falls into a group that is the subject of write-downs. These write-downs are based on the write-down rates that are set on the basis of the bank's best judgement and the assumption that there will be a delay between when the loss incident occurs and when it is discovered.

ii. Groups write-downs based on macro factors are made in light of objective macroeconomic events. Examples of such events inclu de higher unemployment, higher interest rates, poorer economic cycle forecasts, falling house prices, etc. Groups write-downs are calculated by multiplying the total commitment amount for a group of commitments that are assumed to be affected by such macroeconomic incidents by a write-down rate for macro factors.

### BONDS AT AMORTISED COST

See the description above concerning loans at amortised cost. The same assessments must be made to value bonds at amortised cost.

### FINANCIAL INSTRUMENTS AT FAIR VALUE

There will be some uncertainty associated with the pricing of financial instruments not priced in an active market. This is particularly true of the types of securities priced on the basis of non-observable assumptions. Various valuation techniques are applied to these investments in order to determine the fair value. They include fixed-rate loans and other financial instruments where theoretical models are used for pricing Any changes to the assumptions could affect recognised amounts.

There will be uncertainty regarding the pricing of fixed-rate loans recognised at fair value, as there is a great variation in the interest rate terms offered by banks, while the demand for fixed-rate loans has declined. As a result, it has been more difficult to find observable conditions.

Reference is also made to Note 9 in which the valuation of financial instruments at fair value is described in more detail.

### INTANGIBLE ASSETS

Intangible assets with undefined useful lives are tested annually for impairment. The test's valuation method requires estimating the cash flows that arise in the relevant cash flow generating unit, as well as applying the relevant discount rate. Tangible fixed assets and other intangible assets are measured annually to ensure that the method and time period used correspond with economic realities.

### PENSIONS FOR OWN EMPLOYEES

The present value of pension liabilities depends upon the financial and demographic assumptions used in the calculation. The calculation assumptions must be realistic, mutually consistent and up to date, in the sense that they should be based on a cohesive set of estimates about future financial performance. The Group has both insured and uninsured pension schemes (direct pensions). There will be uncertainty associated with these estimates.

### CONTINGENT LIABILITIES

Companies in the Storebrand Bank Group can be a party in legal disputes. Contingent liabilities are assessed in each case and will be based on legal considerations.

## Note 4 - Risk management

Continuous monitoring and active risk management are core areas of the bank's activities and organisation. The basis of risk management follows from the board's annual discussion of the strategy and planning process and determination of general risk ceilings for the activities. At the Storebrand group, responsibility for risk management and internal control is an integral part of management responsibility.

### ORGANISATION OF RISK MANAGEMENT

The Storebrand Group's organisation of risk management responsibility follows a model based on 3 lines of defence. The objective of the model is to safeguard the responsibility for risk management at both company and Group level.

The board of Storebrand Bank ASA has ultimate responsibility for limiting and monitoring the organisation's risks. The board annually determines risk appetite and risk strategy, ceilings and guidelines for the risks taken by the operation, receives reports of actual risk levels and gives a forward assessment of risks.

Managers at all levels in the company are responsible for risk management within their own area of responsibility. Good risk management requires targeted work on objectives, strategies and action plans, identification and assessment of risks, documentation of processes and routines, prioritisation and implementation of improvement measures, and good communication, information and reporting.

All employees must be familiar with the concept that awareness of risks and risk management are vital elements of the company's culture.

All managers in the bank and in group areas which delivers services to the bank, in addition to the CEO of Storebrand Boligkreditt AS, must submit an annual confirmation that documents how risk management has functioned during the period.

### INDEPENDENT CONTROL FUNCTIONS

Storebrand Bank ASA has independent control functions for the company's risk management (Chief Risk Officer, CRO) and for compliance (Chief Compliance Officer, CCO). CRO and CCO are both responsible directly to the CEO and report to the bank's board. In terms of function the independent control functions are affiliated with the Group CRO, who is responsible to the group CEO and reports to the board of Storebrand ASA.

Internal auditing is under the direct authority of the board and is intended to give the board a confirmation of the appropriateness and effectiveness of the organisation's risk management, including how the lines of defence are functioning.

## Note 5 - Credit risk

Credit risk is the risk of loss if a customer or counterparty does not fulfil its commitments. This risk includes losses on lending and losses related to bank deposits or failure of counterparties to perform under reinsurance agreements or financial derivatives.

### RISK MANAGEMENT

The risk strategy reflects how much credit risk the bank group is willing to accept. The willingness to accept risk is adjusted to the bank's risk appetite and goals regarding risk profile, capital adequacy and growth. Credit policies establish general principles for granting credit. The bank group's procedures for credit management are set out in credit manuals for the Corporate and Retail Markets. The credit manuals are primarily designed for account managers and others who are involved in case management processes. The credit manuals contain common guidelines (or regulations) for the bank group's credit activities, and are intended to safeguard uniform and consistent credit management practices.

The credit manuals and adopted routines provide specific criteria for monitoring non-performance, loan covenants, loss assessments and the annual loan review. Furthermore, the models ensure uniform portfolio risk assessment classifications and reporting on risk development. Specialised functions have been established for deposits, loan establishment and administration of the customer portfolio. Credit is granted in accordance with an authorisation structure determined by the board.

Treasury has the credit risk for its counterparties in the liquidity portfolio. Permitted counterparties and the composition of the portfolio are set out in the bank's counterparty risk policy.

Counterparty risk in connection with the trading of financial derivatives with customers as the counterparty is included in credit risk, and is governed following a dedicated policy, based on the rating and size of the management portfolio. Customer derivatives trades are hedged using derivatives. Financial derivatives permitted by the bank are outlined in the interest rate risk policy.

### RISK CONTROL

The most important control of credit risk is carried out and administered by the credit manager, who has ongoing responsibility for making sure that established procedures in the credit areas comply with the adopted risk profile and external guidelines, and that they are adhered to on a day-to-day basis. The credit manager will contribute to ensure the credit expertise in the organisation.

Exposure relating to trade in financial derivatives for customers is monitored by Back Office. Price development is monitored in respect of the customer's situation, cleared lines and breach clauses. The Middle Office conducts running spot checks with regard to this.

Trades with counterparties made by Treasury are checked by the Middle Office in accordance with dedicated procedures and work descriptions.

The Chief Risk Officer (CRO) reports to the board on credit risk trends on an ongoing basis.

## ANALYSIS OF CREDIT RISK BY TYPE OF FINANCIAL INSTRUMENT

The maximum credit exposure is the sum of gross loans, guarantees, amounts drawn from credit lines and undrawn amounts of credit lines. Maximum credit exposure has been reduced from the end of 2016 mainy due to a decrease in the liquidity portfolio and a decrease in commitments with customers.

| | Maximum credit exposure | |
|---|---|---|
| (NOK million) | 2017 | 2016 |
| Liquidity portfolio | 3,594.4 | 3,964.6 |
| Loans to and deposits with credit institutions and central bank | 785.6 | 736.6 |
| Total commitments customers *) | 32,827.3 | 34,429.7 |
| Interest rate swaps | 179.8 | 254.1 |
| **Total** | **37,387.1** | **39,385.0** |
| *) Of which net loans to and amounts due from customers measured at fair value: | 580.0 | 1,958.5 |

The amounts stated for the various financial instruments constitute the value recognised in the balance shett, with the exception of net lending to and receivables from customers, which also includes unused drawing facility and guarantees. (See "Credit exposure for lending activities" below).

## CREDIT RISK LIQUIDITY PORTFOLIO

### INTEREST-BEARING SECURITIES AT FAIR VALUE
### CREDIT RISK PER COUNTERPARTY

Short-term holdings of interest-bearing securities
Issuer category

| (NOK million) | AAA Fair value | AA Fair value | A Fair value | BBB Fair value | NIG Fair value | Total 2017 Fair value | Total 2016 Fair value |
|---|---|---|---|---|---|---|---|
| Sovereign and Government Guaranteed bonds | 510.7 | 253.5 | | | | 764.2 | 524.2 |
| Credit bonds | | 50.5 | | | | 50.5 | |
| Mortgage and asset backed bonds | 2,398.9 | | | | | 2,398.9 | 2,907.7 |
| **Total** | **2,909.6** | **303.9** | | | | **3,213.5** | **3,431.9** |

Rating classes are based on Standard & Poors.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Change in value: | | | | | | | |
| Total change in value on the balance sheet | 14.6 | 1.3 | | | | 15.9 | -0.2 |
| Change in vaule recognised in the profit and loss during period | 14.9 | 1.2 | | | | 16.1 | 18.0 |

### INTEREST-BEARING SECURITIES AT AMORTISED COST
### CREDIT RISK PER COUNTERPARTY

Short-term holdings of interest-bearing securities
Issuer category

| (NOK million) | AAA Fair value | AA Fair value | A Fair value | BBB Fair value | NIG Fair value | Total 2017 Fair value | Total 2016 Fair value |
|---|---|---|---|---|---|---|---|
| Public issuers and/or Government Guaranteed bonds | 280.6 | | | | | 280.6 | 200.9 |
| Mortgage and asset backed bonds | 100.3 | | | | | 100.3 | 331.8 |
| **Total** | **380.9** | | | | | **380.9** | **532.7** |

Rating classes are based on Standard & Poors.

## CREDIT RISK ON LOANS TO AND DEPOSITS WITH CREDIT INSTITUTIONS AND CENTRAL BANK

### CREDIT RISK PER COUNTERPARTY

| (NOK million) | AAA Fair value | AA Fair value | A Fair value | BBB Fair value | NIG Fair value | Total 2017 Fair value | Total 2016 Fair value |
|---|---|---|---|---|---|---|---|
| Norway | 472.2 | | | | | 472.2 | 464.5 |
| **Total deposits with central bank** | **472.2** | | | | | **472.2** | **464.5** |
| Norway | 0.0 | 243.6 | 20.2 | | | 263.8 | 141.2 |
| Denmark | | | 49.7 | | | 49.7 | 130.8 |
| **Total loans to and deposits with credit institutions** | **0.0** | **243.6** | **69.9** | | | **313.5** | **272.0** |
| **Total loans to and deposits with credit institutions and central bank** | **472.2** | **243.6** | **69.9** | | | **785.6** | **736.6** |

## CREDIT EXPOSURE FOR LENDING ACTIVITIES

### CORPORATE MARKET

Gross lending in the Corporate Market is just under NOK 350 million. In addition, there are guarantees of approximately NOK 20 million. Furthermore, loans of nearly NOK 175 million are under management, which are syndicated to Storebrand Livsforsikring AS.

As a result of group prioritizations regarding use of capital at Storebrand and a strategic assessment of the future direction of the Group, the Corporate Market segment at the bank is no longer prioritised as a core activity, and is being wound up.

The Storebrand Bank Group uses an internal model for risk classification of the bank's Corporate Market loans.

When assessing the quality of the security of the loans, numerical grades of 1 to 5 are applied, with 1 being the best.

Based on the Corporate Market expert model, about 93 per cent of loans are for IGE. The remaining loans are loans for different purposes or loans outside the area of validity of the model. The Corporate Market portfolio is generally secured on commercial property.

The Corporate Market portfolio consists of a Group debtor (with one debtor) with exposure of over NOK 200 million, a Group debtor (with one debtor) with exposure between NOK 50 million and NOK 100 million, and 10 Group debtors (with a total of 10 debtors) with exposure of up to NOK 50 million (6 of 10 debtors have exposure of less than NOK 5 million). The definition of a Group debtor is given in the regulations relating to large loans.

The bank's exposure is primarily secured by pledged assets in Bærum and Bergen. Assets pledged are valued at their estimated realisable values in addition to separate assessments based on return considerations.

At the end of 2017, approximately 78 per cent of the amount granted was linked to loans in risk classes A to D, while approximately 6 per cent was in risk classes E to J. The remainder was loans with identified impairment. The loans must be classified when there are changes in the loans and at least once a year. The classifications thereby provide an overview of the risk exposure in the portfolio at all times. The bank measures the Corporate Market portfolio's distribution into risk classes on a quarterly basis.

Of loans that are not non-performing (with and without impairment) or in arrears, about 93 per cent of the loans have a loan-to-value ratio of under 70 per cent. The remaining healthy loans have a loan-to-value ratio of under 100 per cent for the most part.

There were no loans/customers in default without impairment in value at the end of 2017.

For impaired non-performing loans, the write-downs that have been made have taken into account that the pledged assets do not cover outstanding loans and other costs related to the non-performance. Recorded write-downs are considered to be sufficient.

In the event of non-performance, the bank will sell the securities or take over the assets if that is most appropriate. In the current portfolio, no properties have been taken over.

**RETAIL MARKET**

Retail customers are evaluated according to their capacity and intent to repay the loan. In addition to their capacity to service debt, the customers are checked regarding policy regulations and the customers are scored using a scoring model. The private portfolio is primarily secured by mortgage in residential and recreational properties.

The Storebrand Bank Group has developed internal models for classifying home loans. The models estimate a loan's Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD). PD estimates are based on a logistical regression model where late payment notices, reminders, overdrafts and information about assets are key explanatory variables when predicting defaults. When estimating the LGD, the loan-to-value ratio is the most important explanatory variable. Mortgage loans are classified according to the bank's master scale, consisting of 11 risk classes from A to K, with A indicating the lowest default probability and K containing non-performing loans. The classification of home loans is automatically updated on a monthly basis. As at the end of 2017, about 61 per cent of the EAD was linked to home loans in risk class A, while less than 3 per cent of the EAD was in risk classes G to J. The models must be validated at least once a year, with the models' accuracy compared to actual outcomes.

When arranging home loans, the Storebrand Bank Group collects information of significance to the value of the property. Each quarter the bank obtains an updated, independent valuation of residential properties from Eiendomsverdi AS. For homes where Eiendomsverdi AS does not have an up to date valuation (for example, certain housing cooperative apartments, owner-tenant apartments and some leisure properties) the most recently updated market value is used until further notice. When Eiendomsverdi AS cannot determine the market value of a property with a high degree of certainty, a "haircut" is used so as to reduce the risk of giving an inflated estimate of market value. If Eiendomsverdi AS has never received information regarding the property's market value, the value recorded at the time of entering into the contract (the deposit value) will be used. Loans such as those mentioned here constitute just under 1 per cent of the total portfolio exposure.

In the retail market, most of the loans are secured by way of home mortgages. NOK 26.6 billion has been lent in home loans, with a further NOK 2.2 billion in undrawn credit facilities. Total commitments in residential property are therefore about NOK 28.8 billion

The weighted average loan-to-value ratio is 57.5 per cent for home mortgage loans. Approximately 88 per cent of loans have a loan-to-value ratio lower than 80 per cent and approximately 99.5 per cent are lower than 100 per cent. Approximately 47 per cent of the home mortgage loans have a loan-to-value ratio within 60 per cent.

The portfolio is regarded as having a low to moderate credit risk in accordance with the bank's risk appetite.

There is largely good security on non-performing loans that are not impaired for retail market customers. The average loan-to-value ratio for these loans is 65 per cent. Home loans/residential mortgage products that are part of the volume of non-performing loans total NOK 126 million. Approximately NOK 113 million of this is within a loan-to-value ratio of 80 per cent and NOK 122 million is within a loan-to-value ratio of 100 per cent. The security is also good on home loans/residential mortgage products between 1 and 90 days past due. Assets pledged as collateral are sold in the retail market. They are not taken over by the bank.

In the credit card portfolio, about NOK 230 million has been drawn, and approximately NOK 1 billion is available as unused credit facilities. For credit accounts, about NOK 61 million has been drawn, and approximately NOK 266 million is available as unused credit facilities.

## COMMITMENTS PER CUSTOMER GROUP

| | 2017 | | | |
|---|---|---|---|---|
| (NOK million) | Loans to and due from customers | Guarantees | Undrawn credit limits | Total commitments |
| Development of building projects | | 2.1 | | 2.1 |
| Sale and operation of real estate | 29.3 | 17.4 | | 46.7 |
| Service providers | 319.7 | | 0.4 | 320.1 |
| Wage-earners | 26,872.4 | 0.3 | 3,451.6 | 30,324.3 |
| Other | 104.9 | | 22.0 | 126.9 |
| Total | 27,326.4 | 19.7 | 3,474.0 | 30,820.1 |
| | | | | |
| Loan loss provisions on individual loans | -42.8 | | | -42.8 |
| Loan loss provisions on groups of loans | -26.5 | | | -26.5 |
| **Total loans to and due from customers** | **27,257.0** | **19.7** | **3,474.0** | **30,750.8** |

| (NOK million) | Loans to and due from customers | Gurarantees | Undrawn credit limits | Total commitments |
|---|---|---|---|---|
| | 2016 | | | |
| Development of building projects | 22.4 | 2.1 | | 24.5 |
| Sale and operation of real estate | 974.0 | 21.4 | | 995.3 |
| Service providers | 596.9 | | 3.6 | 600.5 |
| Wage-earners | 25,644.4 | 0.1 | 3,522.0 | 29,166.4 |
| Other | 95.9 | | 22.9 | 118.7 |
| Total | 27,333.5 | 23.6 | 3,548.5 | 30,905.6 |
| | | | | |
| Loan loss provisions on individual loans | -27.5 | | | -27.5 |
| Loan loss provisions on groups of loans | -38.2 | | | -38.2 |
| **Total loans to and due from customers** | **27,267.8** | **23.6** | **3,548.5** | **30,839.9** |

Undrawn credit limits relate to  the unused portion of credit limits approved on overdraft accounts and credit cards, as well as the unused portion of lending limits on flexible mortgages.

The classification into customer groups is based on Statistics Norway's standard for sector and business classification. The individual customer's classification is determined by the customer's primary activity.

## AVERAGE VOLUME ENGAGEMENT PER CUSTOMER GROUP

| (NOK million) | Average volume loans to and deposits from customers | Average volume gaguarantees | Average volume undrawn credit limits | Total average engagement |
|---|---|---|---|---|
| | 2017 | | | |
| Development of building projects | 11.2 | 2.1 | | 13.3 |
| Sale and operation of real estate | 501.7 | 19.4 | | 521.0 |
| Service providers | 458.3 | | 2.0 | 460.3 |
| Wage-earners | 26,258.4 | 0.2 | 3,486.8 | 29,745.4 |
| Other | 100.4 | | 22.4 | 122.8 |
| **Total** | **27,329.9** | **21.7** | **3,511.3** | **30,862.8** |

| (NOK million) | Average volume loans to and deposits from customers | Average volume gaguarantees | Average volume undrawn credit limits | Total average engagement |
|---|---|---|---|---|
| | 2016 | | | |
| Development of building projects | 26.0 | 2.1 | | 28.1 |
| Sale and operation of real estate | 1,312.4 | 33.8 | | 1,346.3 |
| Service providers | 646.7 | | 2.6 | 649.3 |
| Wage-earners | 26,226.3 | 0.5 | 3,612.1 | 29,838.8 |
| Other | 130.8 | | 23.7 | 154.5 |
| **Total** | **28,342.1** | **36.4** | **3,638.4** | **32,016.9** |

## COMMITMENTS PER GEOGRAPHICAL AREA

2017

| (NOK million) | Loans to and due from customers | Guarantees | Undrawn credit limits | Total commitments | Non-performing loans without evidence of impairment | Non-performing and loss-exposed loans with evidence of impairment | Gross defaulted and loss-exposed loans | Provisions for individual loan losses | Net defaulted and loss-exposed loans |
|---|---|---|---|---|---|---|---|---|---|
| Eastern Norway | 20,587.3 | 19.7 | 2,642.9 | 23,249.9 | 101.0 | 104.4 | 205.3 | 40.3 | 165.1 |
| Western Norway | 4,398.7 | | 582.1 | 4,980.8 | 43.5 | 9.3 | 52.8 | 1.8 | 51.0 |
| Southern Norway | 513.5 | | 62.9 | 576.4 | 0.5 | | 0.5 | | 0.5 |
| Mid-Norway | 888.4 | | 93.0 | 981.4 | 3.7 | 0.5 | 4.2 | 0.5 | 3.8 |
| Northern Norway | 839.2 | | 71.2 | 910.3 | 1.1 | 0.2 | 1.3 | 0.2 | 1.1 |
| Rest of world | 99.3 | | 21.9 | 121.3 | 0.6 | | 0.6 | | 0.6 |
| **Total** | **27,326.4** | **19.7** | **3,474.0** | **30,820.1** | **150.4** | **114.4** | **264.8** | **42.8** | **222.0** |

2016

| (NOK million) | Loans to and due from customers | Guarantees | Undrawn credit limits | Total commitments | Non-performing loans without evidence of impairment | Non-performing and loss-exposed loans with evidence of impairment | Gross defaulted and loss-exposed loans | Provisions for individual loan losses | Net defaulted and loss-exposed loans |
|---|---|---|---|---|---|---|---|---|---|
| Eastern Norway | 20,494.5 | 23.6 | 2,719.7 | 23,237.8 | 66.5 | 82.7 | 149.2 | 25.5 | 123.6 |
| Western Norway | 4,556.9 | | 579.5 | 5,136.5 | 37.2 | 2.2 | 39.4 | 1.2 | 38.2 |
| Southern Norway | 505.6 | | 63.5 | 569.1 | 1.7 | 0.0 | 1.7 | 0.0 | 1.7 |
| Mid-Norway | 824.4 | | 92.6 | 917.0 | 0.6 | 2.4 | 3.0 | 0.5 | 2.6 |
| Northern Norway | 793.1 | | 67.2 | 860.3 | 0.8 | 0.3 | 1.1 | 0.3 | 0.8 |
| Rest of world | 159.0 | | 25.8 | 184.8 | 0.7 | | 0.7 | | 0.7 |
| **Total** | **27,333.5** | **23.6** | **3,548.5** | **30,905.6** | **107.4** | **87.6** | **195.0** | **27.5** | **167.5** |

## TOTAL ENGAGEMENT AMOUNT BY REMAINING TERM TO MATURITY

2017

| (NOK million) | Loans to and due from customers | Guarantees | Undrawn credit limits | Total commitments |
|---|---|---|---|---|
| Up to 1 month | 55.2 | 0.5 | 24.3 | 80.0 |
| 1 - 3 months | 90.8 | 2.3 | 55.0 | 148.0 |
| 3 months - 1 year | 654.5 | 15.8 | 283.7 | 954.0 |
| 1 - 5 years | 1,850.4 | 1.2 | 838.1 | 2,689.7 |
| More than 5 years | 24,675.4 | | 2,272.9 | 26,948.4 |
| **Total** | **27,326.4** | **19.7** | **3,474.0** | **30,820.1** |

| (NOK million) | 2016<br>Loans to and due from customers | Guarantees | Undrawn credit limits | Total commitments |
|---|---|---|---|---|
| Up to 1 month | 2.9 | | | 2.9 |
| 1 - 3 months | 395.9 | 1.6 | 21.9 | 419.4 |
| 3 months - 1 year | 668.4 | 2.4 | 135.8 | 806.7 |
| 1 - 5 years | 2,496.4 | 19.5 | 1,063.5 | 3,579.4 |
| More than 5 years | 23,769.9 | | 2,327.3 | 26,097.2 |
| **Total** | **27,333.5** | **23.6** | **3,548.5** | **30,905.6** |

## AGE DISTRIBUTION OF OVERDUE ENGAGEMENTS WITHOUT IMPAIRMENT

| (NOK million) | 2017<br>Loans to and due from customers | Guarantees | Undrawn credit limits | Total commitments |
|---|---|---|---|---|
| Overdue 1 - 30 days | 379.4 | | 3.4 | 382.8 |
| Overdue 31 - 60 days | 100.9 | | 1.0 | 101.9 |
| Ovedue 61- 90 days | 50.3 | | | 50.4 |
| Overdue more than 90 days | 150.4 | | 2.3 | 152.7 |
| **Total** | **681.0** | **0.0** | **6.8** | **687.8** |
| **Engagements overdue more than 90 days by geographical area:** | | | | |
| Eastern Norway | 101.0 | | 2.3 | 103.2 |
| Western Norway | 43.5 | | | 43.6 |
| Southern Norway | 0.5 | | | 0.5 |
| Mid-Norway | 3.7 | | | 3.7 |
| Northern Norway | 1.1 | | | 1.1 |
| Rest of world | 0.6 | | | 0.6 |
| **Total** | **150.4** | **0.0** | **2.3** | **152.7** |

| (NOK million) | 2016<br>Loans to and due from customers | Guarantees | Undrawn credit limits | Total commitments |
|---|---|---|---|---|
| Overdue 1 - 30 days | 346.0 | 2.4 | 2.6 | 351.0 |
| Overdue 31 - 60 days | 78.2 | | 0.3 | 78.5 |
| Ovedue 61- 90 days | 54.5 | | 0.1 | 54.5 |
| Overdue more than 90 days | 107.4 | | 2.6 | 110.0 |
| **Total** | **586.1** | **2.4** | **5.6** | **594.0** |
| **Engagements overdue more than 90 days by geographical area:** | | | | |
| Eastern Norway | 66.5 | | 2.6 | 69.1 |
| Western Norway | 37.2 | | | 37.2 |
| Southern Norway | 1.7 | | | 1.7 |
| Mid-Norway | 0.6 | | | 0.6 |
| Northern Norway | 0.8 | | | 0.8 |
| Rest of world | 0.7 | | | 0.7 |
| **Total** | **107.4** | | **2.6** | **110.0** |

Only non-performing and loss-exposed loans are classified by geographical area in this overview. The same definition is used for due commitments as the one in the capital requirements regulations, however the number of days in the definition equals the age distribution.

Loans are regarded as non-performing and loss-exposed:
- when a credit facility has been overdrawn for more than 90 days and the overdrawn amount minimum is NOK 2,000
- when an ordinary mortgage has arrears older than 90 days and thee arrears minimum is NOK 2,000
- when a credit card has arrears older than 90 days

When one of the three situations described above occurs, the loans and the rest of the customer's commitments are considered as non-performing.

## CREDIT RISK PER CUSTOMER GROUP

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| (NOK million) | Non-performing and loss-exposed loans with evidence of impairment | Non-performing loans without evidence of impairment | Gross defaulted and loss-exposed loans | Total provisions for individual loan losses | Net defaulted and loss-exposed loans | Total value changes | Total value change recognised in the profit and loss account during period |
| Development of building projects | | | | | | | |
| Sale and operation of real estate | 29.3 | | 29.3 | 19.6 | 9.7 | | 9.3 |
| Service providers | 42.3 | | 42.3 | 8.9 | 33.4 | | 8.9 |
| Wage-earners | 40.9 | 149.7 | 190.6 | 13.0 | 177.6 | | -2.8 |
| Other | 1.8 | 0.7 | 2.5 | 1.2 | 1.3 | | -0.1 |
| **Total** | **114.4** | **150.4** | **264.8** | **42.8** | **222.0** | | **15.3** |

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| (NOK million) | Non-performing and loss-exposed loans with evidence of impairment | Non-performing loans without evidence of impairment | Gross defaulted and loss-exposed loans | Total provisions for individual loan losses | Net defaulted and loss-exposed loans | Total value changes | Total value change recognised in the profit and loss account during period |
| Development of building projects | | | | | | | |
| Sale and operation of real estate | 46.8 | | 46.8 | 10.3 | 36.5 | | -23.2 |
| Service providers | | | | | | | |
| Wage-earners | 38.8 | 106.7 | 145.5 | 15.8 | 129.7 | | -7.8 |
| Other | 2.0 | 0.7 | 2.7 | 1.4 | 1.3 | | 0.6 |
| **Total** | **87.6** | **107.4** | **195.0** | **27.5** | **167.5** | | **-30.4** |

## REPOSSESSED ASSETS

In the event of non-performing loans Storebrand Bank ASA will sell the collateral or repossessed assets if this is most appropriate.

## FIANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (FVO)

| | Lending to customers | | Liquidity portfolio | |
|---|---|---|---|---|
| (NOK million) | 2017 | 2016 | 2017 | 2016 |
| Book value maximum exposure for credit risk | 580.0 | 1,958.5 | 3,213.5 | 3,431.9 |
| Book value of related credit derivatives that reduce credit risk | | | | |
| Collateral | | | | |
| **Net credit risk** | **580.0** | **1,958.5** | **3,213.5** | **3,431.9** |
| This year's change in fair value of financial assets due to change in credit risk | 4.4 | 16.1 | 18.4 | 17.7 |
| Accumulated change in fair value of financial assets due to change in credit risk | | | | |
| This year's change in value of related credit derivatives | | | | |
| Accumulated change in value of related credit derivatives | | | | |

Lending to customers is measured at fair value based on valuation techniques. The valuation techniques use interest rate curves from Reuters and credit spreads for equivalent new loans as per the end of December.

Financial assets are designated at fair value through the profit and loss account (FVO) the first time they are recognised where another measurement would result in an inconsistency in the profit and loss account. Objective market prices are used for papers where these exist. Valuation techniques involving the use of interest rate curves from Reuters and credit spreads from external providers are used for the remaining papers.

## FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS (FVO)

| (NOK million) | 2017 | 2016 |
|---|---|---|
| The year's change in fair value of liabilities due to changes in credit risk | | 0.5 |
| Difference between book value of liabilities and contractual amount due at maturity | | |
| Accumulated change in fair value of liabilities due to changes in credit risk | | |
| Difference between book value of liabilities and contractual amount due at maturity | | |

## CREDIT RISK DERIVATIVES

The purpose of the use of financial derivatives is to identify and reduce currency and interest rate risk. Counterparty risk in connection with the trading of financial derivatives is included in credit risk.  The bank's risk strategies and policies establish limits for how much credit risk the bank group is willing to accept. Storebrand Bank ASA hedges all customer derivative trades by opposite derivatives to minimise foreign exchange and interest rate exposure. The overview shows gross credit exposure, the bank has only collateral for credit risk against non-financial companies. Net credit exposure for 2017 is NOK 41.2 million, see note 22.

### CREDIT RISK PER COUNTERPARTY

| | AAA | AA | A | BBB | NIG | Total 2016 | Total 2015 |
|---|---|---|---|---|---|---|---|
| (NOK million) | Fair value | Fair value | Fair value | Fair value | Fair value | Fair value | Fair value |
| Norway | | 9.8 | 88.5 | 81.5 | | 179.8 | 254.1 |
| **Total** | **0,0** | **9.8** | **88.5** | **81.5** | **0,0** | **179.8** | **254.1** |
| Change in value: | | | | | | | |
| Total change in value on the balance sheet | | 9.8 | 88.5 | 81.5 | | 179.8 | 254.1 |
| Change in value recognised in the profit and loss during period | | -10.8 | -37.3 | -26.2 | | -74.4 | -168.9 |

### EQUITY OPTIONS, INTEREST RATE SWAPS, BASIS SWAPS AND FORWARD FOREIGN EXCHANGE CONTRACTS

Equity options, interest rate swaps, basis swaps and forward foreign exchange contracts

## Note 6 - Liquidity risk

Liquidity risk is the risk that the company is unable to fulfil its obligations without incurring substantial additional expenses in the form of reduced prices for assets that must be realised, or in the form of especially expensive financing.

### RISK MANAGEMENT

The risk strategy establishes overall limits for how much liquidity risk the bank group is willing to accept. The policy for liquidity risk describes principles for liquidity management and specifies stress testing, minimum liquidity holdings and indicators for measuring liquidity risk. In addition, the Treasury department draws up an annual funding strategy and funding plan that set out the overall limits for the bank group's funding activities.

Stress tests are used to illustrate the expected effects of various scenarios on the statement of financial position and cash flows. Results of the stress tests are applied when assessing the framework for liquidity risk. A contingency plan is drawn up annually to safeguard proper management of the liquidity situation during stressful periods.

The Treasury function is responsible for the bank's liquidity management, and the Middle Office monitors and reports on the utilisation of limits pursuant to the liquidity policy.

### RISK CONTROL

The means of controlling liquidity risk include monthly reports of the liquidity indicators and monitoring developments in the bank's maturity profile. Both are included in the CRO's ongoing reporting to the board.  The liquidity policy specifies which liquidity indicators are followed. The Middle Office performs checks on trades undertaken by Treasury to ensure conformance with the applicable policy rules.

