DNB Group

Risk and capital management

Disclosure according to Pillar 3 2020

The CRO's summary of the year

The year 2020 proved to be quite a different year. The COVID-19 pandemic has had major consequences both in Norway and internationally, and has in many ways shaped DNBs risk situation. At the end of 2020, vaccination programmes began to get underway and the end of the pandemic seems to be in sight. However, there is still great uncertainty about how long infection control measures will be needed and how strict they will be.

Ida Lerner
Chief Risk Officer
Group Risk Management

COVID-19 was declared a pandemic at the end of January and hit our offices in Asia first. On 12 March, the Norwegian government announced 'the strongest and most intrusive measures we have had in Norway in peacetime', with restrictions on social interaction, the closure of schools and kindergartens, travel restrictions and the stopping of cultural and sporting events. Similar measures were eventually adopted in all countries where DNB has offices.

The pandemic triggered major financial turmoil throughout the global financial market, and from the turn of the month February/March, we saw rapid deterioration in several key macro indicators. In only 19 days, the volatility index (Vix) increased from around 20 to 80, a record level for this index. From the middle of March, we implemented daily reporting to Group Management of developments in liquidity, market and counterparty risk. As the financial markets stabilised, reporting frequency was gradually decreased as well. At the same time, DNB began special monitoring of credit portfolios, for example changes in the use of credit facilities, which can be a warning of strained liquidity among customers. DNB developed several scenario analyses to inform the Group Management team and the Board of Directors of possible outcomes of the pandemic. Enhanced monitoring of risk development for all forms of risk continued throughout the rest of the year.

Despite travel bans and strict restrictions on access to offices, DNB has maintained near normal operations throughout the year through the use of alternative workplaces, home-based work and extensive use of online meetings. All business areas, support units and international offices had business continuity plans in place to ensure optimal operation in demanding circumstances. In a short period of time, most business functions were able to make use of solutions for home-based work. When India decided to shut down, we moved all IT operations from India to Norway in a few days. IT operations were stable and secure throughout the period.

The downturn in the Norwegian economy that was triggered by the COVID-19 pandemic was met by financial and regulatory measures from the authorities. The ability and experience that the banks have built up from working closely with customers in difficult situations, and providing credit where appropriate, became a key part of the solution. This is in contrast to the situation in 2008, when banking activities were considered to be the cause of the crisis. DNB quickly developed solutions for processing government-guaranteed loans and helped to develop a web-based system where companies can apply for cash support from the government. We also developed robots to handle the large number of applications for deferred payment of instalments, to avoid long response times to customers.

Right from the start of the year, we saw oil prices fall, which created challenges for some of our customers in oil-related industries. This put the offshore segment particularly at risk, where extensive restructuring was already underway to reduce capacity. The closure of large parts of the economy has affected many segments, but the extensive support measures from the authorities have mitigated the

negative effects. At the end of 2020, the quality of DNB's overall credit portfolio remains stable and good. We see that our portfolio of loans to personal customers is very robust and almost without defaults. There was an increase in customers requesting deferred payment of instalments in the first phase of the pandemic, but by the end of the year, the volume of these requests had returned to normal levels. The portfolio of loans to small and medium-sized enterprises did not see any increases in defaults in 2020, either. In addition to the offshore portfolio, which accounts for 1.7 per cent of our credit portfolio, measured by EAD, the largest uncertainty at the end of 2020 is related to tourism, which accounts for 1.2 per cent of total EAD for the credit portfolio. The tourism industries were hit hard by travel bans during the pandemic, and there is uncertainty associated with developments in 2021. The restrictions during the last year may also have caused more lasting changes in people's travel habits, not least for business travel, which may require realignment in the industry. Our customers in the tourism industry are mainly large players with acceptable liquidity.

Climate change and sustainability were high on the agenda in 2020. Among other things, the EU's taxonomy for sustainability came into force in July 2020. The pandemic has also contributed to increasing the pace of 'the green shift'. Group Risk Management has an important role both in identifying and assessing potential risks and in developing scenarios and tools for integrating climate risk into ongoing risk management work. It has been a high priority area in 2020 and will continue to be so in 2021. Ambitions to reduce greenhouse gas emissions while securing the supply of energy constitute a fundamental dilemma for the energy sector, and for DNB as a leading provider of financing services to the Norwegian business community. Environmental, social and corporate governance (ESG) factors and energy restructuring are an integral part of our strategy, and we take our customers' climate-related risk into account as part of our credit assessment. We prioritise customers who work strategically and proactively with energy restructuring and align their business with the Paris Agreement, and who are willing to set emission targets for their own operations. In turn, this also reduces DNB's own climate risk in its loan portfolio.

The COVID-19 pandemic was a real test of the Group's risk management framework. Our notification mechanisms worked as intended, enabling the organisation to be at the forefront at all times, with good plans for handling the extraordinary situation. The Group Management team, the Board of Directors and Finanstilsynet (the Financial Supervisory Authority of Norway) were kept informed on a continuous basis, and risk-mitigating measures were quickly put in place. Active use of scenario analyses gave us a good overview of possible consequences and contributed to peace of mind in the quick decisions that had to be made. The pandemic has also confirmed the importance of training for unexpected events and building experience and confidence in dealing with uncertainty and rapid change. This has given us robust and flexible crisis management capabilities in the organisation.

"The DNB Group's risk and capital management report gives a good and accurate description of the risk situation and how risk is measured, managed and reported in DNB.»

Risk statement

STATEMENT FROM THE BOARD OF DIRECTORS

The Board of Directors of DNB ASA has approved this risk statement. The Board of Directors stays informed of the Group's risk development through regular reports and established notification procedures. Risk appetite and other risk frameworks are considered by the Board of Directors at least once a year. The Board of Directors believes that the Group's risk management is sufficient and well adapted to the Group's risk appetite and business strategy.

Oslo, 10. mars 2021

The Board of Directors of DNB ASA

Olaug Svarva
(Chair of the Board)

Svein Richard Brandtzæg
(Vice Chair of the Board)

Gro Bakstad

Lillian Hattrem

Jens Petter Olsen

Stian Tegler Samuelsen

Jaan Ivar Semlitsch

Kjerstin R. Braathen
(Group Chief Executive Officer, CEO)

Ida Lerner
(Group Chief Risk Officer, CRO)

RISK STATEMENT FROM THE BOARD OF DIRECTORS

DNB was the second largest primary listed company on Oslo Børs (Oslo Stock Exchange), and the largest financial services group in Scandinavia, with a market capitalisation of NOK 261 billion at year-end 2020. The Group offers a full range of financial services, including loans, savings, advisory services, insurance and pension products for personal and corporate customers. At the end of 2020, DNB had 2.1 million personal customers and 233 000 corporate customers.

At year-end, the Group's common equity Tier 1 capital ratio was at 18.7 per cent, which is 2.7 percentage points above the regulatory requirement. DNB aims to have a management buffer of at least 1 percentage point in addition to the total regulatory requirement. The management buffer is intended to cover variations in risk-weighted assets and earnings. The total capital adequacy ratio was 22.1 per cent.

Credit risk is managed in accordance with the Group policy for risk management and the Group standard for credit activity. The governing documents are elaborated in a detailed set of rules for credit activity, and is available to all employees in DNB. There are overall limits for credit risk in risk appetite, which includes credit quality, credit growth and risk concentrations. In addition, limits for credit quality have been established for the individual credit segments. The Board of Directors is kept informed of the level of risk measured against these limits. If a limit is exceeded, the Board of Directors is notified and provided with an analysis of the reasons and an action plan, to control the development of the risk level.

The COVID-19 pandemic and low oil prices led to a slightly increased credit risk in 2020. Effective measures from the authorities have made a good contribution to mitigating the effects on businesses and households in Norway. The increased risk in DNB's portfolios has been limited to particularly vulnerable sectors such as offshore and tourism. This trend stabilised towards the end of 2020, although there is still great uncertainty associated with the further development of the pandemic.

Market risk is managed in accordance with the Group policy for risk management and the Group standard for market risk. The Board of Directors has set overall limits for market risk in risk appetite. The Board of Directors has also set limits for all significant market risk exposures, i.e. interest rate risk, currency risk, equity risk, commodity risk and basis swap risk. The Board of Directors receives reports on utilisation of these limits at least quarterly, and is notified immediately if any limits are exceeded.

Despite highly volatile markets in parts of 2020, the market risk within DNB's banking operations has been relatively stable and within all established limits. At the end of 2020, market risk amounted to 13 per cent of the total risk, measured in economic capital. The risk situation for DNB Livsforsikring developed negatively from March and into the second quarter. The company has established a long-term action plan to improve its financial strength. At year-end 2020, the situation had significantly improved.

Liquidity risk is managed in accordance with the Group policy for risk management and the Group standard for liquidity risk. The Board of Directors has set internal limits for Liquidity Coverage Ratio (LCR), Net Stable Funding Ratio (NSFR) and ratio of deposits to net loans in the risk appetite framework. DNB seeks to have a balance sheet structure which reflects the liquidity risk profile of an international bank with AA-level long-term credit ratings. Maintaining a low risk profile calls for adequate diversification of the sources of funding with respect to both contractual counterparties and instruments.

DNB had a very strong liquidity position at the beginning of 2020, and did not need either short-term or long-term funding in the first half of the year. DNB's liquidity situation was therefore little affected by the market turmoil that arose in March. The ratio of deposits to net loans increased throughout the year and helped reduce liquidity risk. The liquidity indicators for LCR and NSFR were stable and well above the limits in risk appetite throughout 2020.

DNB issued senior non-preferred bond debt (minimum requirement for own funds and eligible liabilities) amounting to USD 1 billion in the third quarter of 2020, at a price that was among the lowest achieved by European banks.

DNB is one of the few banks with a long-term credit rating of AA from both S&P Global and Moody's, AA- and Aa2, respectively. In addition, DNB has a short-term credit rating of A-1+ and P-1 from S&P Global and Moody's, both of which are the highest rating score. Both S&P Global and Moody's confirmed DNB's ratings in December 2020.

Operational risk is managed in accordance with the Group policy for risk management and the Group standard for operational risk. The Board of Directors has set limits in risk appetite for how much operational risk DNB is willing to accept. The Board of Directors is notified immediately if any significant events arise. Twice a year, the Board of Directors receives a supplementary report on the operational risk in the Group.

DNB registered one operational loss in 2020 as a result of necessary crisis measures and adjustments in connection with the outbreak of COVID-19. Costs were in excess of NOK 200 million.

The greatest operational risk is considered to be information security and is associated with extensive and increasingly advanced digital attacks. IT and payment systems are closely monitored to identify possible digital attacks and fraud attempts.

Towards the end of 2020, DNB received Finanstilsynet's (the Financial Supervisory Authority of Norway) preliminary report from an ordinary AML inspection carried out in February. The report notifies DNB of a possible administrative fine of NOK 400 million. The notification does not concern any suspicions of money laundering or complicity in money laundering. In the report, Finanstilsynet criticises DNB for inadequate compliance with the Norwegian Anti-Money Laundering Act. Finanstilsynet will make a final decision in this case once DNB has submitted its response. As a precautionary measure, a provision has been made in the accounts for the entire amount, and it is therefore reported as an operating loss in 2020.

Reputational risk is followed up through monitoring and analyses of media coverage and customer satisfaction. The risk appetite framework states that DNB must work to have a good reputation and deliver on expectations from society and our stakeholders. According to RepTrak, DNB's reputation has gradually improved over the last few years and has been consistently categorised as 'good' over the last two years.

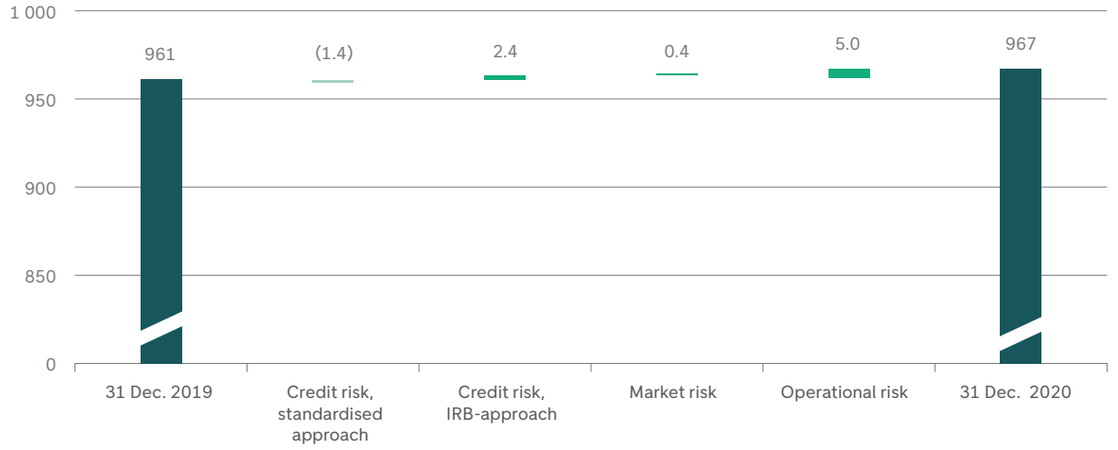
Key figures

Capital	31 December 2020	31 December 2019
Risk-weighted assets (NOK billion)	*967*	*961*
Own funds (NOK billion)	*214*	*220*
CET1 capital ratio	*18.7 %*	*18.6 %*
Capital adequacy	*22.1 %*	*22.9 %*
Leverage ratio	*7.1 %*	*7.4 %*
Liquidity		
LCR, significant currencies	*148 %*	*138 %*
NSFR, significant currencies	*109 %*	*112 %*
Credit and counterparty credit risk		
Credit risk, EAD (NOK billion)	*2 579.3*	*2 487.4*
Counterparty credit risk, EAD (NOK billion)	*63.7*	*53.6*
Net impairments for the year (NOK billion)	*9.9*	*2.2*
Capital requirement[2], credit and counterparty credit risk (NOK billion)	*68.5*	*68.4*
Market risk		
Market risk as a share of economic capital[1]	*13.0 %*	*11.5 %*
Capital requirement[2], market risk (NOK billion)	*1.3*	*1.2*
Operational risk		
Operational losses (NOK million)	*724*	*78*
Capital requirement[2], operational risk (NOK billion)	*7.6*	*7.1*
Reputational risk, RepTrak (Points)	*76.7*	*72.5*

1) Including strategic ownership
2) Minimum capital requirement of 8 per cent of risk weighted assets

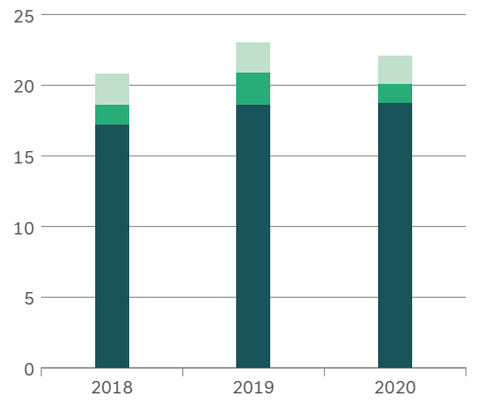
Development in risk-weighted assets

NOK billion



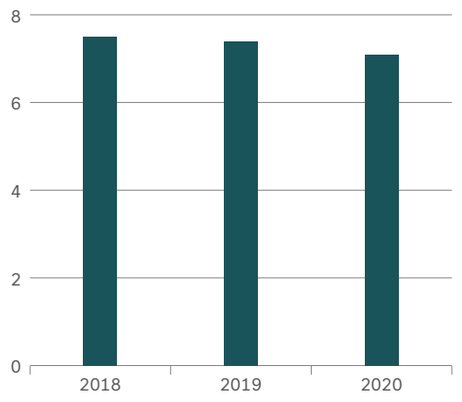
Capital adequacy

Per cent



Leverage ratio

Per cent



Common equity Tier 1 capital
Additional Tier 1 capital
Tier 2 capital

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Introduction

This report contains information on risk management, risk measurement and capital adequacy in accordance with the requirements of the regulations on capital requirements and national adaptation of CRR/CRD IV, and the guidelines given by the European Banking Authority (EBA) in the 'Final report on the Guidelines on disclosure requirements under Part Eight of Regulation (EU) 575/2013 (EBA-GL-2016-11)'. The CRR/CRD IV regulations do not apply to insurance companies. DNB Livsforsikring AS will publish a separate Pillar 3 report, 'Solvency and Financial Condition Report' on 7 April 2021.