### NON-DISCOUNTED CASH FLOWS - FINANCIAL LIABILTIES

| (NOK million) | 0 - 6 months | 6 months - 12 months | 1 - 3 years | 3 - 5 years | More than 5 years | Total | Book value |
|---|---|---|---|---|---|---|---|
| Liabilities to credit institutions | 155.0 | | | | | 155.0 | 155.0 |
| Deposits from and due to customers | 14,402.8 | 225.2 | | | | 14,628.0 | 14,628.0 |
| Commercial papers and bonds issued | 2,222.3 | 456.1 | 6,456.7 | 6,135.1 | | 15,270.1 | 14,304.2 |
| Other liabilities | 109.9 | | | | | 109.9 | 109.9 |
| Subordinated loan capital | 3.4 | 3.6 | 136.7 | 156.6 | | 300.3 | 276.1 |
| Undrawn credit limits | 3,474.0 | | | | | 3,474.0 | |
| Loan commitments | 2,007.2 | | | | | 2,007.2 | |
| **Total financial liabilities 2017** | **22,374.7** | **684.9** | **6,593.4** | **6,291.7** | **0.0** | **35,944.6** | **29,473.2** |
| **Derivatives related to funding 31.12.2017** | **7.4** | **-58.8** | **-47.4** | **-3.9** | **0.0** | **-102.7** | **41.2** |
| Total financial liabilities 2016 | 26,319.8 | 464.1 | 5,425.4 | 6,238.3 | 0.0 | 38,447.7 | 29,597.5 |

The amounts includes accrued interest.

The overview of non-discounted cash flows includes interest. Implicit forward interest rates based on the yield curve on 31 December 2017 are used to calculate interest costs for lending with FRN conditions. The maturity  overview does not take account of the fact that the loans have extended maturity date, i.e. the original maturity date is used. Deposits from and liabilities to customers are on call deposits or deposits locked in for less than 6 months.

### SPECIFICATION OF SUBORDINATED LOAN CAPITAL

| (NOK million) ISIN code | Issuer | Net nominal value | Currency | Interest | Call-date | Book value |
|---|---|---|---|---|---|---|
| **Dated subordinated loan capital** | | | | | | |
| NO0010714314 | Storebrand Bank ASA | 125.0 | NOK | Floating | 09.07.2019 | 125.7 |
| NO0010786510 | Storebrand Bank ASA | 150.0 | NOK | Floating | 22.02.2022 | 150.4 |
| **Total subordinated loan capital 2017** | | | | | | **276.1** |
| Total subordinated loan capital 2016 | | | | | | 277.2 |

## SPECIFICATION OF LIABILITES TO CREDIT INSTITUTIONS

| (NOK million) | 2017 | 2016 |
|---|---|---|
| **Total liabilites to credit institutions without fixed maturity at amortised cost** | **5.0** | **5.0** |
| Repurchase agreements, maturity 2017 | | 402.2 |
| Short-term loans, maturity 2018 | 150.0 | |
| **Total liabilities to credit institutions with fixed maturity at fair value (FVO)** | **150.0** | **402.2** |
| **Total liabilities to credit institutions** | **155.0** | **407.2** |

## SPECIFICATION OF COMMERCIAL PAPERS AND BONDS ISSUED

| (NOK million)<br>ISIN code | Issuer | Net<br>nominal value | Currency | Interest | Call-date | Book<br>value |
|---|---|---|---|---|---|---|
| **Bond loans** | | | | | | |
| NO0010660806 | Storebrand Bank ASA | 300.0 | NOK | Fixed | 08.10.2019 | 312.0 |
| NO0010762891 | Storebrand Bank ASA | 500.0 | NOK | Fixed | 19.04.2021 | 500.3 |
| NO0010751316 | Storebrand Bank ASA | 300.0 | NOK | Floating | 09.11.2018 | 300.6 |
| NO0010729387 | Storebrand Bank ASA | 600.0 | NOK | Floating | 14.01.2020 | 601.6 |
| NO0010758980 | Storebrand Bank ASA | 500.0 | NOK | Floating | 04.03.2019 | 500.7 |
| NO0010787963 | Storebrand Bank ASA | 500.0 | NOK | Floating | 26.09.2019 | 500.0 |
| NO0010794217 | Storebrand Bank ASA | 400.0 | NOK | Floating | 29.05.2020 | 400.3 |
| **Total bond loands** | | **3,100.0** | | | | **3,115.6** |
| **Covered bonds** | | | | | | |
| NO0010548373 | Storebrand Boligkreditt AS | 1,250.0 | NOK | Fixed | 28.10.2019 | 1,339.9 |
| NO0010660822 | Storebrand Boligkreditt AS | 2,125.0 | NOK | Floating | 20.06.2018 | 2,128.6 |
| NO0010736903 | Storebrand Boligkreditt AS | 2,500.0 | NOK | Floating | 17.06.2020 | 2,210.4 |
| NO0010760192 | Storebrand Boligkreditt AS | 3,000.0 | NOK | Floating | 16.06.2021 | 3,008.2 |
| NO0010786726 | Storebrand Boligkreditt AS | 2,500.0 | NOK | Floating | 15.06.2022 | 2,501.5 |
| **Total covered bonds** | | **11,375.0** | | | | **11,188.6** |
| **Total commercial papers and bonds issued 2016** | | **14,475.0** | | | | **14,304.2** |
| Total commercial papers and bonds issued 2015 | | 13,373.0 | | | | 13,521.0 |

For issued covered bonds, a regulatory requirement for over-collateralisation of 102 per cent and an over-collateralisation requirement of 109.5 per cent for bonds issued before 21 June 2017 apply.

## FINANCING ACTIVITIES - CHANGES DURING THE YEAR

| (NOK million) | Subordinated loans | Liabilities to credit institutions | Commercial pappers and bonds issued |
|---|---|---|---|
| Book value 01.01.2017 | 277.2 | 407.2 | 13,521.0 |
| New loans / bond debt issued | 150.0 | 155.0 | 4,293.6 |
| Repayment of loans/liabilites | -150.0 | -407.2 | -3,474.0 |
| Changes in accrued interest | -1.1 | | -3.2 |
| Exchange differences foreign currency | | | |
| Other | | | -33.2 |
| **Book value 31.12.2017** | **276.1** | **155.0** | **14,304.2** |

# Note 7 - Market risk

Market risk is risk of a change in value due to financial market prices or volatility differing from what was expected.

## RISK MANAGEMENT

The risk strategy sets general limits for market risk. Storebrand Bank Group's market risk  mostly are related to spread risk in the liquidity portfolio and interest rate risk. The bank is exposed to market risk in equity instruments and currency to a lesser degree.

Market risk policies specify limits for market risk that the bank group is willing to accept. The bank group's market risk is primarily managed and controlled through daily monitoring of risk exposure pursuant to the policy and continuous analyses of outstanding positions. Credit spread risk is regulated through ceilings on investments.

The exposure limits are reviewed and renewed by the Board at least once a year. The size of these limits is set on the basis of stress tests and analyses of market movements.

## RISK CONTROL

The Middle Office is responsible for the ongoing, independent monitoring of market risk. The means of controlling market risk include monthly reports of the market risk indicators. Market risk indicators that are followed are described in the interest rate risk policy, counterparty policy and currency risk policy and are included in the CRO's ongoing reporting to the board.

For changes in market risk that occur during the first year, the effect on the result and equity will be as shown below based on the balance sheet as at 31 December 2017:

**Effect on accounting income**

| (NOK million) | Amount |
|---|---|
| Interest rate -1,0% | 10.2 |
| Interest rate +1,0% | -10.2 |

**Effect on accounting result/equity [1]**

| (NOK million) | Amount |
|---|---|
| Interest rate -1,0% | 10.2 |
| Interest rate +1,0% | -10.2 |

[1] Before taxes.

**Financial interest rate risk**

| (NOK million) | Amount |
|---|---|
| Interest rate -1,0% | 14.1 |
| Interest rate +1,0% | -14.1 |

The note presents the accounting effect over a 12 month period and the immediate financial effect of an immediate parallel change in interest rates of +1.0 percentage points and -1.0 percentage points respectively. When the accounting risk is calculated, account is taken of the non-recurring effect that such an immediate change in interest rates would have on the items recognised at fair value and the value of hedging, and the effect that the change in interest rates would have on the net profit for the remaining duration of the interest rate before the change in interest rates has an effect on income and expenses. Items that would be affected by the non-recurring effect and are recorded at fair value are the investment portfolio, fixed interest rate loans repurchase agreements and derivatives. Items that would be affected by the one-time effects and which are recorded using hedging accounting are borrowings with fixed interest rate. The change in market value that such an immediate change in interest rates would have is looked at for all items on the statement of financial position when calculating the financial effect.

See also note 23 regarding foreign exchange risk.

## Note 8 - Operational risk

### OPERATIONAL RISK

The assessment of operational risks is linked to the ability to achieve targets and to implement plans. Operational risk is defined as the risk of financial loss or damaged reputation due to inadequate or failing internal processes, control routines, systems, human error, or external events.

#### RISK MANAGEMENT

The Group seeks to reduce operational risk through an effective system for internal control with (1) clear descriptions of responsibilities, (2) clear routines, and (3) documented powers of attorney/authority. Risks are followed-up through the management's risk review, with documentation of risks, measures and follow-up of incidents. In addition, Internal Audit carries out an independent control in accordance with audit projects adopted by the Board.

#### RISK CONTROL

The CRO supports the risk review process and is responsible for compiling and reporting the area's risk scenario, following up on improvement measures and checking that risk registration is up to date in Easy Risk Manager (ERM). The results of the process are reported to the Board.

In order to be able to identify problem areas internally, the bank group has implemented routines for ongoing reporting of events to the CRO, who is responsible for logging and follow-up of reported events. The CRO reviews significant events with the board.

In connection with monthly, quarterly and annual accounts, the bank's staff functions perform various checks and reconciliations so as to control and reduce operational risk. In addition to this, the compliance function and internal auditor carry out spot checks in a number of the most important work processes. The results are reported to the bank's management and the Board.

### COMPLIANCE RISK

Compliance risk is the risk of the company incurring public sanctions or financial loss as a result of non compliance with external or internal rules.

#### RISK MANAGEMENT

The compliance risk in Storebrand Bank is managed through instructions for the compliance function. The function's main responsibility is to support the company's board and management in complying with relevant laws and regulations by independently identifying, evaluating, monitoring and reporting compliance risk. The function must perform preventive work by advising and ensuring that effective processes have been established for information and the implementation of current and future rules. The compliance function must have a risk-based approach.

#### RISK CONTROL

The compliance function performs control activities in order to ensure actual compliance.

## Note 9 - Valuation of financial instruments

Storebrand Bank Group conducts a comprehensive process to ensure that financial instruments are valued as closely as possible to their market value. Publicly listed financial instruments are valued on the basis of the official closing price on stock exchanges, supplied by Reuters and Bloomberg. Bonds are generally valued based on prices collected from Reuters, Bloomberg and Nordic Bond Pricing. Bonds that are not regularly quoted will normally be valued using recognised theoretic al models. The latter is particularly applicable to bonds denominated in Norwegian kroner. Discount rates composed of the swap rates plus a credit premium are used as a basis for these types of valuations. The credit premium will often be specific to the issuer, and will normally be based on a consensus of credit spreads quoted by well recognised brokerage houses.

Unlisted derivatives, including primarily interest rate and foreign exchange instruments, are also valued theoretically. Money market rates, swap rates, exchange rates and volatilities that form the basis for valuations are supplied by Reuters, Bloomberg and Norges Bank.

Storebrand Bank Group carries out continual checks to safeguard the quality of market data that has been collected from external sources. These types of checks will generally involve comparing multiple sources as well as controlling and assessing the likelihood of unusual changes.

The Storebrand Group categorises financial instruments that are valued at fair value into three different levels which are described in more detail below. The levels express the differing degrees of liquidity and different measurement methods used. The company has established valuation models that gather information from a wide range of well-informed sources with reference to minimize uncertainty related to the valuation.

**Level 1: Financial instruments valued on the basis of quoted prices in active markets for identical assets**
Bonds, certificates or equivalent instruments issued by nation states are generally classified as level 1. When it comes to derivatives, standardised stock index futures and interest rate futures they will also be included at this level.

**Level 2: Financial instruments valued on the basis of observable market information not covered by level 1**
This category encompasses financial instruments that are valued based on market information that in directly observable or indirectly observable. Market information that is indirectly observable means that the prices can be derived from observable related markets. Level 2 includes shares or equivalent equity instruments for which market prices are available, but where the volume of transactions is too limited to fulfil the criteria in level 1. Shares in this level will normally have been traded during the last month. Bonds and equivalent instruments are generally classified in this level. Moreover, interest rate and foreign exchange swaps, non-standardised interest rate and foreign exchange derivatives are classified in level 2.

**Level 3: Financial instruments valued on the basis of information that is not observable according to the definition for level 2 financial instruments**
Investments classified as level 3 primarily includes fixed-rate loans and the investment in VISA Norge FLI. The value of fixed-rate loans is determined by discounting the agreed cash flows over the remaining maturity by the current discount rate adjusted for market spread. The discount rate that is used is based on a swap interest rate (mid swap) with a maturity that corresponds to the remaining lock-in period for the underlying loans. The market spread that is used on the date of the balance sheet is determined by assessing the market conditions, market price and the associated swap interest rate.

Under equities, the investment in VISA Norge FLI has been primarily valued based on information on the completion of a transaction between VISA Europe Ltd and VISA Inc.

## VALUATION OF FINANCIAL INSTRUMENTS AT AMORTISED COST

The fair value of lending to customers subject to variable interest rates is stated as amortised cost. However, the fair value of lending to corporate customers with margin loans is slightly lower than amortised cost since some loans have lower margins than they would have had had they been taken out at 31 December 2017. The shortfall is calculated using a discounted difference between the agreed margin and the current market price over the remaining term to maturity. Fair value is also adjusted for individual loan loss provisions. The fair values of lending, liabilities to financial institutions and securities issued are based on valuation techniques. The valuation techniques use interest rate curves and credit spreads from external providers with exception of lending which are assessed to spreads on new loans correspondingly.

| | Level 1 | Level 2 | Level 3 | | | | |
|---|---|---|---|---|---|---|---|
| (NOK million) | Quoted prices | Observable assumptions | Non-observable assumptions | Fair value 31.12.2017 | Fair value 31.12.2016 | Book value 31.12.2017 | Book value 31.12.2016 |
| **Financial assets** | | | | | | | |
| Loans to and deposits with credit institutions | | 313.5 | | 313.5 | 272.0 | 313.5 | 272.0 |
| Loans to customers - corporate market | | 299.1 | | 299.1 | 1,477.3 | 322.9 | 1,513.6 |
| Loans to customers - retail market | | 26,354.1 | | 26,354.1 | 23,795.8 | 26,354.2 | 23,795.7 |
| Bonds classified as Loans and receivables | | 380.9 | | 380.9 | 532.7 | 380.4 | 530.6 |
| **Total financial assets 31.12.2017** | **0.0** | **27,347.6** | **0.0** | **27,347.6** | | **27,370.9** | |
| Total financial assets 31.12.2016 | | 26,077.8 | | | 26,077.8 | | 26,111.9 |
| **Financial liabilities** | | | | | | | |
| Deposits from and due to credit institutions | | 155.0 | | 155.0 | 5.0 | 155.0 | 5.0 |
| Deposits from and due to customers | | 14,628.0 | | 14,628.0 | 15,238.4 | 14,628.0 | 15,238.4 |
| Commercial papers and bonds issued | | 14,341.1 | | 14,341.1 | 13,584.5 | 14,304.2 | 13,521.0 |
| Subordinated loan capital | | 279.0 | | 279.0 | 277.6 | 276.1 | 277.2 |
| **Total financial liabiliteis 31.12.2017** | **0.0** | **29,403.1** | **0.0** | **29,403.1** | | **29,363.3** | |
| Total financial liabilities 31.12.2016 | | 29,105.4 | | | 29,105.4 | | 29,041.6 |

## VALUATION OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

| (NOK million) | Level 1 Quoted prices | Level 2 Observable assumptions | Level 3 Non-observable assumptions | Book value 31.12.2017 | Book value 31.12.2016 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Equities | | 27.0 | 13.8 | 40.8 | 15.5 |
| **Total equities 31.12.2017** | **0.0** | **27.0** | **13.8** | **40.8** | |
| Total equities 31.12.2016 | | 9.3 | 6.2 | | |
| Loans to customers - corporate market | | | | 0.0 | |
| Loans to customers - retail market | | | 580.0 | 580.0 | 1,958.5 |
| **Total loans to customers 31.12.2017** | **0.0** | **0.0** | **580.0** | **580.0** | |
| Total loans to customers 31.12.2016 | 0.0 | 0.0 | 1,958.5 | | |
| Government and government guaranteed bonds | | 764.2 | | 764.2 | 524.2 |
| Credit bonds | | 50.5 | | 50.5 | |
| Mortage and asset backed bonds | | 2,398.9 | | 2,398.9 | 2,907.7 |
| **Total bonds 31.12.2017** | **0.0** | **3,213.5** | **0.0** | **3,213.5** | |
| Total bonds 31.12.2016 | | 3,431.9 | | | |
| Interest derivatives | | 41.2 | | 41.2 | 45.8 |
| **Total derivatives 31.12.2017** | **0.0** | **41.2** | **0.0** | **41.2** | |
| Derivatives with a positive fair value | | 179.8 | | 179.8 | 254.1 |
| Derivatives with a negative fair value | | -138.6 | | -138.6 | -208.3 |
| Total derivatives 31.12.2016 | | 45.8 | | | |
| | | | | | |
| **Financial liabilities** | | | | | |
| Liabilities to credit institutions | | | | 0.0 | 402.2 |
| **Liabilities to credit institutions 31.12.2017** | **0.0** | **0.0** | **0.0** | **0.0** | |
| Liabilities to credit institutions 31.12.2016 | | 402.2 | | | |

There have not been any changes between quoted prices and observable assumptions on the various financial instruments in the quarter.

## SPESIFICATION OF SECURITIES PURSUANT TO VALUATION TECHNIQUES (NON-OBSERVABLE ASSUMPTIONS)

| (NOK million) | Equities | Lending to customers |
|---|---|---|
| Book value 01.01.2017 | 6.2 | 1,958.5 |
| Net gains/losses on financial instruments | 7.6 | -7.6 |
| Supply / disposal | | 103.5 |
| Sales / due settlements | | -1,474.4 |
| Transferred from observable assumptions to non-observable assumptions | | |
| Translation differences | | |
| Other | | |
| **Book value 31.12.2017** | **13.8** | **580.0** |

## SENSITIVITY ANALYSIS

### Loans to customers

The value of fixed-rate loans is determined by discounting the agreed cash flows over the remaining maturity by the current discount rate adjusted for market spread. The discount rate that is used is based on a swap interest rate (mid swap) with a maturity that corresponds to the remaining lock-in period for the underlying loans. The market spread that is used on the date of the balance sheet is determined by assessing the market conditions, market price and the associated swap interest rate.

**Equities**

This item is included the membership in VISA Norge FLI which has been valued based on information on the completion of a transaction between VISA Europe Ltd and VISA Inc. At the end of the year, the membership was valued at what the bank expects to receive in deferred settlement, adjusted for uncertainty. The change in value is included through Total comprehensive income.

| | **Fixed-rate loans to customers** | | **Equities** | |
|---|---|---|---|---|
| | Change in market spread | | Change in value | |
| Increase/reduction in fair value | + 10 bp | - 10 bp | + 25 bp | - 25 bp |
| **Increase/reduction in fair value at 31.12.2017 (MNOK)** | **-2.2** | **2.2** | **0.3** | **-0.3** |
| Increase/reduction in fair value at 31.12.2016 (MNOK) | -8.4 | 7.8 | 0.4 | -0.4 |

## Note 10 - Segment

### ANALYSIS OF PROFIT AND LOSS ACCOUNT BY SEGMENT:

| | Corporate | | Retail | | Treasury/other | | Total | |
|---|---|---|---|---|---|---|---|---|
| (NOK million) | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| **Profit and loss items:** | | | | | | | | |
| Net interest income | 21.3 | 42.2 | 366.0 | 353.8 | -13.4 | -23.3 | 374.0 | 372.7 |
| Net fee and commission income | -0.3 | 5.8 | 76.3 | 41.7 | 0.0 | 1.0 | 76.0 | 48.5 |
| Other income | | | | | 53.7 | 83.4 | 53.7 | 83.4 |
| | | | | | | | | |
| Total operating costs | -19.4 | -20.5 | -280.9 | -264.2 | | | -300.2 | -284.7 |
| | | | | | | | | |
| **Operating profit before loan losses** | **1.7** | **27.4** | **161.5** | **131.3** | **40.4** | **61.0** | **203.5** | **219.8** |
| | | | | | | | | |
| Loan losses | 0.1 | -12.7 | -9.5 | -4.4 | 0.0 | 0.0 | -9.4 | -17.2 |
| **Ordinary profit from continuing operations** | **1.8** | **14.7** | **152.0** | **126.9** | **40.4** | **61.0** | **194.1** | **202.7** |
| **Ordinary profit from discontinued businesses** | **0.0** | **0.0** | **0.0** | **0.0** | **-0.3** | **0.5** | **-0.3** | **0.5** |
| | | | | | | | | |
| **Balance sheet items:** | | | | | | | | |
| Gross loans to customers | 359.8 | 1,549.8 | 26,941.0 | 25,685.9 | 25.6 | 97.8 | 27,326.4 | 27,333.5 |
| Loan loss provisions | -36.9 | -36.2 | -32.4 | -29.5 | | | -69.3 | -65.7 |
| Net customer loans | 322.9 | 1,513.6 | 26,908.5 | 25,656.4 | 25.6 | 97.8 | 27,257.0 | 27,267.8 |
| | | | | | | | | |
| Deposits from and due to customers | 234.8 | 227.7 | 14,361.4 | 14,872.2 | 31.8 | 138.4 | 14,628.0 | 15,238.4 |
| | | | | | | | | |
| **Key figures:** | | | | | | | | |
| Net interest income as % of total assets | 1.69% | 1.69% | 1.20% | 1.12% | | | 1.14% | 1.11% |
| Cost/income ratio | 92% | 43% | 63% | 67% | | | 60% | 56% |
| Deposits from customers as % of gross loans | 65% | 15% | 53% | 58% | | | 54% | 56% |
| Total level of provisioning | 49% | 71% | 17% | 21% | | | 26% | 34% |

Storebrand Bank is a commercial bank with the head office at Lysaker in the council of Bærum. The Group's activities mainly take place in Norway.

DESCRIPTION OF THE SEGMENTS:

**Corporate market:** The segment includes corporate customers' deposits and loans, mainly property owners and developers. All capital market business for customers within the bank's corporate market segment is presented under the corporate market segment. Storebrand Bank ASA has decided to wind up the corporate market at the bank. The winding up of operations will be gradual and controlled.

**Retail market:** Deposits from and loans to retail market customers, including credit cards, and deposits from corporate customers without property interests. Loans primarily comprise home mortgages. The segment includes loans in Storebrand Boligkreditt AS. All capital market business for customers within the bank's retail market segment is presented under the retail market segment.

**Treasury/Other:** Income and expenses that are not directly attributable are allocated to the segments on the basis of the assumed resource use. The elimination of double entries refers primarily to customer transactions that are carried out across the segments. The effects of financial risk management and the liquidity portfolio have not been allocated to the business areas and are reported under Treasury / Other.

The fee to the Norwegian Banks' Guarantee Fund is accrued over 12 months in the segment accounts. The residual for actual recognised expense in the 1st quarter of 2016 is entered in the Other/Treasury segment. In 2017 the fee to the Norwegian Banks' Guarantee Fund is again accrued over 12 months in the accounts. There is therefore no residual for Treasury / Other.

Distributions from VISA Norge FLI in 2016 are reported under Treasury / Other.

## Note 11 - Net income from financial instruments

| (NOK million) | 2017 | 2016 |
|---|---|---|
| **Net interest income** | | |
| Interest and other income on loans to and deposits with credit institutions | 6.0 | 5.9 |
| Interest and other income on loans to and due from customers | 675.4 | 701.5 |
| Interest on commercial paper, bonds and other interest-bearing securities | 46.4 | 55.9 |
| Other interest income and related income | 1.5 | 2.6 |
| **Total interest income *)** | **729.3** | **765.9** |
| Interest and other expenses on debt to credit institutions | -2.9 | -5.7 |
| Interest and other expenses on deposits from and due to customers | -103.0 | -120.4 |
| Interest and other expenses on securities issued | -227.8 | -241.8 |
| Interest and expenses on subordinated loan capital | -8.9 | -11.0 |
| Other interest expenses and related expenses | -12.7 | -14.5 |
| **Total interest expenses **)** | **-355.3** | **-393.3** |
| **Net interest income** | **374.0** | **372.7** |
| | | |
| *) Of which total interest income on financial assets that are not at fair value through the profit and loss account | 635.1 | 651.7 |
| **) Of which total interest expenses on financial liabilities that are not at fair value through the profit and loss account | -353.1 | -389.3 |

| | 2017 | 2016 |
|---|---|---|
| **Interest expense and changes in value of issued funding at FVO:** | | |
| Interest expense issued funding at FVO | -1.8 | -3.8 |
| Changes in value of issued funding at FVO | 0.5 | -0.1 |
| **Net expense issued funding at FVO** | **-1.3** | **-3.9** |

| (NOK million) | 2017 | 2016 |
|---|---|---|
| **Net income and gains from financial assets and liabilities at fair value:** | | |
| **Equity instruments** | | |
| Dividends received from equity investments | | 24.6 |
| Net gains/losses on realisation of equity investments | -0.7 | |
| Net change in fair value of equity investments | 2.0 | -0.4 |
| Total equity instruments, Fvo | 1.3 | 24.3 |
| **Commercial papers and bonds** | | |
| Realised gain/loss on commercial papers and bonds, FVO | 5.6 | 9.3 |
| Unrealised gain/loss on commercial papers and bonds, FVO | 16.1 | 18.0 |
| Total gain/loss on commercial papers and bonds, FVO | 21.7 | 27.3 |
| **Lending to customers** | | |
| Unrealised gain/loss on lending to customers, FVO | 7.0 | -25.2 |
| Total gain/loss on lending to customers, FVO | 7.0 | -25.2 |
| **Liabilities to credit institutions and other funding** | | |
| Realised gain/loss on liabilities to credit institutions and other funding, FVO | | |
| Unrealised gain/loss on liabilities to credit institutions and other funding, FVO | 0.5 | -0.1 |
| Total gain/loss on liabilities to credit institutions and other funding, FVO | 0.5 | -0.1 |
| **Financial derivatives and foreign exchange** | | |
| Realised gain/loss on financial derivatives, held for trading | 3.4 | 37.9 |
| Unrealised gain/loss on financial derivatives, held for trading | 27.9 | 34.3 |
| Total financial derivatives and foreigh exchange, held for trading | 31.3 | 72.2 |
| **Net income and gains from financial assets and liabilities at fair value** | **61.7** | **98.4** |
| **Fair value hedging** | | |
| Realised gain/loss on derivatives and bonds issued, fair value hedging | | |
| Unrealised gain/loss on derivatives and bonds issued, fair value hedging | -2.5 | -5.7 |
| **Net gain/loss on fair value hedging Net gain/loss on fair value hedging** | **-2.5** | **-5.7** |
| **Commercial papers and bonds** | | |
| Realised gain/loss on commercial papers and bonds at amortised cost | 1.4 | 0.1 |
| Total gain/loss on commercial papers and bonds at amortised cost | 1.4 | 0.1 |
| **Bonds issued** | | |
| Realised gain/loss on bonds issued at amortised cost | -6.9 | -6.0 |
| Total gain/loss on bonds issued at amortised cost | -6.9 | -6.0 |
| **Net income and gains from financial assets and liabilities at amortised cost** | **-5.5** | **-5.9** |
| **Net income and gains from financial assets and liabilities** | **53.7** | **86.9** |
| | | |
| Net gain/loss on financial assets at fair value through the profit and loss account: | | |
| Financial assets designated at fair value upon initial recognition | 24.4 | 27.0 |
| Financial assets classified as held for trading | -2.0 | 47.1 |
| Changes in fair value of assets due to changes in credit risk | 22.8 | 0.3 |
| Net gain/loss on financial liabilities at fair value through the profit and loss account: | | |
| Financial liabilities designated at fair value upon initial recognition | 0.5 | -0.1 |
| Financial liabilities classified as held for trading | | |

The note includes gain and loss on investments in bonds and commercial papers, all of the financial derivatives, lending at FVO, other funding at FVO, net gain and loss on fair vaule hedging and total bonds and commercial papers issued. Other financial assets and liabilities are not included in the note.

## Note 12 - Net commission income

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Fees related to banking operations | 35.8 | 34.9 |
| Commissions from saving products | 0.5 | 4.8 |
| Fees from and management of loans | 54.6 | 20.3 |
| Other fees and commissions receivable | | 3.7 |
| **Total fees and commissions receivable *)** | **91.0** | **63.6** |
| | | |
| Fees and commssisions payable relating to banking operations | -11.6 | -14.1 |
| Commissions payable on saving products | -0.1 | -0.1 |
| Other fees and commissions payable | -3.2 | -1.0 |
| **Total fees and commissions payable **)** | **-15.0** | **-15.2** |
| **Net commission income** | **76.0** | **48.5** |
| *) Of which total fees and commission income on book value of financial assets and liabilities that are not at fair value through the profit and loss account | 90.5 | 58.9 |
| **) Of which total fees and commission expense on book value of financial assets and liabilities that are not at fair value through the profit and loss account | -14.8 | -14.1 |

## Note 13 - Remuneration paid to auditors

**Remuneration excluding value added tax:**

| NOK 1000 | 2017 | 2016 |
|---|---|---|
| Statutory audit | 574 | 769 |
| Other reporting duties | 281 | 224 |
| Other non-audit services | 10 | 39 |
| **Total** | **865** | **1,032** |

**Of which remuneration to Deloitte AS (excl. VAT):**

| | | |
|---|---|---|
| Statutory audit | 574 | 769 |
| Other reporting duties | 281 | 224 |
| Other non-audit services | 10 | 39 |
| **Total** | **865** | **1,032** |

## Note 14 - Operating expenses

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Ordinary wages and salaries | -70.0 | -80.5 |
| Employer's social security contributions | -15.0 | -12.2 |
| Pension cost (see note 15) | -13.9 | 1.4 |
| Other staff expenses | -6.9 | -5.5 |
| **Total staff expenses** | **-105.8** | **-96.8** |
| | | |
| It costs | -58.9 | -45.1 |
| Office operation and other general administration expenses | -0.9 | -3.4 |
| **Total general administration expenses** | **-59.8** | **-48.5** |
| | | |
| Depreciation and writed-downs fixed assets and intangible assets (see note 26 and 27) | -13.5 | -25.1 |
| Operating expenses on rented premises | -10.0 | -9.6 |
| Foreign services (see note 13) | -8.3 | -8.1 |
| Inter-company charges for services 1) | -86.5 | -83.0 |
| Sold services to group companies | -0.6 | |
| Other operating expenses | -15.5 | -13.5 |
| **Total other operating expenses** | **-134.6** | **-139.4** |
| **Total operating expenses** | **-300.2** | **-284.7** |

1) Services purchased from the group contain costs relating to bank production, IT services, joint administrative functions, financial and legal services, marketing activities, HR and skills development, purchasing, information services and savings advice.

## Note 15 - Pensions

The Storebrand Group has country-specific pension schems. Storebrand's employees in Norway have a defined-contribution pension scheme. In a defined-contribution scheme, the company allocates an agreed contribution to a pension account. The future pension depends upon the amount of the contributions and the return on the pension account. When the contributions have been paid, the company has no further payment obligations relating to the defined-contribution pension and the payment to the pension account is charged as an expense on an ongoing basis. For regulatory reasons, there can be no savings in the defined-contribution pension for salaries that exceed 12G (G = National Insurance Scheme basic amount). Storebrand has pension savings in the savings product Extra Pension for employees with salaries exceeding 12G.

The premiums and content of the defined-contribution pension scheme are as follows:

– Saving starts from the first krone of salary
– Savings rate of 7 per cent of salary from 0 to 12 G (the National Insurance basic amount "G" was NOK 93,634 as at 31 December 2017)
– In addition, 13 per cent of salary between 7.1 and 12 G is saved.
– Savings rate for salary over 12 G is 20 per cent.

The Norwegian companies participate in the Joint Scheme for Collective Agreement Pensions (AFP). The private AFP scheme provides a lifelong supplement to an ordinary pension and is a multi-employer pension scheme, but there is no reliable information available for inclusion of this liability on the statement of financial position. The scheme is financed by means of an annual premium that is defined as a percentage of salaries from 1 G to 7.1 G, and the premium rate was 2.5 % in 2016. Storebrand employees in Norway who were born before 1 January 1956 can choose between drawing an AFP scheme pension or retiring at the age of 65 and receiving a direct pension from the company until they reach the age of 67. Employees can choose to receive benefits from the AFP scheme from the age of 62 and still continue to work.

Employees who were on sick leave and partiality disabled during the transition to the defined-contribution pension, remain in the defined-benefit pension scheme. There are also pension liabilities for the defined-benefit scheme related to direct pensions for certain former employees and former board members.

### RECONCILIATION OF PENSION ASSETS AND LIABILITIES IN THE STATEMENT OF FINANCIAL POSITION

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Present value of insured pension liabilities | 14.9 | 34.8 |
| Fair value of pension assets | -14.7 | -33.3 |
| Net pension liabilities/assets insured scheme | 0.2 | 1.4 |
| Present value of unsecured liabilities | 11.4 | 12.2 |
| **Net pension liabilities recognised in statement of financial position** | **11.6** | **13.6** |

Includes employer contributions on net under-financed liabilities in the gross liabilities

### BOOKED IN STATEMENT OF FINANCIAL POSITION

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Pension assets | | |
| Pension liabilities | 11.6 | 13.6 |

### CHANGES IN THE NET DEFINED BENEFIT PENSION LIABILITIES IN THE PERIOD

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Net pension liabilities 01.01 | 46.9 | 57.4 |
| Pensions earned in the period | 0.6 | 1.7 |
| Pension cost recognised in period | 1.0 | 1.3 |
| Estimate deviations | -19.0 | 6.1 |
| Gain/loss on insurance reductions | 3.4 | -11.3 |
| Pensions paid | -6.5 | -4.4 |
| Changes to pension scheme | | -3.2 |
| Employer's NI contribution reversed | -0.1 | -0.7 |
| **Net pension liabilities 31.12** | **26.3** | **46.9** |

### CHANGES IN THE FAIR VALUE OF PENSION ASSETS

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Pension assets at fair value 01.01 | 33.3 | 32.1 |
| Expected return | 0.7 | 0.8 |
| Estimate deviation | -18.6 | -0.5 |
| Premiums paid | 0.8 | 5.6 |
| Pensions paid | -1.4 | -0.8 |
| Changes to pension scheme | | -3.2 |
| Employer's NI contribution pension assets | -0.1 | -0.7 |
| **Net pension assets 31.12** | **14.7** | **33.3** |
| Expected premium payments (pension assets) in 2018: | 0.5 | |
| Expected premium payments (contributions) in 2018: | 6.3 | |
| Expected AFP early retirement scheme payments in 2018: | 1.2 | |
| Expected payments from operations (uninsured scheme) in 2018: | 4.7 | |

### PENSION ASSETS ARE BASED ON THE FINANCIAL ASSETS HELD BY STOREBRAND LIFE INSURANCE COMPOSED AT 31.12:

| | 2017 | 2016 |
|---|---|---|
| Real estate | 12% | 15% |
| Bonds at amortised cost | 32% | 40% |
| Loans | 12% | 6% |
| Equities and units | 15% | 12% |
| Bonds | 27% | 27% |
| **Total** | **100%** | **100%** |

The table shows the percentage asset allocation of pension assets at year-end managed by Storebrand Life Insurance AS.

| | | |
|---|---|---|
| Realised return on assets | 4.9 % | 6.4 % |

### NET PENSION COST BOOKED TO PROFIT AND LOSS ACCOUNT, SPECIFIED AS FOLLOWS:

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Current service cost incl provsion for employer's NI contribution | 0.6 | 1.7 |
| Net interest cost/expected return | 0.3 | 0.5 |
| Changes to pension scheme | 3.4 | -11.3 |
| **Total for defined benefit schemes** | **4.3** | **-9.1** |
| The period's payment to contribution scheme | 8.2 | 6.4 |
| The period's payment to contractual pension | 1.5 | 1.2 |
| **Net pension cost recognised in profit and loss account in the period** | **13.9** | **-1.4** |

Net pension cost includes payroll tax of employer contribution and is included in operating expenses. See note 14.

### OTHER COMPREHENSIVE INCOME (OCI) IN THE PERIOD

| (NOK million) | 2017 |
|---|---|
| Actuarial loss (gain) - change in discount rate | |
| Actuarial loss (gain) - change in other financial assumptions | |
| Actuarial loss (gain) - change in mortality table | |
| Actuarial loss (gain) - change in other demographic assumptions | |
| Actuarial loss (gain) - experience DBO | -19.0 |
| Loss (gain) - experience Assets | 18.4 |
| Investment management cost | 0.2 |
| Asset ceiling - asset adjustment | |
| **Remeasurements loss (gain) in the period** | **-0.4** |

### MAIN ASSUMPTIONS USED WHEN CALCULATING NET PENSION LIABILITY 31.12

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Discount rate | 2.6 % | 2.3 % |
| Expected return | 2.25 % | 2.0 % |
| Expected earnings growth | 2.25 % | 2.0 % |
| Expected annual increase in pensions payment | 0.0 % | 0.0 % |
| Disability table | KU | KU |
| Mortality table | K2013BE | K2013BE |

**FINANCIAL ASSUMPTIONS:**
The financial assumptions have been determined on the basis of the rules in IAS 19. Long term assumptions such as future inflation, real interest rates, real wage growth and adjustment of the basic amount are particularly subject to a high degree of uncertainty.

In Norway, a discount rate based on covered bonds is used. Based on the market and volume trends observed, the Norwegian covered bond market must be perceived as a deep market.

Specific company conditions including expected direct wage growth are taken into account when determining the financial assumptions.

**ACTUARIAL ASSUMPTIONS:**
In Norway, there are standardised assumptions for mortality/disability trends, and other demographic factors, that have been prepared by Finance Norway. A new mortality basis K2013 for group pension insurance in life insurance companies and pension funds was introduced effective from 2014. Storebrand has used the mortality table K2013BE (best estimate) for the actuarial calculations as at 31 December 2016.

## Note 16 - Loan losses

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Loan losses for the period | | |
| Change in loan loss provisions on individual loans for the period | -15.2 | 30.7 |
| Change in loan loss provisions on groups of loans for the period | 11.7 | -6.9 |
| Other corrections to loan loss provisions | | |
| Realised losses on commitments specifically provided for previously | -2.5 | -35.5 |
| Realised losses on commitments not specifically provided for previously | -4.9 | -6.6 |
| **Recoveries on previously realised losses** | **1.5** | **1.1** |
| **Loan losses for the period** | **-9.4** | **-17.2** |

## Note 17 - Tax

### TAX CHARGE FOR THE YEAR

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Tax payable in the balance sheet | -38.0 | -31.3 |
| Tax payable in equity | -2.6 | -2.7 |
| Tax payablen in OCI | 0.1 | -1.7 |
| Changes in deferred tax/deferred tax asset | -7.6 | -9.3 |
| **Total tax cost** | **-48.1** | **-45.0** |

## TAX PAYABLE IN THE BALANCE SHEET

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Tax payable | -38.0 | -31.3 |
| - tax effect of group contribution paid | | |
| **Tax payable in the balance sheet (note 31)** | **-38.0** | **-31.3** |

## RECONCILIATION OF EXPECTED AND ACTUAL TAX CHARGE

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Ordinary pre-tax profit | 194.1 | 202.7 |
| Expected tax on income at nominal rate | -48.5 | -50.7 |
| Tax effect of: | | |
| Realised shares | 0.5 | -0.1 |
| Dividend on shares | | 6.0 |
| Permanent differences | | -0.2 |
| Change in tax rules | -0.1 | -0.1 |
| **Tax charge** | **-48.1** | **-45.0** |

The tax charge also reflects tax effects related to earlier years.

## ANALYSIS OF THE TAX EFFECT OF TEMPORARY DIFFERENCES AND TAX LOSSES CARRIED FORWARD

| (NOK million) | 2017 | 2016 |
|---|---|---|
| **Tax-increasing temporary differences** | | |
| Gains/losses account | | 0.1 |
| Other | | 0.4 |
| **Total tax-increasing temporary differences** | **0.0** | **0.5** |
| | | |
| **Tax-reducing temporary differences** | | |
| Pensions | -11.6 | -13.6 |
| Financial instruments | -32.1 | -51.2 |
| Fixed assets | -13.1 | -14.4 |
| Provisions | -8.6 | -16.1 |
| **Total tax-reducing temporary differences** | **-65.3** | **-95.3** |
| | | |
| Losses/allowances carried forward | | -1.6 |
| **Base for deferred tax/tax assets** | **-65.3** | **-96.4** |
| Write-down of deferred tax asset | | 0.1 |
| **Net base for deferred tax and deferred tax asset** | **-65.3** | **-96.3** |
| **Net deferred asset/liability** | **16.3** | **24.0** |
| | | |
| Change in deferred tax asset due to liquidiation of Bjørndalen Panorama AS | | |
| (the change is not recognised throug profit and loss) | 0.3 | |
| **Net deferred asset/liability in the balance sheet** | **16.1** | **24.0** |

In December 2016, the Norwegian Parliament (Storting) agreed to reduce the company tax rate from 25 per cent to 24 per cent effective from 1 January 2017. In Ocotber 2017. tje Storting agreed to reduce the company tax from 24 per cent to 23 per cent effective form 1 January 2018. At the same time, the Storting agreed to continue the financial tax rate of 25 per cent. Therefore, for companies subject to the financial tax, the company tax rate will be continues at the 2016 level (25 per cent).

Since Storebrand Bank ASA has activities within "Section K" (financing and insurance activities as defined in Standard Industrial Classification 2007) which exceed 30 per cent and are therefore subject to the financial tax, a tax rate of 25 per cent has been used for capitalizing deferred tax/deferred tax assets.The Storebrand Bank Group includes companies that are both subject to and not subject to the financial tax. Therefore, when capitalizing deferred tax/deferred tax assets in the consolidated financial statements, the company tax rate is used that is applicable for the individual companies (23 or 25 per cent).

### ANALYSIS OF TAX PAYABLE AND DEFERRED TAX APPLIED DIRECTLY TO EQUITY:

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Pension experience adjustments | 0.1 | -1.7 |
| **Total** | **0.1** | **-1.7** |

Deferred tax assets principally relate to tax reducing temporary differences on fixed assets, pension liabilities and financial instruments. The bank produces an annual profit, and is expected to continue to produce a profit in future years. Deferred tax assets in respect of Storebrand Bank ASA are capitalised to the extent that it is considered likely that it will be possible to make use of the assets.

## Note 18 - Classification of financial assets and liabilites

| (NOK million) | Loans and Receivables | Fair value, trading | Fair value, FVO | Available for sale | Liabilities at amortised cost | Total book value |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and deposits with central banks | 472.2 | | | | | 472.2 |
| Loans to and deposits with credit institutions | 313.5 | | | | | 313.5 |
| Equity instruments | | | 27.0 | 13.8 | | 40.8 |
| Bonds and other fixed-income securities | 380.4 | | 3,213.5 | | | 3,593.9 |
| Derivatives | | 179.8 | | | | 179.8 |
| Lending to customers [1)] | 26,677.0 | | 580.0 | | | 27,257.0 |
| Other current assets | 37.3 | | | | | 37.3 |
| **Total financial assets 2017** | **27,880.4** | **179.8** | **3,820.6** | **13.8** | **0.0** | **31,894.6** |
| Total financial assets 2016 | 26,607.0 | 254.1 | 5,399.7 | 6.2 | 0.0 | 32,267.0 |
| | | | | | | |
| **Financial liabilities** | | | | | | |
| Deposits from and due to credit institutions | | | | | 155.0 | 155.0 |
| Deposits from and due to customers | | | | | 14,628.0 | 14,628.0 |
| Commercial papers and bonds issued | | | | | 14,304.2 | 14,304.2 |
| Derivatives | | 138.6 | | | | 138.6 |
| Other liabilities | | | | | 109.9 | 109.9 |
| Subordinated loan capital | | | | | 276.1 | 276.1 |
| **Total financial liabilities 2017** | **0.0** | **138.6** | **0.0** | **0.0** | **29,473.2** | **29,611.7** |
| Total financial liabilities 2016 | 0.0 | 208.3 | 402.2 | 0.0 | 29,195.3 | 29,805.8 |

1) Loan loss provisions are included in the portfolio classified as "Loan and Receivables".

## Note 19 - Bonds and other fixed-income securities at fair value through profit and loss account

| (NOK million) | 2017 Fair value | 2016 Fair value |
|---|---|---|
| Sovereign and Government Guaranteed bonds | 764.2 | 524.2 |
| Credit Bonds | 50.5 | - |
| Mortgage and asset backed bonds | 2,398.9 | 2,907.7 |
| **Total bonds and other fixed-income securities at fair value through the profit and loss account** | **3,213.5** | **3,431.9** |
| Modified duration | 0.23 | 0.25 |
| Average effective yield per 31.12. | 0.83% | 1.36% |

The portfolio is mainly denominated in NOK. The effective yield for each asset is calculated using the observed market price. Calculated effective yields are weighted to give an average effective yield on the basis of each asset's share of the total interest rate sensitivity.

## Note 20 - Bonds at amortised cost - Loans and receivables

| (NOK million) | 2017 Book value | 2017 Fair value | 2016 Book value | 2016 Fair value |
|---|---|---|---|---|
| Public issuers and Government Guaranteed Bonds | 130.2 | 130.3 | 200.3 | 200.9 |
| Mortgage and asset backed bonds | 250.2 | 250.6 | 330.3 | 331.8 |
| **Total bonds at amortised cost** | **380.4** | **380.9** | **530.6** | **532.7** |
| Modified duration | | 0.16 | | 0.18 |
| Average effective yield per 31.12. | | 0.74% | | 1.23% |

All securities are denominated in NOK. The effective yield for each asset is calculated using the observed market price. Calculated effective yields are weighted to give an average effective yield on the basis of each asset's share of the total interest rate sensitivity.

## Note 21 - Buyback agreements (repo agreements)

| (NOK million) | 2017 Book value | 2016 Book value |
|---|---|---|
| Transferred bonds still recognised on the statement of financial position (note 19) | 0.0 | 402.2 |
| Liabilities related to the assets 1) (see Note 18) | 0.0 | 402.2 |

1) Reported on the Debt to Credit Institutions line in the statement of financial position.

Transferred bonds that are included in buyback agreements are not derecognised, since all the risk and return on the securities is retained by Storebrand Bank ASA. The bank has not entered into any repurchase agreements per 31 December 2017

## Note 22 - Financial derivatives

Financial derivatives are linked to underlying amounts which are not carried on the balance sheet. In order to quantify the volume of derivatives, reference is made to such underlying amounts as underlying principal, nominal volume and the like. Different calculation methods are applied to nominal volume for different types of financial derivatives, and this figure expresses the scope of risk and positions of financial derivatives.

Gross nominal volume primarily provides information on scope, while net nominal volume provides a certain expression of risk positions. However, the nominal volume for different instruments is not necessarily comparable, considering the risk exposure. As opposed to gross nominal volume, the calculation of net nominal volume also takes into account the sign for the instrument's market risk exposure, by differing between so-called asset positions and liability positions.

An asset position in a share derivative implies a positive change in value if share prices rise. For interest derivatives, an asset position implies a positive change in value if interest rates are reduced – as is the case with bonds. An asset position in a currency derivative generates a positive change in value if the exchange rate against the NOK sees an increase. The average gross nominal volume is based on daily calculations of gross nominal volume.

| | | | | | Net amounts taken into account netting agreements | | |
|---|---|---|---|---|---|---|---|
| (NOK million) | Gross nom. volume [1] | Gross recognised financial assets | Gross recognised debt | Net financial assets / debt in the balance sheet | Fin. assets | Fin. debt | Net amount |
| Interest derivatives [2] | 4,655.7 | 179.8 | 138.6 | | | | 41.2 |
| Currency derivatives | 1.2 | | | | | | -0.0 |
| **Total derivatives 31.12.2017** | **4,656.9** | **179.8** | **138.6** | **0.0** | **0.0** | **0.0** | **41.2** |
| Total derivatives 31.12.2016 | 8,719.2 | 254.1 | 208.3 | | | | 45.8 |

1) Values as at 31.12:

2) Interest derivatives include accrued, not due, interest.

### INVESTMENTS SUBJECT TO NETTING AGREEMENTS /CSA

| (NOK million) | Recognised assets | Recognised liabilities | Net assets | Collateral "Cash (+/-)" | Collateral Securities (+/-) | Net exposure |
|---|---|---|---|---|---|---|
| Investments subject to netting agreements | 86.9 | 138.6 | -51.7 | | -300.0 | 248.3 |
| Investments not subject to netting agreements | 92.8 | | 92.8 | | | |
| **Total 2017** | **179.7** | **138.6** | **41.2** | | | |

## Note 23 - Foreign exchange risk

### FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCY

| | Statement of financial position items | | Currancy for-wards | Net position | |
|---|---|---|---|---|---|
| (NOK million) | Assets | Liabilities | Net sale | in currency | in NOK |
| CHF | 0.0 | 0.1 | 0.0 | 0.0 | -0.1 |
| DKK | 0.0 | 0.1 | 0.0 | 0.0 | -0.1 |
| EUR | 15.0 | 14.8 | -1.2 | 0.0 | -1.0 |
| GBP | 2.4 | 2.4 | 0.0 | 0.0 | 0.0 |
| JPY | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| SEK | 0.2 | 0.3 | 0.0 | 0.0 | -0.1 |
| USD | 12.7 | 12.6 | 0.0 | 0.0 | 0.2 |
| Other | 0.0 | -0.1 | 0.0 | 0.0 | 0.1 |
| **Total net currency positions 2017** | | | | | **-1.0** |
| Total net currency positions 2016 | | | | | -1.4 |

The permitted limit for the bank's foreign exchange position is 0.50% of primary capital, which is approximately NOK 12 million at present.

## Note 24 - Loan portfolio and guarantees

| (NOK million) | 2017 Book value | 2016 Book value |
|---|---|---|
| Loans to customers at amortised cost | 26,746.4 | 25,375.0 |
| Loans to customers at fair value | 580.0 | 1,958.5 |
| **Total gross loans to customers** | **27,326.4** | **27,333.5** |
| Loan loss provisions on individual loans (see note 25) | -42.8 | -27.5 |
| Loan loss provisions on groups of loans (see note 25) | -26.5 | -38.2 |
| **Net loans to customers** | **27,257.0** | **27,267.8** |

See note 4 for analysis of loan portfolio and guarantees per customer group.

## Note 25 - Loan loss provisions

| (NOK million) | 2017<br>Book value | 2016<br>Book value |
|---|---|---|
| Loan loss provisions on individual loans 01.01 | 27.5 | 57.9 |
| Losses realised in the period on individual loans previously written down | -2.5 | -35.5 |
| Loan loss provisions on individual loans for the period | 21.9 | 12.5 |
| Reversals of loan loss provisions on individual loans for the period | -4.1 | -7.4 |
| Other corrections to loan loss provisions | | |
| **Loan loss provisions on individual loans at 31.12** | **42.8** | **27.5** |
| | | |
| Loan loss provisions on groups of loans and guarantees 01.01 | 38.2 | 30.7 |
| Grouped loan loss provisions for the period | -11.7 | 7.5 |
| **Loan loss provisions on groups of loans and guarantees etc. 31.12** | **26.5** | **38.2** |
| **Total loan loss provisions (see note 24)** | **69.3** | **65.7** |

## Note 26 - Intangible assets

| (NOK million) | IT-systems | 2017<br>Book value | 2016<br>Book value |
|---|---|---|---|
| Acquistion cost at 01.01 | 148.9 | 148.9 | 178.4 |
| Additions in the period: | | | |
| Purchased separately | 3.9 | 3.9 | 15.7 |
| Disposals in the period | -11.0 | -11.0 | -45.2 |
| **Acquisition cost at 31.12** | **141.8** | **141.8** | **148.9** |
| Accumulated depreciation and write-downs at 01.01 | 68.8 | 68.7 | 89.8 |
| Depreciation in the period (see note 14) | 12.6 | 12.6 | 15.2 |
| Disposals in the period | -11.0 | -11.0 | -36.3 |
| **Accumulated depreciation and write-downs at 31.12** | **70.4** | **70.4** | **68.8** |
| **Book value at 31.12** | **71.4** | **71.4** | **80.1** |

Intangible assets are depreciated on a linear basis over periods from two to ten years.

IT systems in this note refers to the development of systems, data warehouses, user licenses to systems, etc. All capitalised expenses in respect of systems development relate to work carried out by external resources. The estimate of economic liftetime are reviewed annually.

## Note 27 - Fixed assets

| (NOK million) | Fixtures & fittings | 2017<br>Book value | 2016<br>Book value |
|---|---|---|---|
| Book value at 01.01 | 1.0 | 1.0 | 2.0 |
| Additions | | 0.0 | 0.0 |
| Depreciation (see note 14) | -0.9 | -0.9 | -1.0 |
| Write-downs in the period (se note 14) | | 0.0 | 0.0 |
| **Book value at 31.12** | **0.1** | **0.1** | **1.0** |
| Opening acquisition cost | 10.2 | 10.2 | 10.2 |
| Closing acquisition cost | 10.2 | 10.2 | 10.2 |
| Opening accumulated depreciation and write-downs | 9.1 | 9.1 | 8.2 |
| Closing accumulated depreciation and write-downs | 10.0 | 10.0 | 9.1 |

| For each class of fixed assets: | |
|---|---|
| Method for measuring cost price | Acquisition cost |
| Depreciation method | linear |
| Depreciation period and economic life | 2 - 8 years |

Depreciation of fixed assets is included in the line "Other operating costs" in the profit and loss account. There are no restrictions on rights to fixed assets. No fixed assets have been pledged as collateral for liabilities.

## Note 28 - Deposits from and due to customers

| (NOK million) | 2017<br>Book value | 2016<br>Book value |
|---|---|---|
| Deposits from customers without agreed maturity | 14,067.7 | 14,972.2 |
| Term loans and deposits from customers with agreed maturity | 560.3 | 266.2 |
| **Total deposits from customers** | **14,628.0** | **15,238.4** |

Deposits with agreed maturity relate to deposits for a contractually agreed period. Deposits without agreed maturity relates to deposits with no fixed period where the customer has unrestricted access to the deposit.

### DEPOSITS FROM CUSTOMERS PER SECTOR AND INDUSTRY CLASSIFICATION AND GEOGRAPHICAL DISTRIBUTION

| (NOK million) | 2017<br>Book value | 2016<br>Book value |
|---|---|---|
| **Sector and industry classification** | | |
| Development of building projects | 32.6 | 55.9 |
| Sale and operation of real estate | 742.7 | 942.8 |
| Service providers | 1,013.5 | 1,060.1 |
| Wage-earners | 11,598.3 | 11,737.0 |
| Other | 1,240.9 | 1,442.6 |
| **Total** | **14,628.0** | **15,238.4** |
| **Geographic distribution** | | |
| Eastern Norway | 11,133.1 | 11,451.5 |
| Western Norway | 1,832.1 | 1,982.5 |
| Southern Norway | 274.4 | 294.0 |
| Mid-Norway | 443.2 | 501.4 |
| Northern Norway | 601.4 | 626.1 |
| Rest of world | 343.7 | 382.9 |
| **Total** | **14,628.0** | **15,238.4** |

## Note 29 - Hedge accounting

Storebrand uses fair value hedging for interest risk.The hedging items are financial liabilities measured at amortised cost. Derivatives are recognised at fair value through the profit or loss (FVO). Changes in the value of the hedged item that relate to the hedged risk are applied to the book value on the item and are recognised in the profit and loss account. Hedging effectiveness is monitored at the individual item level. Hedging effectiveness when the hedge is created measures the relationship between changes in the hedged value of the interest rate hedging instrument and the item hedged in the event of a 2-percentage point interest rate shock. Subsequently, hedging effectiveness is measured on the basis of the simple Dollar Offset method for both prospective and retrospective calculations. Hedging is expected to be highly efficient in the period.

| (NOK million) | 2017 Contract/ nominal value | 2017 Fair value [1] Assets | 2017 Fair value [1] Liabilities | 2016 Contract/ nominal value | 2016 Fair value [1] Assets | 2016 Fair value [1] Liabilities |
|---|---|---|---|---|---|---|
| Interest rate swaps | 2,050.0 | 95.1 | | 2,050.0 | 129.6 | |
| Total interest rate derivatives | 2,050.0 | 95.1 | 0.0 | 2,050.0 | 129.6 | 0.0 |
| | | | | | | |
| **Total derivatives** | **2,050.0** | **95.1** | **0.0** | **2,050.0** | **129.6** | **0.0** |

| (NOK million) | 2017 Contract/ nominal value | 2017 Fair value [1] Assets | 2017 Fair value [1] Liabilities | 2016 Contract/ nominal value | 2016 Fair value [1] Assets | 2016 Fair value [1] Liabilities |
|---|---|---|---|---|---|---|
| Total underlying items | 2,050.0 | | 2,142.0 | 2,050.0 | | 2,187.4 |
| | | | | | | |
| Hedging effectiveness - prospective | | | 100% | | | 101% |
| Hedging effectiveness - retrospective | | | 91% | | | 97% |

**Gain/loss on fair value hedging: [2]**

| (NOK million) | 2017 Gain/loss | 2016 Gain/loss |
|---|---|---|
| On hedging instruments | -35.7 | -67.4 |
| On items hedged | 33.2 | 63.5 |

1) Book value at 31.12.

2) Amounts included in the line "Net gains on financial instruments ".

## Note 30 - Provisions

| (NOK million) | Provisions for restructuring 2017 | 2016 |
|---|---|---|
| Provisions 1 January | 7.3 | 7.6 |
| Provisions during the period | 4.6 | 5.7 |
| Provisions used during the period | -5.9 | -6.1 |
| **Total provisions 31 December** | **6.0** | **7.3** |
| Classified as: | | |
| Provision for accrued expenses and liabilities | 6.0 | 7.3 |

This provision is related to the cost reduction program in Storebrand and mainly concerns costs related to headcount reductions. The provision has been considered in accordance with IAS 37, and the restructuring plan has been announced to all parties affected by the changes.

## Note 31 - Other liabilities

| (NOK million) | 2017 Book value | 2016 Book value |
|---|---|---|
| Money transfers | 17.5 | 27.1 |
| Accrued expenses and prepaid income | 27.4 | 37.8 |
| Accounts payable | 4.8 | 9.3 |
| Tax payable (see note 16) | 38.0 | 31.3 |
| Other debt | 22.3 | 48.2 |
| **Total other liabilities** | **109.9** | **153.7** |

## Note 32 - Off balance sheet liabilities and contingent liabilities

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Guarantees | 19.7 | 23.6 |
| Undrawn credit limits | 3,474.0 | 3,548.5 |
| Loan commitments retail market | 2,007.2 | 3,524.2 |
| **Total contingent liabilities** | **5,501.0** | **7,096.2** |

Guarantees are mainly payment guarantees and contract guarantees. See also note 4. Undrawn credit limits relate to the unused portion of credit limits approved on overdraft accounts and credit cards, as well as the unused portion of lending limits on flexible mortgages.

Storebrand Bank Group are engaged in extensive activities and may become a party in legal disputes.

In December 2017, Storebrand Bank ASA recieved a notice of a possible legal actions from Klagehjelp AS on behalf of former investors which invested in Storebrand Private Investor ASA in the period 2005-2007. Storebrand Bank ASA rejects the allegations and disputes that there are no basis for claiming any flaws or deficiencies in the sale of the product, or in the product itself, which create a basis for compensation from Storebrand. No provisions have been made in the accounts due to the complaints.

## Note 33 - Collateral

The banking group has not received any collateral except securities pledged as collateral for F-loans in Norges Bank (see the table below).

### COLLATERAL AND SECURITY PLEDGED

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Booked value of bonds pledged as collateral for the bank's lending from Norges Bank | 887.8 | 879.8 |
| Booked value of securities pledged as collateral in other financial institutions | 302.1 | 150.9 |
| **Total** | **1,189.9** | **1,030.7** |

Securities pledged as collateral are linked to lending access in Norges Bank for which, pursuant to regulations, the loans must be fully guaranteed with collateral in interest-bearing securities and/or the bank's deposits in Norges bank.

**LOAN SECURITY AT STOREBRAND BOLIGKREDITT AS**

Of the total lending of NOK 27.3 billion in the bank group, NOK 14.5 billion is loans in Storebrand Boligkreditt AS. The loans in Storebrand Boligkreditt AS have been mortgaged in connection with the issuing of covered bonds (covered bond rate) in Storebrand Boligkreditt AS. Storebrand Boligkreditt AS has over-collateralisation (OC) of 27 per cent. The company must maintain the applicable OC that the rating agency requires if the company wishes to retain the current AAA rating. This requirement was 18.86 per cent at the end of 2017. The statutory OC is 2 per cent. Through commitments from previous prospectuses for covered bond issues, the company is obligated to maintain OC of up to 9.5 per cent until these securities mature. Storebrand Boligkreditt AS has security that is NOK 0.9 billion more than what the present rating requires. Storebrand Bank ASA therefore considers the security to be adequate.

## Note 34 - Capital adequacy

### NET PRIMARY CAPITAL

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Share capital | 960.6 | 960.6 |
| Other equity | 1,392.3 | 1,585.8 |
| **Total equity** | **2,352.9** | **2,546.3** |
| Additional Tier 1 capital included in total equity | -225.0 | -225.0 |
| Accrued interest on capital instruments included in total equity | -1.0 | -1.0 |
| **Total equity included in Core Equity Tier 1 (CET1)** | **2,126.9** | **2,320.3** |
| Deductions: | | |
| AVA justments | -4.1 | |
| Intangible assets | -71.4 | -80.1 |
| Deferred tax asset not due to temporary differences | | |
| Provision for group contribution | -254.0 | -339.0 |
| Addition: | | |
| **Core Equity Tier 1 (CET1)** | **1,797.4** | **1,901.2** |
| Additional Tier 1 capital: | | |
| Capital instruments eligible as Tier 1 capital | 225.0 | 225.0 |
| Addition | | |
| **Tier 1 capital** | **2,022.4** | **2,126.2** |
| Tier 2 capital | | |
| Subordinated loans | 275.0 | 275.0 |
| Tier 2 capital decuctions | | |
| **Eligible capital (Tier 1 capital + Tier 2 capital)** | **2,297.4** | **2,401.2** |

## MINIMUM CAPITAL REQUIREMENT

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Credit risk | 899.3 | 1,002.2 |
| Of which: | | |
| States and centralbanks | | |
| Local and regional authorities | 4.0 | 5.6 |
| Public sector owned corporates | | |
| International organisations | | |
| Institutions | 9.3 | 9.9 |
| Corporates | | |
| Loans secured in residential real estate | 780.1 | 861.7 |
| Retail market | 48.2 | 62.3 |
| Loans past-due | 20.7 | 15.2 |
| Covered bonds | 20.0 | 25.5 |
| Other | 17.0 | 22.1 |
| **Total minimum requirement for credit risk** | **899.3** | **1,002.2** |
| | | |
| **Total minimum requirement for market risk** | **0.0** | **0.0** |
| Operational risk | 71.4 | 77.2 |
| CVA risk *) | 4.7 | 9.6 |
| Deductions | | |
| Loan loss provisions on groups of loans | -2.1 | -3.1 |
| **Minimum requirement for net primary capital** | **973.3** | **1,086.0** |

*) Regulation on own funds requirements for credit valuation adjustment risk.

## CAPITAL ADEQUACY

| | 2017 | 2016 |
|---|---|---|
| Capital ratio | 18.9 % | 17.7 % |
| Tier 1 capital ratio | 16.6 % | 15.7 % |
| Core equity Tier 1 (CET1) capital ratio | 14.8 % | 14.0 % |

The standard method is used for credit risk and market risk and the basis method is used for operational risk. Total requirement to Core Equity Tier 1 (CET1) and eligible capital (CET 1 + CET 2) are 12 per cent and 15.5 per cent respectively from 31 december 2017 due to increase in requirement to countercyclical capital buffer with 0.5 percent from 31 December 2017

BASIS OF CALCULATION (RISK-WEIGHTED VOLUME)

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Credit risk | 11,240.9 | 12,528.0 |
| Of which: | | |
| States and centralbanks | | |
| Local and regional authorities | 50.4 | 70.2 |
| Public sector owned corporates | | |
| International organisations | | |
| Institutions | 116.0 | 123.7 |
| Corporates | 0.1 | 0.1 |
| Loans secured in residential real estate | 9,751.0 | 10,770.7 |
| Retail market | 602.9 | 778.6 |
| Loans past-due | 258.8 | 189.7 |
| Covered bonds | 249.7 | 318.8 |
| Other | 212.0 | 276.3 |
| **Total minimum requirement for credit risk** | **11,240.9** | **12,528.0** |
| | | |
| **Total minimum requirement for market risk** | **0.0** | **0.0** |
| Operational risk | 892.5 | 965.5 |
| CVA risk | 59.3 | 119.6 |
| Deductions | | |
| Loan loss provisions on groups of loans | -26.5 | -38.2 |
| **Minimum requirement for net primary capital** | **12,166.2** | **13,574.9** |

## Note 35 - Changes in the Group's composition

Storebrand Bank ASA decided to wind up ownership of Ring Eiendomsmegling AS and subsidiaries in December 2011. The result, assets and liabilities for Ring Eiendomsmegling AS have been classified as sold / wound up business in the bank's consolidated financial statements.