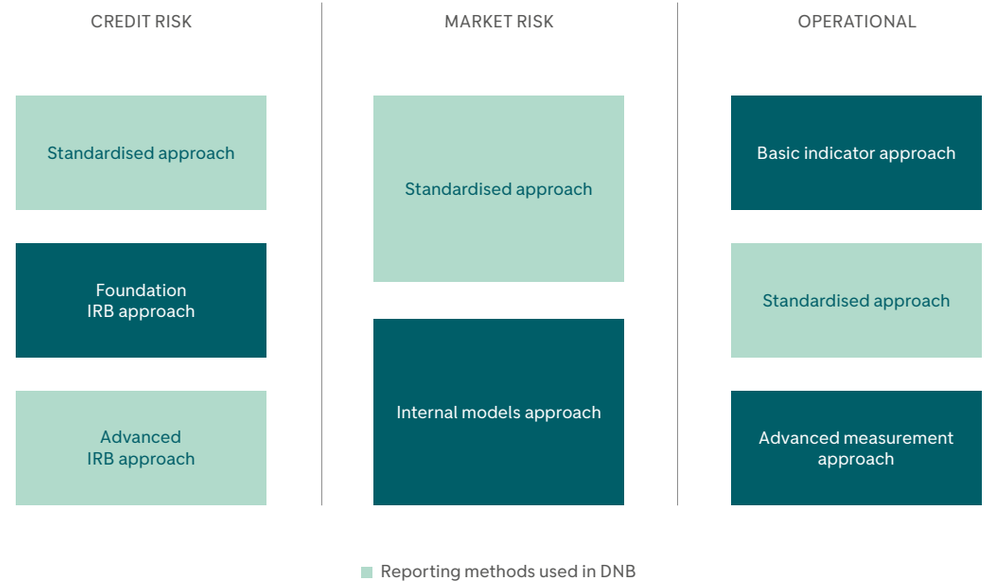
The capital adequacy regulations consist of three pillars:

- Pillar 1 includes the quantitative minimum requirements for banks' capital and descriptions of the calculation methods for risk-weighted assets and own funds.
- Pillar 2 sets out requirements for the Internal Capital Adequacy Assessment Process (ICAAP) and the bank's responsibility for assessing risks other than those described under Pillar 1.
- Pillar 3 contains disclosure requirements for financial information and should enable the market to assess financial institutions' capital and risk management.

The methods used to calculate capital requirements for the various risk categories are illustrated in figures. DNB reports credit risk according to the advanced IRB approach (A-IRB), using internal risk models to calculate the capital requirement. Some credit portfolios are temporarily or permanently exempt from IRB reporting, and are reported according to the standardised approach. Market risk and operational risk is reported using the standardised approach.

The Boards of Directors of DNB ASA and DNB Bank ASA approve the guidelines and procedures for Pillar 3 reporting, and review the report prior to publication. The Pillar 3 report is not subject to external auditing. Information in accordance with Pillar 3 requirements is published quarterly in separate Excel files, see:
https://www.ir.dnb.no/press-and-reports/financial-reports

For more information on DNB's remuneration scheme, see DNB's Annual Report:
https://www.ir.dnb.no/press-and-reports/financial-reports



Legal structure and consolidation rules for capital adequacy requirements

DNB's operations are organised into different legal entities. Subsidiaries are defined as companies where DNB, directly or indirectly, has control.

In the DNB Group, DNB ASA is the parent company with the subsidiaries DNB Bank ASA, DNB Livsforsikring AS and DNB Asset Management Holding AS, all with underlying subsidiaries. In 2020, the Board of Directors decided that DNB ASA would be merged with DNB Bank ASA, making DNB Bank ASA the Group's new parent company. The merger is scheduled to be completed by mid-2021, with accounting effect from 1 January 2021, but requires government approval. DNB prepares consolidated financial statements in accordance with IFRS. For a description of the accounting principles, see the Group's annual report. When the consolidated financial statements are prepared, intra-group transactions and balances as well as unrealised gains or losses on these transactions between Group units are eliminated.

The consolidation rules under the capital adequacy regulations for banks and investment firms (CRR/CRD IV) deviate from the consolidation of the annual financial statements for the DNB Group, and the differences are shown in Tables EU CC2 and EU LI1 in the appendix to this report. In accordance with the capital adequacy regulations, only companies in the financial sector and companies providing ancillary services will be included in consolidated capital adequacy. Associated companies are proportionally consolidated (pro rata up to 50 per cent) based on DNB's ownership interest. For 2020, this applies to the following companies:

- Eksportfinans (ownership interest of 40 per cent). DNB Bank ASA has also issued guarantees for other loans in Eksportfinans. The transactions have been carried out on ordinary market terms as if they had taken place between independent parties.
- Luminor Group AB (ownership interest about 20 per cent).
- Vipps AS (ownership interest about 45 per cent).

At year-end 2020, DNB's share of the risk-weighted assets for credit and market risk in Eksportfinans amounted to NOK 1.7 billion, and NOK 13.4 billion in Luminor. The companies are also included in the basis for calculating capital requirements for operational risk. Risk-weighted assets in Vipps were insignificant.

Consolidation of capital adequacy will be based on the valuation principles used in the operating companies' financial statements. The valuation principles that form the basis for solvency calculations in the respective companies at the national level are applied to shareholdings in the foreign companies that are being consolidated.

The solvency report for the consolidated group (cross-sectoral reporting) includes the subsidiary DNB Livsforsikring AS and the pro rata consolidation of Fremtind AS, where DNB has a 35 per cent ownership interest. For an overview of the Group's legal structure, see: https://www.dnb.no/portalfront/nedlast/en/about-us/Legal_Structure_DNB_Group_17.01.2020.pdf

In this report, the regulatory group according to the CRR/CRD IV-framework is referred to as 'the DNB Group' or simply 'DNB'. If numbers are on a different scope, this will be specified.

"In 2020, the Board of Directors decided that DNB ASA would be merged with DNB Bank ASA, making DNB Bank ASA the Group's new parent company."

1
Risk management and control

The ability to identify and manage risk is at the core of financial operations, and is a prerequisite for long-term value generation over time. The main purpose of risk management in DNB is to achieve an optimal balance between risk and earnings in a long-term perspective. Through sound risk management, DNB should always be able to identify, manage, monitor and report risks that are relevant in relation to DNB's targets.

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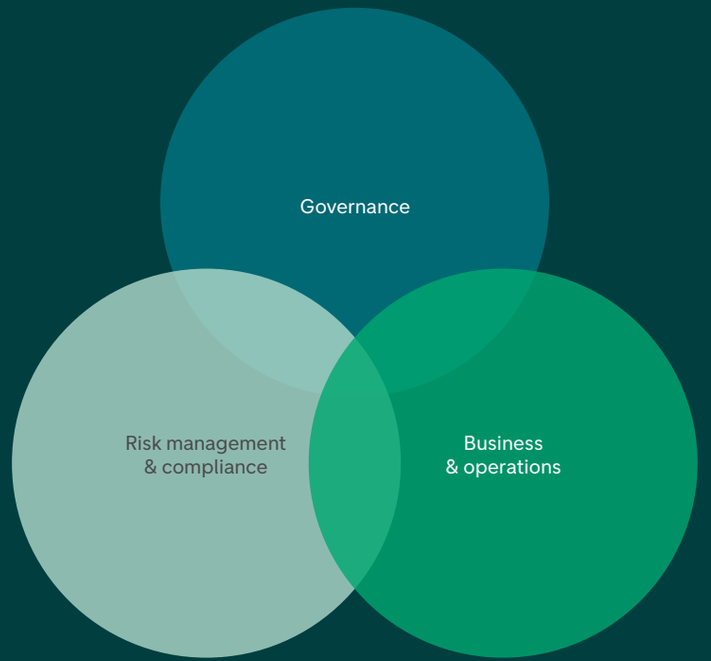
DNB's corporate culture should be characterised by individual responsibility, with transparent methods and processes which support sound risk management.

Everyone in DNB must understand and act on relevant risks in their own work.



MANAGEMENT AND CONTROL OF RISK

Risk management is rooted in DNB's corporate governance and the principles for risk appetite are incorporated in the Group's highest governance level.

The Board of Directors has approved nine policies for the DNB Group, where three are closely linked to risk management: risk management policy, compliance policy and security policy. The group executive vice president for Risk Management owns the policy for risk management, which defines seven overarching principles:

- Everyone in DNB must understand and act on relevant risks in their own work.
- DNB must have a defined risk appetite for all significant risk areas.
- Risk management in DNB must be organised in a practical and appropriate manner.
- DNB must establish strategies and/or limits for all significant risks.
- DNB must carry out risk assessments in connection with significant changes in operations.
- DNB's risk management must be based on effective and appropriate tools and models.
- DNB must conduct periodic risk reporting and have the capacity for ad hoc reporting.

The Group's long-term risk profile is decided by the Board of Directors through DNB's risk appetite, and the risk appetite framework is reviewed and renewed at least once a year. The approved targets and limits of the risk appetite framework are reflected in other elements of risk management, such as limits on authorisations and business activity. The risk appetite framework is described in more detail later in this chapter.

The recovery plan aims to ensure that the DNB Group can recover from a very serious stress situation without involving or getting support from the authorities. The plan is updated annually and is an integrated part of the Group's risk and capital management framework. There are a number of overlaps between indicators in the recovery plan and the risk appetite framework, which means that risk appetite also functions as an early warning system. Both frameworks are monitored and reported monthly to Group Management, and quarterly to the Board of Directors. The recovery plan is described in more detail later in this chapter.

The Internal Capital Adequacy Assessment Process (ICAAP) is integrated with the governance processes by means of the risk appetite framework and general monitoring of risk trends. ICAAP is described in more detail in the chapter on capital management.

Risk should be an integral part of the governance and remuneration system through indicators that operationalise risk limits and strategies, and are followed up by managers individually. Managers are also responsible for requiring and establishing adequate risk reporting in their own operations.

Corporate governance

Corporate governance in DNB is about how the Board of Directors and DNB's management exercise their roles to preserve and develop the company's values in an optimal manner. The DNB Group's executives and Board of Directors carry out an annual assessment of corporate governance principles and practices.

For a more detailed description of DNB's corporate governance, see the annual report and 'Implementation of and reporting on corporate governance' on ir.dnb.no.

Authorisations

Credit approval authorisations and position and trading limits are required for all key financial areas. The authorisations and overarching limits are decided by the Boards of Directors of DNB ASA and DNB Bank ASA and are delegated further in the organisation. All delegation of limits and authorisations must be approved and followed-up by the immediate superior. All authorisations in DNB are personal. Authorisations are granted on the basis of assessments of the relevant individual's expertise and experience, and the need from a business perspective. When authorisations are granted, information is provided about the conditions and restrictions in the authorisation. All authorisations granted in DNB are documented and monitored. For more information about authorisations for credit approval, liquidity and market risk, see the chapters describing the individual risk categories.

"Risk should be an integral part of the governance and remuneration system through indicators that operationalise risk limits and strategies, and are followed up by managers individually."

Roles and responsibilities

The responsibility for risk management and internal control is divided among three lines of defence:

- The first line of defence includes all of the Group's operative functions. It is the operative managers' responsibility to establish, manage and follow up internal control within their own area of responsibility, including processes and activities to reach defined goals relating to operational efficiency, reliable financial reporting, risk management and compliance with laws and regulations. Employees are responsible for carrying out the established internal control through their daily tasks. All authorisations linked to risk-taking in the first line of defence must be personal, and all risk must be owned by the first line.
- The second line of defence consists of autonomous control functions, which monitor, report on and give advice about risk-related issues and compliance on a risk-based approach, and follow up the internal control activities carried out by the management and employees in the Group's operative functions. In DNB, second line of defence functions are organised under Group Risk Management and Group Compliance.
- The third line of defence is Group Audit, which uses a risk-based approach to review and evaluate the Group's governance and internal control processes. Group Audit is independent of the Group's executive management and reports to the Board of Directors of DNB ASA.

Group Risk Management

Group Risk Management is headed by a group executive vice president, who is also the Chief Risk Officer (CRO) and reports directly to the Group Chief Executive Officer (CEO) and, if necessary, directly to the Board. The CRO defines the principles and framework for risk-taking and internal control in the Group. In addition, the CRO makes independent assessments of the risk level and reports on the Group's risk situation.

Operational risk management takes place in business areas and support units. Group Risk Management carries out the role of independent control function. This involves ensuring that all necessary tools and processes are in place in the organisation to identify, measure and report risk.

The Group's risk management specialists are mainly organised in Group Risk Management. The Group has established specialist units, which are responsible for frameworks and risk control within the various types of risk, i.e. credit risk, market risk, liquidity risk and operational risk. In addition, the Group has independent units that are responsible for model development, risk analysis and risk reporting.

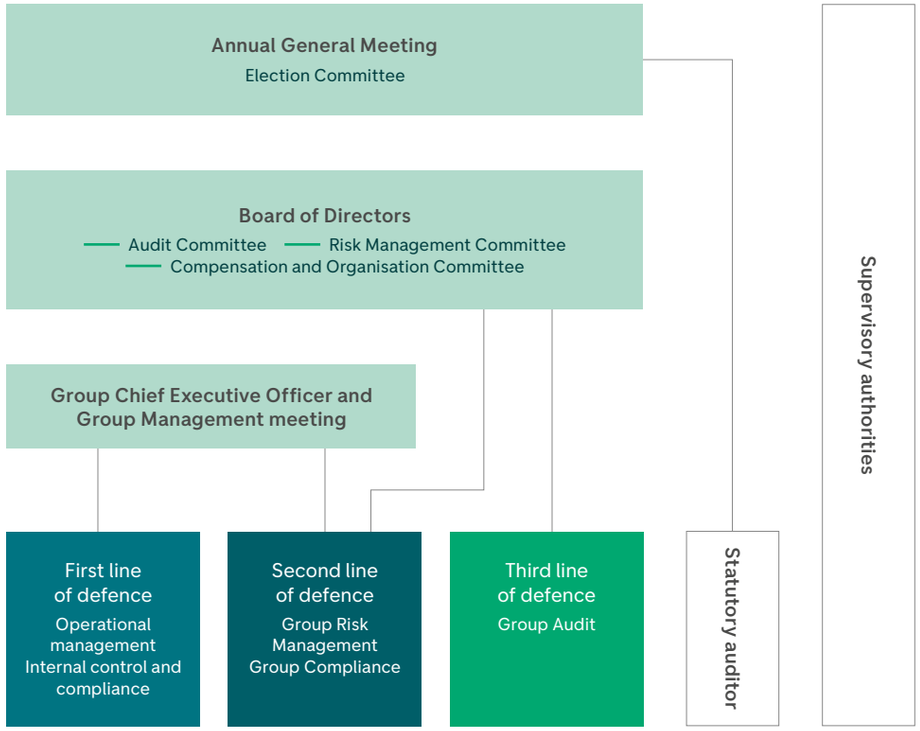
The bank conducts an annual validation of the most important models used in capital reporting and financial reporting. The CRO is responsible and the work is performed by a unit that is independent of both the first-line and model development. The Board of Directors sets requirements for the content of the work on validation. The results of the validation of the IRB models are described under credit risk.

Stress testing is a second line function, the CRO has the overall responsibility for stress testing in DNB. The Board of Directors is responsible for approving the Group standard for stress testing. Assumptions for and results of stress tests are presented to the Group Credit Committee (GCC) or the Asset and Liability Committee (ALCO) for their opinions, and are approved by the CRO. The CRO is responsible for recommending measures based on the conclusions of the stress tests. Stress tests are described in more detail in this chapter and the chapter on capital management.