Storebrand Bank ASA also decided to wind up ownership of the subsidiaries Bjørndalen Panorama AS and MPV7 Holding AS in 2017. The result for these companies have been classified as sold/wound up business in the bank's consolidated financial statements.

# Note 36 - Related parties

## TRANSACTIONS WITH GROUP COMPANIES

| (NOK million) | 2017 Other group companies [1] | 2016 Other group companies [1] |
|---|---|---|
| Interest income | | |
| Interest expense | | |
| Services sold | 56.6 | 3.7 |
| Services purchased | 93.0 | 83.0 |
| Due from | | 14.2 |
| Liabilities to | 4.6 | 3.9 |

Transactions with group companies are based on the principle of transactions at arm's length.

1) Other group companies are companies in other sub-groups within the Storebrand group.

## LOANS SOLD TO STOREBRAND LIVSFORSIKRING AS

Storebrand Bank ASA has sold mortgages to sister company Storebrand Livsforsikring AS. In 2017, there has been sold loans of total NOK 9,4 billion. The total portfolio of loans sold as of 31 December 2017 is NOK 20.6 billion. As the buyer, Storebrand Livsforsikring AS has acquired both cash flows and most of the risk and control. The loans were therefore derecognised in the bank's balance sheet in accordance with IAS 39. Storebrand Bank ASA receives management fees for the work being done with the sold portfolio. The bank has recognised NOK 50.0 million as revenue in the accounts for 2017.

Storebrand Bank ASA conducts transactions with related parties as part of its normal business activities.
The terms for transactions with senior employees and related parties are stipulated in notes 38 and note 39 for Storebrand Bank ASA.

## LOANS TO EMPLOYEES

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Loans to employees of Storebradn Bank ASA | 129.3 | 155.5 |
| Loans to employees of Storebrand group excl. Storebrand Bank ASA | 1,229.8 | 1,663.7 |

Loans to employees are granted in part on the normal terms and conditions for loans to employees, i.e. loan to and individual of up to NOK 3.5 million at an interest rate equal to the norm interest rate (for tax purposes) defined by the Norwegian Ministry of Finance. Loans in excess of NOK 3.5 million are granted on normal commercial terms and conditions. The bank has not provided guarantees or security for borrowing by employees.

## NUMBER OF EMPLOYEES

| | 2017 | 2016 |
|---|---|---|
| Number of employees at 31 December | 106 | 111 |
| Number of employees expressed as full-time equivalent positions | 105 | 110 |

# Storebrand Bank ASA

## Profit and loss account

## 1 January - 31 December

| (NOK million) | NOTE | 2017 | 2016 |
|---|---|---|---|
| Interest income | | 409.0 | 481.4 |
| Interest expense | | -188.4 | -226.6 |
| **Net interest income** | 11 | **220.6** | **254.8** |
| Fee and commission income from banking services | | 150.8 | 122.0 |
| Fee and commission expense for banking  services | | -14.7 | -15.1 |
| **Net fee and commission income** | 12 | **136.1** | **106.8** |
| Net gains on financial instruments | 11 | 63.3 | 95.4 |
| Other income | 13 | 75.4 | 58.6 |
| **Total other operating income** | | **138.7** | **154.0** |
| Staff expenses | 15, 16 | -105.6 | -96.6 |
| General administration expenses | 15 | -59.6 | -48.3 |
| Other operating costs | 14, 15, 28, 29 | -129.6 | -132.3 |
| **Total operating costs** | | **-294.9** | **-277.2** |
| **Operating profit before loan losses** | | **200.5** | **238.4** |
| Loan losses for the period | 17 | -6.9 | -17.1 |
| **Profit before tax** | | **193.6** | **221.4** |
| Tax | 18 | -49.3 | -47.5 |
| **Profit for the year** | | **144.3** | **173.8** |
| Profit for the year is attributable to: | | | |
| Portion attributable to shareholders | | 133.7 | 162.9 |
| Portion attributable to additional Tier 1 capital holders | | 10.6 | 11.0 |
| **Profit for the year** | | **144.3** | **173.8** |
| | | | |
| Transfers and allocations: | | | |
| Transferred to/from other equity | | 109.7 | 165.2 |
| Provision for group contribution | | -254.0 | -339.0 |
| **Total transfers and allocations** | | **-144.3** | **-173.8** |

# Statement of comprehensive income

| (NOK million) | NOTE | 2017 | 2016 |
|---|---|---|---|
| Profit for the year | | 144.3 | 173.8 |
| | | | |
| **Other result elements not to be classified to profit/loss** | | | |
| Pension experience adjustments | 15 | 0.4 | -6.6 |
| Tax on pension experience adjustments | 17 | -0.1 | 1.7 |
| **Total other result elements not to be classified to profit/loss** | | **0.3** | **-5.0** |
| **Other result elements that may be classified to profit/loss** | | | |
| Unrealised gain/loss financial instruments available for sale | | 7.6 | -2.8 |
| **Total other result elements that may be classified to profit/loss** | | **7.6** | **-2.8** |
| **Total comprehensive income** | | **152.2** | **166.1** |
| Total comprehensive income for the period is attributable to: | | | |
| Portion attributable to shareholders | | 141.6 | 155.1 |
| Portion attributable to additional Tier 1 capital holders | | 10.6 | 11.0 |
| **Total comprehensive income** | | **152.2** | **166.1** |

# Storebrand Bank ASA

## Statement of financial position - balance sheet 31 December

### ASSETS

| (NOK million) | Note | 2017 | 2016 |
|---|---|---|---|
| Cash and deposits with central banks | 5, 19 | 472.2 | 464.5 |
| Loans to and deposits with credit institutions | 5, 9, 19 | 2,358.1 | 1,221.8 |
| | | | |
| Financial assets designated at fair value through the profit and loss account: | | | |
| Equity instruments | 9, 19 | 40.8 | 15.5 |
| Bonds and other fixed-income securities | 5, 9, 19, 21, 23 | 3,458.6 | 4,070.1 |
| Derivatives | 5, 6, 9, 19, 24, 32 | 92.6 | 131.1 |
| | | | |
| Bonds at amortised cost | 5, 19, 22 | 380.4 | 530.6 |
| | | | |
| Other current assets | 19, 30 | 1,143.1 | 1,127.2 |
| | | | |
| Gross loans, amortised cost | 5, 9, 19, 26 | 12,204.1 | 11,999.5 |
| Gross loans, FVO | 5, 9, 19, 26 | 580.0 | 1,958.5 |
| Loan loss provisions | 5, 19, 27 | -64.6 | -61.6 |
| Net loans to customers | 5, 19, 26 | 12,719.5 | 13,896.4 |
| | | | |
| Tangible assets | 29 | 0.1 | 1.0 |
| Intangible assets and goodwill | 28 | 71.4 | 80.1 |
| Deferred tax assets | 18 | 13.7 | 22.4 |
| | | | |
| **Total assets** | | **20,750.4** | **21,560.8** |

# Storebrand Bank ASA
## Statement of financial position - balance sheet
## 31 December

### LIABILITIES AND EQUITY

| (NOK million) | Note | 2017 | 2016 |
|---|---|---|---|
| Liabilities to credit institutions | 6, 9, 19, 23 | 155.0 | 407.2 |
| Deposits from and due to customers | 6, 19, 31 | 14,629.9 | 15,248.0 |
| | | | |
| Other financial liabilities: | | | |
| Derivatives | 9, 19, 24, 32 | 138.6 | 208.3 |
| Commercial paper and bonds issued | 7, 19, 32 | 3,115.6 | 2,625.2 |
| Other liabilities | 6, 19, 34 | 386.1 | 632.7 |
| | | | |
| Provision for accrued expenses and liabilities | 33 | 6.0 | 7.3 |
| Pension liabilities | 15 | 11.6 | 13.6 |
| | | | |
| Subordinated loan capital | 5, 18 | 276.1 | 277.2 |
| **Total liabilities** | | **18,718.8** | **19,419.4** |
| | | | |
| Paid-in capital | | 1,762.4 | 1,762.4 |
| Retained earnings | | 43.2 | 152.9 |
| Additional Tier 1 capital | | 226.0 | 226.0 |
| **Total equity** | 37 | **2,031.6** | **2,141.4** |
| | | | |
| **Total liabilities and equity** | | **20,750.4** | **21,560.8** |

Lysaker, 6 February 2018
The Board of Directors of Storebrand Bank ASA

*Translation - not to be signed*

Heidi Skaaret
Chairman of the Board

Jostein Dalland
Deputy Chairman

Leif Helmich Pedersen
Board Member

Inger Roll-Matthiesen
Board Member

Vivi Gevelt
Board Member

Maria Skotnes
Board Member

Bernt H. Uppstad
CEO

# Storebrand Bank ASA
## Statement of changes in equity

| (NOK million) | Paid-in equity: Share capital | Share premium | Other paid-in equity | Total paid-in equity | Other equity: Other equity | Total retained earnings | Additional Tier 1 capital | Total equity |
|---|---|---|---|---|---|---|---|---|
| Equity at 31.12.2015 | 960.6 | 156.0 | 645.9 | 1,762.4 | 334.1 | 334.1 | 226.0 | 2,322.5 |
| | | | | | | | | |
| Profit for the period | | | | | 162.9 | 162.9 | 11.0 | 173.8 |
| | | | | | | | | |
| Pension experience adjustments (see note 15) | | | | | -5.0 | -5.0 | 0.0 | -5.0 |
| **Total other result elements not to be classified to profit/loss** | **0.0** | **0.0** | **0.0** | **0.0** | **-5.0** | **-5.0** | **0.0** | **-5.0** |
| Unrealised gain/loss financial instruments available for sale | | | | | -2.8 | -2.8 | 0.0 | -2.8 |
| **Total other result elements that may be classified to profit/loss** | | | | | **-2.8** | **-2.8** | **0.0** | **-2.8** |
| **Total comprehensive income for the period** | **0.0** | **0.0** | **0.0** | **0.0** | **155.1** | **155.1** | **11.0** | **166.1** |
| | | | | | | | | |
| **Equity transactions with owners:** | | | | | | | | |
| Additional Tier 1 capital classified as equity | | | | | 2.7 | 2.7 | | 2.7 |
| Payment to additional Tier 1 holders | | | | | | | -11.0 | -11.0 |
| Provision for group contribution | | | | | -339.0 | -339.0 | | -339.0 |
| **Equity at 31.12.2016** | **960.6** | **156.0** | **645.9** | **1,762.4** | **152.9** | **152.9** | **226.0** | **2,141.4** |
| | | | | | | | | |
| Profit for the period | | | | | 133.7 | 133.7 | 10.6 | 144.3 |
| | | | | | | | | |
| Pension experience adjustments (see note 15) | | | | | 0.3 | 0.3 | | 0.3 |
| **Total other result elements not to be classified to profit/loss** | **0.0** | **0.0** | **0.0** | **0.0** | **0.3** | **0.3** | **0.0** | **0.3** |
| Unrealised gain/loss financial instruments available for sale | | | | | 7.6 | 7.6 | 0.0 | 7.6 |
| **Total other result elements that may be classified to profit/loss** | | | | | **7.6** | **7.6** | | **7.6** |
| **Total comprehensive income for the period** | **0.0** | **0.0** | **0.0** | **0.0** | **141.6** | **141.6** | **10.6** | **152.2** |
| | | | | | | | | |
| **Equity transactions with owners:** | | | | | | | | |
| Additional Tier 1 capital classified as equity | | | | | 2.7 | 2.7 | | 2.7 |
| Payment to additional Tier 1 holders | | | | | | | -10.7 | -10.7 |
| Provision for group contribution | | | | | -254.0 | -254.0 | | -254.0 |
| **Equity at 31.12.2017** | **960.6** | **156.0** | **645.9** | **1,762.4** | **43.2** | **43.2** | **226.0** | **2,031.6** |

The entire share capital of NOK 960.6 million made up of 64,037,183 shares (of nominal value NOK 15) is owned by Storebrand ASA.

The equity changes with the result for the individual period, equity transactions with the owners and items that are entered directly to total comprehensive income. Share capital, the share premium reserve and other equity is evaluated and managed together. The share premium and other equity may be used in accordance with the provisions of the Public Limited Liabilities Company Act.

Storebrand Bank ASA actively manages the level of equity in the company and the group. The capital level is tailored to the economic risk and capital requirements in which the composition of its business areas and their growth will be an important driver.The goal of the capital management is to ensure an effective capital structure and secure an appropriate balance between internal goals in relation to regulatory and the rating companies' requirements. If there is a need for new capital, this must be issued by the holding company Storebrand ASA.

Storebrand Bank ASA is a financial group subject to statutory requirements regarding primary capital under the capital adequacy regulations. Primary capital encompasses both equity and subordinated loan capital. For Storebrand Bank ASA, these legal requirements are most important in its capital management.

For further information on the group's fulfilment of the capital requirements, see note 37.

# Storebrand Bank ASA
## Cash flow statement
## 1 January - 31 December

| (NOK million) | Note | 2017 | 2016 |
|---|---|---|---|
| **Cash flow from operations** | | | |
| Receipts of interest, commissions and fees from customers | | 518.9 | 525.6 |
| Payments of interest, commissions and fees to customers | | -117.7 | -135.5 |
| Net disbursement/payments on customer loans | | 1,163.3 | 1,100.3 |
| Net receipts/payments of deposits from banking customers | | -618.1 | -2,586.9 |
| Net receipts/payments - securities | | 843.0 | 1,270.7 |
| Payments of operating costs | | -340.2 | -276.3 |
| **Net cash flow from operating activities** | | **1,449.2** | **-102.3** |
| **Cash flow from investment activities** | | | |
| Net receipts on sale of subsidiaries and assoiated companies | 20 | 2.6 | 0.0 |
| Net payments on purchase/capitalisation of subsidiaries | 20 | -0.2 | -0.1 |
| Net payments on purchase/sale of fixed assets etc. | 28, 29 | -3.9 | -15.7 |
| **Net cash flow from investment activities** | | **-1.5** | **-15.8** |
| **Cash flow from financing activities** | | | |
| Payments - repayments of loans and issuing of bond debt | | -409.0 | -1,255.9 |
| Receipts - new loans and issuing of bond debt | | 900.0 | 1,198.6 |
| Payments - interest on loans | | -85.4 | -92.3 |
| Receipts - subordinated loan capital | | 150.0 | |
| Payments - repayments of subordinated loan capital | | -150.0 | |
| Payments - interest on subordinated loan capital | | -10.1 | -10.8 |
| Payments - interest on additional Tier 1 capital | | -11.0 | -11.0 |
| Net receipts/payments of liabilities to credit institutions | | -251.7 | -319.2 |
| Receipts - group contribution | | 62.0 | 218.5 |
| Payments - group contribution / dividends | | -498.6 | -206.9 |
| **Net cash flow from financing activities** | | **-303.8** | **-479.0** |
| **Net cash flow in the period** | | **1,143.9** | **-597.1** |
| Cash and bank deposits at the start of the period | | 1,686.3 | 2,283.4 |
| **Cash and bank deposits at the end of the period** | | **2,830.2** | **1,686.3** |
| Cash and deposits with central banks | | 472.2 | 464.5 |
| Loans to and deposits with credit institutions | | 2,358.1 | 1,221.8 |
| **Total cash and bank deposits in the balance sheet** | | **2,830.2** | **1,686.3** |

The cash flow analysis shows the company's cash flows for operational, investment and financial activities pursuant to the direct method. The cash flows show the overall change in means of payment over the year.

**Operational activities**
A substantial part of the activities in a financial company will be classified as operational.

**Investment activities**
Includes cash flows for holdings in group companies and tangible fixed assets.

**Financing activities**
Financing activities include cash flows for equity, subordinated loans and other borrowing that helps fund the company's activities. Payments of interest on borrowing and payments of group contribution are financial activities.

**Cash/cash equivalents**
Cash/cash equivalents are defined as claims on central banks and lending to and claims on financial institutions.

# Notes
# Storebrand Bank ASA

## Note 1 - Company information and accounting policies

### 1. COMPANY INFORMATION

Storebrand Bank ASA is a Norwegian public limited company with bonds listed on the Oslo Stock Exchange. The company's financial statements for 2017 were approved by the Board of Directors on 6 February 2018.

Storebrand Bank ASA is a web-based bank that offers traditional bank products to the Norwegian market. The bank's main target group is persons who have an occupational pension with Storebrand. These customers are also members of the Group's loyalty programme, Storebrand Fordel. The bank's offerings are also integrated with the Group's loyalty programme. Storebrand Bank ASA comprises the business areas of Corporate Market, Retail Market and Treasury. Storebrand Bank ASA is headquartered at Professor Kohts vei 9, Lysaker.

### 2. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

The accounting policies applied in the financial statements are described below. The policies are applied consistently to similar transactions and to other events involving similar circumstances.

Storebrand Bank ASA's financial statements are presented using EU-approved International Financial Reporting Standards (IFRS) and related interpretations, as well as other Norwegian disclosure requirements laid down in legislation and regulations.

**USE OF ESTIMATES IN PREPARING THE ANNUAL FINANCIAL STATEMENTS.**
The preparation of the annual financial statements in accordance with IFRS requires the management to make judgements, estimates and assumptions that affect assets, liabilities, revenue, expenses, the notes to the financial statements and information on potential liabilities. Actual amounts may differ from these estimates. See Note 3 for further information.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR MATERIAL STATEMENT OF FINANCIAL POSITION ITEMS

The asset side of the Storebrand Bank ASA's statement of financial position primarily consists of financial instruments. The majority of the financial instruments fall within the category Loans and Receivables and are stated at amortised cost. Capitalised intangible assets are also included on the statement of financial position. The liabilities side of the Group's statement of financial position comprises, for the most part, financial instruments (liabilities). With the exception of derivatives that are stated at fair value, the majority of the financial liabilities are stated at amortised cost.

The accounting policies are described in more detail below.

### 4. CHANGES IN ACCOUNTING POLICIES

New accounting standards that have a significant impact on the financial statements have not been implemented in 2017.

**NEW STANDARDS AND CHANGES IN STANDARDS NOT YET APPLIED**
**IFRS9**
IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments -recognition and measurement. IFRS 9 covers recognition, classification and measurement, impairment, derecognition and general hedge accounting. IFRS 9 is effective from 1 January 2018 and the standard is endorsed by the EU-commission. Early application is permitted, but Storebrand Bank ASA has not early adopted the standard.

**Transitional rules**
IFRS 9 shall be applied retrospectively, with the exception of in hedge accounting. Retrospective application means that Storebrand Bank ASA shall calculate the opening balance for 1 January 2018 as if it has always applied the new principles. Storebrand Bank ASA does not intend to restate the comparative figures for 2017 in the annual report 2018 due to IFRS 9.

Storebrand Bank ASA has chosen to introduce hedge accounting pursuant to IFRS 9. This means that hedge accounting shall be done pursuant to the IFRS 9 principles prospectively from the date of transition to IFRS 9.

The effects of the new principles on the opening balance for 2018 are recognised in equity.

**Classification and measurement**
**Financial assets**
Under IFRS 9, financial assets shall be classified into three measurement categories: fair value through profit and loss, fair value through other comprehensive income (OCI) and at amortised cost. For financial assets, a distinction is made between debt instruments, derivatives, and equity instruments, where debt instruments are all financial assets that are not derivatives or equity instruments.

**Financial assets that are debt instruments**

Debt instruments with contractual cash flows that consist solely of payment of principal and interest on specified dates and which are held in a business model for the purpose of receiving contractual cash flows shall be measured at amortised cost. Instruments with contractual cash flows that are solely payments of principal and interest (SPPI) on specified dates and which are held in a business model for the purpose of receiving contractual cash flows and for sale shall be measured at fair value through other comprehensive income, with interest income, foreign currency effects and impairments through profit and loss. Any value adjustments through other comprehensive income are recycled through to profit and loss on sale or other disposal of the assets. Other debt instruments are measured at fair value through profit and loss. This applies to instruments with cash flows that are not only payment of principal and normal interest, and instruments held in a business model where the main objective is not receipt of contracted cash flows.

Instruments that are to be measured at amortised cost or at fair value through other comprehensive income may be designated for measurement at fair value through profit and loss if this eliminates or significantly reduces an accounting mismatch.

**Derivatives and investments in equity instruments**

In principle, all derivatives shall be measured at fair value with all fair value adjustments recognised in profit and loss; but derivatives designated as hedging instruments shall be recognised in accordance with the principles governing hedge accounting. Investments in equity instruments shall be measured at fair value in the balance sheet. Adjustments in value must as a general rule be reported in profit and loss, but an equity instrument not held for trading purposes and which is not a conditional consideration after a transfer of business may be designated as measured at fair value with value changes presented in other comprehensive income.

**Financial liabilities**

The rules governing financial liabilities are essentially the same as in the current IAS 39. A change from IAS 39 is that for financial liabilities decided recognised at fair value through profit and loss, value adjustments attributable to the company's own credit risk must be presented in comprehensive income rather than in profit and loss, as is the case at present, unless this creates or enlarges an accounting mismatch.

**Hedge accounting**

IFRS 9 simplifies the requirements pertaining to hedge accounting in that hedge effectiveness is linked more closely to the management's risk management. The 80–125 per cent hedge effectiveness requirement has been removed and replaced by more qualitative requirements, including that there must be an economic relationship between the hedging instrument and the hedged item, and that credit risk must not dominate the value adjustments in the hedging instrument. Hedging documentation is still required.

**Impairment losses on loans**

In IAS 39, losses shall only be impaired if there is objective evidence of the occurrence of a loss event after initial recognition of the asset. Under IFRS 9, loss allowances are recognised on the basis of expected credit loss (ECL). The general model for impairment of financial assets in IFRS 9 will apply to financial assets that are measured at amortised cost or at fair value through other comprehensive income and for which no losses were determined at initial recognition. Loan commitments, financial guarantee contracts not measured at fair value through profit and loss, and lease receivables are also encompassed by the model.

Measurement of the allowance for expected loss in the general model depends on whether the credit risk has increased significantly since initial recognition. On initial recognition and when the credit risk has not increased significantly since initial recognition, provisions should be equal to 12-month expected loss. The 12-month expected loss is the loss that is expected to occur over the lifetime of the instrument, but that can be linked to events occurring during the initial 12 months. If the credit risk has increased significantly since initial recognition, a loss allowance must be made for expected loss during the lifetime of the instrument. Expected credit loss are calculated on basis of the present value of all cash flows over the remaining life expectancy, i.e. the difference between the contractual cash flows according to the contract and the cash flows expected to be received, minus the effective interest on the instrument.

In addition to the general model, there are separate principles for issued, including renegotiated, loans that are treated as new, and bought loans where there is accrued credit loss on initial recognition in the balance sheet. For these, an effective interest rate will be calculated that takes into account expected credit loss, and in the event of any changes in expected cash flows, the change will be discounted with the originally set effective interest rate and recognised in the income statement. For these assets, there is thus no need to monitor whether there has been a substantial increase in credit risk after initial recognition, as the expected losses over the whole lifetime are taken into account.

For accounts receivable without a significant financing component, a simplified model will be used, where provisions will be made for expected loss over the entire lifetime from initial recognition. The bank has chosen to use the simplified model as the accounting policy also for accounts receivable with a significant financing component and lease receivables.

**Recognition and derecognition of financial assets and liabilities**

Financial assets and liabilities are recognised on the trading day, i.e. the date on which the bank becomes party to the instruments' contractual terms.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire or when the rights to the cash flows from the asset are transferred such that substantially all risks and returns relating to ownership of the asset are transferred.

Financial liabilities are derecognised when the contractual terms have been fulfilled, cancelled or expire.

**Modified assets and liabilities**

If terms of an existing financial asset or obligation are modified or changed, the instrument is treated as a new financial asset if the renegotiated terms are substantially different from the old terms. If the terms are substantially different, the old financial asset or liability is derecognised and a new financial asset or liability is recognised. In general, a loan is considered to be a new financial asset if new loan documentation is issued and a new credit granting process is undertaken, resulting in new loan terms and conditions.

If the modified instrument is not considered to be substantially different from the existing instrument, the instrument is treated as a continuation of the existing instrument in terms of accounting. In the event of modification that is treated as a continuation of the existing instrument in the accounts, the new cash flows are discounted with the instrument's original effective interest rate, and any difference compared with the existing book value is recognised.

**Effect of introduction of IFRS 9**

See note 2 for the effects of transition to IFRS 9.

**IFRS 15**

A new standard for accounting of operating revenues from contracts with customers comes into effect from 1 January 2018. IFRS 15 introduces a five-step model for recognition of income from contracts with customers. Under IFRS 15, revenue is recognised equivalent to an amount that reflects the consideration an undertaking expects to be entitled to receive in exchange for goods or services supplied to a customer. The standard applies to all contracts that are entered into starting from 1 January 2018, and to existing contracts that have not yet been fulfilled. The purpose of this standard is to remove inconsistencies and weaknesses in the current revenue recognition standards and to improve the comparability of revenue recognition between businesses, industries and geographical regions.

The new revenue standard will replace all the current revenue recognition requirements according to IFRS.

Revenue recognition in Storebrand Bank ASA is primarily governed by IAS 39 / IFRS 9. Revenue that is recorded under "Other income" is assessed against IFRS 15. Implementation of IFRS 15 will not have a significant effect on Storebrand Bank ASA's financial statements.

**IFRS 16**

IFRS 16 Leases replaces the current IAS 17 and comes into force from 1 January 2019. IFRS 16 sets out principles for recognition, measurement, presentation and publication of leases. The new leasing standard will not entail any major changes for lessors, but will entail substantial changes for lessees' accounting. IFRS 16 requires that lessees shall in principle recognise all lease contracts in the balance sheet in accordance with a simplified model similar to the accounting of financial leases under IAS 17. The present value of the total lease payments shall be recognised as a liability and an asset that reflect the right of use of the asset in the lease period. The recognised asset is amortised over the lease period, and the depreciation cost is recognised in the income statement on an ongoing basis as an operating cost. Interest charges on the lease commitment are recognised as a financial cost.

Storebrand is working to prepare for implementation of IFRS 16, including mapping the effects of implementation of IFRS 16 for Storebrand Bank ASA's financial statements.

## 5. INCOME RECOGNITION

**Interest income – banking**

Interest income related to loans and bonds is recognised in the income statement using the effective interest method.

**Income from properties and financial assets**

Income from properties and financial assets is described in Section 7.

**Other income**

Fees are recognised when the income can be measured reliably and earned, fixed fees are recognised as income in line with delivery of the service, and performance fees are recognised as income once the success criteria have been met.

## 6. INTANGIBLE ASSETS

Intangible assets with limited useful economic lives are measured at the acquisition cost less accumulated amortisation and any write-downs. The useful life and amortisation method are measured each year. If new intangible assets are carried, it must be possible to prove that it is likely that future economic benefits that can be attributed to the asset will pass to the group. In addition, the must be possible to estimate the cost price of the asset reliably. The write-down needs will be assessed if there are indications of an impairment in value, and the write-down of intangible assets and reversal of write-downs will otherwise be handled in the same manner as described for tangible fixed assets.

## 7. FINANCIAL INSTRUMENTS

### 7-1. GENERAL POLICIES AND DEFINITIONS

**Recognition and derecognition**

Financial assets and liabilities are included in the statement of financial position from such time Storebrand Bank ASA becomes party to the instrument's contractual terms and conditions. Ordinary purchases and sales of financial assets are booked on the transaction date and financial liabilities are booked on the settlement date. When a financial asset or a financial liability is initially recognised, it is valued at fair value. Initial recognition includes transaction costs directly related to the acquisition or issue of the financial asset or the financial liability if it is not a financial asset or a financial liability at fair value through profit or loss.

Financial assets are derecognised when the contractual right to the cash flows from the financial asset expires, or when the company transfers the financial asset to another party in a transaction by which all, or virtually all, the risk and reward associated with ownership of the asset is transferred.

Financial liabilities are derecognised in the statement of financial position when they cease to exist, i.e once the contractual liability has been fulfilled, cancelled or has expired.

**Definition of amortised cost**

Subsequent to initial recognition, loans and receivables, as well as financial liabilities not at fair value through profit or loss, are measured at amortised cost using the effective interest method. The calculation of the effective interest rate involves estimating all cash flows and all contractual terms of the financial instruments (for example, early repayment, call options and equivalent options). The calculation includes all fees and margins paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

**Definition of fair value**

Fair value is the amount for which an asset could be exchanged between well-informed, willing parties in an arm's length transaction. The fair value of financial assets listed on a stock exchange or on another regulated market in which regular trading takes place is determined as the bid price on the last trading day up to and including the reporting date.

If a market for a financial instrument is not active, fair value is determined by using recognised valuation techniques. Such valuation techniques make use of recent arm's length market transactions between knowledgeable and independent parties, where available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and options pricing models. If a valuation technique is in common use by participants in the market for pricing the instrument and this method has proved to provide reliable estimates of prices actually achieved in market transactions, this method is used.

In calculating the fair value of loans the current market rate on similar loans is used. Changes in credit risk are taken into account.

### IMPAIRMENT OF DOUBTFUL FINANCIAL ASSETS

For financial assets carried at amortised cost, an assessment is made on each reporting date whether there is any objective evidence that a financial asset or 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 the estimated future 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 initial recognition). The amount of the loss is recognised in profit or loss.

Losses expected as a result of future events, no matter how likely, are not recognised.

### 7-2. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

**Financial assets are classified into one of the following categories:**

- Financial assets held for trading
- Financial assets at fair value through profit or loss in accordance with the fair value option
- Financial assets, loans and receivables

### Held for trading
A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling or repurchasing it in the near term, is part of a portfolio of identified financial instruments that are managed together and there is evidence of a recent actual pattern of short-term profit-taking, or
- it is a derivative that is not designated and effective as a hedging instrument.

With the exception of derivatives, only a limited proportion of Storebrand's financial assets fall into this category.

Financial assets held for trading are measured at fair value on the reporting date, Changes in the fair value are recognised through profit or loss.

### At fair value through profit or loss account in accordance with the fair value option
- A significant proportion of Storebrand Bank ASA's financial instruments are classified in the category fair value through profit or loss because:
- such classification reduces the mismatch in the measurement or recognition that would otherwise arise as a result of the different rules for measuring assets and liabilities, or that
- the financial assets form part of a portfolio that is measured and reported at fair value on an ongoing basis

The accounting is the same for the group held for trading (the instruments are assessed at the fair value and changes in value are listed on the income statement).

### Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, with the exception of assets that the company intends to sell immediately or in the near term that are classified as held for trading and those that the company upon initial recognition designates at fair value through profit or loss.

Loans and receivables are carried at amortised cost using the effective interest method.

Loans and receivables that are designated as hedged items are subject to measurement under the hedge accounting requirements.

## 7-3. DERIVATIVES
### Definition of a derivative
A derivative is a financial instrument or other contract within the scope of IAS 39, with all three of the following characteristics:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable (sometimes called the 'underlying')
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors
- it is settled at a future date.

### Accounting treatment of derivatives that are not hedging
Derivatives that do not meet the criteria for hedge accounting are treated as financial instruments held for trading. The fair value of such derivatives is classified as either an asset or a liability with changes in fair value through profit or loss.

The majority of the derivatives used routinely for asset management fall into this category.

## 7-4. HEDGE ACCOUNTING
### Fair value hedging
Storebrand Bank ASA uses fair value hedging, where the items hedged are financial assets and financial liabilities measured at amortised cost. Derivatives are recognised at fair value through profit or loss. Changes in the value of the hedged item that are attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised through profit or loss.

## 7-5. FINANCIAL LIABILITIES
Subsequent to initial recognition, all financial liabilities are measured at amortised cost using an effective interest method, or at fair value in accordance with the fair value option.

## 8. PENSION LIABILITIES FOR OWN EMPLOYEES

In Storebrand Bank, the pension scheme from 1 January 2015 changed from a defined benefit to a defined contribution scheme. The scheme is recognised in accordance with IAS 19. The effect of this change was recognised in the accounts as at 31 December 2014. Storebrand participates in the Norwegian AFP scheme (collective agreement pension). The Norwegian AFP scheme is regarded as a defined-benefit scheme, but there is insufficient quantitative information to be able to estimate reliable liabilities and costs for accounting purposes. In connection with new rules for disability pensions in the Norwegian Occupational Pensions Act, Storebrand has altered the disability pension scheme for own employees in Norway in 2016.

### 8-1. DEFINED BENEFIT SCHEME

Pension costs and pension liabilities for defined benefit pension schemes are determined using a linear accrual formula and expected final salary as the basis for the entitlements, based on assumptions about the discount rate, future salary increases, pensions and National Insurance benefits, future returns on pension plan assets as well as actuarial estimates of mortality, disability and voluntary early leavers. The net pension cost for the period comprises the total of the accrued future pension entitlements during the period, the interest cost on the calculated pension liability and the expected return on pension plan assets.

Actuarial gains and losses and the effects of changes in assumptions are recognised in total comprehensive income in the income statement for the period in which they occur. Storebrand Bank ASA has insured and uninsured pension schemes. The insured scheme in Norway is managed by Storebrand Livsforsikring AS. Employees who resign before reaching retirement age or leave the scheme will be issued ordinary paid-up policies.

### 8-2. DEFINED-CONTRIBUTION SCHEME

The defined contribution pension scheme involves the Group in paying an annual contribution to the employees' collective pension savings. The future pension will depend on the size of the contribution and the annual return on the pension savings. The Group does not have any further obligation related to work performed after the annual contribution has been paid. There are no provisions for accrued pension liabilities in such schemes. Defined-contribution pension schemes are recognised directly in the financial statements.

## 9. TANGIBLE FIXED ASSETS AND INTANGIBLE ASSETS

The company's tangible fixed assets and intangible assets comprise equipment, fixtures and fittings and IT systems.

Equipment, fixtures and fittings and IT systems are valued at acquisition cost less accumulated depreciation and any write-downs.

The depreciation period and method are reviewed annually to ensure that the method and period being used both correspond to the useful economic life of the asset. This applies correspondingly to the disposal value. Properties are split into components if different parts have different useful economic lives. The depreciation period and method of depreciation are evaluated separately for each component.

The value of a tangible asset is tested when there are indications that its value has been impaired. Any write-down is recognised in the income statement as the difference between the book value and the recoverable amount. The recoverable amount is the greater of the fair value less costs of sale and the value in use. On each reporting date a determination is made as to whether to reverse previous impairment losses on non-financial assets.

## 10. TAX

The tax expense in the income statement comprises current tax and changes to deferred tax and is based on the accounting standard IAS 12 Income Taxes. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of total comprehensive income. Deferred tax and deferred tax assets are calculated on the differences between accounting and tax values of assets and liabilities.

Deferred tax is calculated on the basis of the Group's tax loss carryforwards, deductible temporary differences and taxable temporary differences.

### FINANCIAL TAX

In connection with the national budget for 2017, it was agreed to introduce a financial tax consisting of two elements:

- Financial tax on salaries. This is set at 5 per cent and will follow the rules for employer's National Insurance contributions.
- The tax rate on the ordinary income for companies subject to the financial tax will be continued at the 2016 level (25 per cent), while it will otherwise be reduced to 23 per cent from 1 January 2018.

The financial tax applies from and including the 2017 financial year. Storebrand Bank ASA is affected by the financial tax.

### 11. PROVISION FOR GROUP CONTRIBUTIONS AND DIVIDENDS

Simplified IFRS permits the company to recognise provisions for group contributions as income, and the Board of Directors' proposal concerning the group contribution to be recognised as a liability on the reporting date.

### 12. LEASING

A lease is classified as a finance lease if it essentially transfers the risk and rewards incident to ownership. Other leases are classified as operating leases. Storebrand Bank ASA has no finance leases.

### 13. STATEMENT OF CASH FLOWS

The statement of cash flows is prepared using the direct method and shows cash flows grouped by sources and uses. Cash is defined as cash, receivables from central banks and receivables from credit institutions with no agreed period of notice.
The statement of cash flows is classified according to operating, investing and financing activities.

## Note 2 - Effects on transition to IFRS 9

### CHANGES IN CLASSIFICATION OF FINANCIAL INSTRUMENTS

| (NOK million) | Classification according to IAS 39 | Classification according to IFRS 9 | Book value according to IAS 39 31 December 2017 | Book value according to IFRS 9 1 January 2018 |
|---|---|---|---|---|
| Cash and deposits with central banks | AC | AC | 472 | 472 |
| Loans to and deposits with credit institutions | AC | AC | 2,358 | 2,358 |
| Loans to and deposits with credit institutions - reverse purchase agreements | FVP&L (FVO) | AC | 0 | 0 |
| Loans to and receivables from customers - floating interest | AC | FVOCI | 12,139 | 12,128 |
| Loans to and receivables from customers - fixed interest | FVP&L (FVO) | FVP&L (FVO) | 580 | 580 |
| Equity instruments- trading | FVOCI (TFS) | FVP&L | 14 | 14 |
| Equity instruments- non-trading | FVP&L (FVO) | FVP&L | 27 | 27 |
| Bonds and other fixed-income securities | FVP&L (FVO) | FVP&L (FVO) | 3,459 | 3,459 |
| Bonds and other fixed-income securities | AC | AC | 380 | 380 |
| Liabilities to credit institutions | AC | AC | 155 | 155 |
| Liabilities to credit institutions - repurchase agreements | FVP&L (FVO) | AC | 0 | 0 |
| Deposits from and due to customers | AC | AC | 14,630 | 14,630 |
| Commercial papers and bonds issued | AC | AC | 3,116 | 3,116 |
| Fianancial derivatives | FVP&L/Hedge accounting | FVP&L/Hedge accounting | -46 | -46 |
| Subordinated loan capital/ Additional Tier 1 capital | AC | AC | 502 | 502 |

## EFFECTS OF IMPLEMENTING IFRS 9

| (NOK million) | Book value according to IAS 39 31 December 2017 | Change due to reclassification | Change due to remeasurement ECL | Book value according to IFRS 9 1 January 2018 |
|---|---|---|---|---|
| Loans and receiveavbles and instruments held to maturity according to IAS 39 which will be measured at amortised cost according to IFRS 9 | 670 | | 4 | 673 |
| Debt instruments classified as available for sale according to IAS 39 which will be measured at amortised cost according to IFRS 9 | | | | 0 |
| **Total instruments measured at amortised cost according to IFRS 9** | **670** | **0** | **4** | **673** |
| | | | | |
| Loans and receivables and instruments held to maturity according to IAS 39 which will be measured at fair value over other comprehensive income (OCI) according to IFRS 9 | 11 850 | -24 | 9 | 11 836 |
| Debt instruments classified as available for sale according to IAS 39 which will be measured at fair value over other comprehensive income (OCI) according to IFRS 9. | | | | 0 |
| **Total instruments measured at fair value over OCI according to IFRS 9** | **11 850** | **-24** | **9** | **11 836** |
| | | | | |
| Loans and receivables and instruments at fair value through profit & loss according to IAS 39 which will be measured at fair value through profit & loss according to IFRS 9 | 4 039 | | | 4 039 |
| Debt instruments classified at fair value through profit & loss according to IAS 39 which will be measured at fair value through profit & loss according to IFRS 9 | | | | 0 |
| **Total instruments measured at fair value through profit & loss according to IFRS 9** | **4 039** | **0** | **0** | **4 039** |
| **Total** | **16 558** | **-24** | **13** | **16 547** |
| | | | | |
| Financial guarantee agreements | 20 | | -4 | 15 |
| Loan committments | 2 007 | | | 2 007 |
| **Total financiel guarantees and loan commitments** | **2 027** | **0** | **-4** | **2 023** |

Below is a description of new impairment model due to implementaion IFRS 9. See also note 1 for other information about IFRS 9.

## DESCRIPTION OF NEW IMPAIRMENT MODEL DUE TO IMPLEMENTAION IFRS 9

**Generally about the model**

Under IFRS 9, impairments are based on expected credit loss (ECL). In order to estimate expected credit loss, models have been developed to calculate three indicators: probability of default (PD), loss given default (LGD) and exposure at default (EAD). These models have been derived from similar models used for internal capital needs assessments. The models used for IFRS 9 purposes are based on the current macroeconomic situation and forecasts, and the models for PD, LGD and EAD are thus point in time (PIT) models, as opposed to through the cycle (TTC) models, which are used for capital needs purposes. The risk parameters in IFRS 9 have also been calibrated to be more forward-looking. Since the future is always uncertain, different future scenarios are used to compute PD, LGD and EAD for the bank's financial instruments. The various future scenarios have different weights determined by their position in the economic cycle and the forecasts of future events and economic conditions. The final expected credit loss per financial instrument will be a weighted average of the expected credit losses in the various scenarios. Total expected credit loss for the portfolio is the sum of the weighted credit losses per financial instrument.

In the PD model, financial circumstances are a significant predictor, combined with behavioural data on the individual customer. The model is a statistical model based on logistic regression. Loan-to-value ratio is a significant factor in the LGD model. For EAD, the most significant factors are loan size for downpayment loans and credit limit for lines of credit. The models are validated annually.

Forecasts affect the PD and LGD estimates in particular.

Storebrand Bank uses future scenarios to calculate expected credit losses. Storebrand Bank bases its future scenarios on the future scenarios presented by Norges Bank in its Financial Stability Report and assessments by Statistics Norway. The scenarios build on the current macroeconomic situation, economic forecasts, and the impact the macroeconomic situation is expected to have on the credit risk of the bank's financial instruments. These expectations affect the probability of default, exposure at default, and loss given default.

Probability of default is affected by unemployment, wage growth and interest rates, among others. Higher unemployment and interest rates result in weaker capacity to service debt in the portfolio, and lower wage growth also entails weaker capacity to service debt and thus increased probability of default. Macrovariables will have different effects on the risk parameters, and the impact will vary significantly for the individual customers in the portfolio. Average probability of default will increase during periods of economic downturn.

Periods of economic downturn will per se result in weaker house price growth, which will in turn affect loan-to-value ratio and thus also loss given default. For many financial instruments, the losses will be very small, given the existing market prices. The increase in loss given default as a result of falling house prices is greater than the reduction in loss given default when house prices are rising. Nonlinearities in expected credit loss are taken into account by estimating expected credit loss in a variety of scenarios.

Corporate market loans will be individually assessed because this portfolio is being wound down. Defaulted and/or impaired financial instruments are assessed individually in stage 3, while healthy commitments are currently only assessed in stage 1. As applicable, security shortfalls where the market value of the security (property) has been cautiously assessed, so-called "fire sales", are a central instrument, together with financial assessments of servicing capacity and behavioural data.

Stress tests and sensitivity tests are used in the assessment, linked to the influence and sensitivity of various input variables on expected credit loss. Alternative assessments are also made of the macrovariables' influence on the input variables in the models and thus the expected credit losses. Stage migration is also considered by assessing the change in expected credit losses when transitioning from 12-month PD to lifetime PD for parts of the stage 1 portfolio. Sensitivity analyses are carried out in ICAAP on a regular basis.

ECL in IFRS 9 is expected to be more volatile than under IAS 39. The provisions will be more closely aligned to the macro economic cycle than in IAS 39. ECL of the portfolio is regarded to be sensitive with respect to the default rate of the portfolio and expected life time of the financial assets. There is uncertainty in the models regarding the different estimates. There is uncertainty regarding forecasts and development of different macro variables in the different macro scenarios including the effect of these macro scenarios on the different parameters.

**Definition of default**

Storebrand Bank assesses default at the account / facility level for retail customers. For corporate customers, default is assessed at the custmer level. In the retail market, a facility / account is considered to be in default if the repayment instalments and/or interest on the loan is overdue by more than 90 days or credit limits have been overdrawn for more than 90 days and the amount is not insignificant. The threshold for what is considered a significant amount is NOK 2,000. In the corporate market, the entire customer relationship is regarded as in default if one facility or account is in default. A financial instrument is also considered to be in default if individual impairments are recorded on the instrument.

The definition of default has been changed for the retail market in connection with the transition to IFRS 9. The definition of default is in accordance with internal credit risk assessments, credit risk models and reporting. The credit risk models have been developed at the facility / account level in the retail market.

**Calculating impairment**

Division into stages and moving between stages

**Stage 1**

The starting point for all financial assets is stage 1. Stage 1 encompasses all financial assets that do not have substantially higher credit risk than at initial recognition. Financial assets with low credit risk will always be in stage 1. In stage 1, expected credit loss is calculated over 12 months.

**Stage 2**

Stage 2 consists of financial assets where there has been a significant increase in credit risk since initial recognition, but that are not in default or where there is objective evidence of loss. For financial assets in stage 2, expected credit loss is calculated over the expected term of the loan. Expected term deviates from contractual term and is estimated on the basis of historically observed performance. Stage 2 contains a sub-group – weak stage 2, which consists of financial assets with a 12-month PD of over 5%. For weak stage 2 assets, expected credit loss is calculated over the contractual term of the loan.

**Stage 3**

Stage 3 consists of financial instruments with a substantial increase in credit risk and where the asset is in default and/or where there is objective evidence of loss. Financial instruments in IFRS 9 stage 3 are instruments that are defined as in default (over 90 days) and/or impaired in accordance with IAS 39.

#### Substantial increase in credit risk

Substantial increase in credit risk is assessed on the basis of the financial instrument's probability of default at the time of measurement compared with at initial recognition. The assessment is based on both changes in probability of default during the expected lifetime and changes in probability of default in the next 12 months. The assessments are based on absolute changes and relative changes. Financial instruments that are overdue by 30 days or more are always assessed as substantially deteriorated. The same applies to loans granted temporary postponement of payment (forbearance).

#### Expected maturity

Expected maturity is estimated for various financial instruments. Expected maturity is significant because for financial instruments with substantial deterioration of credit risk, including defaulted financial instruments, i.e. financial instruments in stage 2 and stage 3, expected credit loss shall be calculated over the financial instruments' expected maturity. Probability of default increases over the time horizon it is measured over, and expected credit loss over the expected maturity is therefore higher than 12-month expected credit.

Expected maturity is calculated for different products. Expected maturity is estimated to around five years for downpayment loans and six years for lines of credit.  Expected maturity is estimated to nine years for credit cards and to nine years for credit accounts. For financial instruments in weak stage 2, expected maturity is contractual maturity. Contractual maturity is also expected maturity for top-up loans (loan share greater than LTV of 70%), building credit and bridging loans.

Expected maturity is reassessed and validated regularly.

#### Categorisation into portfolios

The retail market portfolio is divided into:

i) Housing loans and housing credit
ii) Credit cards
iii) Other credits

The corporate portfolio is not subdivided further, and assessment is done manually (regardless of stage).

## Note 3 - Critical accounting estimates and judgements

In preparing the company's financial statements the management are required to make judgements, estimates and assumptions of uncertain amounts. The estimates and underlying assumptions are reviewed on an ongoing basis, and they are based on historical experience and expectations of future events and represent the management's best judgement at the time the financial statements were prepared.

Actual results may differ from these estimates.

The company's critical estimates and judgements that could result in material adjustment of recognised amounts are discussed below.

### LOAN WRITE-DOWNS

Loans valued at amortised cost are assessed on the reporting date to see whether there is any objective evidence that a loan or group of loans is impaired. A judgement must be used in assessing whether impairment has occurred and the amount of the impairment loss. Uncertainty grows when there is turmoil in the financial markets. The assessments include credit, market and liquidity risk. Changes in assumptions for these factors will affect an assessment of whether impairment is indicated. There will thus be uncertainty concerning the recognised amounts of individual and group write-downs.

#### INDIVIDUAL WRITE-DOWNS

When write-downs for individual customers are estimated, both their current and expected future financial positions and relevant security must be assessed. When it comes to the corporate market, one must also assess the market situation of the customer and the security, market conditions within the relevant industry, and general market conditions of significance for the commitment. Opportunities for restructuring, refinancing and recapitalisation also have to be assessed. The overall assessment of these factors provides a basis for estimating future cash flows and repayment capacity. The discounting period is estimated individually or based on historical data about the period up to a solution to the circumstances that caused the commitment to be exposed to impairment.

### GROUP WRITE-DOWNS

On the statement of financial position date, one estimates the impairment of commitments not identified by the individual assessments. The bank differentiates between the corporate market and retail customers, and further categorisation is carried out to ensure as similar risk characteristics as possible within the various categories. Group write-downs are carried out when objective impairment criteria have been met. These criteria are i) change in risk class and ii) change in macroeconomic conditions.

i. If the risk classification significantly changes in a negative direction, then a group write-down has to be made based on the portfolio's probable future cash flow. Such assessments are made at an account level and the customer's current classification is assessed in relation to the classification when the individual commitment was granted. It is the negative changes in classification from the date the commitments were established to the current classification that determine whether or not a commitment falls into a group that is the subject of write-downs. These write-downs are based on the write-down rates that are set on the basis of the bank's best judgement and the assumption that there will be a delay between when the loss incident occurs and when it is discovered.

ii. Groups write-downs based on macro factors are made in light of objective macroeconomic events. Examples of such events include higher unemployment, higher interest rates, poorer economic cycle forecasts, falling house prices, etc. Groups write-downs are calculated by multiplying the total commitment amount for a group of commitments that are assumed to be affected by such macroeconomic incidents by a write-down rate for macro factors.

### BONDS AT AMORTISED COST

See the description above concerning loans at amortised cost. The same assessments must be made to value bonds at amortised cost.

### FINANCIAL INSTRUMENTS AT FAIR VALUE

There will be some uncertainty associated with the pricing of financial instruments not priced in an active market.  This is particularly true of the types of securities priced on the basis of non-observable assumptions. Various valuation techniques are applied to these investments in order to determine the fair value. They include fixed-rate loans and other financial instruments where theoretical models are used for pricing  Any changes to the assumptions could affect recognised amounts.

Reference is also made to Note 9 in which the valuation of financial instruments at fair value is described in more detail.

### INTANGIBLE ASSETS

Intangible assets with undefined useful lives are tested annually for impairment. The test's valuation method requires estimating the cash flows that arise in the relevant cash flow generating unit, as well as applying the relevant discount rate. Tangible fixed assets and other intangible assets are measured annually to ensure that the method and time period used correspond with economic realities.

### CONTINGENT LIABILITIES

Storebrand Bank ASA can be a party in legal disputes. Contingent liabilities are assessed in each case and will be based on legal considerations.

## Note 4 - Risk management

Continuous monitoring and active risk management are core areas of the bank's activities and organisation. The basis of risk management follows from the board's annual discussion of the strategy and planning process and determination of general risk ceilings for the activities. At the Storebrand group, responsibility for risk management and internal control is an integral part of management responsibility.

### ORGANISATION OF RISK MANAGEMENT

The Storebrand group's organisation of risk management responsibility follows a model based on 3 lines of defence. The objective of the model is to safeguard the responsibility for risk management at both company and Group level.

The board of Storebrand Bank ASA has ultimate responsibility for limiting and monitoring the organisation's risks. The board annually determines ceilings and guidelines for the risks taken by the operation, receives reports of actual risk levels and gives a forward assessment of risks.

Managers at all levels in the company are responsible for risk management within their own area of responsibility.  Good risk management requires targeted work on objectives, strategies and action plans, identification and assessment of risks, documentation of processes and routines, prioritisation and implementation of improvement measures, and good communication, information and reporting.

All employees must be familiar with the concept that awareness of risks and risk management are vital elements of the company's culture.

All managers in the bank and in group areas which delivers services to the bank, in addition to the CEO of Storebrand Boligkreditt AS, must submit an annual confirmation that documents how risk management has functioned during the period.

### INDEPENDENT CONTROL FUNCTIONS

Storebrand Bank ASA has independent control functions for the company's risk management (Chief Risk Officer, CRO) and for compliance (Chief Compliance Officer, CCO). CRO and CCO are both responsible directly to the CEO and report to the bank's board. In terms of function the independent control functions are affiliated with the Group CRO, who is responsible to the group CEO and reports to the board of Storebrand ASA.

Internal auditing is under the direct authority of the board and is intended to give the board a confirmation of the appropriateness and effectiveness of the organisation's risk management, including how the lines of defence are functioning.

## Note 5 - Credit risk

Credit risk is the risk of loss if a counterparty does not fulfil its commitments. This risk includes losses on lending in the bank, but also losses related to bank deposits or failure of counterparties to perform under reinsurance agreements or financial derivatives.

### RISK MANAGEMENT

The risk strategy reflects how much credit risk the bank group is willing to accept. The willingness to accept risk is adjusted to the bank's risk appetite and goals regarding risk profile, capital adequacy, and growth. Credit policies establish general principles for granting credit. The bank group's procedures for credit management are set out in credit manuals for the Corporate and Retail Markets. The credit manuals are primarily designed for account managers and others who are involved in case management processes. The credit manuals contain common guidelines (or regulations) for the bank group's credit activities, and are intended to safeguard uniform and consistent credit management practices.

The credit manuals and adopted routines provide specific criteria for monitoring non-performance, loan covenants, loss assessments and the annual loan review. Furthermore, the models ensure uniform portfolio risk assessment classifications and reporting on risk development. Specialised functions have been established for deposits, loan establishment and administration of the customer portfolio. Credit is granted in accordance with an authorisation structure determined by the board.

Treasury has the credit risk for its counterparties in the liquidity portfolio. Permitted counterparties and the composition of the portfolio are set out in the bank group's counterparty risk policy.

Counterparty risk in connection with trade in financial derivatives with customers as the counterparty is included under credit risk and is managed according to a specific policy on the basis of rating and amount under management. Customer derivatives trades are hedged using derivatives. Financial derivatives permitted by the bank are outlined in the interest rate risk policy.

### RISK CONTROL

The most important control of credit risk is carried out and administered by the credit manager, who has ongoing responsibility for making sure that established procedures in the credit areas comply with the adopted risk profile and external guidelines, and that they are adhered to on a day-to-day basis. The credit manager will contribute to ensure  the credit expertise in the organisation.

Exposure relating to trade in financial derivatives for customers is monitored by Back Officet. Price development is monitored in respect of the customer's situation, cleared lines and breach clauses. The Middle Office conducts running spot checks with regard to this.

Trades with counterparties made by Treasury are checked by the Middle Office in accordance with dedicated procedures and work descriptions.

The Chief Risk Officer (CRO) reports to the board on credit risk trends on an ongoing basis.

## ANALYSIS OF CREDIT RISK BY TYPE OF FINANCIAL INSTRUMENT

The maximum credit exposure is the sum of gross loans, guarantees, amounts drawn from credit lines and undrawn amounts of credit lines. Net decrease in maximum credit exposure from the end of 2016 is mainly related to a decrease in liquidity portfolio, and deposits from and due to customers and an increase in deposits from credit institutions and the central bank.

| | Maximum credit exposure | |
|---|---|---|
| (NOK million) | 2017 | 2016 |
| Liquidity portfolio | 3,839.5 | 4,602.8 |
| Total loans to and deposits with credit institutions and central bank | 2,830.2 | 1,686.3 |
| Total commitments customers 1) | 16,706.2 | 19,256.2 |
| Interest rate swaps | 92.6 | 131.1 |
| **Total** | **23,468.5** | **25,676.4** |
| 1) Of which net loans to and amounts due from customers measured at fair value: | 580.0 | 1,958.5 |

The amounts stated for the various financial instruments constitute the value recognised in the balance shett, with the exception of net lending to and receivables from customers, which also includes unused drawing facility and guarantees.

## CREDIT RISK LIQUIDITY PORTFOLIO

**Interest-bearing securities at fair value**
**Credit risk per counterparty**
Short-term holdings of interest-bearing securities
Issuer category

| | AAA | AA | A | BBB | NIG | Total 2017 | Total 2016 |
|---|---|---|---|---|---|---|---|
| (NOK million) | Fair value | Fair value | Fair value | Fair value | Fair value | Fair value | Fair value |
| Sovereign and Government Guaranteed bonds | 469.8 | 253.5 | | | | 723.3 | 482.8 |
| Credit Bonds | | 50.5 | | | | 50.5 | |
| Mortgage and asset backed bonds | 2,684.9 | | | | | 2,684.9 | 3,587.3 |
| **Total** | **3,154.6** | **303.9** | **0.0** | **0.0** | **0.0** | **3,458.6** | **4,070.1** |
| Rating classes are based on Standard & Poors. | | | | | | | |
| | | | | | | | |
| Change in value: | | | | | | | |
| Total change in value on the balance sheet | 15.3 | 1.3 | | | | 16.6 | 0.5 |
| Change in vaule recognised in the profit and loss during period | 14.9 | 1.2 | | | | 16.1 | 21.8 |

**Interest-bearing securities at amortised cost**
**Credit risk per counterparty**
Short-term holdings of interest-bearing securities
Issuer category

| | AAA | AA | A | BBB | NIG | Total 2017 | Total 2016 |
|---|---|---|---|---|---|---|---|
| (NOK million) | Fair value | Fair value | Fair value | Fair value | Fair value | Fair value | Fair value |
| Public issuers and Government Guaranteed Bonds | 280.6 | | | | | 280.6 | 200.9 |
| Mortgage and asset backed bonds | 100.3 | | | | | 100.3 | 331.8 |
| **Total** | **380.9** | **0.0** | **0.0** | **0.0** | **0.0** | **380.9** | **532.7** |

Rating classes are based on Standard & Poors.

## CREDIT RISK ON LOANS TO AND DEPOSITS WITH CREDIT INSTITUTIONS AND CENTRAL BANK

| (NOK million) | AAA Fair value | AA Fair value | A Fair value | BBB Fair value | NIG Fair value | Total 2017 Fair value | Total 2016 Fair value |
|---|---|---|---|---|---|---|---|
| Norway | 472.2 | | | | | 472.2 | 464.5 |
| **Total deposits with central bank** | **472.2** | **0.0** | **0.0** | **0.0** | **0.0** | **472.2** | **464.5** |
| Norway | 2,295.8 | 12.6 | | | | 2,308.4 | 1,091.0 |
| Denmark | | | 49.7 | | | 49.7 | 130.8 |
| **Total loans to and deposits with credit institutions** | **2,295.8** | **12.6** | **49.7** | **0.0** | **0.0** | **2,358.1** | **1,221.8** |
| **Total loans to and deposits with credit institutions and central bank** | **2,767.9** | **12.6** | **49.7** | **0.0** | **0.0** | **2,830.2** | **1,686.3** |

## CREDIT EXPOSURE FOR LENDING ACTIVITIES

### CORPORATE MARKET

Gross lending in the Corporate Market is just under NOK 350 million. In addition, there are guarantees of approximately NOK 20 million. Furthermore, loans of nearly NOK 175 million are under management, which are syndicated to Storebrand Livsforsikring AS.

As a result of group prioritizations regarding use of capital at Storebrand and a strategic assessment of the future direction of the Group, the Corporate Market segment at the bank is no longer prioritised as a core activity, and is being wound up.

The Storebrand Bank Group uses an internal model for risk classification of the bank's Corporate Market loans.

When assessing the quality of the security of the loans, numerical grades of 1 to 5 are applied, with 1 being the best.

Based on the Corporate Market expert model, about 93 per cent of loans are for IGE. The remaining loans are loans for different purposes or loans outside the area of validity of the model. The Corporate Market portfolio is generally secured on commercial property.

The Corporate Market portfolio consists of a Group debtor (with one debtor) with exposure of over NOK 200 million, a Group debtor (with one debtor) with exposure between NOK 50 million and NOK 100 million, and 10 Group debtors (with a total of 10 debtors) with exposure of up to NOK 50 million (6 of 10 debtors have exposure of less than NOK 5 million). The definition of a Group debtor is given in the regulations relating to large loans.

The bank's exposure is primarily secured by pledged assets in Bærum and Bergen. Assets pledged are valued at their estimated realisable values in addition to separate assessments based on return considerations.

At the end of 2017, approximately 78 per cent of the amount granted was linked to loans in risk classes A to D, while approximately 6 per cent was in risk classes E to J. The remainder was loans with identified impairment. The loans must be classified when there are changes in the loans and at least once a year. The classifications thereby provide an overview of the risk exposure in the portfolio at all times. The bank measures the Corporate Market portfolio's distribution into risk classes on a quarterly basis.

Of loans that are not non-performing (with and without impairment) or in arrears, about 93 per cent of the loans have a loan-to-value ratio of under 70 per cent. The remaining healthy loans have a loan-to-value ratio of under 100 per cent for the most part.

There were no loans/customers in default without impairment in value at the end of 2017.

For impaired non-performing loans, the write-downs that have been made have taken into account that the pledged assets do not cover outstanding loans and other costs related to the non-performance. Recorded write-downs are considered to be sufficient.

In the event of non-performance, the bank will sell the securities or take over the assets if that is most appropriate. In the current portfolio, no properties have been taken over.

## RETAIL MARKET

Retail customers are evaluated according to their capacity and intent to repay the loan. In addition to their capacity to service debt, the customers are checked regarding policy regulations and the customers are scored using a scoring model. The private portfolio is primarily secured by mortgage in residential and recreational properties.

Storebrand Bank ASA has developed internal models for classifying home loans. The models estimate a loan's Probability of Default (PD), Loss Given Default (LGD), and Exposure at Default (EAD). PD estimates are based on a logistical regression model where late payment notices, reminders, overdrafts and information about assets are key explanatory variables when predicting defaults. When estimating the LGD, the loan-to-value ratio is the most important explanatory variable. Mortgage loans are classified according to the bank's master scale, consisting of 11 risk classes from A to K, with A indicating the lowest default probability and K containing non-performing loans. The classification of home loans is automatically updated on a monthly basis. As at the end of 2017, about 61 per cent of the EAD was linked to home loans in risk class A, while less than 3 per cent of the EAD was in risk classes G to J. The models must be validated at least once a year, with the models' accuracy compared to actual outcomes.

When arranging home loans, Storebrand Bank ASA collects information of significance to the value of the property. Each quarter the bank obtains an updated, independent valuation of residential properties from Eiendomsverdi AS. For homes where Eiendomsverdi AS does not have an up to date valuation (for example, certain housing cooperative apartments, owner-tenant apartments and some leisure properties) the most recently updated market value is used until further notice. When Eiendomsverdi AS cannot determine the market value of a property with a high degree of certainty, a "haircut" is used so as to reduce the risk of giving an inflated estimate of market value. If Eiendomsverdi AS has never received information regarding the property's market value, the value recorded at the time of entering into the contract (the deposit value) will be used. Loans such as those mentioned here constitute just under 1 per cent of the total portfolio exposure.

In the retail market, most of the loans are secured by way of home mortgages. NOK 26.6 billion has been lent in home loans, with a further NOK 2.2 billion in undrawn credit facilities. Total commitments in residential property are therefore about NOK 28.8 billion

The weighted average loan-to-value ratio is 57.5 per cent for home mortgage loans. Approximately 88 per cent of loans have a loan-to-value ratio lower than 80 per cent and approximately 99.5 per cent are lower than 100 per cent. Approximately 47 per cent of the home mortgage loans have a loan-to-value ratio within 60 per cent.
The portfolio is regarded as having a low to moderate credit risk in accordance with the bank's risk appetite.

There is largely good security on non-performing loans that are not impaired for retail market customers. The average loan-to-value ratio for these loans is 65 per cent. Home loans/residential mortgage products that are part of the volume of non-performing loans total NOK 126 million. Approximately NOK 113 million of this is within a loan-to-value ratio of 80 per cent and NOK 122 million is within a loan-to-value ratio of 100 per cent. The security is also good on home loans/residential mortgage products between 1 and 90 days past due. Assets pledged as collateral are sold in the retail market. They are not taken over by the bank.

In the credit card portfolio, about NOK 230 million has been drawn, and approximately NOK 1 billion is available as unused credit facilities. For credit accounts, about NOK 61 million has been drawn, and approximately NOK 266 million is available as unused credit facilities.