Group Risk Management is responsible for conducting a credit risk review and model input review. Credit risk review is organised under a separate organisational unit, which is responsible for a systematic second-line control of the bank's credit areas. The credit risk review assesses

Governing bodies of DNB ASA

As at 31 December 2020



compliance with the standard for credit activities, credit strategies and credit rules and legislation, and the results are reported to the Board of Directors. The model input review aims to ensure the correct and consistent application of IRB models that include subjective input. The results from both the credit risk review and model input review are used for training to ensure continuous improvement in relation to credit work.

Internal control consists of processes and systems for assessing and verifying that risk management works as intended and supports the Group's target attainment. All managers are responsible for conducting internal control in their area. Group Risk Management is responsible for facilitating good internal control practices in DNB.

Group Risk Management has Operational Risk Officers (ORO) who operate in all of DNB's key business areas. Operational Risk Officers quality control risk reporting from the various areas and monitor the registration of operational incidents, including the establishment of risk-mitigating measures. In addition, they participate when the first line conducts the annual process for assessing and verifying the quality of the internal control system.

See also descriptions in the separate chapters on management and control of operational risk, market risk, credit risk and liquidity risk.

The Compliance function

The DNB Group's Compliance function is a separate and independent second-line-of-defence control function that assists the Boards of Directors, Group CEO and other first-line managers in the work of ensuring that DNB conducts its activities in accordance with relevant rules and legislation. The Compliance function comes in addition to the first line's independent responsibility internal control and for monitoring compliance with rules and legislation of significance to the relevant area or unit.

The Compliance function provides advice and guidance on compliance, monitors and controls compliance and compliance risk, and reports and provides information on the status of compliance and compliance risk. The Compliance function takes a risk-based approach, mainly based on the rules and legislation that set conditions and requirements for the Group's licensed operations. This applies to financial, regulatory, competition and data protection rules and legislation, as well as rules and legislation aimed at counteracting money laundering, corruption and sanctions violations.

The Compliance function's monitoring and control must include assessment of whether DNB has implemented sufficiently effective guidelines and procedures to detect compliance risk. This also includes an assessment of preventive measures and procedures. The Compliance function should be involved in and help to assess the risk related to the implementation of new strategies, organisational changes and other changes to DNB's activities.

The Compliance function is headed by the Group Chief Compliance Officer (GCCO), who is also a group executive vice president and reports directly to the Group CEO and the Board of Directors. The GCCO sets the framework for the Compliance function in the Group. All business areas and support units, foreign branches of DNB Bank ASA, companies in the DNB Group authorised under financial market regulations, and other companies as decided by the GCCO, shall have a compliance function which is a part of the Group's Compliance function.

Group Audit

DNB's Group Audit acts as the third line of defence and assists the Board of Directors in ensuring that the quality of all important aspects of the Group's risk management is satisfactory. Group Audit receives its instructions from the Board of Directors of DNB ASA, which also approves Group Audit's annual plans and budgets. Group Audit is responsible for ensuring the establishment and implementation of adequate and effective risk management and internal control procedures. Group Audit must also assess whether management processes and control measures are effective and contribute to the Group's target attainment.

Boards and committees

DNB has several advisory bodies to help group executive vice presidents by preparing decision-making documents in addition to monitoring and control of various specialist areas:

- **The Asset and Liability Committee (ALCO)** is an advisory body for the Chief Financial Officer (CFO) for matters relating to the management of capital expenditure and the distribution of capital, as well as market and liquidity risk. In a risk-management context, the committee is an arena for sharing information and coordinating the various units that handle the operative management of market and financing risk and Group Risk Management as the risk control function.
- **The Group Credit Committee (GCC)** is headed by the CRO. The GCC handles selected credit cases and credit cases with a particularly high risk of money laundering. The committee also deals with administrative matters, including industry analysis, credit rules and legislation, risk reports, model changes and credit strategies. The GCC committee handles and endorses credit proposals by means of personal authorisations. The Executive Vice President of the business area which has the case is the extender and the CRO is the endorser. The GCCO is a permanent member of the committee.
- **The Financial Markets Risk Committee (FMRC)** is headed by the Executive Vice President for Market and liquidity risk management. The FMRC is responsible for approving and supervising principles and processes for activities that entail market risk in the DNB Bank Group. This includes recommending market risk frameworks, approving and following up guidelines, methodologies and control related to market risk and counterparty credit risk.
- **The Non-Financial Risk Committee (NFRC)** is headed by the CRO, and aims to contribute to developing the Group's management of non-financial risks. The Non-Financial Risk Committee contributes to ensuring a consistent approach and joint coordination of the first-line responsibility for the management of operational risk, compliance, security and ESG (environmental, social and governance) risk. The committee exchanges information, coordinates activities and gives advice on complex individual cases. Subject matter groups that report to the NFRC monitor progress in areas such as money laundering, IT risk, third-party risk and data protection.

Group Chief Executive Officer and the Group Management Team

The Group Chief Executive Officer (CEO) is responsible for implementing risk management measures that contribute to the achievement of targets the Board of Directors of DNB ASA sets for operations, including effective management systems and internal control. The Group Management meeting is the CEO's collegiate body for management at the Group level. Major decisions concerning risk and capital management are generally made in consultation with the Group Management Team. The group executive vice presidents for the business areas and support units take part in the Group Management meeting.

Boards of directors and board committees

The Board of Directors of DNB ASA is the supreme governing body for the Group's business operations and is responsible for ensuring satisfactory oversight of operations, financial reporting and asset management. The Board determines and monitors DNB's long-term risk profile through the risk appetite framework.

The Board of Directors of DNB ASA is responsible for ensuring that the Group is adequately capitalised relative to the risk and scope of operations, and that capital requirements are met. The Board of Directors monitors the Group's capital situation on an ongoing basis. This is discussed in more detail in the chapter on capital management and ICAAP.

Each year, the Board of Directors of DNB ASA reviews the CEO's report on the status of internal control, which includes assessments of the principal risk areas in the Group. The review documents the quality of the internal control and risk management efforts and identifies any weaknesses and needs for improvement. The Boards of Directors of DNB Bank ASA, DNB Livsforsikring AS and other major subsidiaries perform equivalent annual assessments of the companies' internal control and key risk areas.

Risk Management Committee

The Risk Management Committee oversees the Group's internal control and risk management systems, as well as internal audits, to make sure that they function effectively. The committee considers changes to systems and procedures that are presented to the Board of Directors for approval. In addition, the Committee provides advice on the Group's risk profile, including risk appetite, and the committee prepares the Board of Director's follow-up of risk development and risk management. Advice to the Board of Directors can be about strategies for capital and liquidity management, credit risk, market risk, operational risk, risk related to compliance and reputation, as well as other risks in the Group. The Committee consists of four members who are elected by the Board of Directors for two years at a time. There is also a requirement that the committee must include at least one member experienced in identifying, assessing and managing risk exposures of large, complex firms. The organisation of DNB's Risk Management Committee and the quarterly risk management report to the Board of Directors of DNB ASA are considered to adequately cover the requirements in the countries in which DNB operates, including the American CFR § 252.144[1)].

The Audit Committee

The Audit Committee supervises the process of financial reporting and considers whether the Group's internal control, including internal audit and risk management systems, works effectively. In addition, the committee ensures that the Group has independent and effective external audit procedures. The Audit Committee reviews quarterly financial reporting for the DNB Group. The committee makes a thorough review of discretionary assessments and estimates in addition to any changes in accounting practice. The committee monitors the Group's internal control systems as well as the Group's internal audit, including ensuring that they work effectively, and evaluates changes to systems and procedures that are submitted to the Board of Directors for approval The Audit Committee considers the quarterly accounts and the proposed annual accounts for DNB ASA and the DNB Group. The Audit Committee also considers the proposed statutory and consolidated accounts of DNB Bank ASA and DNB Livsforsikring AS and the statutory accounts of DNB Boligkreditt AS.

Compensation and Organisation Committee

The Board of Directors of DNB ASA has a Compensation and Organisation Committee consisting of four members of the company's Board of Directors. The committee normally meets six to seven times a year. One of the members is a board member elected by the employees. The Compensation and Organisation Committee prepares matters for the Board of Directors, and its primary responsibilities are to:

- annually evaluate and present its recommendations for the total remuneration awarded to the CEO
- annually prepare proposed targets for the CEO
- prepare and recommend proposed remuneration awarded to the Group Chief Audit Executive
- ensure that the remuneration for the heads of the risk management and compliance control units is determined so as not to affect, or likely affect, their objectivity
- act in an advisory capacity to the CEO with respect to remuneration and other important personnel-related matters concerning members of the Group Management team and others who report to the CEO
- consider other matters as decided by the Board of Directors and/or the Compensation and Organisation Committee
- review other personnel-related issues which can be assumed to entail great risk to the Group's reputation

The committee also prepares selected matters for the Board relating to culture, management and succession planning.

Monitoring and reporting

The Group's risk situation is reported at least monthly to the Group Management team, and at least quarterly to the Board of Directors. Examining targets, limits and strategies is part of this internal risk-reporting process. Group Risk Management has the primary responsibility for risk reporting in DNB. This applies to both internal risk monitoring and risk reporting to the authorities.

According to requirements set by the Board of Directors, the compliance function and the GCCO regularly report the compliance situation to the CEO and the Boards of Directors of DNB Bank ASA and DNB ASA. Local compliance functions regularly report on the compliance situation to the GCCO, as well as to the head of the area in question. All levels of the organisation should have access to relevant and necessary risk information in order to monitor their own risk.

All of DNB's employees have an obligation to report and deal with major incidents or deviations. Operational events and compliance breaches must be registered in a loss and incident database. Actions taken in respect of all major incidents and compliance breaches must be registered, and the status reported to the Group Management and the Board of Directors.

An important premise for good risk reporting is available, transparent and consistent data. Group Risk Management cooperates closely with Group Finance to ensure sound governance, infrastructure, quality and control in the compilation and aggregation of financial data and risk data.

Risk reporting to the Boards of Directors of DNB

The table shows the regular independent reports on risk and compliance to the Boards of Directors of DNB ASA and DNB Bank ASA. In addition, the Board of Directors is informed at the first meeting if there is a breach of risk appetite limits, threshold values in the recovery plan or other significant events or changes in the risk situation.

DNB's risk management framework, including risk appetite and the recovery plan, has been actively used in monitoring risk developments during the COVID-19 pandemic. When the pandemic hit at the beginning of March, DNB immediately implemented daily reporting to Group Management of developments in liquidity, market and counterparty credit risk. As the financial markets calmed down, reporting frequency decreased as well. At the same time, attention in the bank's extraordinary reporting was gradually shifted to credit risk development and, for example, the degree of utilisation of revolving credit facilities and overdraft facilities. From the third quarter the reporting frequency has returned to a close to normal level.

1) CFR § 252.144 – Risk management and risk committee requirements for foreign banking organizations with total consolidated assets of $100 billion or more but combined U.S. assets of less than $100 billion.

Stress testing

Stress testing is a key element in the assessment of the DNB Group's risk management and is also used in connection with financial planning. Stress tests are used to predict how changes in macroeconomic conditions will affect the need for capital. The Group Management team is involved in determining the scenarios and underlying assumptions that will be used in the stress tests and uses the outcome of this testing as a basis for strategies and action plans.

Important stress tests that are carried out at least annually in DNB:

- Extensive stress testing of the DNB Group and DNB Boligkreditt AS is carried out as a part of the annual ICAAP reporting, see the chapter on capital management and ICAAP.
- Crisis scenarios are being developed and tested as part of the DNB Group's recovery plan.
- Stress tests of specific credit portfolios are conducted on an ongoing basis.
- The bank regularly conducts liquidity risk stress tests to ensure that sufficient liquid assets are available to meet difficult situations in a satisfactory manner.
- A special stress testing programme for counterparty credit risk has been established, which should reveal undesirable outcomes of the total counterparty credit risk exposure, both on a stand-alone basis and as part of the bank's credit risk exposure.

In 2020, DNB prepared separate crisis scenarios to analyse the possible outcomes of a prolonged pandemic. DNB also begun work on climate stress testing in line with the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations.

DNB participates in the stress tests of European banks coordinated by the European Banking Authority (EBA). The stress tests are conducted every other year. The 2019

Risk reporting to the Boards of Directors of DNB

Frequency	Reporting
Quarterly	**The DNB Group's Risk Report** The report includes a broad review of the risk situation and changes to risk in the last quarter, with analyses and comments. The report is the second-line assessment of the risk situation. Key elements are risk level measured in accordance with the risk appetite framework and status of the indicators set out in the recovery plan. Any breach of the framework established by the Boards of Directors of DNB ASA, DNB Bank ASA and DNB Livsforsikring AS is also followed up through the risk report.
Semi-annually	**GCCO Compliance Report** Group Compliance prepares a report on the status and development of the compliance situation for Group Management and the Board of Directors. The report is the GCCO's independent assessment and should provide a clear overall picture of compliance risk in the Group and form the basis for any action taken. **Operational risk in the DNB Group** The report is a second-line assessment of the risk situation and the risk development within operational risk. The report is presented to Group Management and the Board of Directors along with the DNB Group's risk report in the first and third quarters.
Annually	**The ICAAP Report (Internal Capital Adequacy Assessment Process)** The ICAAP report contains a detailed description of the DNB Group's process for self-assessments of risk and the capital situation, as well as analyses and an evaluation of the status at year-end. Separate assessments and ICAAP reports for major subsidiaries are included in the Group report. The DNB Group's process for self-assessment of the liquidity situation, ILAAP (Internal Liquidity Adequacy Assessment Process), describes and assesses the DNB Group's liquidity situation. ILAAP is presented to the Board of Directors as an integral part of the ICAAP report. Group Audit performs a review of the ICAAP process in DNB, and a report containing the auditor's conclusions is considered in the same board meeting as the self-assessment. **Recovery Plan for the Group** The recovery plan, which is part of the crisis management regime for banks, is an integral part of the DNB Group's risk and capital management. Descriptions of various identified measures that could improve the Group's common equity Tier 1 capital ratio and liquidity situation in the event of a crisis, are an important element of the recovery plan. The plan is updated yearly. The status of defined recovery indicators is reported to the Board quarterly and to Group Management monthly. **Validation and Compliance Report** Validation is a key element in the quality assurance of DNB's most important models. The independent unit responsible for validation examines once a year the precision of all internal models used in the calculation of capital requirements. The results are presented to the bank's Board of Directors in the validation report. Group Audit prepares compliance reports showing compliance with IRB and IMM requirements. These reports are considered by the Board of Directors of DNB Bank ASA at the same time as the validation reports.

stress test was postponed due to the pandemic. Instead, a stress test will be carried out based on exposures at the end of 2020, and the results of this stress test will be published in July 2021.

DNB also participates in the International Monetary Fund (IMF) stress test, which is conducted every five years, most recently in 2020.

RISK APPETITE

The risk appetite framework forms part of the strategic management of the DNB Group and consists of limits and assessment principles for the types of risks that are of particular importance for DNB. The risk appetite principles were updated by the Board in 2020, and form part of the governance principles on the highest level of DNB's hierarchy of governing documents.

The risk appetite framework must be implemented throughout the organisation, by means of risk tolerances tolerances and guidelines for work with strategies and planning processes. Risk indicators have been established on lower organisational levels to underpin the limits in the risk appetite framework. The risk indicators can be in the form of limits for quantifiable risk or qualitative assessments of the risk level. They need not be based on the same measurement parameters as the ones used at the group level, but it must be possible to link them to the same risk types and measure the same trends. The procedures for monitoring risk indicators are tailored to the individual business areas and are meant to ensure that risk is kept within the level stipulated in the risk appetite framework.

The risk level is measured against the risk appetite framework every month, and provides an overall summary of the risk situation in the DNB group. The risk appetite framework contains 15 different risk dimensions, across different risk types and business areas. The table on the right gives an overview of the framework and associated dimensions applicable at the end of 2020.

Measurement and monitoring

Constant monitoring of risk appetite ensures that risks that are identified as the most significant at an overarching level are followed up and discussed by operative units in the organisation.