## COMMITMENTS PER CUSTOMER GROUP

| | 2017 | | | |
|---|---|---|---|---|
| (NOK million) | Loans to and due from customers | Guarantees | Undrawn credit limits | Total commitments |
| Development of building projects | | 2.1 | | 2.1 |
| Sale and operation of real estate | 29.3 | 17.4 | | 46.7 |
| Service providers | 318.8 | | 0.4 | 319.2 |
| Wage-earners | 12,394.0 | 0.3 | 1,944.6 | 14,338.8 |
| Other | 42.0 | | 14.6 | 56.6 |
| Total | 12,784.1 | 19.7 | 1,959.6 | 14,763.4 |
| | | | | |
| Loan loss provisions on individual loans | -41.2 | | | -41.2 |
| Loan loss provisions on groups of loans | -23.2 | | | -23.2 |
| **Total loans to and due from customers** | **12,719.7** | **19.7** | **1,959.6** | **14,699.0** |

| (NOK million) | 2016<br>Loans to and due from customers | Guarantees | Undrawn credit limits | Total commitments |
|---|---|---|---|---|
| Development of building projects | 22.4 | 2.1 | | 24.5 |
| Sale and operation of real estate | 974.0 | 21.4 | | 995.3 |
| Service providers | 593.6 | | 3.5 | 597.1 |
| Wage-earners | 12,325.6 | 0.1 | 1,793.5 | 14,119.2 |
| Other | 42.5 | | 15.0 | 57.5 |
| Total | 13,958.0 | 23.6 | 1,812.0 | 15,793.6 |
| | | | | |
| Loan loss provisions on individual loans | -24.6 | | | -24.6 |
| Loan loss provisions on groups of loans | -37.0 | | | -37.0 |
| **Total loans to and due from customers** | **13,896.4** | **23.6** | **1,812.0** | **15,732.0** |

Undrawn credit limits relate to  the unused portion of credit limits approved on overdraft accounts and credit cards, as well as the unused portion of lending limits on flexible mortgages.

The classification into customer groups is based on Statistics Norway's standard for sector and business classification. The individual customer's classification is determined by the customer's primary activity.

## AVERAGE VOLUME ENGAGEMENT PER CUSTOMER GROUP

| (NOK million) | 2017<br>Average volume loans to and deposits from customers | Average volume guarantees | Average volume undrawn credit limits | Total average engagement |
|---|---|---|---|---|
| Development of building projects | 11.2 | 2.1 | | 13.3 |
| Sale and operation of real estate | 501.7 | 19.4 | | 521.0 |
| Service providers | 456.2 | | 2.0 | 458.2 |
| Wage-earners | 12,359.8 | 0.2 | 1,869.1 | 14,229.0 |
| Other | 42.2 | | 14.8 | 57.0 |
| **Total** | **13,371.1** | **21.7** | **1,885.8** | **15,278.5** |

| (NOK million) | 2016<br>Average volume loans to and deposits from customers | Average volume guarantees | Average volume undrawn credit limits | Total average engagement |
|---|---|---|---|---|
| Development of building projects | 26.0 | 2.1 | | 28.1 |
| Sale and operation of real estate | 1,312.4 | 33.8 | | 1,346.3 |
| Service providers | 642.8 | | 2.4 | 645.2 |
| Wage-earners | 12,461.6 | 0.5 | 1,904.6 | 14,366.7 |
| Other | 65.8 | | 13.3 | 79.1 |
| **Total** | **14,508.6** | **36.4** | **1,920.4** | **16,465.4** |

## COMMITMENTS PER GEOGRAPHICAL AREA

2017

| (NOK million) | Loans to and due from customers | Guarantees | Undrawn credit limits | Total commitments | Non-performing loans without evidence of impairment | Non-performing and loss-exposed loans with evidence of impairment | Gross defaulted and loss-exposed loans | Provisions for individual loan losses | Net defaulted and loss-exposed loans |
|---|---|---|---|---|---|---|---|---|---|
| Eastern Norway | 9,620.0 | 19.7 | 1,497.4 | 11,137.1 | 55.8 | 94.2 | 150.0 | 39.3 | 110.7 |
| Western Norway | 2,047.6 | | 316.7 | 2,364.3 | 28.5 | 2.6 | 31.0 | 1.4 | 29.7 |
| Southern Norway | 249.7 | | 35.8 | 285.5 | 0.5 | | 0.5 | | 0.5 |
| Mid-Norway | 450.5 | | 52.4 | 502.9 | 3.7 | 0.5 | 4.2 | 0.5 | 3.8 |
| Northern Norway | 376.6 | | 42.8 | 419.4 | 1.1 | 0.2 | 1.3 | 0.2 | 1.1 |
| Rest of world | 39.8 | | 14.5 | 54.3 | 0.4 | | 0.4 | | 0.4 |
| **Total** | **12,784.1** | **19.7** | **1,959.6** | **14,763.4** | **90.0** | **97.5** | **187.5** | **41.4** | **146.1** |

2016

| (NOK million) | Loans to and due from customers | Guarantees | Undrawn credit limits | Total commitments | Non-performing loans without evidence of impairment | Non-performing and loss-exposed loans with evidence of impairment | Gross defaulted and loss-exposed loans | Provisions for individual loan losses | Net defaulted and loss-exposed loans |
|---|---|---|---|---|---|---|---|---|---|
| Eastern Norway | 10,367.4 | 23.6 | 1,397.6 | 11,788.6 | 45.2 | 70.8 | 115.9 | 22.9 | 93.0 |
| Western Norway | 2,372.9 | | 279.7 | 2,652.6 | 23.3 | 1.0 | 24.3 | 1.0 | 23.3 |
| Southern Norway | 257.9 | | 35.9 | 293.8 | 1.1 | 0.0 | 1.2 | 0.0 | 1.2 |
| Mid-Norway | 440.6 | | 49.4 | 490.0 | 0.6 | 0.6 | 1.2 | 0.4 | 0.8 |
| Northern Norway | 435.9 | | 36.4 | 472.2 | 0.8 | 0.3 | 1.1 | 0.3 | 0.8 |
| Rest of world | 83.3 | | 13.1 | 96.3 | 0.5 | 0.0 | 0.5 | 0.0 | 0.5 |
| **Total** | **13,958.0** | **23.6** | **1,812.0** | **15,793.6** | **71.5** | **72.7** | **144.2** | **24.6** | **119.6** |

## TOTAL ENGAGEMENT AMOUNT BY REMAINING TERM TO MATURITY

2017

| (NOK million) | Loans to and due from customers | Guarantees | Undrawn credit limits | Total commitments |
|---|---|---|---|---|
| Up to 1 month | 17.2 | 0.5 | 2.1 | 19.9 |
| 1 - 3 months | 61.4 | 2.3 | 16.8 | 80.4 |
| 3 months - 1 year | 275.8 | 15.8 | 78.8 | 370.5 |
| 1 - 5 years | 654.6 | 1.2 | 179.8 | 835.6 |
| More than 5 years | 11,775.0 | | 1,682.0 | 13,457.1 |
| **Total** | **12,784.1** | **19.7** | **1,959.6** | **14,763.4** |

| | 2016 | | | |
|---|---|---|---|---|
| (NOK million) | Loans to and due from customers | Guarantees | Undrawn credit limits | Total commitments |
| Up to 1 month | 2.9 | | | 2.9 |
| 1 - 3 months | 382.4 | 1.6 | 14.7 | 398.8 |
| 3 months - 1 year | 529.9 | 2.4 | 49.7 | 582.0 |
| 1 - 5 years | 997.4 | 19.5 | 269.5 | 1,286.5 |
| More than 5 years | 12,045.4 | 0.0 | 1,478.1 | 13,523.5 |
| **Total** | **13,958.0** | **23.6** | **1,812.0** | **15,793.6** |

## AGE DISTRIBUTION OF OVERDUE ENGAGEMENTS WITHOUT IMPAIRMENT

| | 2017 | | | |
|---|---|---|---|---|
| (NOK million) | Loans to and due from customers | Guarantees | Undrawn credit limits | Total commitments |
| Overdue 1 - 30 days | 198.4 | | 2.6 | 201.0 |
| Overdue 31 - 60 days | 46.0 | | 0.9 | 46.8 |
| Ovedue 61- 90 days | 31.2 | | | 31.2 |
| Overdue more than 90 days | 90.0 | | 0.5 | 90.5 |
| **Total** | **365.6** | **0.0** | **3.9** | **369.5** |
| **Engagements overdue more than 90 days by geographical area:** | | | | |
| Eastern Norway | 55.8 | | 0.4 | 56.2 |
| Western Norway | 28.5 | | | 28.5 |
| Southern Norway | 0.5 | | | 0.5 |
| Mid-Norway | 3.7 | | | 3.7 |
| Northern Norway | 1.1 | | | 1.1 |
| Rest of world | 0.4 | | | 0.5 |
| **Total** | **90.0** | **0.0** | **0.5** | **90.5** |

| | 2016 | | | |
|---|---|---|---|---|
| (NOK million) | Loans to and due from customers | Guarantees | Undrawn credit limits | Total commitments |
| Overdue 1 - 30 days | 175.9 | 2.4 | 1.8 | 180.1 |
| Overdue 31 - 60 days | 37.9 | | 0.2 | 38.1 |
| Ovedue 61- 90 days | 30.6 | | 0.1 | 30.8 |
| Overdue more than 90 days | 71.5 | | 0.2 | 71.7 |
| **Total** | **316.0** | **2.4** | **2.3** | **320.6** |
| **Engagements overdue more than 90 days by geographical area:** | | | | |
| Eastern Norway | 45.2 | | 0.2 | 45.3 |
| Western Norway | 23.3 | | | 23.3 |
| Southern Norway | 1.1 | | | 1.1 |
| Mid-Norway | 0.6 | | | 0.6 |
| Northern Norway | 0.8 | | | 0.8 |
| Rest of world | 0.5 | | | 0.5 |
| **Total** | **71.5** | **0.0** | **0.2** | **71.7** |

Only non-performing and loss-exposed loans are classified by geographical area in this overview. The same definition is used for due commitments as the one in the capital requirements regulations, however the number of days in the definition equals the age distribution.

Loans are regarded as non-performing and loss-exposed:
- when a credit facility has been overdrawn for more than 90 days and the overdrawn amount minimum is NOK 2,000
- when an ordinary mortgage has arrears older than 90 days and thee arrears minimum is NOK 2,000
- when a credit card has arrears older than 90 days
When one of the three situations described above occurs, the loans and the rest of the customer's commitments are considered as non-performing.

## CREDIT RISK PER CUSTOMER GROUP

| | 2017 | | | | | | |
|---|---|---|---|---|---|---|---|
| (NOK million) | Non-performing and loss-exposed loans with evidence of impairment | Non-performing loans without evidence of impairment | Gross defaulted and loss-exposed loans | Total provisions for individual loan losses | Net defaulted and loss-exposed loans | Total value changes | Total value change recognised in the profit and loss account during period |
| Development of building projects | | | 0.0 | | 0.0 | | |
| Sale and operation of real estate | 29.3 | | 29.3 | 19.6 | 9.7 | | 9.3 |
| Service providers | 42.3 | | 42.3 | 8.9 | 33.4 | | 8.9 |
| Wage-earners | 24.0 | 89.5 | 113.5 | 11.6 | 101.9 | | -1.3 |
| Other | 1.8 | 0.5 | 2.4 | 1.2 | 1.1 | | -0.1 |
| **Total** | **97.5** | **90.0** | **187.5** | **41.4** | **146.1** | **0.0** | **16.8** |

| | 2016 | | | | | | |
|---|---|---|---|---|---|---|---|
| (NOK million) | Non-performing and loss-exposed loans with evidence of impairment | Non-performing loans without evidence of impairment | Gross defaulted and loss-exposed loans | Total provisions for individual loan losses | Net defaulted and loss-exposed loans | Total value changes | Total value change recognised in the profit and loss account during period |
| Development of building projects | | | 0.0 | | 0.0 | | |
| Sale and operation of real estate | 46.8 | | 46.8 | 10.3 | 36.5 | | -23.2 |
| Service providers | | | 0.0 | | 0.0 | | 0.0 |
| Wage-earners | 23.9 | 71.0 | 94.8 | 12.9 | 81.9 | | -8.4 |
| Other | 2.0 | 0.0 | 2.0 | 1.4 | 0.6 | | 0.6 |
| **Total** | **72.7** | **71.0** | **143.6** | **24.6** | **119.0** | **0.0** | **-31.1** |

### REPOSSESSED ASSETS

In the event of non-performing loans Storebrand Bank ASA will sell the collateral or repossessed assets if this is most appropriate. The bank has not any repossessed assets at the end of 2017.

## FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (FVO)

| | Loans to customers | | Liquidity portfolio | |
|---|---|---|---|---|
| (NOK million) | 2017 | 2016 | 2017 | 2016 |
| Book value maximum exposure for credit risk | 580.0 | 1,958.5 | 3,458.6 | 4,070.1 |
| Book value of related credit derivatives that reduce credit risk | | | | |
| Collateral | | | | |
| **Net credit risk** | **580.0** | **1,958.5** | **3,458.6** | **4,070.1** |
| This year's change in fair value of financial assets due to change in credi risk | 4.4 | 0.5 | 20.6 | 18.1 |
| Accumulated change in fair value of financial assets due to change in credit risk | | | | |
| This year's change in value of related credit derivatives | | | | |
| Accumulated change in value of related credit derivatives | | | | |

Lending to customers is measured at fair value based on valuation techniques. The valuation techniques use interest rate curves from Reuters and credit spreads for equivalent new loans as per the end of December.

Financial assets are designated at fair value through the profit and loss account (FVO) the first time they are recognised where another measurement would result in an inconsistency in the profit and loss account. Objective market prices are used for papers where these exist. Valuation techniques involving the use of interest rate curves from Reuters and credit spreads from external providers are used for the remaining papers.

## FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT AND LOSS (FVO)

| (NOK million) | 2017 | 2016 |
|---|---|---|
| The year's change in fair value of liabilities due to changes in credit risk | | 0.5 |
| Difference between book value of liabilities and contractual amount due at maturity | | |
| Accumulated change in fair value of liabilities due to changes in credit risk | | |
| Difference between book value of liabilities and contractual amount due at maturity | | |

## CREDIT RISK DERIVATIVES

The purpose of the use of financial derivatives is to identify and reduce currency and interest rate risk. Counterparty risk in connection with the trading of financial derivatives is included in credit risk. The bank's risk strategies and policies establish limits for how much credit risk the bank group is willing to accept. Storebrand Bank ASA hedges all customer derivative trades by opposite derivatives to minimise foreign exchange and interest rate exposure.

The overview shows gross credit exposure, the bank has only collateral for credit risk against non-financial companies.

## CREDIT RISK PER COUNTERPARTY

| | AAA | AA | A | BBB | NIG | Total 2017 | Total 2016 |
|---|---|---|---|---|---|---|---|
| (NOK million) | Fair value | Fair value | Fair value | Fair value | Fair value | Fair value | Fair value |
| Norway | | 9.8 | 1.3 | 81.5 | | 92.6 | 131.1 |
| **Total** | **0.0** | **9.8** | **1.3** | **81.5** | **0.0** | **92.6** | **131.1** |

Rating classes are based on Standard & Poors.

| | AAA | AA | A | BBB | NIG | Total 2017 | Total 2016 |
|---|---|---|---|---|---|---|---|
| Change in value: | | | | | | | |
| Total change in value on the balance sheet | | 9.8 | 1.3 | 81.5 | | 92.6 | 131.1 |
| Change in value recognised in the profit and loss during period | | -10.8 | -1.5 | -26.2 | | -38.5 | -118.7 |

**EQUITY OPTIONS, INTEREST RATE SWAPS, BASIS SWAPS AND FORWARD FOREIGN EXCHANGE CONTRACTS**

Derivatives are entered into for hedging purposes. Derivative transactions are entered into with counterparties that are "investment grade" rated.

## Note 6 - Liquidity risk

Liquidity risk is the risk that the company is unable to fulfil its obligations without incurring substantial additional expenses in the form of reduced prices for assets that must be realised, or in the form of especially expensive financing.

### RISK MANAGEMENT

The risk strategy establishes overall limits for how much liquidity risk the bank is willing to accept. The policy for liquidity risk describes principles for liquidity management and specifies stress testing, minimum liquidity holdings and indicators for measuring liquidity risk. In addition, the Treasury department draws up an annual funding strategy and funding plan that set out the overall limits for the bank's funding activities.

Stress tests are used to illustrate the expected effects of various scenarios on the statement of financial position and cash flows. The results of the stress tests are applied when assessing the frames for liquidity risk. A contingency plan is drawn up annually to safeguard proper management of the liquidity situation during stressful periods.

The Treasury function is responsible for the bank's liquidity management, and the Middle Office monitors and reports on the utilisation of limits pursuant to the liquidity policy.

### RISK CONTROL

The means of controlling liquidity risk include monthly reports of the liquidity indicators and monitoring developments in the bank's maturity profile. Both are included in the CRO's ongoing reporting to the board. The liquidity policy specifies which liquidity indicators are followed. The Middle Office performs checks on trades undertaken by Treasury to ensure conformance with the applicable policy rules.

### NON-DISCOUNTED CASH FLOWS - FINANCIAL LIABILTIES

| (NOK million) | 0 - 6 months | 6 months - 12 months | 1 - 3 years | 3 - 5 years | More than 5 years | Total | Book value |
|---|---|---|---|---|---|---|---|
| Liabilities to credit institutions | 155.0 | | | | | 407.2 | 155.0 |
| Deposits from and due to customers | 14,404.7 | 225.2 | | | | 15,248.0 | 14,629.9 |
| Commercial papers and bonds issued | 28.1 | 332.5 | 2,365.5 | 510.0 | | 3,180.2 | 3,115.6 |
| Other liabilities | 386.1 | | | | | 386.1 | 386.1 |
| Subordinated loan capital | 3.4 | 3.6 | 136.7 | 156.6 | | 300.3 | 276.1 |
| Undrawn credit limits | 1,959.6 | | | | | 1,959.6 | |
| Loan commitments | 2,007.2 | | | | | 2,007.2 | |
| **Total financial liabilities 2017** | **18,944.1** | **561.3** | **2,502.2** | **666.6** | **0.0** | **23,488.5** | **18,562.7** |
| **Derivatives related to funding 31.12.2017** | **-1.1** | **-4.3** | **-2.7** | **-3.9** | **0.0** | **-12.0** | **-45.9** |
| Total financial liabilities 2016 | 22,321.0 | 330.1 | 1,318.2 | 1,123.1 | 0.0 | 25,092.5 | 19,190.3 |

The amounts includes accrued interest.

The overview of non-discounted cash flows includes interest. Implicit forward interest rates based on the yield curve on 31 December 2016 are used to calculate interest costs for lending with FRN conditions. The call date is used as the maturity date on subordinated loan capital. The maturity overview does not take account of the fact that the loans have extended maturity date, i.e. the original maturity date is used. Deposits from and liabilities to customers are on call deposits or deposits locked in for less than 6 months.

## SPECIFICATION OF SUBORDINATED LOAN CAPITAL *)

| (NOK million)<br>ISIN NUMMER | Issuer | Net nominal value | Currency | Interest | Call-date | Book value |
|---|---|---|---|---|---|---|
| **Dated subordinated loan capital** | | | | | | |
| NO0010714314 | Storebrand Bank ASA | 125.0 | NOK | Floating | 09.07.2019 | 125.7 |
| NO0010786510 | Storebrand Bank ASA | 150.0 | NOK | Floating | 22.02.2022 | 150.4 |
| | | | | | | |
| **Total subordinated loan capital 2017** | | | | | | **276.1** |
| Total subordinated loan capital 2016 | | | | | | 277.2 |

## SPECIFICATION OF LIABILITES TO CREDIT INSTITUTIONS

| (NOK million) | 2017 | 2017 |
|---|---|---|
| **Total liabilites to credit institutions without fixed maturity at amortised cost** | **5.0** | **5.0** |
| | | |
| Repurchase agreements, maturity 2017 | | 402.2 |
| Short-term loans, maturity 2018 | 150.0 | |
| **Total liabilities to credit institutions with fixed maturity at fair value (FVO)** | **150.0** | **402.2** |
| **Total liabilities to credit institutions** | **155.0** | **407.2** |

## SPECIFICATION OF COMMERCIAL PAPERS AND BONDS ISSUED

| (NOK million)<br>ISIN code | Issuer | Net nominal value | Currency | Interest | Maturity | Book value |
|---|---|---|---|---|---|---|
| **Bond loans** | | | | | | |
| NO0010660806 | Storebrand Bank ASA | 300.0 | NOK | Fixed | 08.10.2019 | 312.0 |
| NO0010762891 | Storebrand Bank ASA | 500.0 | NOK | Fixed | 19.04.2021 | 500.3 |
| NO0010751316 | Storebrand Bank ASA | 300.0 | NOK | Floating | 09.11.2018 | 300.6 |
| NO0010729387 | Storebrand Bank ASA | 600.0 | NOK | Floating | 14.01.2020 | 601.6 |
| NO0010758980 | Storebrand Bank ASA | 500.0 | NOK | Floating | 04.03.2019 | 500.7 |
| NO0010787963 | Storebrand Bank ASA | 500.0 | NOK | Floating | 26.09.2019 | 500.0 |
| NO0010794217 | Storebrand Bank ASA | 400.0 | NOK | Floating | 29.05.2020 | 400.3 |
| **Total commercial papers and bonds issued 2017** | | **3,100.0** | | | | **3,115.6** |
| Total commercial papers and bonds issued 2016 | | | | | | 2,625.2 |

## FINANCING ACTIVITIES - CHANGES DURING THE YEAR

| (NOK million) | Subordinated loans | LIABILITIES TO CREDIT INSTITUTIONS | COMMERCIAL PAPERS AND BONDS ISSUED |
|---|---|---|---|
| Book value 01.01.2017 | 277.2 | 407.2 | 2,625.2 |
| New loans / bond debt issued | 150.0 | 155.0 | 900.0 |
| Repayment of loans/liabilites | -150.0 | -407.2 | -409.0 |
| Changes in accrued interest | -1.1 | | -0.9 |
| Exchange differences foreign currency | | | |
| Other | | | 0.4 |
| **Book value 31.12.2017** | **276.1** | **155.0** | **3,115.6** |

# Note 7 - Market risk

Market risk is risk of a change in value due to financial market prices or volatility differing from what was expected.

## RISK MANAGEMENT

The risk strategy sets general limits for market risk. Storebrand Banks market risk  mostly are related to spread risk in the liquidity portfolio and interest rate risk. The bank is exposed to market risk in equity instruments and currency to a lesser degree.

Market risk policies specify limits for market risk that the bank group is willing to accept. The bank group's market risk is primarily managed and controlled through daily monitoring of risk exposure pursuant to the policy and continuous analyses of outstanding positions.

The exposure limits are reviewed and renewed by the board at least once a year. The size of these limits is set on the basis of stress tests and analyses of market movements.

## RISK CONTROL

The Middle Office is responsible for the ongoing, independent monitoring of market risk. The means of controlling market risk include monthly reports of the market risk indicators. Market risk indicators that are followed are described in the interest rate risk policy counterrparty risk and currency risk policy and are included in the CRO's ongoing reporting to the board.

For changes in market risk that occur during the first year, the effect on the result and equity will be as shown below based on the balance sheet as at 31 December 2017:

**Effect on accounting income**

| (NOK million) | Amount |
|---|---|
| Interest rate -1,0% | -7.7 |
| Interest rate +1,0% | 7.7 |

**Effect on accounting result/equity** [1)]

| (NOK million) | Amount |
|---|---|
| Interest rate -1,0% | -7.7 |
| Interest rate +1,0% | 7.7 |

1) Before tax

**Financial interest rate risk**

| (NOK million) | Amount |
|---|---|
| Interest rate -1,0% | -0.8 |
| Interest rate +1,0% | 0.8 |

The note shows the accounting effects over a 12 month period, as well as the immediate financial effect of an immediate parallel interest rate change of  + 1.0 percentage points and - 1.0 percentage point respectively. In calculating the accounting risk, note has been taken of the one-off effect such an immediate  rate change has on the items that are recognised  at fair value and the value of the security, and the effect that the change in interest rates would have on the net profit for the remaining duration of the interest rate before  the change in interest rates has an effect on income and expenses.

Items that would be affected by the one-time effect and are recorded at fair value are the investment portfolio, fixed interest rate loans, repurchase agreements  and derivatives. Items that would be affected by the one-time effects and which are recorded using hedging accounting are borrowings with fixed interest rate.

In calculating the financial effect, account has been taken of changes in market value of all items on the balance sheet that such an immediate interest rate change will lead to.

See also note 25 regarding foreign exchange risk.

# Note 8 - Operational risk

### OPERATIONAL RISK

The assessment of operational risks is linked to the ability to achieve targets and to implement plans. Operational risk is defined as the risk of financial loss or damaged reputation due to inadequate or failing internal processes, control routines, systems, human error, or external events.

**RISK MANAGEMENT**
The Group seeks to reduce operational risk through an effective system for internal control with (1) clear descriptions of responsibilities, (2) clear routines, and (3) documented powers of attorney/authority. Risks are followed-up through the management's risk review, with documentation of risks, measures and follow-up of incidents. In addition, Internal Audit carries out an independent control in accordance with audit projects adopted by the Board.

**RISK CONTROL**
The CRO supports the risk review process and is responsible for compiling and reporting the area's risk scenario, following up on improvement measures and checking that risk registration is up to date in Easy Risk Manager (ERM). The results of the process are reported to the Board.

In order to be able to identify problem areas internally, the bank group has implemented routines for ongoing reporting of events to the CRO, who is responsible for logging and follow-up of reported events. The CRO reviews significant events with the board.

In connection with monthly, quarterly and annual accounts, the bank's staff functions perform various checks and reconciliations so as to control and reduce operational risk. In addition to this, the compliance function and internal auditor carry out spot checks in a number of the most important work processes. The results are reported to the bank's management and the Board.

### COMPLIANCE RISK

Compliance risk is the risk of the company incurring public sanctions or financial loss as a result of non compliance with external or internal rules.

**RISK MANAGEMENT**
The compliance risk in Storebrand Bank is managed through instructions for compliance. The compliance function's main responsibility is to support the company's board and management in complying with relevant laws and regulations by independently identifying, evaluating, monitoring and reporting compliance risk. The function must perform preventive work by advising and ensuring that effective processes have been established for information and the implementation of current and future rules. The compliance function must have a risk-based approach.

**RISK CONTROL**
The compliance function performs control activities in order to ensure actual compliance.

# Note 9 - Valuation of financial instruments

Storebrand Bank ASA conducts a comprehensive process to ensure that financial instruments are valued as closely as possible to their market value. Publicly listed financial instruments are valued on the basis of the official closing price on stock exchanges, supplied by Reuters and Bloomberg. Bonds are generally valued based on prices collected from Reuters, Bloomberg and Nordic Bond Pricing. Bonds that are not regularly quoted will normally be valued using recognised theoretical models. The latter is particularly applicable to bonds denominated in Norwegian kroner. Discount rates composed of the swap rates plus a credit premium are used as a basis for these types of valuations. The credit premium will often be specific to the issuer, and will normally be based on a consensus of credit spreads quoted by well recognised brokerage houses.

Unlisted derivatives, including primarily interest rate and foreign exchange instruments, are also valued theoretically. Money market rates, swap rates, exchange rates and volatilities that form the basis for valuations are supplied by Reuters, Bloomberg and Norges Bank.

Storebrand Bank ASA carries out continual checks to safeguard the quality of market data that has been collected from external sources. These types of checks will generally involve comparing multiple sources as well as controlling and assessing the likelihood of unusual changes.

The Storebrand Group categorises financial instruments that are valued at fair value into three different levels which are described in more detail below. The levels express the differing degrees of liquidity and different measurement methods used. The company has established valuation models that gather information from a wide range of well-informed sources with reference to minimize uncertainty related to the valuation.

**Level 1: Financial instruments valued on the basis of quoted prices in active markets for identical assets**
Bonds, certificates or equivalent instruments issued by nation states are generally classified as level 1. When it comes to derivatives, standardised stock index futures and interest rate futures they will also be included at this level.

**Level 2: Financial instruments valued on the basis of observable market information not covered by level 1**
This category encompasses financial instruments that are valued based on market information that in directly observable or indirectly observable. Market information that is indirectly observable means that the prices can be derived from observable related markets. Level 2 includes shares or equivalent equity instruments for which market prices are available, but where the volume of transactions is too limited to fulfil the criteria in level 1. Shares in this level will normally have been traded during the last month. Bonds and equivalent instruments are generally classified in this level. Moreover, interest rate and foreign exchange swaps, non-standardised interest rate and foreign exchange derivatives are classified in level 2.

**Level 3: Financial instruments valued on the basis of information that is not observable according to the definition for level 2 financial instruments**
Investments classified as level 3 primarily includes fixed-rate loans and the investment in VISA Norge FLI.

The value of fixed-rate loans is determined by discounting the agreed cash flows over the remaining maturity by the current discount rate adjusted for market spread. The discount rate that is used is based on a swap interest rate (mid swap) with a maturity that corresponds to the remaining lock-in period for the underlying loans. The market spread that is used on the date of the balance sheet is determined by assessing the market conditions, market price and the associated swap interest rate.

Under equities, the investment in VISA Norge FLI has been primarily valued based on information on the completion of a transaction between VISA Europe Ltd and VISA Inc.

## VALUATION OF FINANCIAL ASSETS AT AMORTISED COST

The fair value of lending to customers subject to variable interest rates is stated as amortised cost. However, the fair value of lending to corporate customers with margin loans is slightly lower than amortised cost since some loans have lower margins than they would have had had they been taken out at 31 December 2017. The shortfall is calculated using a discounted difference between the agreed margin and the current market price over the remaining term to maturity. Fair value is also adjusted for individual loan loss provisions. The fair values of lending, liabilities to financial institutions and securities issued are based on valuation techniques. The valuation techniques use interest rate curves and credit spreads from external providers with exception of lending which are assessed to spreads on new loans correspondingly.

| (NOK million) | Level 1<br>Quoted prices | Level 2<br>Observable assumptions | Level 3<br>Non-observable assumptions | Fair value 31.12.2017 | Fair value 31.12.2016 | Book value 31.12.2017 | Book value 31.12.2016 |
|---|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | | |
| Loans to and deposits with credit institutions | | 2,358.1 | | 2,358.1 | 1,221.8 | 2,358.1 | 1,221.8 |
| Loans to customers - corporate market | | 299.1 | | 299.1 | 1,477.3 | 322.9 | 1,513.6 |
| Loans to customers - retail market | | 11,816.6 | | 11,816.6 | 10,424.3 | 11,816.6 | 10,424.3 |
| Bonds classified as Loans and receivables | | 380.9 | | 380.9 | 532.7 | 380.4 | 530.6 |
| **Total financial assets 31.12.2016** | **0.0** | **14,854.6** | **0.0** | **14,854.6** | | **14,878.0** | |
| Total financial assets 31.12.2015 | | 13,656.1 | | | 13,656.1 | | 13,690.3 |
| **Financial liabilities** | | | | | | | |
| Deposits from and due to credit institutions | | 155.0 | | 155.0 | 5.0 | 155.0 | 5.0 |
| Deposits from and due to customers | | 14,629.9 | | 14,629.9 | 15,248.0 | 14,629.9 | 15,248.0 |
| Commercial papers and bonds issued | | 3,144.9 | | 3,144.9 | 2,651.5 | 3,115.6 | 2,625.2 |
| Subordinated loan capital | | 279.0 | | 279.0 | 277.6 | 276.1 | 277.2 |
| **Total financial liabiliteis 31.12.2016** | **0.0** | **18,208.9** | **0.0** | **18,208.9** | | **18,176.6** | |
| Total financial liabilities 31.12.2015 | | 18,182.1 | | | 18,182.1 | | 18,155.4 |

## VALUATION OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

| (NOK million) | Level 1 Quoted prices | Level 2 Observable assumptions | Level 3 Non-observable assumptions | Book value 31.12.2017 | Book value 31.12.2016 |
|---|---|---|---|---|---|
| **Financial assets** | | | | | |
| Equities | | 27.0 | 13.8 | 40.8 | 15.5 |
| **Total equities 31.12.2017** | **0.0** | **27.0** | **13.8** | **40.8** | |
| Total equities 31.12.2016 | | 9.3 | 6.2 | | 15.5 |
| Loans to customers - corporate market | | | | 0.0 | |
| Loans to customers - retail market | | | 580.0 | 580.0 | 1,958.5 |
| **Total loans to customers 31.12.2017** | **0.0** | **0.0** | **580.0** | **580.0** | |
| Total loans to customers 31.12.2016 | | | 1,958.5 | | |
| Government and government guaranteed bonds | | 723.3 | | 723.3 | 482.8 |
| Credit Bonds | | 50.5 | | 50.5 | |
| Mortage and asset backed bonds | | 2,684.9 | | 2,684.9 | 3,587.3 |
| **Total bonds 31.12.2017** | **0.0** | **3,458.6** | **0.0** | **3,458.6** | |
| Total bonds 31.12.2016 | | 4,070.1 | | | **4,070.1** |
| Interest derivatives | | -45.9 | | -45.9 | -77.2 |
| **Total derivatives 31.12.2017** | **0.0** | **-45.9** | **0.0** | **-45.9** | |
| Derivatives with a positive fair value | | 92.6 | | 92.6 | 131.1 |
| Derivatives with a negative fair value | | -138.6 | | -138.6 | -208.3 |
| Total derivatives 31.12.2016 | | -77.2 | | | -77.2 |
| | | | | | |
| **Financial liabilities** | | | | | |
| Liabilities to credit institutions | | | | | 402.2 |
| **Liabilities to credit institutions 31.12.2017** | **0.0** | **0.0** | **0.0** | **0.0** | |
| Liabilities to credit institutions 31.12.2016 | | 402.2 | | | |

There have not been any changes between quoted prices and observable assumptions on the various financial instruments in the quarter.

## SPESIFICATION OF SECURITIES PURSUANT TO VALUATION TECHNIQUES (NON-OBSERVABLE ASSUMPTIONS)

| (NOK million) | Equities | Loans to customers |
|---|---|---|
| Book value 01.01.2017 | 6.2 | 1,958.5 |
| Net gains/losses on financial instruments | 7.6 | -7.6 |
| Supply / disposal | 0.0 | 103.5 |
| Sales / due settlements | | -1,474.4 |
| Transferred from observable assumptions to non-observable assumptions | | |
| Translation differences | | |
| Other | | |
| **Book value 31.12.2017** | **13.8** | **580.0** |

### SENSITIVITY ANALYSIS

**Loans to customers**
The value of fixed-rate loans is determined by discounting the agreed cash flows over the remaining maturity by the current discount rate adjusted for market spread. The discount rate that is used is based on a swap interest rate (mid swap) with a maturity that corresponds to the remaining lock-in period for the underlying loans. The market spread that is used on the date of the balance sheet is determined by assessing the market conditions, market price and the associated swap interest rate.

**Equities**
This item is included the membership in VISA Norge FLI which has been valued based on information on the completion of a transaction between VISA Europe Ltd and VISA Inc. At the end of the year, the membership was valued at what the bank expects to receive in deferred settlement, adjusted for uncertainty. The change in value is included through Total comprehensive income.

| | Fixed-rate loans to customers | | Equities | |
|---|---|---|---|---|
| | Change in market spread | | Change in value | |
| Increase/reduction in fair value | + 10 bp | - 10 bp | + 25 bp | - 25 bp |
| **Increase/reduction in fair value at 31.12.2017 (MNOK)** | **-2.2** | **2.2** | **0.3** | **-0.3** |
| Increase/reduction in fair value at 31.12.2016 (MNOK) | -8.4 | 7.8 | 0.4 | -0.4 |

## Note 10 - Segment

The management's segment reporting for Storebrand Bank ASA is only done at a group level.
See note 10 under the Storebrand Bank Group.

## Note 11 - Net income from financial instruments

### NET INTEREST INCOME

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Interest and other income on loans to and deposits with credit institutions | 39.1 | 35.5 |
| Interest and other income on loans to and due from customers | 321.0 | 366.2 |
| Interest on commercial paper, bonds and other interest-bearing securities | 47.3 | 77.1 |
| Other interest income and related income | 1.5 | 2.6 |
| **Total interest income *)** | **409.0** | **481.4** |
| Interest and other expenses on debt to credit institutions | -2.9 | -8.4 |
| Interest and other expenses on deposits from and due to customers | -103.0 | -120.4 |
| Interest and other expenses on securities issued | -60.9 | -72.3 |
| Interest and expenses on subordinated loan capital | -8.9 | -11.0 |
| Other interest expenses and related expenses | -12.7 | -14.5 |
| **Total interest expenses **)** | **-188.4** | **-226.6** |
| **Net interest income** | **220.6** | **254.8** |
| | | |
| **) Of which total interest income on financial assets that are not at fair value through the profit and loss account* | 316.6 | 367.9 |
| ***) Of which total interest expenses on financial liabilities that are not at fair value through the profit and loss account* | -186.6 | -222.9 |

### INTEREST EXPENSE AND CHANGES IN VALUE OF ISSUED FUNDING AT FVO:

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Interest expense issued funding at FVO | -1.8 | -3.8 |
| Changes in value of issued funding at FVO | 0.5 | -0.1 |
| **Net expense issued funding at FVO** | **-1.3** | **-3.9** |

## NET INCOME AND GAINS FROM FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE:

| (NOK million) | 2017 | 2016 |
|---|---|---|
| **Equity instruments** | | |
| Dividends received from equity investments | | 24.6 |
| Net gains/losses on realisation of equity investments | -0.7 | |
| Net change in fair value of equity investments | 2.0 | -0.4 |
| Total equity instruments, FVO | 1.3 | 24.3 |
| **Commercial papers and bonds** | | |
| Realised gain/loss on commercial papers and bonds, FVO | 5.5 | 9.3 |
| Unrealised gain/loss on commercial papers and bonds, FVO | 16.1 | 21.8 |
| Total gain/loss on commercial papers and bonds, FVO | 21.6 | 31.1 |
| **Lending to customers** | | |
| Unrealised gain/loss on lending to customers, FVO | 11.8 | -25.2 |
| Total gain/loss on lending to customers, FVO | 11.8 | -25.2 |
| **Liabilities to credit institutions and other funding** | | |
| Realised gain/loss on liabilities to credit institutions and other funding, FVO | | |
| Unrealised gain/loss on liabilities to credit institutions and other funding, FVO | 0.5 | -0.1 |
| Total gain/loss on liabilities to credit institutions and other funding, FVO | 0.5 | -0.1 |
| **Financial derivatives and foreign exchange** | | |
| Realised gain/loss on financial derivatives, held for trading | -1.5 | 38.1 |
| Unrealised gain/loss on financial derivatives, held for trading | 27.9 | 34.3 |
| Total financial derivatives and foreign exchange, held for trading | 26.4 | 72.4 |
| **Net income and gains from financial assets and liabilities at fair value** | **61.5** | **102.3** |
| **Fair value hedging** | | |
| Realised gain/loss on derivatives and bonds issued, fair value hedging | | |
| Unrealised gain/loss on derivatives and bonds issued, fair value hedging | 0.4 | -2.7 |
| **Net gain/loss on fair value hedging** | **0.4** | **-2.7** |
| **Commercial papers and bonds** | | |
| Realised gain/loss on commercial papers and bonds at amortised cost | 1.4 | 0.1 |
| Total gain/loss on commercial papers and bonds at amortised cost | 1.4 | 0.1 |
| **Bonds issued** | | |
| Realised gain/loss on bonds issued at amortised cost | -0.1 | -4.2 |
| Total gain/loss on bonds issued at amortised cost | -0.1 | -4.2 |
| **Net income and gains from financial assets and liabilities at amortised cost** | **1.3** | **-4.1** |
| **Net income and gains from financial assets and liabilities at amortised cost** | **63.3** | **95.4** |
| | | |
| Net gain/loss on financial assets at fair value through the profit and loss account: | | |
| Financial assets designated at fair value upon initial recognition | 27.9 | 30.5 |
| Financial assets classified as held for trading | -2.0 | 47.1 |
| Changes in fair value of assets due to changes in credit risk | 25.0 | 1.0 |
| | | |
| Net gain/loss on financial liabilities at fair value through the profit and loss account: | | |
| Financial liabilities designated at fair value upon initial recognition | 0.5 | -0.1 |
| Financial liabilities classified as held for trading | | |

The note includes gain and loss on investments in bonds and commercial papers, all of the financial derivatives, lending at FVO, other funding at FVO, net gain and loss on fair vaule hedging and total bonds and commercial papers issued. Other financial assets and liabilities are not included in the note.

## Note 12 - Net commission income

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Fees related to banking operations | 35.8 | 34.9 |
| Commissions from saving products | 0.5 | 4.8 |
| Fees from and management of loans | 114.5 | 78.4 |
| Other fees and commissions receivable | | 3.8 |
| **Total fees and commissions receivable *)** | **150.8** | **122.0** |
| | | |
| Fees and commssisions payable relating to banking operations | -11.4 | -14.0 |
| Commissions payable on saving products | -0.1 | -0.1 |
| Other fees and commissions payable | -3.2 | -1.0 |
| **Total fees and commissions payable **)** | **-14.7** | **-15.1** |
| **Net commission income** | **136.1** | **106.8** |
| | | |
| *) Of which total fees and commission income on book value of financial assets and liabilities that are not at fair value through the profit and loss account | 150.3 | 117.2 |
| **) Of which total fees and commission expense on book value of financial assets and liabilities that are not at fair value through the profit and loss account | -14.6 | -14.0 |

## Note 13 - Other income

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Net loss from sale of customerportfolio securities accounts | | -3.5 |
| Receipts of group contribution from subsidiaries | 81.8 | 62.1 |
| Write-down of shares in subsidiaries | -6.2 | |
| Net loss from liquidation of subsidiaries | -0.2 | |
| **Total other income** | **75.4** | **58.6** |

## Note 14 - Remuneration paid to auditor

### REMUNERATION EXCLUDING VALUE ADDED TAX:

| (NOK 1000) | 2017 | 2016 |
|---|---|---|
| Statutory audit | 468 | 595 |
| Other reporting duties | 18 | |
| Other non-audit services | 10 | 39 |
| **Total** | **496** | **633** |

All remuneration for statutory auditing concerns Deloitte AS.

## Note 15 - Operating expenses

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Ordinary wages and salaries | -70.0 | -80.5 |
| Employer's social security contributions | -15.0 | -12.1 |
| Pension cost (see note 16) | -13.9 | 1.4 |
| Other staff expenses | -6.7 | -5.4 |
| **Total staff expenses** | **-105.6** | **-96.6** |
| It costs | -58.8 | -44.9 |
| Office operation and other general administration expenses | -0.9 | -3.4 |
| **Total general administration expenses** | **-59.6** | **-48.3** |
| Depreciation and writed-downs fixed assets and intangible assets (see note 28 og 29) | -13.5 | -25.1 |
| Operating expenses on rented premises | -10.0 | -9.6 |
| Foreign services (see note 14) | -7.8 | -7.4 |
| Inter-company charges for services [1)] | -85.8 | -82.4 |
| Sold services to group companies | -0.6 | 0.0 |
| Other operating expenses | -11.8 | -7.7 |
| **Total other operating expenses** | **-129.6** | **-132.3** |
| **Total operating expenses** | **-294.9** | **-277.2** |

1) Services purchased from the group contain costs relating to bank production, IT services, joint administrative functions, financial and legal services, marketing activities, HR and skills development, purchasing, information services and savings advice.

## Note 16 - Pensions

The Storebrand Group has country-specific pension schems. Storebrand's employees in Norway have a defined-contribution pension scheme. In a defined-contribution scheme, the company allocates an agreed contribution to a pension account. The future pension depends upon the amount of the contributions and the return on the pension account. When the contributions have been paid, the company has no further payment obligations relating to the defined-contribution pension and the payment to the pension account is charged as an expense on an ongoing basis. For regulatory reasons, there can be no savings in the defined-contribution pension for salaries that exceed 12G (G = National Insurance Scheme basic amount). Storebrand has pension savings in the savings product Extra Pension for employees with salaries exceeding 12G.

The premiums and content of the defined-contribution pension scheme are as follows:
– Saving starts from the first krone of salary
– Savings rate of 7 per cent of salary from 0 to 12 G (the National Insurance basic amount "G" was NOK 93,634 as at 31 December 2017)
– In addition, 13 per cent of salary between 7.1 and 12 G is saved.
– Savings rate for salary over 12 G is 20 per cent.

The Norwegian companies participate in the Joint Scheme for Collective Agreement Pensions (AFP). The private AFP scheme provides a lifelong supplement to an ordinary pension and is a multi-employer pension scheme, but there is no reliable information available for inclusion of this liability on the statement of financial position. The scheme is financed by means of an annual premium that is defined as a percentage of salaries from 1 G to 7.1 G, and the premium rate was 2.5 % in 2016. Storebrand employees in Norway who were born before 1 January 1956 can choose between drawing an AFP scheme pension or retiring at the age of 65 and receiving a direct pension from the company until they reach the age of 67. Employees can choose to receive benefits from the AFP scheme from the age of 62 and still continue to work.

Employees who were on sick leave and partiality disabled during the transition to the defined-contribution pension, remain in the defined-benefit pension scheme. There are also pension liabilities for the defined - benefit scheme related to direct pensions for certain former employees and former board members.

## RECONCILIATION OF PENSION ASSETS AND LIABILITIES IN THE STATEMENT OF FINANCIAL POSITION

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Present value of insured pension liabilities | 14.9 | 34.8 |
| Fair value of pension assets | -14.7 | -33.3 |
| Net pension liabilities/assets insured scheme | 0.2 | 1.4 |
| Present value of unsecured liabilities | 11.4 | 12.2 |
| **Net pension liabilities recognised in statement of financial position** | **11.6** | **13.6** |

Includes employer contributions on net under-financed liabilities in the gross liabilities

## BOOKED IN STATEMENT OF FINANCIAL POSITION

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Pension assets | | |
| Pension liabilities | 11.6 | 13.6 |

## CHANGES IN THE NET DEFINED BENEFIT PENSION LIABILITIES IN THE PERIOD

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Net pension liabilities 01.01 | 46.9 | 57.4 |
| Pensions earned in the period | 0.6 | 1.7 |
| Pension cost recognised in period | 1.0 | 1.3 |
| Estimate deviations | -19.0 | 6.1 |
| Gain/loss on insurance reductions | 3.4 | -11.3 |
| Pensions paid | -6.5 | -4.4 |
| Changes to pension scheme | | -3.2 |
| Employer's NI contribution reversed | -0.1 | -0.7 |
| **Net pension liabilities 31.12** | **26.3** | **46.9** |

## CHANGES IN THE FAIR VALUE OF PENSION ASSETS

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Pension assets at fair value 01.01 | 33.3 | 32.1 |
| Expected return | 0.7 | 0.8 |
| Estimate deviation | -18.6 | -0.5 |
| Premiums paid | 0.8 | 5.6 |
| Pensions paid | -1.4 | -0.8 |
| Changes to pension scheme | | -3.2 |
| Employer's NI contribution pension assets | -0.1 | -0.7 |
| **Net pension assets 31.12** | **14.7** | **33.3** |
| Expected premium payments (pension assets) in 2018: | 0.5 | |
| Expected premium payments (contributions) in 2018: | 6.3 | |
| Expected AFP early retirement scheme payments in 2018: | 1.2 | |
| Expected payments from operations (uninsured scheme) in 2018: | 4.7 | |

## PENSION ASSETS ARE BASED ON THE FINANCIAL ASSETS HELD BY STOREBRAND LIFE INSURANCE COMPOSED AT 31.12:

| | 2017 | 2016 |
|---|---|---|
| Real estate | 12% | 15% |
| Bonds at amortised cost | 32% | 40% |
| Loans | 12% | 6% |
| Equities and units | 15% | 12% |
| Bonds | 27% | 27% |
| **Total** | **100%** | **100%** |
| The table shows the percentage asset allocation of pension assets at year-end managed by Storebrand Life Insurance AS. Financial instruments are valued on three differendt levels | | |
| Realised return on assets | 4.9% | 6.4% |

## NET PENSION COST BOOKED TO PROFIT AND LOSS ACCOUNT, SPECIFIED AS FOLLOWS:

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Current service cost  incl provsion for employer's NI contribution | 0.6 | 1.7 |
| Net interest cost/expected return | 0.3 | 0.5 |
| Changes to pension scheme | 3.4 | -11.3 |
| **Total for defined benefit schemes** | **4.3** | **-9.1** |
| The period's payment to contribution scheme | 8.2 | 6.4 |
| The period's payment to contractual pension | 1.5 | 1.2 |
| **Net pension cost recognised in  profit and loss account** | | |
| **in the period"** | **13.9** | **-1.4** |

Net pension cost includes payroll tax of employer contribution and is included in operating expenses. See note 14.

## OTHER COMPREHENSIVE INCOME (OCI) IN THE PERIOD

| (NOK million) | 2017 |
|---|---|
| Actuarial loss (gain) - change in discount rate | |
| Actuarial loss (gain) - change in other financial assumptions | |
| Actuarial loss (gain) - change in mortality table | |
| Actuarial loss (gain) - change in other demographic assumptions | |
| Actuarial loss (gain) - experience DBO | -19.0 |
| Loss (gain) - experience Assets | 18.4 |
| Investment management cost | 0.2 |
| Asset ceiling - asset adjustment | |
| **Remeasurements loss (gain) in the period** | **-0.4** |

## MAIN ASSUMPTIONS USED WHEN CALCULATING NET PENSION LIABILITY 31.12.

| | 31.12.2017 | 31.12.2016 |
|---|---|---|
| Discount rate | 2.6 % | 2.3 % |
| Expected return | 2.25 % | 2.0 % |
| Expected earnings growth | 2.25 % | 2.0 % |
| Expected annual increase in pensions payment | 0.0 % | 0.0 % |
| Disability table | KU | KU |
| Mortality table | K2013BE | K2013BE |

**FINANCIAL ASSUMPTIONS:**

The financial assumptions have been determined on the basis of the rules in IAS 19. Long term assumptions such as future inflation, real interest rates, real wage growth and adjustment of the basic amount are particularly subject to a high degree of uncertainty.

In Norway, a discount rate based on covered bonds is used. Based on the market and volume trends observed, the Norwegian covered bond market must be perceived as a deep market.

Specific company conditions including expected direct wage growth are taken into account when determining the financial assumptions.

**ACTUARIAL ASSUMPTIONS:**

In Norway, there are standardised assumptions for mortality/disability trends, and other demographic factors, that have been prepared by Finance Norway. A new mortality basis K2013 for group pension insurance in life insurance companies and pension funds was introduced effective from 2014. Storebrand has used the mortality table K2013BE (best estimate) for the actuarial calculations as at 31 December 2017.

## Note 17 - Loan losses

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Change in loan loss provisions on individual loans for the period | -16.7 | 31.4 |
| Change in loan loss provisions on groups of loans for the period | 13.8 | -7.5 |
| Other corrections to loan loss provisions | | |
| Realised losses on commitments specifically provided for previously | -0.4 | -35.5 |
| Realised losses on commitments not specifically provided for previously | -4.9 | -6.5 |
| Recoveries on previously realised losses | 1.3 | 1.1 |
| **Loan losses for the period** | **-6.9** | **-17.1** |

## Note 18 - Tax

### TAX CHARGE FOR THE YEAR

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Tax payable in profit/loss | -40.5 | -35.7 |
| Change in deferred tax assets | -8.7 | -11.8 |
| **Total tax charge for the year** | **-49.3** | **-47.5** |

### TAX BASIS FOR THE YEAR

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Profit before taxes | 193.6 | 221.4 |
| | | |
| + Group contribution received, difference between the carrying amount and the tax base | -3.3 | -9.4 |
| +/- Realised gains/losses on shares within EEA | 0.9 | -24.6 |
| Other permanent differences | -4.3 | -14.9 |
| Changes in temporary differences | -35.1 | -47.2 |
| **Tax basis for the year** | **151.9** | **125.3** |
| Reduction for tax deductible loss | | |
| - Application of tax loss carryforward | | |
| **Tax basis for the year for current taxes [1)]** | **151.9** | **125.3** |
| Tax rate | 25% | 25% |
| | | |
| [1)] Allocated group contribution with tax effect | 151.9 | 125.3 |

## RECONCILIATION OF EXPECTED AND ACTUAL TAX CHARGE

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Ordinary pre-tax profit | 193.6 | 221.4 |
| Expected tax on income at nominal rate | -48.4 | -55.3 |
| Tax effect of: | | |
| Realised shares | -0.2 | 6.1 |
| Permanent differences | 3.9 | 1.4 |
| Group contribution received | | 2.4 |
| Resetting of permant differences related to items in the total comprehensiv income | -1.9 | 0.7 |
| Resetting of permant differences related to items in the equity | -2.7 | -2.7 |
| **Tax charge** | **-49.3** | **-47.5** |
| **Effective tax rate** | **25%** | **21%** |

The tax charge also reflects tax effects related to earlier years.

## TAX PAYABLE IN THE BALANCE SHEET

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Tax payable in profit & loss | -40.5 | -35.7 |
| Tax payable in the equity | 2.7 | 2.7 |
| Tax payable in other comprehensive income | -0.1 | 1.7 |
| - tax effect of group contribution paid | 38.0 | 31.3 |
| **Tax payable in the balance sheet** | **0.0** | **0.0** |

## ANALYSIS OF THE TAX EFFECT OF TEMPORARY DIFFERENCES AND TAX LOSSES CARRIED FORWARD

| (NOK million) | 2017 | 2016 |
|---|---|---|
| **Tax-increasing temporary differences** | | |
| Fixed assets | | |
| **Total tax-increasing temporary differences** | **0.0** | **0.0** |
| **Tax-reducing temporary differences** | | |
| Pensions | -11.6 | -13.6 |
| Financial instruments | -19.0 | -45.5 |
| Fixed assets | -13.1 | -14.4 |
| Provisions | -11.0 | -16.1 |
| **Total tax-reducing temporary differences** | **-54.6** | **-89.6** |
| Losses/allowances carried forward | | |
| **Net base for deferred tax/tax assets** | **-54.6** | **-89.6** |
| **Net deferred tax/tax asset in the balance sheet** | **13.7** | **22.4** |

In December 2016, the Norwegian Parliament (Storting) agreed to reduce the company tax rate from 25 per cent to 24 per cent effective from 1 January 2017. In Ocotber 2017. tje Storting agreed to reduce the company tax from 24 per cent to 23 per cent effective form 1 January 2018. At the same time, the Storting agreed to continue the financial tax rate of 25 per cent. Therefore, for companies subject to the financial tax, the company tax rate will be continues at the 2016 level (25 per cent).

Since Storebrand Bank ASA has activities within “Section K” (financing and insurance activities as defined in Standard Industrial Classification 2007) which exceed 30 per cent and are therefore subject to the financial tax, a tax rate of 25 per cent has been used for capitalizing deferred tax/deferred tax assets.

#### ANALYSIS OF TAX PAYABLE AND DEFERRED TAX APPLIED DIRECTLY TO EQUITY:

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Pension experience adjustments | 0.1 | -1.7 |
| **Total** | **0.1** | **-1.7** |

Deferred tax assets principally relate to tax reducing temporary differences on fixed assets, pension liabilities and financial instruments. The bank produces an annual profit, and is expected to continue to produce a profit in future years. Deferred tax assets in respect of Storebrand Bank ASA are capitalised to the extent that it is considered likely that it will be possible to make use of the assets.

## Note 19 - Classification of financial assets and liabilites

| (NOK million) | Loans and Eeceivables | Fair value, trading | Fair value, FVO | Available for sale | Liabilities at amortised cost | Total book value |
|---|---|---|---|---|---|---|
| **Financial assets** | | | | | | |
| Cash and deposits with central banks | 472.2 | | | | | 472.2 |
| Loans to and deposits with credit institutions | 2,358.1 | | | | | 2,358.1 |
| Equity instruments | | | 27.0 | 13.8 | | 40.8 |
| Bonds and other fixed-income securities | 380.4 | | 3,458.6 | | | 3,839.0 |
| Derivatives | | 92.6 | | | | 92.6 |
| Lending to customers [1] | 12,139.5 | | 580.0 | | | 12,719.5 |
| Other current assets | 1,143.1 | | | | | 1,143.1 |
| **Total financial assets 2017** | **16,493.2** | **92.6** | **4,065.6** | **13.8** | **0.0** | **20,665.3** |
| Total financial assets 2016 | 15,282.1 | 131.1 | 6,037.9 | 6.2 | 0.0 | 21,457.3 |
| **Financial liabilities** | | | | | | |
| Deposits from and due to credit institutions | | | | | 155.0 | 155.0 |
| Deposits from and due to customers | | | | | 14,629.9 | 14,629.9 |
| Commercial papers and bonds issued | | | | | 3,115.6 | 3,115.6 |
| Derivatives | | 138.6 | | | | 138.6 |
| Other liabilities | | | | | 386.1 | 386.1 |
| Subordinated loan capital | | | | | 276.1 | 276.1 |
| **Total financial liabilities 2017** | **0.0** | **138.6** | **0.0** | **0.0** | **18,562.7** | **18,701.2** |
| Total financial liabilities 2016 | 0.0 | 208.3 | 402.2 | 0.0 | 18,788.1 | 19,398.6 |

1) Loan loss provisions are included in the portfolio classified as "Loan and Receivables".

## Note 20 - Investments in subsidiaries

| (NOK million) | Business registration number | Registered office | Owner-ship interest | Share of votes | Share capital | Acquisi-tion cost | Book value 31.12.2017 | Book value 31.12.2016 |
|---|---|---|---|---|---|---|---|---|
| Storebrand Boligkreditt AS | 990645515 | Lysaker | 100% | 100% | 455.0 | 1,029.8 | 1,029.8 | 1,023.9 |
| Ring Eiendomsmegling AS [1] | 987227575 | Lysaker | 100% | 100% | 2.0 | 142.5 | 2.0 | 7.3 |
| Bjørndalen Panorama AS [2] | 991742565 | Lysaker | 100% | 100% | | | | 3.5 |
| MPV7 Holding AS [2] | 915863000 | Lysaker | 100% | 100% | | | | 0.1 |
| **Total investments in subsidiaries** | | | | | | **1,172.3** | **1,031.8** | **1,034.9** |

1) The ownership in Ring Eiendomsmegling AS is being discontinued.

2) Bjørndalen Panorama AS and MPV7 Holding AS have been wound up in 2017.

## Note 21 - Bonds and other fixed-income securities at fair value through profit and loss account

| | 2017 | 2016 |
|---|---|---|
| (NOK million) | Fair value | Fair value |
| Sovereign and Government Guaranteed bonds | 723.3 | 482.8 |
| Credit bonds | 50.5 | - |
| Mortgage and asset backed bonds | 2,684.9 | 3,587.3 |
| **Total bonds and other fixed-income securities at fair value through the profit and loss account** | **3,458.6** | **4,070.1** |
| | | |
| Modified duration | 0.23 | 0.24 |
| Average effective yield per 31.12. | 0.84% | 1.33% |

The portfolio is mainly denominated in NOK. Calculated effective yields are weighted to give an average effective yield on the basis of each asset's share of the total interest rate sensitivity.

## Note 22 - Bonds at amortised cost - Loans and receivables

| | 2017 | | 2016 | |
|---|---|---|---|---|
| (NOK million) | Book value | Fair value | Book value | Fair value |
| Public issuers and Government Guaranteed Bonds | 130.2 | 130.3 | 200.3 | 200.9 |
| Mortgage and asset backed bonds | 250.2 | 250.6 | 330.3 | 331.8 |
| **Total bonds at amortised cost** | **380.4** | **380.9** | **530.6** | **532.7** |
| Modified duration | | 0.16 | | 0.18 |
| Average effective yield per 31.12. | | 0.74% | | 1.23% |

All securities are denominated in NOK. The effective yield for each asset is calculated using the observed market price. Calculated effective yields are weighted to give an average effective yield on the basis of each asset's share of the total interest rate sensitivity.

## Note 23 - Buyback agreements (repo agreements)

| | 2017 | 2016 |
|---|---|---|
| NOK MILLION | Book value | Book value |
| Transferred bonds still recognised on the statement of financial position (note 21) | 0.0 | 402.2 |
| Liabilities related to the assets 1) (see Note 18) | 0.0 | 402.2 |

1) Reported on the Debt to Credit Institutions line in the statement of financial position.

Transferred bonds that are included in buyback agreements are not derecognised, since all the risk and return on the securities is retained by Storebrand Bank ASA. The bank has not entered into any repurchase agreements per 31 December 2017

## Note 24 - Financial derivatives

Financial derivatives are linked to underlying amounts which are not carried on the balance sheet. In order to quantify the volume of derivatives, reference is made to such underlying amounts as underlying principal, nominal volume and the like. Different calculation methods are applied to nominal volume for different types of financial derivatives, and this figure expresses the scope of risk and positions of financial derivatives.

Gross nominal volume primarily provides information on scope, while net nominal volume provides a certain expression of risk positions. However, the nominal volume for different instruments is not necessarily comparable, considering the risk exposure. As opposed to gross nominal volume, the calculation of net nominal volume also takes into account the sign for the instrument's market risk exposure, by differing between so-called asset positions and liability positions.

An asset position in a share derivative implies a positive change in value if share prices rise. For interest derivatives, an asset position implies a positive change in value if interest rates are reduced – as is the case with bonds. An asset position in a currency derivative generates a positive change in value if the exchange rate against the NOK sees an increase. The average gross nominal volume is based on daily calculations of gross nominal volume.

| (NOK million) | Gross nom. volume [1] | Gross recognised financial assets | Gross recognised debt | Net financial assets / debt in the balance sheet | Net amounts taken into account netting agreements | | Net amount |
|---|---|---|---|---|---|---|---|
| | | | | | Fin. assets | Fin. debt | |
| Interest derivatives [2] | 3,405.7 | 92.6 | 138.6 | | | | -45.9 |
| Currency derivatives | 1.2 | | | | | | 0.0 |
| **Total derivatives 31.12.2017** | **3,406.9** | **92.6** | **138.6** | **0.0** | **0.0** | **0.0** | **-45.9** |
| Total derivatives 31.12.2016 | 7,469.2 | 131.1 | 208.3 | | | | -77.2 |

1) Values as at 31.12:

2) Interest derivatives include accrued, not due, interest.

### INVESTMENTS SUBJECT TO NETTING AGREEMENTS /CSA

| (NOK million) | Recognised assets | Recognised liabilities | Net assets | Collateral "Cash (+/-)" | Securities (+/-) | Net exposure |
|---|---|---|---|---|---|---|
| Investments subject to netting agreements | -0.2 | 138.6 | -138.8 | | -300.0 | 161.2 |
| Investments not subject to netting agreements | 92.8 | | 92.8 | | | |
| **Total 2016** | **92.6** | **138.6** | **-45.9** | | | |

# Note 25 - Foreign exchange risk

## FINANCIAL ASSETS AND LIABILITIES IN FOREIGN CURRENCY

| | Statement of financial position items | | Currency forwards | Net position | |
|---|---|---|---|---|---|
| (NOK million) | Assets | Liabilities | Net sale | in currency | in NOK |
| CHF | 0.0 | 0.1 | 0.0 | 0.0 | -0.1 |
| DKK | 0.0 | 0.1 | 0.0 | 0.0 | -0.1 |
| EUR | 15.0 | 14.8 | -1.2 | 0.0 | -1.0 |
| GBP | 2.4 | 2.4 | 0.0 | 0.0 | 0.0 |
| | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| SEK | 0.2 | 0.3 | 0.0 | 0.0 | -0.1 |
| USD | 12.7 | 12.6 | 0.0 | 0.0 | 0.2 |
| Andre | 0.0 | -0.1 | 0.0 | 0.0 | 0.1 |
| **Total net currency positions 2017** | | | | | **-1.0** |
| Total net currency positions 2016 | | | | | -1.4 |

The permitted limit for the bank's foreign exchange position is 0.50% of primary capital, which is approximately NOK 12 million at present.

# Note 26 - Loan portfolio and guarantees

| | 2017 | 2016 |
|---|---|---|
| (NOK million) | Book value | Book value |
| Loans to customers at amortised cost | 12,204.1 | 11,999.5 |
| Loans to customers at fair value | 580.0 | 1,958.5 |
| **Total gross lending to customers** | **12,784.1** | **13,958.0** |
| Loan loss provisions on individual loans (see note 27) | -41.4 | -24.6 |
| Loan loss provisions on groups of loans (see note 27) | -23.2 | -37.0 |
| **Net lending to customers** | **12,719.5** | **13,896.4** |

See note 4 for analysis of loan portfolio and guarantees per customer group.