The Group's status is assessed against the risk appetite limits, and appears in the form of a green, yellow, orange or red status light. Each status has a clearly defined meaning, and defined action rules apply in the event of a breach of limit values, as described below:

- Breach of the yellow limit can be handled by the Group's executive management.
- Breach of the orange limit can be handle by the Group's executive management, but the Board of Directors must be informed.
- Breach of the red limit must be reported to the Board of Directors on the agenda for the next board meeting. The report must include concrete proposals for possible countermeasures and/or proposals for extending the limits for risk appetite.

RESOLUTION AND RECOVERY PLAN

Since 2013, the DNB Group has formulated recovery plans based on the recommendation from the European Banking Authority (EBA). The preparation of such a plan is required according to the EU's Bank Recovery and Resolution Directive (BRRD), which came into force in the EU as of 1 January 2015. From 2019 it has become a legal requirement in Norway for banks to have a recovery plan.

The recovery plan is prepared as an integrated part of the Group's risk and capital management framework and will be activated if pre-defined recovery indicators are breached. Recovery indicator breaches will trigger a thorough

Risk types and associated dimensions in the risk appetite framework

Risk type	Dimensions
Profitability and earnings	→ Risk-adjusted profit
Capital adequacy	→ Common equity Tier 1 capital adequacy, the DNB Group and the DNB Bank Group
	→ Solvency margin DNB Livsforsikring AS, without transitional rules
Market risk	→ Market risk as a percentage of economic capital
Credit risk	→ Concentration risk towards industries and counterparties
	→ Credit quality (expected loss), total and per customer segment
	→ Annual credit growth, total credit portfolio and per customer segment
Liquidity risk	→ Liquidity Coverage Ratio
	→ Net Stable Funding Ratio
	→ Deposits to loans, DNB Bank Group
Operational risk	→ Operational losses
	→ Forward-looking risk assessment, information security
	→ Forward-looking risk assessment, IT operations
	→ Operational stability, IT operations
Reputation risk	→ Overall risk assessment, potential events and consequences

Governance principles for risk appetite

As part of the risk appetite framework, DNB has identified four governance principles that set out the procedures and responsibilities for the entire DNB Group.

- **Ownership:** The risk appetite framework is owned by the Board of Directors. All changes to the framework and the governance principles must therefore be approved by the Board of Directors.
- **Responsibility:** Each risk appetite statement has a coordinator in Group Risk Management, who is responsible for monitoring and preparing action plans if defined risk levels are exceeded. The coordinator is also responsible for evaluating whether the measurement picks up satisfactorily on risk changes.
- **Annual review:** The risk appetite framework must be reviewed at least once a year. This review must be independent of the strategic and financial planning process.
- **Reporting:** Group management receives a monthly report on risk levels in the Group in the form of a 'status report'. The Board of Directors receives quarterly status reports with comments and analyses

assessment of the situation and whether actions should be implemented. If the bank's recovery is unsuccessful, crisis management will be carried out under the auspices of public authorities. Finanstilsynet (The Financial Supervisory Authority of Norway) will then be responsible for developing a plan for this phase. The recovery plan aims to ensure that the Group can recover from a very serious stress situation without involving or receiving support from the authorities. DNB has also submitted a liquidation plan, Living Will, to the US authorities concerning its operations in the US.

DNB also has a contingency plan for liquidity that includes descriptions of how the bank should handle liquidity crises that either only affect the bank or affect the entire industry. Based on the types of crises that could affect the bank's liquidity situation and assessments performed by ALCO and Group Management, Group Treasury sets up a plan for remedying the liquidity shortfall. The plan specifies triggers and time frames for all measures that are to be implemented, in addition to the priorities with respect to funding sources and costs of alternative solutions and the possible effect on the banks' capital coverage. Possible measures may include the issuance of covered bonds through the use of available reserves in the DNB Boligkreditt AS cover pool, changing deposit terms and restricting lending, as well as pledging holdings of collateral to raise money in the market for repurchase agreements (the repo market) and draw on central bank facilities.

DNB has a hierarchy of contingency measures as illustrated in the figure on the right. Because the risk appetite framework functions as an early warning system, there are a number of overlaps between indicators in the risk appetite statements and recovery plans. For common indicators, red lights in a risk appetite context usually coincide with threshold values (recovery threshold) in the recovery plan.

The recovery plan includes:

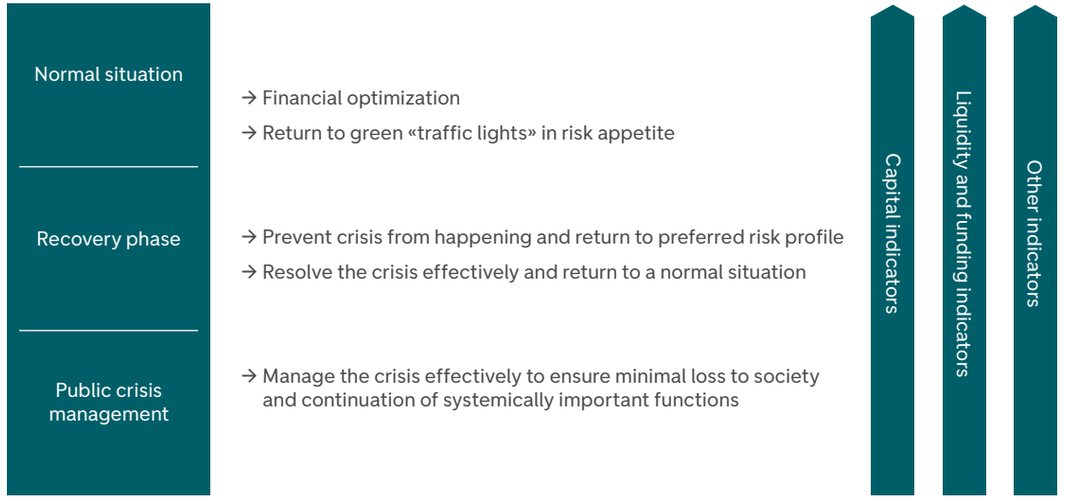
- strategic analysis of the DNB Group and essential social functions performed by DNB
- operational and legal dependencies within and outside the Group
- governance processes in recovery planning and recovery plan implementation
- crisis scenarios that could trigger a recovery situation
- recovery measures that could improve the Group's capital adequacy and liquidity situation
- preparatory measures to ensure the effectiveness of the recovery measures
- communication plan in crisis situations

The recovery plan is updated annually and is then reviewed by Finanstilsynet and the DNB collegiate body[2]. The supervisory authorities may suggest improvements, but may also give direct orders for changes. The indicators in the recovery plan are reviewed monthly as part of the risk reporting to ALCO, and quarterly to the Board of Directors of DNB ASA.

In 2019, the management in the large corporates business area conducted an exercise based on a crisis scenario where the recovery plan was tested. Due to the COVID-19 pandemic, DNB did not conduct a similar test in 2020. The pandemic was in reality a full-scale test of the recovery plan and the risk management framework in general.

2) The DNB collegiate body is composed of the supervisory boards of its subsidiary banks in the EU/EEA area

Connection between risk appetite, different preparedness measures within the Group and the recovery plan



2
Capital management

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CET1 capital ratio
Per cent

18.7 (18.6)

Capital ratio
Per cent

22.1 (22.9)

ICAAP activities in DNB through the year

- Ongoing risk monitoring and capital adequacy assessment process
- Risk appetite review
- Strategy and financial targets
- The ICAAP report

CAPITAL ADEQUACY AND REGULATORY REQUIREMENTS

At the end of 2020, Common equity Tier 1 (CET1) capital ratio for the DNB Group was 18.7 per cent, which was 2.7 percentage points higher than the supervisory authorities' expectations, including the Pillar 2 Guidance.

Capital adequacy

Capital adequacy is calculated in accordance with the EU capital requirements regulations for banks and investment firms (CRR/CRD IV), which was implemented in Norway on 31 December 2019.

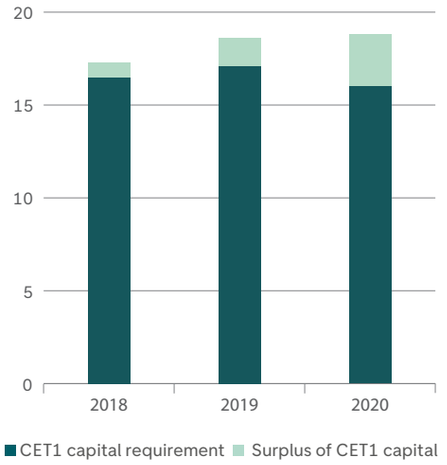
The table to the right shows the various elements that comprise the capital adequacy requirements for the DNB Group. In addition to the regulatory requirement for the CET1 capital ratio, Finanstilsynet (the Financial Supervisory Authority of Norway) expects that DNB maintains a margin in the form of CET1 capital of at least 1.0 percentage point (Pillar 2 Guidance). At year-end 2020, the CET1 supervisory expectation, constituting the CET1 capital requirement and the Pillar 2 Guidance, was 16.0 per cent. The requirement will vary due to the countercyclical buffer and systemic risk buffer, which are determined based on the total exposure in each country.

The CET1 capital ratio for the DNB Group was 18.7 per cent and the capital adequacy ratio was 22.1 per cent at year-end, compared with 18.6 and 22.9 per cent, respectively a year earlier.

CET1 capital increased by NOK 2.8 billion to NOK 181.1 billion at year-end 2020. RWA increased during 2020 by NOK 6.5 billion, and will be discussed later in the chapter. Retained earnings for the year contributed to an increase in the CET1 capital of around NOK 3.8 billion, while increased investment in Fremtind Forsikring AS reduced the CET1 capital by NOK 1.9 billion.

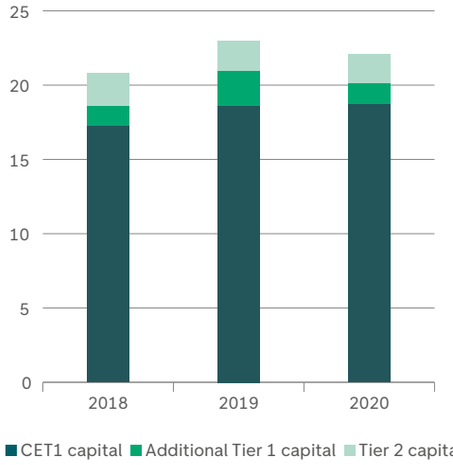
CET1 capital ratio

Per cent



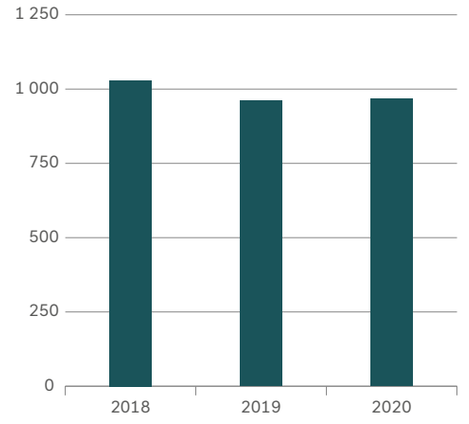
Capital ratio

Per cent



Risk-weighted assets

NOK billion



Composition of different capital adequacy requirements

Per cent	Dec. 2020	Dec. 2019	Dec. 2018
Minimum Common equity Tier 1 capital requirement	*4.5*	*4.5*	*4.5*
Systemic risk buffer	*3.2*	*3.0*	*3.0*
Buffer for other systemically important institutions (O-SII)	*2.0*	*2.0*	*2.0*
Countercyclical buffer	*0.8*	*2.1*	*1.7*
Capital conservation buffer	*2.5*	*2.5*	*2.5*
Pillar 2 capital requirement	*2.0*	*2.0*	*1.8*
Common equity Tier 1 (CET1) capital requirement[1)]	*15.0*	*16.1*	*15.5*
Additional Tier 1 capital	*1.5*	*1.5*	*1.5*
Equity Tier 1 capital requirement[1)]	*16.5*	*17.6*	*17.0*
Tier 2 capital instruments	*2.0*	*2.0*	*2.0*
Own funds requirement[1)]	*18.5*	*19.6*	*19.0*

1) In addition, a management buffer of approximately 1 per cent

The proposed dividends for 2019 and 2020 are part of the Group's equity, but have been deducted from the CET1 capital. The Board of Directors was authorised by an extraordinary general meeting in November 2020 to distribute a dividend of NOK 8.40 per share for 2019, and this was paid out in March 2021. The Board of Directors will ask the Annual General Meeting in April 2021 for an authorisation to pay a dividend of up to NOK 9.00 per share for 2020, for distribution after September 2021. The authorisation is valid up to the AGM in 2022. At year-end 2020, CET1 capital was reduced by NOK 27 billion as a result of proposed dividends for 2019 and 2020.

See also the appendix to the Pillar 3 report for information about the other companies in the DNB Group.

Development in risk-weighted assets

Risk-weighted assets (RWA) in relation to the capital base is used to assess the banks' solvency. The minimum requirement for total own funds is 8 per cent of risk-weighted assets for credit risk, market risk and operational risk. RWA is also used for the calculation of the capital conservation buffer, systemic risk buffer, buffer for systemically important institutions and countercyclical capital buffer.

RWA increased by NOK 6.5 billion during the year and amounted to NOK 967 billion at the end of 2020. RWA for credit risk, including counterparty risk, and market risk was approximately unchanged, while RWA for operational risk increased by NOK 5 billion.

Capital requirements

According to the capital adequacy regulations, DNB must meet minimum requirements and combined buffer requirements under Pillar 1 and Pillar 2 requirements.

Minimum requirements

The minimum requirements for capital adequacy under Pillar 1 is that own funds must constitute of at least 8 per cent of the bank's RWA. The requirement must be fulfilled by at least 4.5 per cent common equity Tier 1 (CET1) capital and at least 6 per cent by Tier 1 capital, including additional Tier 1 capital. The remaining 2 per cent can be fulfilled by Tier 2 capital. The capital adequacy regulations specify a minimum own funds requirement based on risk-weighted assets that include credit risk, market risk and operational risk.

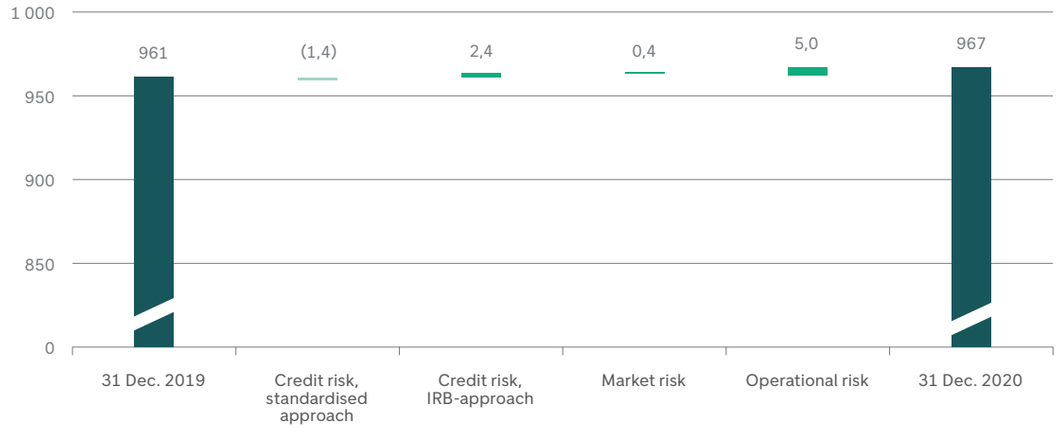
SREP and Pillar 2 requirements

Finanstilsynet conducts assessments to determine whether there is a need by individual institutions for additional capital to cover risk elements that are not adequately covered by the capital requirements in Pillar 1. These are referred to as the Pillar 2 requirements. The Pillar 2 requirement is determined on an annual basis by Finanstilsynet based on an overall assessment of the risk and capital situation through the Supervisory Review and Evaluation Process (SREP). In the event of non-compliance with the overall requirements, including the Pillar 2 requirement, the bank will be required to give Finanstilsynet an account of the reasons for the non-compliance and planned measures to address this. Finanstilsynet will then have the same intervention options as in the event of non-compliance with the buffer requirements, but with a greater scope of action.

The main conclusion of Finanstilsynet's assessment in the most recent SREP process was that, based on the prevailing risk level and external factors, the DNB Group was adequately capitalised as at 31 December 2019. As a result of the COVID-19 pandemic, Finanstilsynet decided that the Pillar 2 requirement and the expectations for the capital

Development in risk-weighted assets

NOK billion



"Finanstilsynet's assessment in the most recent ordinary SREP process was that DNB was adequately capitalised."

requirement margin for the DNB Group for 2020 will also apply for 2021. The Pillar 2 requirement for the DNB Group is set at the highest of NOK 19.4 billion or 1.8 per cent of RWA. At the end of 2020, the Pillar 2 capital requirement was 2.0 per cent of RWA.

Buffer requirements

The combined buffer requirement is the sum of the capital conservation buffer, the systemic risk buffer, the buffer for systemically important institutions and the counter-cyclical buffer. These buffer requirements must be met by CET1 capital. If CET 1 capital falls below what is required to meet the minimum and the combined buffer requirement, a capital plan must be submitted to Finanstilsynet no later than five business days after failure to comply. In the case of violations of the buffer requirements, the institution cannot pay dividends to shareholders, interest on Additional Tier 1 (AT1) instruments or bonus to employees without the consent of Finanstilsynet. The institution-specific counter-cyclical buffer requirement amounted to 0.75 per cent by year-end 2020. This requirement is set as a weighted average of the prevailing countercyclical buffer requirements in the countries in which the bank operates.

As a measure from the authorities after the outbreak of the COVID-19 pandemic, most countries where DNB has exposures have reduced the countercyclical buffer to 0 per cent. The countercyclical buffer requirement in Norway was reduced from 2.5 per cent to 1.0 per cent, on 13 March 2020. In the recommendation from December 2020 regarding the countercyclical buffer for the fourth quarter, Norges Bank considers recommending increasing the buffer requirement during 2021, and in a somewhat longer perspective, returning it to 2.5 per cent level.

From the end of 2020, Finansdepartementet has announced that requirements for the systemic risk buffer will be changed from 3.0 per cent on all exposures to 4.5 per cent on Norwegian exposures. For exposures in other countries, the local buffer will be used, or no buffer if no systemic risk buffer has been established in the country. The effective systemic risk buffer for DNB was 3.2 per cent at year-end 2020. The systemic risk buffer add-on for systemically important banks will be replaced by the O-SII (Other Systemically Important Institutions) buffer. The O-SII buffer can be 1.0 per cent or 2.0 per cent, depending on the size of the bank and applies to the entire RWA. For DNB, the level will remain unchanged at 2.0 per cent.

The total combined buffer requirement for DNB was 8.5 per cent at the end of 2020, and the supervisory expectation for the CET1 ratio was 16.0 per cent[1)]. In capital planning, DNB assumes an increase in the counter-cyclical buffer and aims to have a CET1 capital ratio of over 17.1 per cent.

The table shows the compliance with the minimum and buffer requirements as at year-end. By year-end 2020, the CET1 capital exceeded the corresponding requirement by NOK 36.4 billion.

1) Including Finanstilsynet's expectations of a margin of at least 1 per cent to the requirements (Pillar 2 Guidance)

Total capital requirements, 31 December 2020

NOK million	Rate	DNB Group
Risk-weighted assets		*967 146*
Minimum Common equity Tier 1 capital requirements	*4.5 %*	*43 522*
Minimum Tier 1 capital requirement	*6.0 %*	*58 029*
Minimum total own funds requirement	*8.0 %*	*77 372*
Pillar 2 capital requirement	*2.0 %*	*19 403*
Common equity Tier 1 buffer requirements		
Capital conservation buffer	*2.5 %*	*24 179*
Systemic risk buffer	*3.2 %*	*30 963*
Buffer for other systemically important institutions (O-SII)	*2.0 %*	*19 343*
Countercyclical buffer	*0.8 %*	*7 294*
Combined buffer requirement	*8.5 %*	*81 779*
Allocation of capital to cover capital requirements		
Total own funds		*214 188*
Total own funds requirement		*178 553*
Surplus of total own funds		*35 635*
Tier 1 capital		*194 689*
Tier 1 capital requirement		*159 210*
Surplus of Tier 1 capital		*35 479*
Common equity Tier 1 capital		*181 115*
Common equity Tier 1 capital requirement		*144 703*
Surplus of Common equity Tier 1 capital		*36 411*

Leverage ratio

Following the financial crisis, the leverage ratio was introduced as a supplement to the risk-weighted capital requirements.

The capital base is Tier 1 capital, which comprises AT1 capital in addition to CET1 capital. The exposure amount consists of both balance sheet items and off-balance sheet items. The latter is calculated with the conversion factors from the standardised approach for the capital adequacy calculation. In addition, some adjustments are made for derivatives and repo transactions. The definitions of the leverage ratio and calculation methodology are in accordance with international rules and legislation. The Norwegian leverage ratio requirement consists of a minimum requirement of 3 per cent that applies to all financial institutions, a mandatory 2 per cent buffer for banks and an additional buffer of 1 per cent for systemically important financial institutions. DNB is thus the only systemically important bank in Norway that is required to have a leverage ratio of 6 per cent.

Through the so-called banking package, the EU has adopted a minimum requirement for the leverage ratio of 3 per cent, where only globally systemically important banks have a buffer requirement beyond the minimum requirement. Any institution-specific risk of 'excessive leverage' must be addressed by Pillar 2 requirements. The structure of Norwegian requirements for the leverage ratio is therefore expected to change when the EU banking package is implemented in Norwegian law, likely during 2021.

At year-end 2020, the Group's leverage ratio was 7.1 per cent, compared to 7.4 per cent a year earlier. DNB meets the total requirement of 6 per cent by a good margin.

CAPITAL MANAGEMENT AND ICAAP

Targets and principles for capital management

The responsibility for capital management rests with the Chief Financial Officer (CFO) and the principles are laid down in Group standards. Capital management must balance several considerations, and DNB has a process for assessing capital adequacy that entails that the Group:

- meets regulatory requirements with a margin that corresponds to the Group's risk profile and risk tolerance
- achieves competitive terms in the funding market
- achieves a competitive return on equity
- can fulfil the Group's dividend policy
- has flexibility to take advantage of growth opportunities in the market

Capital assessment process

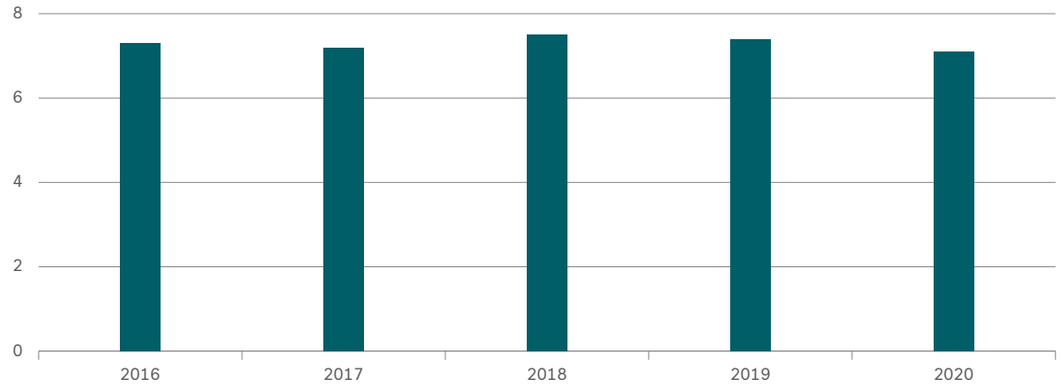
The process for assessing capital adequacy (Internal Capital Adequacy Process, ICAAP) must ensure that the Group's capitalisation is adapted to the risk level. The process must be in line with Finanstilsynet's requirements for the ICAAP and is based on the following:

The risk and capital adequacy assessment must be risk based and forward-looking

Assessments of risk, regulatory requirements and capital needs shall be forward-looking and based on the Group's business strategies and financial plans. The Group's capitalisation, liquidity and funding are subject to stress tests. The capital assessment process includes risks that are not covered by the minimum requirements in Pillar 1. Risk is quantified and assessed based on calculations of economic capital and stress tests in addition to the regulatory risk-weighted assets.

Leverage ratio

Per cent



The capital adequacy assessment is a continuous process and an integral part of the Group's framework for risk and financial management

Risks and the capital situation are assessed on an ongoing basis. Financials and risk assessments are reported monthly (see also discussion in the chapter on risk management and control). Assessments of risk and capital needs are submitted to the Board of Directors on a quarterly basis. Financial plans for the next years, prepared in the Group's yearly Target Process, is both an input to the ICAAP and reflect the outcome of stress testing, internal risk measurement methods and regulatory requirements.

Capital requirements are fully allocated to the business areas

In the financial strategy process, the target for the Group's return on equity is converted to a required return on allocated capital. A key principle of DNB's governance model is that the Group's capital requirements are to be fully allocated to the business areas. Economic capital, i.e. capital needs calculated by internal risk models, is one of the bases for capital allocation.

The risk and capital assessment process is documented in an ICAAP report

The capital assessment process is documented at least annually through a separate ICAAP report for the Group and its most important subsidiaries, and is approved by the Boards of Directors of DNB ASA and DNB Bank ASA. The Group's self-assessment of funding and liquidity needs (ILAAP) is included in the report. Several of DNB's subsidiaries prepare their own ICAAP documentation, which is included in the Group's ICAAP. The supervisory authorities perform annual assessments of the ICAAP and ILAAP processes as part of the Supervisory Review and Evaluation Process (SREP).

Capital can be reallocated internally in the Group

DNB's quarterly and annual reports describe the composition of own funds, terms applying to the different capital instruments included in own funds, and regulatory deductions from own funds for DNB Group, DNB Bank Group and DNB Bank ASA. To enable efficient capital allocation and risk management in the Group, own funds may be reallocated to various legal entities within the Group. DNB is in general able to reallocate own funds within the Group to the extent permitted by relevant laws and regulations where DNB's legal entities are domiciled. DNB sees no other material obstacles to transfers of own funds within the Group.

INTERNAL ASSESSMENTS OF CAPITAL ADEQUACY

Margin to regulatory capital requirements

DNB shall in normal situations operate with a headroom in form of CET1 capital to the supervisory authorities' expectation. This headroom shall cover unexpected volatility in RWA and in the capital base, underpin strategic flexibility and provide confidence in that dividends are paid according to the Group's dividend policy, including coupons on Additional Tier 1 capital. DNB's long-term dividend policy is to have a payout ratio of more than 50 per cent of profits as cash dividends, provided that the Group's capital adequacy is at a satisfactory level. DNB will use other capital instruments than CET1 capital to ensure that the capital requirement is fulfilled cost effectively. Additional Tier 1 capital and Tier 2 capital shall in normal times have a margin to the minimum requirements. The leverage ratio for DNB at the consolidated level, at the company level and at the sub-consolidated level shall normally meet regulatory requirements by a reasonable margin. DNB is one of the best capitalised financial services groups in the Nordic region.

Capitalisation of subsidiaries shall ensure compliance with relevant Norwegian, foreign and international rules on transfer pricing. The capitalisation of subsidiaries shall otherwise reflect that the capital resources are kept as high in the corporate structure as possible. Profits in subsidiaries shall be channeled to DNB ASA through dividends and group contributions. For the banking group, the CET1 capital ratio and the total capital ratio shall be in line with the Group's targets. DNB Boligkreditt shall operate with a headroom to regulatory requirements to cover for volatility in earnings and capital caused by the mark-to-market valuation of basis swap contracts and funding in NOK. DNB Livsforsikring shall fulfill the solvency requirements with a reasonable margin. Capitalisation of international subsidiaries is based on fulfillment of local regulatory requirements with a reasonable margin and a specific and comprehensive assessment of borrowing capacity reflecting the risk profile and creditworthiness of the entity, local peer group references and the size and maturity of the funding from the parent bank.

Systemic risk

In accordance with Norwegian regulations, banks' ICAAP should include an assessment of systemic risk. In the EU's capital adequacy regulations, systemic risk is defined as the risk of disruptions to the financial system that have potentially serious consequences for the financial system and the real economy. The drivers of systemic risk are often factors that are already reflected in the bank's risk assessments, such as house price movements. In order to assess whether systemic risks increase capital needs, measures that have already been implemented to cover such risks must be taken into consideration.

A high household debt-to-income ratio, high housing prices and the Norwegian economy's dependence on revenues from oil and gas are factors that increase systemic risk in Norway. However, these are counteracted by other characteristic features of the Norwegian economy, such as a national currency, an independent monetary policy, considerable fiscal flexibility and a strong social security network, which has contributed to smaller fluctuations in mainland Norway's GDP over time compared with most other countries in Europe. Risk in the housing market has been addressed by means of higher risk weights for residential mortgages in the calculation of banks' capital adequacy requirements, and requirements for down payments, payments of principal and debt servicing capacity in the Regulation on requirements for retail mortgage loans.

The rating agency S&P Global bases its ratings partly on the Banking Industry Country Risk Assessment (BICRA), which covers key elements of systemic risk. Like Sweden and a handful of other countries, Norway has a very good BICRA score. Furthermore, the Norwegian financial sector is relatively small in relation to GDP compared to most other comparable European countries. DNB therefore considers systemic risk to be relatively low in Norway.

Economic capital

DNB calculates economic capital for all of the main risk categories. Economic capital should amount to 99.9 per cent of unexpected losses within a horizon of one year, i.e. economic capital should reflect a "millennial loss". DNB employs a simulation model that calculates unanticipated losses for different types of risk and for the Group as a whole. The quantification is based on historical data. If the historical data is not sufficient, discretionary estimates are used. A diversification effect arises when the risks are assessed together, since it is unlikely that all of the loss events would occur at the same time. Due to the diversification effects between different risk categories and business areas, the Group's economic capital ends up being lower than it would have been if all of the business areas had been independent companies. Changes in the calculation of economic capital for life insurance and the incorporation of CVA risk in market risk led to an increase in economic capital in 2020.

Comparison of internal assessments and regulatory minimum requirements

The figure shows a comparison of economic capital and the regulatory minimum capital requirements in Pillar 1, i.e. 8 per cent of risk-weighted assets (RWA). Economic capital and the regulatory minimum requirements are based on the same level of confidence, i.e. 99.9 per cent of unexpected losses.

At the end of 2020, the internal risk calculation was lower than the regulatory minimum requirement. The difference is primarily attributable to the measurement of credit risk. The main reason for this is a portion of the credit portfolio is measured according to the standardised approach in calculating the regulatory capital adequacy requirement. At the end of 2020, 32 per cent of the risk-weighted assets for credit was measured according to the standardised approach, which gives a higher risk weight than the IRB method. Internal classification models are used for calculating economic capital for all portfolios, regardless of whether the models have formal IRB approval. The credit portfolio is considered well diversified with respect to industries and therefore there is no calculated addition in economic capital for concentration risks against industries. There is a small addition for concentration risk against individual customers.

The internal method for calculating market risk is more conservative than the method used to calculate the regulatory capital adequacy requirement. The main difference is that equity investments in the banking portfolio are treated as credit risk in the capital adequacy calculations, with a risk weighting of 100 per cent, and corresponding capital adequacy requirement of 8 per cent. Economic capital intended for the same investments is approximately 40 per cent of the exposure. The internal market risk measurement also includes elements that are not covered by the regulatory Pillar 1 requirements. These are risk aspects covered by the Pillar 2 supplement in the regulatory capital requirement. The increase in economic capital for market risk in 2020 is due to the fact that CVA risk was included in the calculation, and that the value of the bank's ownership in Fremtind increased.

The methodology for calculating economic capital for insurance risk was changed in 2020 and is based on DNB Livsforsikring's capital requirements under the Solvency II regulations, adjusted up to a 99.9 per cent confidence level. The change in method is the main reason for the sharp increase in economic capital related to DNB Livsforsikring. Regulatory capital requirements for life insurance are linked to the size of equity and subordinated capital that the group has provided to the insurance business.