# Note 27 - Loan loss provisions

| | 2017 | 2016 |
|---|---|---|
| (NOK million) | Book value | Book value |
| Loan loss provisions on individual loans 01.01 | 24.6 | 55.7 |
| Losses realised in the period on individual loans previously written down | -0.4 | -35.5 |
| Loan loss provisions on individual loans for the period | 21.0 | 11.8 |
| Reversals of loan loss provisions on individual loans for the period | -3.8 | -7.3 |
| Other corrections to loan loss provisions 1) | | |
| **Loan loss provisions on individual loans at 31.12** | **41.4** | **24.6** |
| | | |
| Loan loss provisions on groups of loans and guarantees etc. 01.01 | 37.0 | 28.9 |
| Grouped loan loss provisions for the period | -13.8 | 8.0 |
| **Loan loss provisions on groups of loans and guarantees etc. 31.12** | **23.2** | **37.0** |
| **Total loan loss provisions (see note 26)** | **64.6** | **61.6** |

## Note 28 - Intangible assets

| (NOK million) | 2017 IT systems | 2017 Total book value | 2016 Total book value |
|---|---|---|---|
| Acquistion cost at 01.01 | 148.9 | 148.9 | 178.4 |
| Additions in the period: | | | |
| Purchased separately | 3.9 | 3.9 | 15.7 |
| Disposals in the period | -11.0 | -11.0 | -45.2 |
| **Acquisition cost at 31.12** | **141.8** | **141.8** | **148.9** |
| | | | |
| Accumulated depreciation and write-downs at 01.01 | 68.8 | 68.8 | 89.8 |
| Depreciation in the period (see note 14) | 12.6 | 12.6 | 15.2 |
| Disposals in the period | -11.0 | -11.0 | -36.3 |
| **Accumulated depreciation and write-downs at 31.12** | **70.4** | **70.4** | **68.8** |
| **Book value at 31.12** | **71.4** | **71.4** | **80.1** |
| | | | |
| **For each class of intangible assets:** | | | |
| Depreciation method | linear | | linear |
| Economic life | 2 - 10 years | | 2 - 10 years |
| Rate of depreciation | 10.0% -50.0% | | 10.0% -50.0% |

IT systems in this note refers to the development of systems, data warehouses, user licenses to systems, etc. All capitalised expenses in respect of systems development relate to work carried out by external resources. The estimate of economic liftetime are reviewed annually.

## Note 29 - Fixed assets

| (NOK million) | Fixtures & fittings | 2017 Total Book value | 2016 Total Book value |
|---|---|---|---|
| Book value at 01.01 | 1.0 | 1.0 | 2.0 |
| Additions | | 0.0 | 0.0 |
| Depreciation (see note 14) | -0.9 | -0.9 | -1.0 |
| Write-downs in the period (see note 14) | | 0.0 | 0.0 |
| **Book value at 31.12.** | **0.1** | **0.1** | **1.0** |
| Opening acquisition cost | 10.2 | 10.2 | 10.2 |
| Closing acquisition cost | 10.2 | 10.2 | 10.2 |
| Opening accumulated depreciation and write-downs | 9.1 | 9.1 | 8.2 |
| Closing accumulated depreciation and write-downs | 10.0 | 10.0 | 9.1 |

| | |
|---|---|
| **For each class of fixed assets:** | |
| Method for measuring cost price | Acquisition cost |
| Depreciation method | linear |
| Depreciation period and economic life | 2 - 8 years |

There are no restrictions on rights to fixed assets. No fixed assets have been pledged as collateral for liabilities.

## Note 30 - Other current assets

| (NOK million) | 2017<br>Book value | 2016<br>Book value |
|---|---|---|
| Other accrued income and prepaid expenses | 15.5 | 12.1 |
| Shares in subsidiaries [1] | 1,031.8 | 1,034.9 |
| Due from group companies | 81.9 | 76.3 |
| Other assets | 13.9 | 3.9 |
| **Total other current assets** | **1,143.1** | **1,127.2** |

1) See note 20.

## Note 31 - Deposits from customers

| (NOK million) | 2017<br>Book value | 2016<br>Book value |
|---|---|---|
| Deposits from customers | 14,069.6 | 14,981.9 |
| Term loans and deposits from customers | 560.3 | 266.2 |
| **Total deposits from customers** | **14,629.9** | **15,248.0** |

Deposits with agreed maturity relate to deposits for a contractually agreed period. Deposits without agreed maturity relates to deposits with no fixed period where the customer has unrestricted access to the deposit.

### DEPOSITS FROM CUSTOMERS PER SECTOR AND INDUSTRY CLASSIFICATION AND GEOGRAPHICAL DISTRIBUTION

| (NOK million) | 2017<br>Book value | 2016<br>Book value |
|---|---|---|
| **Sector and industry classification** | | |
| Development of building projects | 32.6 | 55.9 |
| Sale and operation of real estate | 744.6 | 952.4 |
| Professional and financial services | 1,013.5 | 1,060.1 |
| Wage-earners | 11,598.3 | 11,737.0 |
| Other | 1,240.9 | 1,442.6 |
| **Total** | **14,629.9** | **15,248.0** |
| **Geographic distribution** | | |
| Eastern Norway | 11,135.0 | 11,461.1 |
| Western Norway | 1,832.1 | 1,982.5 |
| Southern Norway | 274.4 | 294.0 |
| Mid-Norway | 443.2 | 501.4 |
| Northern Norway | 601.4 | 626.1 |
| Rest of world | 343.7 | 382.9 |
| **Total** | **14,629.9** | **15,248.0** |

## Note 32 - Hedge accounting

Storebrand uses fair value hedging for interest risk.The hedging items are financial liabilities measured at amortised cost. Derivatives are recognised at fair value through the profit or loss (FVO). Changes in the value of the hedged item that relate to the hedged risk are applied to the book value on the item and are recognised in the profit and loss account. Hedging effectiveness is monitored at the individual item level. Hedging effectiveness when the hedge is created measures the relationship between changes in the hedged value of the interest rate hedging instrument and the item hedged in the event of a 2-percentage point interest rate shock. Subsequently, hedging effectiveness is measured on the basis of the simple Dollar Offset method for both prospective and retrospective calculations. Hedging is expected to be highly efficient in the period.

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | | Fair value [1] | | | Fair value [1] | |
| (NOK million) | Contract/ nominal value | Assets | Liabilities | Contract/ nominal value | Assets | Liabilities |
| Interest rate swaps | 800.0 | 7.9 | | 800.0 | 6.6 | |
| Total interest rate derivatives | 800.0 | 7.9 | | 800.0 | 6.6 | |
| | | | | | | |
| **Total derivatives** | **800.0** | **7.9** | | **800.0** | **6.6** | |

| | | Fair value [1] | | | Fair value [1] | |
|---|---|---|---|---|---|---|
| (NOK million) | Contract/ nominal value | Assets | Liabilities | Contract/ nominal value | Assets | Liabilities |
| Total underlying items | 800.0 | | 802.2 | 800.0 | | 811.7 |
| | | | | | | |
| Hedging effectiveness - prospective | | | 103% | | | 105% |
| Hedging effectiveness - retrospective | | | 102% | | | 105% |

**Gain/loss on fair value hedging:** [2]

| (NOK million) | 2017 Gain/loss | 2016 Gain/loss |
|---|---|---|
| On hedging instruments | 0.8 | -17.1 |
| On items hedged | -0.4 | 16.1 |

1) Book value at 31.12.

2) Amounts included in the line "Net gains on financial instruments ".

## Note 33 - Provisions

| | Provisions for restructuring | |
|---|---|---|
| (NOK million) | 2017 | 2016 |
| Provisions 1 January | 7.3 | 7.6 |
| Provisions during the period | 4.6 | 5.7 |
| Provisions used during the period | -5.9 | -6.1 |
| **Total provisions 31 December** | **6.0** | **7.3** |
| Classified as: | | |
| Provision for accrued expenses and liabilities | 6.0 | 7.3 |

This provision is related to the cost reduction program in Storebrand and mainly concerns costs related to headcount reductions. The provision has been considered in accordance with IAS 37, and the restructuring plan has been announced to all parties affected by the changes.

## Note 34 - Other liabilities

| (NOK million) | 2017 Book value | 2016 Book value |
|---|---|---|
| Payable to Storebrand group companies | 22.5 | 16.3 |
| Money transfers | 17.5 | 27.1 |
| Group contribution payable to group companies | 297.8 | 498.6 |
| Accounts payable | 4.3 | 9.2 |
| Accrued expenses and prepaid income | 27.4 | 37.8 |
| Other debt | 16.6 | 43.6 |
| **Total other liabilities** | **386.1** | **632.7** |

## Note 35 - Off balance sheet liabilities and contingent liabilities

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Guarantees | 19.7 | 23.6 |
| Undrawn credit limits | 5,663.8 | 6,721.0 |
| Loan commitments retail market | 2,007.2 | 3,524.2 |
| **Total contingent liabilities** | **7,690.8** | **10,268.8** |

Guarantees are mainly payment guarantees and contract guarantees. See also note 5. Undrawn credit limits relate to the unused portion of credit limits approved on overdraft accounts and credit cards, as well as the unused portion of lending limits on flexible mortgages. Undrawn credit limits includes NOK 3.7 billion in credit facililty to Storebrand Boligkreditt AS.

Storebrand Bank ASA are engaged in extensive activities and may become a party in legal disputes.

In December 2017, Storebrand Bank ASA recieved a notice of a possible legal actions from Klagehjelp AS on behalf of former investors which invested in Storebrand Private Investor ASA in the period 2005-2007. Storebrand Bank ASA rejects the allegations and disputes that there are no basis for claiming any flaws or deficiencies in the sale of the product, or in the product itself, which create a basis for compensation from Storebrand. No provisions have been made in the accounts due to the complaints.

## Note 36 - Collateral

### RECEIVED AND PLEDGED COLLATERAL

Storebrand Bank ASA has not received or pledged any collateral except securities pledged as collateral for F-loans in Norges Bank (see the table below).

### COLLATERAL AND SECURITY PLEDGED

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Booked value of bonds pledged as collateral for the bank's lending from Norges Bank | 887.8 | 1,085.9 |
| Booked value of securities pledged as collateral in other financial institutions | 302.1 | 352.0 |
| **Total** | **1,189.9** | **1,437.9** |

Securities pledged as collateral are linked to lending access in Norges Bank for which, pursuant to regulations, the loans must be fully guaranteed with collateral in interest-bearing securities and/or the bank’s deposits in Norges bank. Storebrand Bank ASA has not any F-loan in Norges Bank as per 31.12.2017.

# Note 37 - Capital adequacy

## NET PRIMARY CAPITAL

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Share capital | 960.6 | 960.6 |
| Other equity | 1,071.0 | 1,180.8 |
| **Total equity** | **2,031.6** | **2,141.4** |
| Additional Tier 1 capital included in total equity | -225.0 | -225.0 |
| Accrued interest on capital instruments included in total equity | -1.0 | -1.0 |
| **Total equity included in Core Equity Tier 1 (CET1)** | **1,805.6** | **1,915.4** |
| Deductions: | | |
| AVA justments | -4.3 | 0.0 |
| Intangible assets | -71.4 | -80.1 |
| **Core Equity Tier 1 (CET1)** | **1,730.0** | **1,835.3** |
| Additional Tier 1 capital: | | |
| Capital instruments eligible as Tier 1 capital | 225.0 | 225.0 |
| **Core capital** | **1,955.0** | **2,060.3** |
| Tier 2 capital | | |
| Subordinated loans | 275.0 | 275.0 |
| Tier 2 capital decuctions | | |
| **Eligible capital (Tier 1 capital + Tier 2 capital)** | **2,230.0** | **2,335.2** |

## MINIMUM REQUIREMENT FOR NET PRIMARY CAPITAL

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Credit risk | 706.2 | 825.4 |
| Of which: | | |
| | | |
| States and central banks | | |
| Local and regional authorities | 3.5 | 5.3 |
| Public sector owned corporates | | |
| International organisations | | |
| Institutions | 180.6 | 171.4 |
| Corporates | | |
| Loans secured in residential real estate | 374.2 | 478.5 |
| Retail market | 45.1 | 59.7 |
| Loans past-due | 14.2 | 10.7 |
| Covered bonds | 81.3 | 77.8 |
| Other | 7.2 | 22.1 |
| **Total minimum requirement for credit risk** | **706.2** | **825.4** |
| **Total minimum requirement for market risk** | **0.0** | **0.0** |
| Operational risk | 50.0 | 45.4 |
| CVA risk *) | 2.9 | 5.2 |
| Deductions | | |
| Loan loss provisions on groups of loans | -1.9 | -3.0 |
| **Minimum requirement for net primary capital** | **757.2** | **873.0** |

*) Regulation on own funds requirements for credit valuation adjustment risk.

### CAPITAL ADEQUACY

| | 2017 | 2016 |
|---|---|---|
| Capital ratio | 23.6 % | 21.4 % |
| Tier 1 capital ratio | 20.7 % | 18.9 % |
| Core equity Tier 1 (CET1) capital ratio | 18.3 % | 16.8 % |

The standard method is used for credit risk and market risk and the basis method is used for operational risk. Total requirement to Core Equity Tier 1 (CET1) and eligible capital (CET 1 + CET 2) are 12 per cent and 15.5 per cent respectively from 31 december 2017 due to increase in requirement to countercyclical capital buffer with 0.5 percent from 31 December 2017

### BASIS OF CALCULATION (RISK-WEIGHTED VOLUME)

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Credit risk | 8,827.4 | 10,317.3 |
| Of which: | | |
| States and central banks | | |
| Local and regional authorities | 44.2 | 66.1 |
| Public sector owned corporates | | |
| International organisations | | |
| Institutions | 2,257.8 | 2,142.2 |
| Corporates | 0.1 | 0.1 |
| Loans secured on residential real estate | 4,678.1 | 5,980.7 |
| Retail market | 563.3 | 746.6 |
| Loans past-due | 176.9 | 133.2 |
| Covered bonds | 1,016.8 | 972.2 |
| Other | 90.0 | 276.2 |
| **Total basis of calculation credit risk** | **8,827.3** | **10,317.3** |
| | | |
| **Total basis of calculation market risk** | **0.0** | **0.0** |
| Operational risk | 625.2 | 567.0 |
| CVA risk *) | 35.7 | 65.5 |
| Deductions | | |
| Loan loss provisions on groups of loans | -23.2 | -37.0 |
| **Total basis of calculation of minimum requirements for capital base** | **9,465.0** | **10,912.9** |

## Note 38 - Remuneration to senior employees and elected officers of the company

| (NOK 1000) | Ordinary salary | Other benefits [1] | Total remune-ration for the year | Pension accrued for the year | Post termi-nation salary (months) | Loan [2] | No. of shares owned [3] |
|---|---|---|---|---|---|---|---|
| **Senior employees** | | | | | | | |
| Bernt Uppstad (CEO) | 1,453 | 129 | 1,581 | 215 | | 972 | 925 |
| Torunn Sjåstad Hoftvedt | 1,326 | 134 | 1,460 | 189 | | 3,050 | 18,769 |
| Caroline Johansen [4] | 1,566 | 34 | 1,600 | 246 | | 3,595 | 500 |
| Curt Grimstad | 1,355 | 47 | 1,402 | 198 | | 6,165 | 500 |
| **Total 2017** | **5,699** | **343** | **6,042** | **848** | | **13,782** | **20,694** |
| Total 2016 | 6,365 | 528 | 6,894 | 932 | | 7,693 | 27,202 |

1) Comprises company car, telephone, insurance, concessionary interest rate, other taxable benefits.

2)Loan up to NOK 3.5 million hold ordinary employee terms while excess loanamount hold market rate. From 2018 the loan amount is NOK 7 million.

3) The summary shows the number of shares owned by the individual, as well as his or her close family and companies where the individual exercises significant influence, cf. the Accounting Act, Section 7-26.

4) Formally Caroline Johansen is employed by Storebrand Livsforsikring AS but she acts as one of the senior employees in the management of the bank.

| (NOK 1000) | Remuneration | Loan | No. of shares owned 2) |
|---|---|---|---|
| **Board of Directors 1)** | | | |
| Heidi Skaaret 3) | | 3,481 | 38,014 |
| Jostein Dalland 3) | | 0 | 9,959 |
| Vivi Gevelt 3) | | 2,614 | 2,585 |
| Inger Roll-Matthiesen | 168 | | |
| Leif Helmich Pedersen | 168 | | |
| Maria Skotnes | 125 | 871 | 1,409 |
| **Total 2017** | **461** | **6,966** | **51,967** |
| Total 2016 | 541 | 15,684 | 121,912 |

1) Remuneration to the Board of Directors are remuneration paid in connection to each one appointments as member of the Board of Storebrand Bank ASA.

2) The summary shows the number of shares owned by the individual, as well as his or her close family and companies where the individual exercises significant influence, cf. the Accounting Act, Section 7-26.

3) Neither Heidi Skaaret, Jostein Dalland nor Vivi Gevelt receives any remuneration from Storebrand Bank ASA for their appointments as members of the Board.

For the 2018 AGM, the Board of Storebrand Bank ASA will present the following statement on the determination of salaries and other compensation for executive personnel pursuant to Section 6-16a of the Public Limited Liability Companies Act, based on the Group's previously adopted guidelines for compensation for executive personnel in Storebrand.

## STOREBRAND ASA - THE BOARD'S STATEMENT ON THE FIXING OF SALARIES AND OTHER REMUNERATION TO EXECUTIVE PERSONNEL

The Board of Directors of Storebrand ASA has had a dedicated Compensation Committee since 2000. The Remuneration Committee shall provide advice to the Board on all matters concerning the company's remuneration to the CEO. The Committee shall monitor and propose guidelines for determining Group senior employees' compensation. In addition, the Committee is an advisory organ for the CEO in relation to remuneration schemes that encompass all the employees in Storebrand Group, including Storebrand's bonus system and pension scheme. The Compensation Committee satisfies the follow-up requirements set forth in the remuneration schemes.

## 1. ADVISORY GUIDELINES FOR THE COMING FINANCIAL YEAR

Storebrand aims to base remuneration on competitive and motivating principles that help attract, develop and retain highly qualified staff. Storebrand must have an incentive model that supports the strategy, stressing the customers' interests and the long-term view, an ambitious collaboration model and transparency that strengthens the Group's reputation. The company will therefore largely emphasise fixed salaries as an instrument of financial compensation, and make use of variable remuneration to a limited extent.

The salaries of executive employees are determined based on the responsibilities and complexity of the position. Regular comparisons are made with corresponding positions in the market in order to adjust the pay level to the market. Storebrand does not wish to be a pay leader in relation to the sector.

### BONUS SCHEME

Group management and executive employees who have a significant influence on the company's risks receive only fixed salaries. Other employees may, in addition to fixed salary, be awarded a discretionary bonus of 5 to 15 per cent of fixed salary.

### PENSION SCHEME

The company shall arrange and pay for an ordinary group pension insurance common to all employees, from the moment employment commences, and in accordance with the pension agreement in force at any given time. With effect from 2015, the company has defined contribution pension schemes for all employees. This applies to pay both above and below 12 G.
In connection with the transition from defined benefit to defined contribution schemes, compensation schemes were established for employees for whom the change was disadvantageous. These schemes give monthly additional saving for employees for a maximum 36 months. The additional saving is taxed as pay.

For group management, the calculated cash value of pension rights for pay above 12 G that was already earned before the change will be paid out over a five-year period. This payment period is fixed, regardless of whether the employee should leave the company before the end of this period.

**SEVERANCE PAY**

The Chief Executive Officer and executive vice presidents are entitled to severance pay if their contracts are terminated by the Company. The entitlement to a severance package is also available if the employee decides to leave the company and this is due to substantial changes in the organisation, or equivalent conditions that result in the individual not being able to naturally continue in his/her position. If the employment relationship ends as a result of the person concerned being guilty of a gross breach of duty or other material breach of the employment contract, the provisions in this section do not apply.

Deductions are made to the severance pay for all work-related income, including fees from the provision of services, offices held etc. Severance pay represents the pensionable salary at the date on which the employment ends, excluding all bonus schemes, if applicable. The Chief Executive Officer is entitled to 24 months of severance pay. Other executive vice presidents are entitled to 18 months of severance pay.

### 2. BINDING GUIDELINES FOR SHARES, SUBSCRIPTION RIGHTS, OPTIONS ETC. FOR THE COMING 2017 FINANCIAL YEAR

To ensure that the executive management team has incentive schemes that coincide with the long-term interests of the owners, a proportion of the fixed salary will be linked to the purchase of physical STB shares with a lock-in period of three years. The purchase of shares will take place once per year.

In 2018, a group with a limited number of employees may be covered by an equivalent scheme to the executive management, with the compulsory purchase of the company's shares. Like other employees in Storebrand, executive employees have an opportunity to purchase a limited number of shares in Storebrand ASA at a discount in accordance with the share programme for employees.

### 3. STATEMENT ON THE EXECUTIVE EMPLOYEE REMUNERATION POLICY DURING THE PREVIOUS FINANCIAL YEAR

The executive employee remuneration policy established for 2017 has been observed. The annual independent assessment of the guidelines and the practising of these guidelines in connection with bonuses to be paid in 2018 will be carried out during the first half of 2018.

### 4. STATEMENT ON THE EFFECTS OF SHARE-BASED REMUNERATION AGREEMENTS ON THE COMPANY AND THE SHAREHOLDERS

A proportion of the fixed salary of executive management and a limited group of employees will be linked to the purchase of physical STB shares with a lock-in period of three years. The purchase of shares will take place once per year.

In the opinion of the Board of Directors, this has a positive effect on the company and the shareholders, given the structure of the scheme and the size of each person's portfolio of shares in Storebrand ASA.

## Note 39 - Related Parties

### TRANSACTIONS WITH GROUP COMPANIES

| | 2017 | | 2016 | |
|---|---|---|---|---|
| (NOK million) | Subsidiaries | Other group companies | Subsidiaries | Other group companies |
| Interest income | 37.6 | | 53.4 | |
| Interest expense | | | 2.8 | |
| Services sold | 61.9 | 56.6 | 60.5 | 3.7 |
| Services purchased | | 92.4 | | 82.4 |
| Due from | 2,377.7 | | 1,153.1 | 14.2 |
| Liabilities to | 25.6 | 258.7 | 151.4 | 373.1 |

Transaction with group companies are based on the principle of transactions at arm's length.

**LOANS TRANSFERRED TO STOREBRAND BOLIGKREDITT AS**

Storebrand Bank ASA sells loans to the mortgage company Storebrand Boligkreditt AS. Once the loans are transferred, Storebrand Boligkreditt AS assumes all the risks and benefits of owning the loan portfolio. It is Storebrand Boligkreditt that receives all the cash flows from the loan customer. The bank and Storebrand Boligkreditt have not signed any agreements concerning guarantees, options "or similar in relation to the loan portfolio in Storebrand Boligkreditt AS. Storebrand Bank ASA will ensure the transfer and return of loans as needs" change, i.e. when there is a need to increase borrowing, switches from fixed to variable interest rates, switches to employee loans and switches to home equity loans. The costs form part of the contractual management fees.

Loans in Storebrand Boligkreditt AS that do not perform remain in the company. According to the service agreement with Storebrand Bank ASA, these loans will be treated in the same way as non-performing loans in the bank. A special report on non-performing loans in Storebrand Boligkreditt AS is prepared. These loans are not included in the mortgage company's total collateral.

Loan to employees can be transferred to Storebrand Boligkreditt AS. The difference between the market interest rate and the subsidised interest rate is covered monthly by the company in which the debtor is employed.

## OVERVIEW OF TRANSFERRED LENDING TO/FROM STOREBRAND BOLIGKREDITT AS

| (NOK million) | 2017 | 2016 |
|---|---|---|
| To Storebrand Boligkreditt AS - accumulated transfer | 14,529.1 | 13,364.5 |
| Fra Storebrand Boligkreditt AS - this year's transfer | 486.7 | 428.2 |

Storebrand Bank ASA has not pledged any guarantees in connection with loans to Storebrand Boligkreditt AS.

## LOANS SOLD TO STOREBRAND LIVSFORSIKRING AS

Storebrand Bank ASA has sold mortgages to sister company Storebrand Livsforsikring AS. In 2017, there has been sold loans of total NOK 9,4 billion. The total portfolio of loans sold as of 31 December 2017 is NOK 20.6 billion. As the buyer, Storebrand Livsforsikring AS has acquired both cash flows and most of the risk and control. The loans were therefore derecognised in the bank's balance sheet in accordance with IAS 39. Storebrand Bank ASA receives management fees for the work being done with the sold portfolio. The bank has recognised NOK 50.0 million as revenue in the accounts for 2017.

## CREDIT FACILITIES WITH STOREBRAND BOLIGKREDITT AS

The bank has issued two credit facilities to Storebrand Boligkreditt AS. One of these is a normal overdraft facility, with a ceiling of NOK 6 billion. This has no expiry date, but can be terminated by the bank on 15 months' notice. The other facility may not be terminated by Storebrand Bank ASA until at least 3 months after the maturity date of the covered bond and the associated derivatives with the longest period to maturity. Both agreements provide a minimum capacity to cover at least interests and payments on covered bonds and derivatives the following 31 days.

## OTHER RELATED PARTIES

Storebrand Bank ASA conducts transactions with related parties as part of its normal business activities. The terms for transactions with senior employees and related parties are stipulated in note 38.

## LOANS TO EMPLOYEES

| (NOK million) | 2017 | 2016 |
|---|---|---|
| Loans to employees of Storebrand Bank ASA | 98.6 | 119.8 |
| Loans to employees of Storebrand group excl. Storebrand Bank ASA | 651.0 | 839.3 |

Loans to employees are granted in part on the normal terms and conditions for loans to employees, i.e. loan to and individual of up to NOK 3.5 million at an interest rate equal to the norm interest rate (for tax purposes) defined by the Norwegian Ministry of Finance. Loans in excess of NOK 3.5 million are granted on normal commercial terms and conditions. The bank has not provided guarantees or security for borrowing by employees.

## NUMBER OF EMPLOYEES

| | 2017 | 2016 |
|---|---|---|
| Number of employees at 31 December | 106 | 111 |
| Number of employees expressed as full-time equivalent positions | 105 | 110 |

# Storebrand Bank ASA and the Storebrand Bank Group
## - Declaration by the members of the Board and the CEO

On this date, the Board of Directors and the Chief Executive Officer have considered and approved the annual report and annual financial statements for Storebrand Bank ASA for the 2017 financial year and as at 31 December 2017 (2017 Annual Report).

The consolidated financial statements have been prepared in accordance with the EU-approved International Financial Reporting Standards (IFRS) and the associated interpretations, as well as additional Norwegian disclosure requirements pursuant to the Norwegian Accounting Act and the Financial Reporting Regulations for Banks, Finance Companies, etc. that must be observed as at 31 December 2017. The annual financial statements for the parent company have been prepared in accordance with the Norwegian Accounting Act, Financial Reporting Regulations for Banks, Finance Companies, etc. and simplified IFRS as at 31 December 2017, as well as additional requirements in the Norwegian Securities Trading Act. The annual report for the Group and parent company complies with the requirements of the Norwegian Accounting Act and Norwegian Accounting Standard no. 16 as at 31 December 2017.

In the best judgement of the Board and the CEO, the annual financial statements for 2017 have been prepared in accordance with applicable accounting standards, and the information in the financial statements provides a fair and true picture of the parent company's and Group's assets, liabilities, financial standing and results as a whole as at 31 December 2017. In the best judgement of the Board and the CEO, the annual report provides a fair and true overview of important events during the accounting period and their effects on the annual financial statements for Storebrand Bank ASA and the Storebrand Bank Group. In the best judgement of the Board and the CEO, the descriptions of the most important elements of risk and uncertainty that the group faces in the next accounting period, and a description of related parties' material transactions, also provide a true and fair view.

Lysaker, 6 February 2018
The Board of Directors of Storebrand Bank ASA

*Translation – not to be signed*

Heidi Skaaret
Chairman of the Board

Jostein Dalland
Deputy Chairman

Inger Roll-Matthiesen
Board Member

Leif Helmich Pedersen
Board Member

Vivi Gevelt
Board Member

Maria Skotnes
Board Member

Bernt H. Uppstad
CEO

Deloitte AS
Dronning Eufemias gate 14
Postboks 221 Sentrum
NO-0103 Oslo
Norway

Tel.: +47 23 27 90 00
Fax: +47 23 27 90 01
www.deloitte.no

Translation from the original Norwegian version

To the General Meeting of Storebrand Bank ASA

INDEPENDENT AUDITOR'S REPORT

## Report on the Audit of the Financial Statements

*Opinion*

We have audited the financial statements of Storebrand Bank ASA. The financial statements comprise:

- The financial statements of the parent company, which comprise the statement of financial position as at 31 December 2017, the profit and loss account, statement of comprehensive income, statement of changes in equity, cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The financial statements of the group, which comprise the statement of financial position as at 31 December 2017, the profit and loss account, statement of comprehensive income, statement of changes in equity, cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with simplified application of international accounting standards according to § 3-9 of the Norwegian Accounting Act.
- The accompanying financial statements present fairly, in all material respects, the financial position of the group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

*Basis for Opinion*

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*IT-systems and control activities relevant for financial reporting*

| Key audit matter | How the matter was addressed in the audit |
|---|---|
| Storebrand Bank ASA group's (Storebrand Bank) IT-systems are essential for the accounting and reporting of completed transactions, in order to provide the basis for important estimates and calculations, and to provide relevant notes.<br><br>The IT-systems are standardized, and management and operation is largely outsourced to service providers.<br><br>A more detailed description of management and operation of IT-systems can be found in the Board of Directors' report.<br><br>Effective internal control related to IT-systems both at Storebrand Bank and at the service providers is vital to ensure accurate, complete and reliable financial reporting and is therefore a key audit matter. | Storebrand Bank has established an overall governance model and control activities related to its IT-systems. We gained an understanding of Storebrand Banks's overall governance model for IT-systems relevant to financial reporting.<br><br>We assessed and tested the design of selected control activities relevant to financial reporting related to IT-operations, change management, and information security. For a sample of these control activities, we tested if they operated effectively in the reporting period.<br><br>We assessed third party confirmations (ISAE 3402 reports) from three of Storebrand Bank's service providers to assess whether these service providers had adequate internal controls in areas that are important for Storebrand Bank's financial reporting.<br><br>We also assessed a report on agreed-upon procedures (ISRS 4400 Agreed-upon procedures) related to one of Storebrand Bank's service providers regarding if selected automated control activities in the IT systems, and selected system-generated reports were satisfactorily designed and if they had operated effectively the period.<br><br>We used our own IT specialists to understand the overall governance model for IT-systems and in the assessment and testing of the control activities related to IT-systems. |

*Loan loss provisions on lending to the corporate market segment*

| Key audit matter | How the matter was addressed in the audit |
|---|---|
| Storebrand Bank has lending to the corporate market, see Note 3, 5 and 10 for a description of credit risk and loan loss provisions.<br><br>Storebrand Bank evaluates the need for loan loss provisions. There is considerable judgment in the Bank's assessment of the size of the loan loss provisions in the corporate market segment. Judgement is related both to the assessments of the probability of default and loss given default. | Storebrand Bank has established various control activities related to loan loss provisions in the corporate market segment.<br><br>We assessed and tested the design of selected key control activities related to loan loss provisions. The control activities we assessed and tested were related to the identification of doubtful loans and the estimation of cash flows for these loans. For a sample of these control activities, we tested if they operated effectively in the reporting period.<br><br>For a sample of loans with loan loss provisions, we tested whether the loss event was timely identified and assessed the cash flows estimated by the bank |

*Loan loss provisions on lending to the corporate market segment, cont.*

| Key audit matter | How the matter was addressed in the audit |
|---|---|
| Assumptions and estimates used in the assessments are crucial for the size of the loan loss provisions and loan loss provisions in the corporate market segment is therefore a key audit matter. | We also assessed whether the notes on loan loss provisions in the corporate market segment was adequate. |

*Other information*

Management is responsible for the other information. The other information comprises the Annual report for 2017, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Responsibilities of the Board of Directors and the Managing Director for the Financial Statements*

The Board of Directors and the Managing Director (management) are responsible for the preparation and fair presentation of the financial statements of the parent company in accordance with simplified application of international accounting standards according to the Norwegian Accounting Act section 3-9, and for the preparation and fair presentation of the financial statements of the group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

*Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

*Opinion on the Board of Directors' report*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption, and the proposal for the allocation of the profit is consistent with the financial statements and complies with the law and regulations.

*Opinion on Registration and Documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 6 February 2018
Deloitte AS

**Henrik Woxholt**
State Authorised Public Accountant (Norway)

Note: This translation from Norwegian has been prepared for information purposes only.

Head office:
Professor Kohts vei 9
P.O. Box 474, N-1327 Lysaker
Phone: +47 915 08 880
**storebrand.no**

storebrand