DNB has a significant profit risk related to basis swaps in the banking activities. These are derivative contracts that are used to convert funding in foreign currency to lending in Norwegian kroner. The contracts are valued on an ongoing basis at fair value in the financial statements and affect the bank's earnings. However, since the contracts in practice

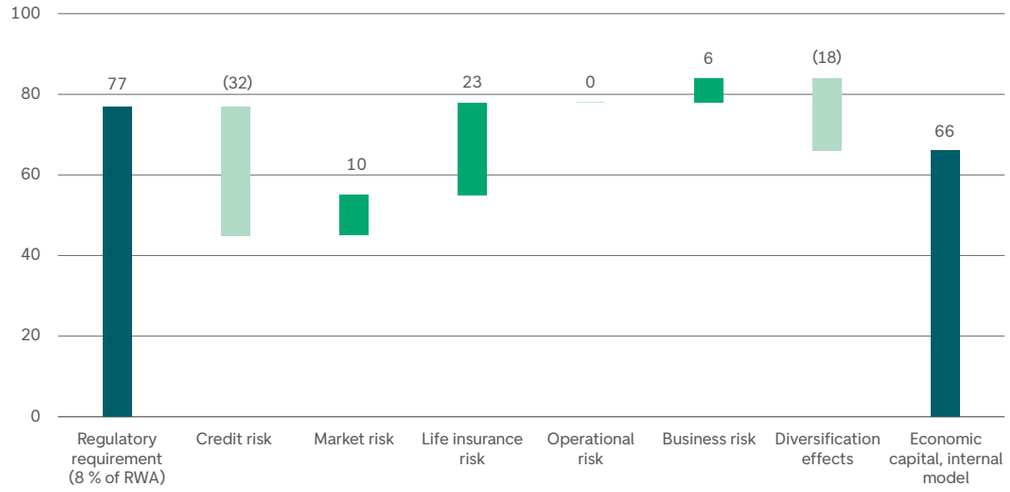
Economic capital

NOK million	31 Dec. 2020	31 Dec. 2019
Credit risk	*36 860*	*35 313*
Market risk	*10 978*	*7 378*
Life insurance risk[1)]	*22 659*	*4 636*
Operational risk	*7 458*	*8 798*
Business risk	*6 452*	*6 922*
Gross economic capital	*84 407*	*63 846*
Diversification effect	*(17 988)*	*(12 128)*
Net economic capital	*66 419*	*51 718*
Diversification effect in per cent of gross economic capital	*21*	*19*

1) Economic capital related to DNB Livsforsikring AS is included in the table, even though it is outside the regulatory scope (CRD IV-group), because it has a significant impact on the Group's total economic capital

Comparison of capital requirements and economic capital

NOK million



are held to maturity, value fluctuations will be neutralised over the life of the contracts. The risks associated with the value fluctuations in the basis swaps are included in the assessment of how large a margin DNB should allow to the regulatory requirements.

Stress testing capital

At least once a year, an extensive stress test (the ICAAP stress test) is presented to the Board of Directors as a basis for evaluating whether the Group's capitalisation is satisfactory. This is normally done in connection with the treatment of the Group's budget for the following year and financial plan for an additional two years, i.e. the Group's target process. The results from the target process and the ICAAP stress test are an important part of the Group's ICAAP report.

The ICAAP stress test assumes a significant deterioration of macroeconomic conditions and shows how this could affect the Group's total risk situation, profit performance and capitalisation. A stress scenario based on relevant risk factors is worked out as the basis for the annual stress test. The scenario is reviewed by ALCO and approved by the Chief Financial Officer. In the stress test, loan losses are estimated by the model for calculating expected credit losses in the credit portfolio with supplementary analyses of individual portfolios. The Group's model for calculating economic capital is used to estimate losses related to business risk, market risk and operational risk.

In the ICAAP stress test 2021, the downside scenario is based on a crisis with the Covid-19 pandemic and a shutdown of the economy. The pandemic acts as a trigger for other risk factors and is the start of a longer crisis. Examples of risk factors that are expected to materialise from 2022 are financial imbalances in China and weak government finances in Europe. An escalation of the trade war between the United States and China is also helping to make the global crisis more serious and protracted.

Based on the description above, the following shocks are assumed to hit the economy in the ICAAP scenario:

- Sharp downturn internationally as a result of new outbreaks of the COVID-19 virus, with a consequent shutdown of the economies and a sharp fall in world GDP.
- Unemployment rises sharply as a result of the closure of society and low activity in the economy.
- Drop in residential and commercial property prices. Falling house prices have a ripple effect in the form of weakened private consumption and investment, thus producing significantly weaker development in the mainland GDP.
- Lower energy prices and a global downturn affects Norway through lower oil and gas prices and reduced traditional exports.
- Unrest in international financial markets, with sharp stock market declines and increased risk premiums in the money markets. Long-term interest rates fall further.

Some key features of the macroeconomic scenario used in the ICAAP stress test:

- Norwegian mainland GDP falls by 9 per cent in 2021 due to strong outbreaks of the Covid-19 virus with a consequent shutdown of the economy, low oil prices and a reduction in traditional exports. This is based on the assumption that an effective vaccine will not be in place before 2022.
- Oil prices fall to around USD 30 per barrel, and oil investments on the Norwegian continental shelf decline significantly.
- The registered unemployment rate rises to 10 per cent, corresponding to the level in spring 2020.
- House prices drop 30 per cent. Households respond to falling house prices, declining real wage growth and an uncertain labour market by reducing their spending and increasing their rate of savings.
- The key policy rate will remain at zero. Higher money market premiums, especially in the beginning of the scenario will hold 3-month NIBOR at around 0.5 to 1.3 per cent throughout the stress test period.
- Global GDP growth will fall 5.9 per cent in 2021. Norwegian exports of traditional goods and services are weakened substantially despite a weaker NOK.

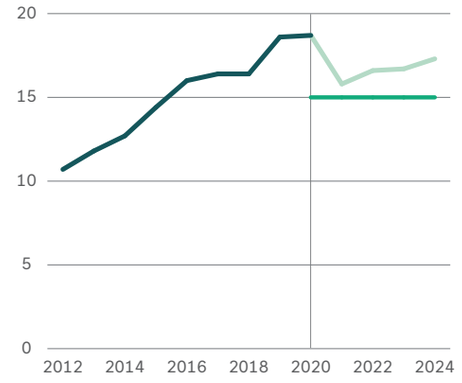
The results of the stress test showed negative results in the first of the four years. The negative result was due to loan losses, weakening in net interest income and losses related to operational risk, business risk and market risk. The CET1 capital ratio drops to 15.8 per cent in the first year, until positive results restore it to 17.3 percent towards the end of the period. The ICAAP stress test is set up according to Finanstilsynet's requirement of a net loss in at least one of the years included in the stress test (ref. Finanstilsynet's Circular 12/2016).

In addition to DNB's own stress testing, Finanstilsynet carries out an annual stress test of DNB. American regulatory requirements for stress testing are fulfilled according to CFR § 252.146[1)].

1) CFR § 252.146 – Capital stress testing requirements for foreign banking organizations with total consolidated assets of $100 billion or more and combined U.S. assets of less than $100 billion.

CET1-ratio according to the ICAAP stress test

Per cent



History ICAAP stress test Regulatory requirement including Pillar 2 Guidance, but excluding the countercyclical capital buffer

3
Liquidity risk and asset and liability management

DNB seeks to maintain well-diversified funding, which includes a broad deposit and funding base from personal and corporate customers. However, the Norwegian funding market is relatively small, and DNB relies on international funding in various currencies. DNB had good access to funding in 2020. The ratio of deposits to net loans increased through the year and the liquidity situation was satisfactory.

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28 Funding
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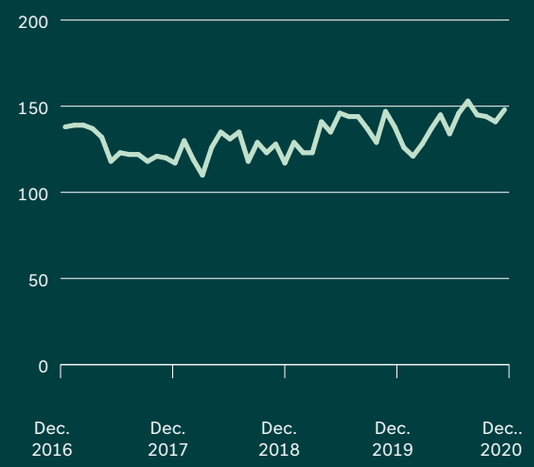
30 Stress testing

Definition

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due, or will be unable to meet its liquidity obligations without a substantial rise in associated costs. Liquidity is vital for financial operations, but as a rule this risk does not materialise until other events give rise to concern about the Group's ability to meet its financial obligations.

Development in total LCR
Per cent



Liquid assets
NOK billion
609 (503)

Long-term debt securities
NOK billion
618 (654)

Average LCR in 2020
Per cent
140 (136)

Average NSFR in 2020
Per cent
110 (110)

DEVELOPMENTS IN LIQUIDITY RISK IN 2020

DNB had good access to both long-term and short-term funding, as well as a satisfactory liquidity situation despite market turmoil and volatile markets. The ratio of deposits to net loans improved throughout the year, and DNB raised significant volumes of long-term senior bonds in 2019 as an adjustment to the upcoming MREL[1] regulation. DNB thus had less need for long-term funding in a market that was occasionally characterised by very high funding costs in the first half of the year.

The unrest in the market caused by the COVID-19 pandemic resulted in turmoil in the short-term, unsecured financing markets in early 2020. Norwegian and foreign central banks implemented various stimulus packages that helped revitalise the markets for short-term secured and unsecured funding, which in turn enabled the markets to normalise relatively quickly. The same market turmoil caused credit spreads to increase sharply at the end of February, but the reversal was already started by the end of March. Credit spreads normalised further from the second quarter to the end of the year. As a consequence of the market turmoil, Norges Bank quickly lowered the key policy rate from 1.5 per cent to zero per cent, which led to DNB lowering both lending and deposit rates throughout the first half of the year. Since May, the key policy rate has been zero per cent, and deposit rates have been slightly positive. Norges Bank expects interest levels to normalise gradually. However, if an unexpected significant deterioration in the Norwegian macro environment should lead to a further reduction in interest rates, it would put pressure on the bank's deposit spread, as it would likely be difficult to price retail market deposits with a negative interest rate.

MREL is an EU requirement stating that banks must have a minimum amount of own funds and eligible liabilities that can be written down or converted into equity (bail-in) when a bank is close to liquidation. Senior debt that has a minimum of one year left until maturity is considered qualifying debt until the end of 2023. Previously, it was also a requirement that the debt must have been issued before 1 January 2020, which explains the increase in significant volumes of senior debt in 2019. In December, Finanstilsynet (the Financial Supervisory Authority of Norway) rescinded this requirement. After the end of 2023, the requirement must be met with non-preferred senior debt[2]. A new debt class between senior and Tier 2, so-called Tier 3 capital[3], will be used to meet the requirement for subordination. As a result of the market turmoil in 2020, the deadline for fulfilling the Tier 3 requirement was postponed for one year, from 1 January 2023 to 1 January 2024. An additional requirement is that subordinated debt must be issued by the parent company, and DNB received permission earlier this year from Finanstilsynet to change its group structure, with DNB Bank ASA becoming the parent company in the DNB Group.

DNB issued Tier 3 capital for the first time in September. The issuance amounted to USD 1 billion, and was well received by investors. DNB is in a relatively good position in terms of fulfilling the MREL requirement, which was recently set to 35.54 per cent of risk-weighted assets. Norwegian banks are somewhat behind in issuing Tier 3 capital, compared with other European banks, and issuances from Norwegian banks are expected to be well received by the market.

DNB already has a framework that makes it possible to issue green covered bonds, and now it also has a framework for unsecured funding, both senior bond funding and new MREL funding. The money will be used to finance the bank's green loans for renewable energy, green transport and green commercial real estate. This is a positive contribution to DNB's sustainability ambitions.

The CRR/CRD IV rules and legislation stipulate that institutions must at all times have a liquidity reserve (Liquidity Coverage Ratio, LCR) of at least 100 per cent for all currencies combined. This means that an institution's holdings of liquid assets must at least correspond to the net liquidity outflow in a situation of stress in the money and capital markets for a 30-day period forward in time. The LCR stayed well above the minimum requirement of 100 per cent throughout 2020, and reached 148 per cent at the end of December. In addition, there is a minimum requirement for LCR of 50 per cent in NOK and 100 per cent in other significant currencies. The table at the top shows the LCR in the main currencies and in total at year-end 2019 and 2020.

The long-term liquidity risk target (Net Stable Funding Ratio, NSFR), defines illiquid assets, including lending to customers, which must be funded by stable sources. Customer deposits, equity and borrowing with more than 12 months of residual maturity are considered to be stable sources of funding. According to rules and legislation, the level of NSFR must be at least 100 per cent at all times. NSFR was 109 per cent at the end of 2020, compared to 112 per cent in 2019.

LCR development, significant currencies

Per cent	EUR	USD	NOK	Total
31 December 2020	*221*	*266*	*74*	*148*
31 December 2019	*227*	*220*	*62*	*138*

Issued senior debt and covered bonds

	Senior debt		Covered bonds	
NOK Billion	NOK	Currencies	NOK	Currencies
31 December 2020	*14.4*	*169.2*	*63.3*	*370.7*
31 December 2019	*16.0*	*206.7*	*65.9*	*365.6*

NSFR development, significant currencies

Per cent	EUR	USD	NOK	Total
31 December 2020	*471*	*102*	*81*	*109*
31 December 2019	*570*	*113*	*79*	*112*

1) Minimum requirements for own funds and eligible liabilities

2) Non-preferred senior debt is a subordinated senior debt class.
3) Tier 3 is a debt class consisting of senior non-preferred bonds.

FUNDING

DNB is funded mainly through deposits, bonds, secured and unsecured short-term funding.

The net value of long-term debt securities issued by the Group was NOK 618 billion at year-end 2020, compared with NOK 654 billion the previous year. Ordinary senior bond funding is mainly issued through the European Medium Term Note (EMTN) programme. DNB has also established senior bond programmes in US dollars and Japanese yen, in addition to covered bond programmes in Europe and the USA.

The Norwegian covered bond market has become bigger than the Norwegian government bond market and is as liquid as the government bond market. Covered bonds are an important instrument for long-term funding in DNB and are issued by DNB Boligkreditt AS. Investors are provided with security in the company's portfolios of mortgage loans, which are of high quality. In turbulent times, covered bonds have proved to be a more robust and lower priced funding instrument than ordinary senior bonds.

The figure to the top right shows the development in average term to maturity for DNB's long term funding at year-end 2020, divided between senior unsecured bonds, senior non-preferred bonds and covered bonds. The maturity profile is almost the same as last year, where there is a relatively high maturity of senior debt in the coming years, which is due to the large increase in senior debt in 2019. The figure also shows Tier 3 that reaches maturity in 2025.

At the end of 2020, the average residual maturity for debt securities issued was 3.5 years, compared to 3.7 years at the end of 2019. This reduction is mainly due to the increase in senior debt in 2019. As the maturity of this debt decreases, it will lower the average maturity. This debt is qualified in accordance with the MREL requirement until 2023, and must be refinanced within that time non-preferred senior debt (Tier 3). The average maturity has been about four years in recent years. The figure at the bottom right shows the development in average term to maturity for long term funding, which is composed of senior unsecured bonds and covered bonds.

The ratio of deposits to net loans, measured as customer deposits in per cent of net lending to customers, and following adjustments for short-term money market positions, improved throughout the year and was 67.3 per cent at the end of 2020, compared to 57.5 per cent the previous year. This is due to an increase in deposits during the year combined with a flat development in lending. Customer deposits were up NOK 143 billion, corresponding to 15 per cent in 2020. Lending to customers decreased by NOK 22 million or 1 per cent.

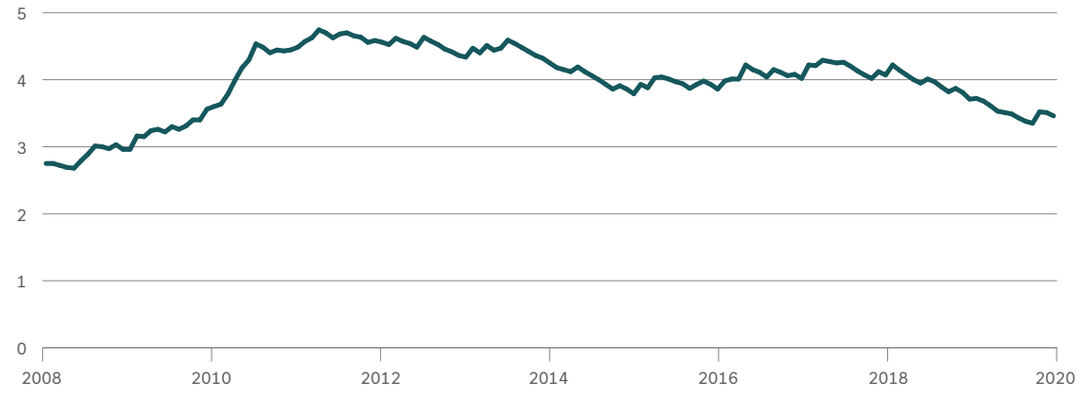
DNB uses a number of short-term commercial paper programmes for short-term funding. These programmes provide ample access to short-term funding. Using several funding channels contributes to great flexibility to meet investors' interests. DNB is a bank with a good credit rating in a strong economy, and attracts substantial funds from other banks, central banks and money market funds. The funds include business deposits and excess liquidity from national and international banks, which, together with commercial-paper funding, serve as a short-term liquidity buffer.

Long-term funding, maturity profile

NOK billion

Average term to maturity for long-term funding, senior unsecured bonds and covered bonds

Year



Pledged assets

The use of covered bonds has contributed to raising awareness of asset encumbrance. A high proportion of Norwegian loans are secured by pledged assets. This is because Norway does not have an effective securitisation market and almost all loans are kept on the banks' balance sheets. In addition, the home ownership rate is high in Norway and this ownership is loan-financed. The current level of pledged assets in DNB is comfortable considering the Group's diversification, capitalisation and liquidity.

At year-end 2020, pledged assets accounted for NOK 665 billion, which is about 25 per cent of the balance sheet, compared with NOK 539 billion and 22 per cent, respectively, the previous year.

For more information on pledged assets, see the appendix to the report.

LIQUIDITY PORTFOLIOS

In order to support its ongoing liquidity management, DNB has a holding of securities in the form of bonds as well as other liquid assets such as deposits in other banks and central banks. Among other things, DNB uses these securities as collateral for short-term loans from central banks, and they are an element of the liquidity buffers for ensuring fulfilment of regulatory liquidity requirements. Total liquid assets amounted to NOK 609 billion at the end of 2020, compared with 503 billion in 2019.

The bond portfolio

The bank's bond portfolio consists of a Norwegian portfolio and an international sub-portfolio. At year-end 2020, the total bond portfolio amounted to NOK 193 billion.

The Norwegian portfolio totalled NOK 85 billion, of which Norwegian government bonds and other level 1 public sector bonds accounted for NOK 43 billion. Other level 1 assets in the form of covered bonds accounted for NOK 40 billion while the remainder consisted of level 2A assets. Level 1 and level 2A refer to the categorisation of liquid assets within the LCR framework, where level 1 represents the most liquid assets.

The international portfolio totalled NOK 108 billion at year-end, and consisted of a trading portfolio and a banking portfolio.

The trading portfolio comprised NOK 29 billion of securities with a rating of AAA or higher. Public sector bonds comprised 71 per cent of the portfolio. The remainder consisted of covered bonds. The weighted average term of the portfolio was 1.6 years, and the change in value resulting from a one basis point change in spreads was NOK 4.9 million at year-end 2020.

The banking portfolio amounted to NOK 77 billion. It was established in 2019 and market value changes are recorded as Other Comprehensive Income (OCI)[4]. The portfolio was entirely comprised of public sector bonds, and NOK 76 billion had a rating of AA or better. The weighted average term of the banking portfolio was 32 years, and the change in value resulting from a one basis point change in spreads was NOK 24.7 million at year-end 2020.

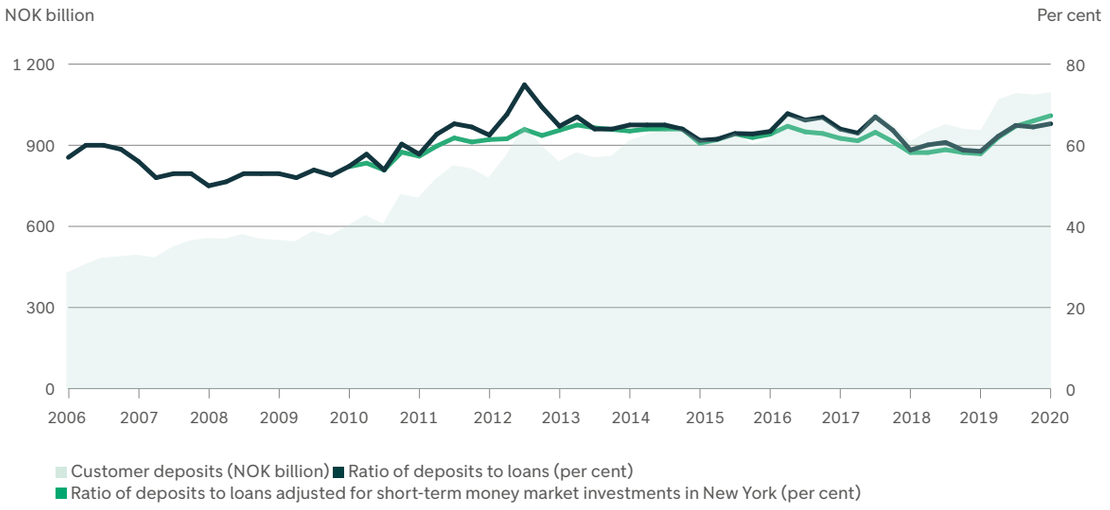
LIQUIDITY RISK MANAGEMENT AND CONTROL

The Group's risk appetite framework defines the limits for liquidity management in DNB. DNB has internal frameworks for LCR, NSFR and deposit coverage for the banking group. Risk appetite is operationalised through DNB's liquidity strategy and frameworks. These must be approved by the Board at least once a year.

The Group risk management policy is elaborated in a Group standard for managing liquidity risk and sets out more detailed requirements for organisation, the division

4) Other comprehensive income, or OCI, consists of items where changes in value affect the balance amounts, but the effect is not reported in the income statement.

Customer deposits and ratio of deposits to loans

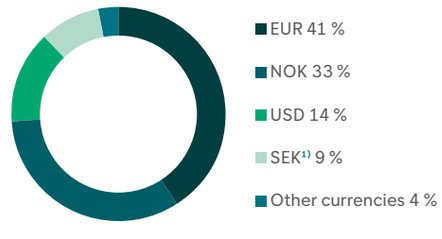


Liquid assets, 31 December 2020

Per cent

Liquid assets by currency, 31 December 2020

Per cent



1) Not a significant currency

of responsibilities and reporting. Group Risk Management is in charge of the second line of defence for liquidity risk.

In line with the bank's operations in general, liquidity risk should be low and bolster the bank's financial strength. This implies that the bank should seek to have a balance sheet structure which reflects the liquidity risk profile of an international bank with AA-level long-term credit ratings issued by recognised rating agencies. Maintaining a low risk profile calls for adequate diversification of the sources of funding with respect to both contractual counterparties and instruments.

The banking group's liquidity risk management is centralised and has been delegated to DNB Bank ASA. The liquidity risk in branch offices and subsidiaries is consolidated in the banking group's balance sheet and included in the basis for the banking group's liquidity management. The banking group manages liquidity risk on both the consolidated and individual levels. DNB ASA is funded by the banking group and its primary function is to be a financially sound equity-based owner.

The subsidiaries in DNB ASA, DNB Livsforsikring AS and DNB Asset Management AS, manage and administrate customer assets. This management is covered by internal liquidity rules in the respective companies.

Group Treasury is responsible for providing funding to subsidiaries and branch offices outside Norway. DNB Bank ASA and Boligkreditt AS have entered into a bilateral agreement that regulates the coordination of funding and liquidity between these two entities. Group Treasury is responsible for ensuring that the Group stays within the liquidity limits at all times, and for managing the bank's liquidity portfolio. Group Treasury's liquidity risk responsibilities are an element of the Group's first line of defence.

The organisation of liquidity management in DNB is based on a clear authorisation and reporting structure and is in conformity with CRR/CRD IV. The Boards of Directors of DNB Bank ASA and DNB ASA set the limits and guidelines and regularly review the bank's liquidity risk. Liquidity limits are determined annually or more often when needed. Group Treasury and Group Risk Management determine the principles and limits for liquidity management, which are described in 'Limits and Strategy for Liquidity Risk Management in DNB Bank Group'. These are endorsed in the Asset Liability Committee (ALCO) before being adopted by Group Management and the Board.

The limit structure for liquidity risk is in conformity with the structure in the EU capital requirements regulations. The liquidity risk is controlled internally through the short-term liquidity risk requirement, LCR, as well as the long-term structural liquidity risk requirement, NSFR. In addition, the group has limits for internal liquidity indicators that supplement LCR in the shorter and longer term. The object of the liquidity risk limits is to reduce the bank's dependence on short-term funding from domestic and international money and capital markets. The reason for this is that funding from such sources tends to be more credit- and market-sensitive than ordinary deposits.

The liquidity risk and the utilisation of liquidity limits are reported regularly and monitored by the Group Treasury, the risk management unit in DNB Markets and Group Risk Management. LCR and its limits and operational liquidity are reported daily, whereas NSFR and its limits are calculated and reported monthly to ALCO and Group Management and quarterly to the Board through the Group's risk report.

The risk management unit in DNB Markets is responsible for reporting deviations from liquidity risk limits to the relevant parties and committees. Deviations to the limits for LCR and NSFR are immediately reported to the Group Treasury, Group Risk Management, and the Chief Financial Officer (CFO). The CFO reports on to Group Management and ALCO. The Board receives reports on deviations at least quarterly as part of the Group's risk report.

The credit ratings of the underlying securities in the bond portfolio are continuously monitored and reported. The chapter on market risk contains a description of how market risk in the liquidity portfolio is monitored.

The chapter on risk management and control in DNB includes a discussion of DNB's contingency plan for liquidity.

STRESS TESTING

DNB conducts regular stress tests to ensure that it has sufficient liquid assets to cope with difficult situations in a satisfactory manner. In connection with this, the bank periodically assesses the assumptions on which liquidity risk management is based. Among other things, this implies a reappraisal of the assets the bank holds that can be classified as liquid, and that can be used as collateral in Norges Bank or other central banks. The degree to which assets defined as stable also meet the requirements for stability in a stress situation is also assessed. Stable liabilities are the portion of the banking group's funding that is not deemed likely to fluctuate substantially in the short term. Examples include deposits from customers, long-term covered bonds and equity capital. DNB simulates the liquidity effect of a downgrading of the bank's credit rating due to one or more negative events. The bank's contingency plan for liquidity management during a financial crisis includes the results of the stress tests, which test the effects that a financial crisis lasting for up to 12 months could have on liquidity.

The stress tests differentiate between a financial crisis which only affects the DNB, a so-called bank-specific crisis, a crisis which affects the banking industry in general,

"DNB conducts regular stress tests to ensure that it has sufficient liquid assets to cope with difficult situations in a satisfactory manner.»

a so-called systemic crisis, and a combination of the two. Group Treasury continuously assesses the stress factors in connection with the implementation of the stress test.

The need to strengthen DNB Boligkreditt AS' cover pool in a stress situation is quantified in an extended stress test. This stress test estimates the potential liquidity exposure in the event of a steep fall in housing prices combined with a major change in the market value of the derivative contracts between DNB Boligkreditt and DNB Bank ASA. Weakening of the NOK is the factor that has the largest effect on changes in the value of the derivative contracts. Group Treasury closely monitors and manages weekly reports of this counterparty credit risk.

A reverse liquidity stress test is used to identify circumstances that could drain liquidity reserves in the longer term. The combined stress scenario described above is used as the point of departure. Another scenario is that there will no longer be a market for issuing and refinancing covered bonds and that 40 per cent of the large corporate customers withdraw their deposits. Then, DNB calculates the amount of deposit attrition among personal customers and small businesses the bank can withstand in the course of 30 days before its liquidity reserves become negative.

The stress tests are performed each quarter, and the results are reported to the Board of Directors. The stress tests provide information about potential challenges in the funding situation and form the basis for the Group's contingency plans, including the setting and possible adjustment of liquidity limits.

DNB's liquidity stress tests cover all requirements relating to liquidity risk in all countries in which DNB operates. This includes the principles and requirements of the Basel Committee and the US CFR Section 252.145[5].

Ratings

Credit ratings are forward-looking and are meant to reflect how future events could impact the issuer's creditworthiness. The credit rating represents the rating agencies' assessment of the issuer's capacity and willingness to meet financial obligations on time. Strong credit ratings issued by recognised rating agencies are thus important for ensuring predictable, flexible access to funding.

The short-term credit rating is an expression of the probability of an issuer failing to meet its financial obligations in the current year, and of the expected financial loss resulting from non-fulfilment of the obligations. A long-term credit rating is an expression of the same probability but over a period of one year or more.

DNB is one of the few banks with a long-term credit rating of AA from both S&P Global and Moody's, AA- and Aa2, respectively. In addition, DNB has a short-term credit rating of A-1+ and P-1 from S&P Global and Moody's, both of which are the highest rating score. Both S&P Global and Moody's confirmed DNB's ratings in December 2020.

5) CFR § 252.145 – Liquidity risk-management requirements for foreign banking organizations with total consolidated assets of $250 billion or more and combined U.S. assets of less than $100 billion.

Credit Ratings

Rating agency	**Rating**	**Latest rating report**	**Latest rating action**
S&P Global	*Short term: A-1+* *Long term: AA-* *Outlook: Stable* *Resolution Counterparty Rating: AA- (LT)* *Senior Non-Preferred: A*	*S&P rating report – December 2020*	*22 Jan. 2019*
Moody's	*Short term: P-1* *Long term: Aa2* *Outlook: Stable* *Counterparty Risk Rating: Aa2 (LT)* *Senior Non-Preferred: (P)A3*	*Moody's rating report – December 2020*	*11 Dec. 2020*
Dominion Bond Rating Service (DBRS)[1]	*Short term: R-1 (middle)*[1] *Long term: AA (low)*[1] *Outlook: Stable*[1]	*DBRS rating report – August 2020*	*29 Sep. 2015*

1) Unsolicited rating

4
Credit risk

DNB has a robust credit portfolio where loans to personal customers and the SME market in Norway make up about 70 per cent. When the COVID-19 pandemic hit, we saw almost immediately a negative effect in the form of increased forbearance, in addition to some increase in defaults in our corporate portfolios. Extensive support measures from the authorities, together with the financial markets gradually normalising, however, helped stabilise the credit portfolio and led to a positive development towards the end of the year.

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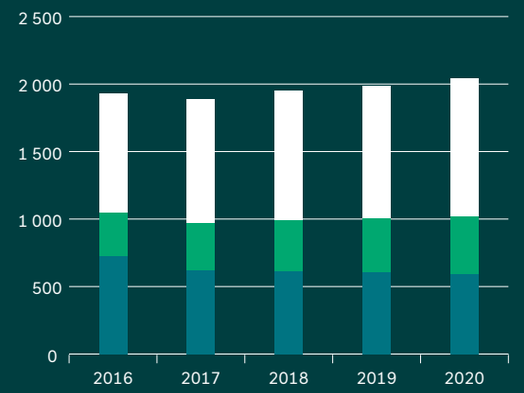
Definition

Credit risk is the risk of financial losses due to failure by the Group's customers to meet their payment obligations towards DNB. Credit risk refers to all claims against customers, mainly loans, but also commitments in the form of other extended credits, guarantees, interest-bearing securities, unutilised credit lines, derivative trading and interbank deposits. Credit risk also includes concentration risk, which is risk associated with large exposures to a single customer or concentration within geographical areas, within industries or related to homogeneous customer groups.

Development in total credit portfolio[1], EAD[2]
NOK billion



1) Excluding institutions, government, central banks, equity positions and exposure in associated companies
2) EAD from the internal monitoring of credit risk where all exposures are measured with internal models.

Capital requirement
NOK billion

68.5 (68.4)

Economic capital
NOK billion

36.9 (35.3)

Net impairments
NOK billion

9.9 (2.2)

DEVELOPMENTS IN CREDIT RISK IN 2020

DNB's credit portfolio amounted to NOK 2 041 billion, measured by EAD, at the end of 2020, and was nearly evenly distributed between corporate and personal customers. The credit quality is still good in most portfolios despite lockdown in parts of the economy. There is still great uncertainty associated with further development and the consequences of the pandemic. The biggest challenges in DNB's credit portfolio are related to offshore and tourism.

Impairment provisions ended at NOK 9.9 billion in 2020. Impairments in Stage 3 (non-performing loans) amounted to NOK 9.3 billion, of which almost 70 per cent were offshore. For several years, DNB has been reducing its exposure to oil-related industries, and the total portfolio is therefore less sensitive to fluctuations in oil prices than previously. The largest impairment provisions in 2020 were nevertheless related to customers in the offshore rig and supply vessel segments, and are related to a persistent overcapacity in these markets.

Aside from the challenges related to the offshore industry, customers in tourism-related industries and services have been hardest hit by shutdowns and travel bans. After an upswing for the tourism industry during the summer months, the restrictions continued, and at the end of the year, there was still great uncertainty related to future prospects. This applies first and foremost to the progress of vaccine programmes, but also to the possibility of more permanent changes in travel habits after the COVID-19 pandemic. Our customers continued to have satisfactory liquidity and flexibility at the end of the year.

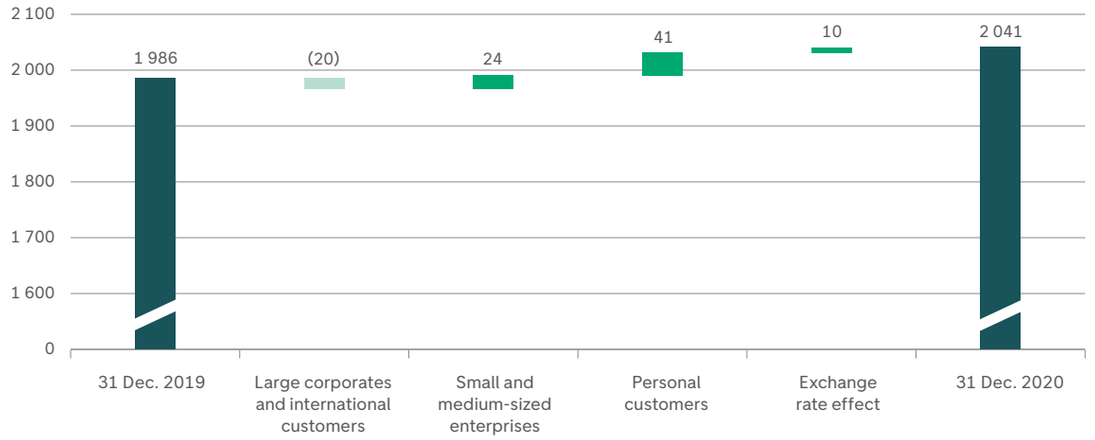
Loans to small and medium-sized enterprises in Norway experienced low impairment provisions in 2020, and there was good growth and stable quality in this portfolio. The portfolio consisting of retail mortgage loans to Norwegian households also had very low impairments. Easing was granted in the form of deferred payment of instalments to about 50 000 mortgage customers in the first phase of the COVID-19 pandemic, but the number of such applications fell relatively quickly. At the end of the year, the proportion of customers with interest-only periods was back to a normal level. The credit card portfolio was reduced in 2020 and amounted to 2.2 per cent of EAD at the end of the year. There were no increase in defaults. DNB has low activity in credit cards and consumer finance, and emphasises accountability and corporate responsibility in lending practices.

The figure shows development in the credit portfolio measured in EAD. The bank's credit portfolio increased by NOK 55 billion in 2020. This growth was mainly distributed between small and medium-sized enterprises and home mortgages for personal customers in Norway. Loans to small and medium-sized enterprises increased by 6 per cent, and loans to personal customers increased by 4 per cent. Large corporate customers and the international portfolio were reduced by 2 per cent in 2020. Adjusted for exchange rate effects, the reduction was almost twice as large. The largest reductions were in the shipping and oil, gas and offshore portfolios, both of which were reduced by about 14 per cent during the year.

DNB maintains a branch office in Grand Cayman, which is under the New York office. Operations directed at the corporate market will be moved to DNB New York. When this process is completed, DNB will only have money market and liquidity management activities at the Grand Cayman branch.

Development in credit portfolio[1], EAD[2]

NOK billion



1) Excluding institutions, government, central banks, equity positions and exposure in associated companies.
2) EAD from the internal monitoring of credit risk where all exposures are measured with internal models.

Terms used when discussing credit risk

Gross commitment, or exposure (in connection with capital requirements), is the total credit exposure before impairments, collateral and conversion factors. It is the sum of deducted amounts and off-balance sheet items such as utilised credit lines and guarantees.

Net commitment is the same amount, calculated after impairments.

Exposure at Default (EAD) indicates the share of the approved commitment that is expected to be drawn at the time of any future default, at the same time as there is a downturn in the market, if that value is more conservative than the long-term average. EAD is the sum of the drawn amount and off-balance sheet items multiplied by a conversion factor (CCF) and is calculated before impairments. In the discussion of developments over the last year, and in the discussion of the most important industries, we refer to internal EAD. Here internal models are used to calculate EAD for all exposures, regardless of whether they are approved for IRB-reporting in calculating capital requirements.

Probability of Default (PD) is the calculated probability that a customer will not be able to service their credit within the next 12 months. PD is calculated on the basis of a combination of financial and non-financial factors and forms the basis for internal risk classification of the customers. Defaulted exposures are automatically assigned a PD of 100 per cent. The PD for calculating capital will be relatively stable over time (through-the-cycle), while the PD used in the calculation of expected credit losses (ECL) will vary in line with actual default rates (point-in-time). In addition, the bank calculates the lifetime PD, which is to reflect the probability of default over the loan's expected life, and which is used to assign a group in the calculation of expected losses.

Loss Given Default, (LGD) indicates how much DNB expects to lose if a customer fails to meet his obligations at the same time as there is a major downturn in the market. The LGD calculation used in capital adequacy assumes that there is a sharp downturn in the market, and must always be more conservative than the long-term average. The models take into account the collateral pledged by the customer, future cash flows and other relevant factors.

Expected Loss (EL) indicates the average annual expected losses over a business cycle, including inherent safety margins and cyclicality that are taken into account in the bank's IRB models. EL is calculated as PD x LGD x EAD. Under normal circumstances, this figure should be higher than the actual losses.

Expected Credit Loss (ECL) calculates expected losses based on the expected business cycle. ECL is calculated as PD x LGD x EAD, where both PD and LGD should correspond to the actual observed level, and projected values depend on the bank's view of future macroeconomic development. DNB's model for calculating expected credit losses is based on IRB models, but adjusted for inherent security margins and cyclicality so that the estimates are point-in-time.

In the internal follow-up of credit risk, internal models are used to calculate CCF (EAD), PD and LGD for all credit commitments, regardless of whether they are approved for calculating capital requirements. EAD and other key figures may thus differ slightly between statements showing the development in the credit portfolios and what appears in the capital adequacy statement.

In the internal monitoring of credit risk, credit exposures are grouped based on calculated PD. The breakdown is defined as follows:

- Low risk: PD 0.01 – 0.75 per cent.
- Moderate risk: PD 0.75 – 3 per cent.
- High risk: PD over 3 per cent, also includes defaulted exposures where PD=100 per cent.

DEVELOPMENTS IN CREDIT RISK IN SELECTED INDUSTRIES

At the end of 2020, the retail mortgage loan portfolio accounted for 47 per cent of the bank's credit portfolio, measured by EAD, and is described in more detail below. In addition, the development in commercial real estate, oil, gas and offshore and shipping is described in more detail.

Retail mortgage loans

DNB's retail mortgage loan portfolio mainly consists of loans for financing of private housing in Norway. DNB's market share has shown a slightly declining trend in recent years, and was 24 per cent at the end of 2020. 78 per cent of the bank's retail mortgage loan portfolio, measured by EAD, was transferred to DNB Boligkreditt AS at the end of 2020, and serves as the basis for issuing covered bonds.

DNB's retail mortgage loan portfolio is of high quality, and around 80 per cent of the loans were classified as low risk at year-end 2020. Despite the COVID-19 pandemic, there have been few defaults in this portfolio. At year-end 2020, the percentage of non-performing loans was 0.15 per cent.

The regulations on retail mortgage loans were extended with effect from 1 July 2020. Financial institutions may grant loans that do not meet all of the criteria in the regulation for up to 10 per cent of the value of total approved loans. For loans secured with collateral in private housing in Oslo, the limit for deviations is set to a maximum of 8 per cent. DNB monitors lending practices closely to ensure compliance with the regulations in all parts of the bank.

For the retail mortgage loans portfolio, the loan-to-value ratio (LTV) is calculated as the loan's share of the property's market value. Short-term bridging loans are not included in the calculation. The market values of all pledged private housing are updated with a new estimated value each quarter. The average loan-to-value ratio for DNB's retail mortgage loan portfolio was 58.4 per cent at the end of 2020, compared with 60.1 per cent the previous year. The figure below shows an object-oriented distribution of the retail mortgage loan portfolio. This means that all loans associated with the same property are included in the calculation, and that the total allocated amount is given the same loan-to-value ratio.

Commercial real estate

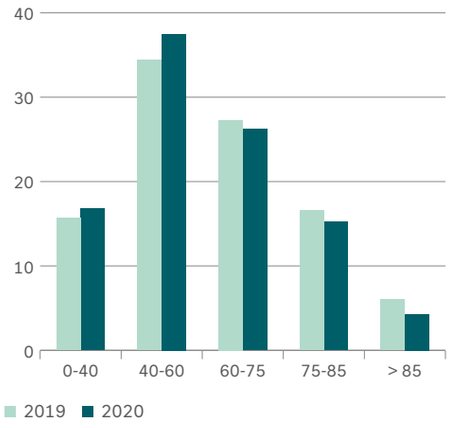
Measured by EAD, the commercial real estate portfolio (excluding residential property) constituted 10 per cent of DNB's credit portfolio. The portfolio increased by NOK 11 billion in 2020. Credit quality within commercial real estate was good throughout the year. The share of high risk decreased marginally, and was just under 4 per cent at the end of the year.

We have seen a negative development, especially in hotel property, but the risk was still acceptable at the end of 2020. We expect that the risk will increase in this segment in connection with the renewal of leases, where it is assumed that tenants will negotiate contracts without a minimum rent.

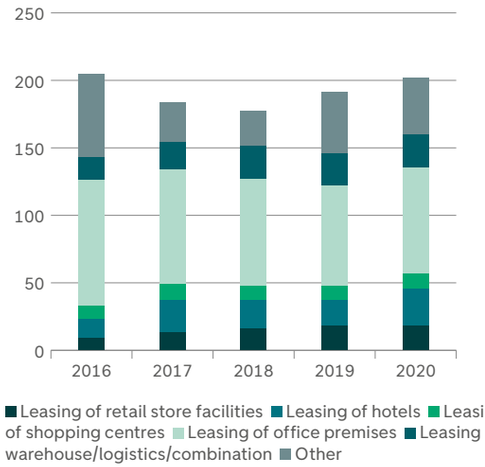
Turnover-based rental contracts for retail premises have become more common, where the landlord and the tenant share the risk and the profit. Tenants are also more concerned about the environment, and want buildings with a good indoor climate and low energy consumption. The shorter technical service life of buildings entails increased risk to the landlord and indirectly to the lender. DNB sets requirements for a lower loan-to-value ratio and carefully assesses the expected value development of the properties. The sub-segment shopping centres has performed relatively well so far during the COVID-19 pandemic, with an increased customer influx to regional centres.

Prices for the most attractive office properties in in Oslo and other large Norwegian cities are pressed and contributes to high price levels. Non-performing loans in the office property sub-segment amounted to less than 1 per cent at

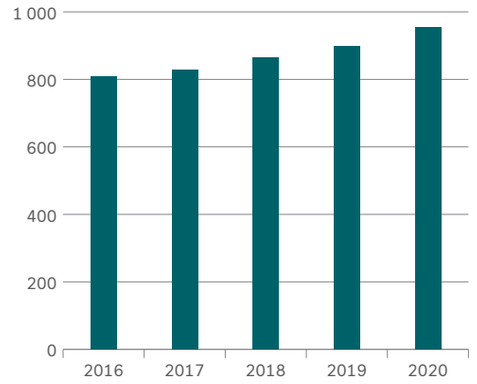
Loan-to-value retail mortgage loans, granted volume
Per cent



Development in commercial real estate[1], EAD[2]
NOK billion



Development in Retail mortgages[1], EAD[2]
NOK billion



1) Excluding exposure in associated companies
2) EAD from the internal monitoring of credit risk where all exposures are measured with internal models

the end of 2020. The high rental rates and growth in rental prices in this segment are expected to continue. Based on our experiences from the COVID-19 pandemic, we expect more lasting changes in working methods that will lead to a need for increased flexibility and adaptation of office space.

Oil, gas and offshore

We have significantly rebalanced our loan portfolio in recent years. From the end of 2016 to the end of 2020, we reduced our exposure (EAD) by 39 per cent, down to a level that we experience as comfortable. The share of total EAD related to oil, gas and offshore decreased from 7.3 per cent in 2016 to 4.2 per cent by the end of 2020. The reduction was evenly distributed across the sub-segments, and has primarily taken place in the United States and Canada. Several of the Canadian companies we exited were significantly exposed to oil sands.

Our loan portfolio reflects the Norwegian economy, where the oil and gas industry is still a key part of the economy. In Norway, the energy restructuring process will be largely driven by the oil and gas industry's expertise, innovation power and willingness to invest. ESG and energy restructuring are an integral part of our strategy, and we take our customers' climate-related transition risk into account as part of our credit assessment. We give priority to customers who work strategically and proactively with energy restructuring and align their business with the Paris Agreement, and who are willing to set emission targets for their own operations.

Oil prices fell sharply at the beginning of 2020 and have been volatile throughout the year. Towards the end of the year, oil prices (Brent Blend) increased and ended at USD 51 per barrel at year-end. The credit quality in oil, gas and offshore developed negatively as a result of falling oil and gas prices. The offshore portfolio was particularly vulnerable as a result of ongoing restructuring processes after many years of overcapacity. This, combined with reduced investments and increasing environmental focus among investors, meant that the offshore sector also experienced reduced access to the capital markets in 2020.

Since 2016, the offshore portfolio has had a higher proportion of defaults and higher a proportion of high risk than other credit portfolios in DNB. At the end of 2020, the proportion of high risk in this portfolio was 65 per cent, measured by EAD. The proportion of defaulted volume was 45 per cent. The oil and gas sub-segments have good credit quality, and 78 per cent of all customers are classified as low or medium risk.

Shipping

During the year, the shipping portfolio was reduced by NOK 8 billion, measured by EAD, and accounted for 2.5 per cent of DNB's credit portfolio at the end of 2020. The shipping portfolio experienced impairment provisions of NOK 351 million in 2020 compared with reversals of NOK 105 million in 2019. The increase was primarily driven by a negative credit development for specific customers. The share of high risk was just under 12 per cent at the end of the year. Defaulted exposures accounted for 2 per cent of the portfolio.

Worldwide shipping volumes were reduced by about 4 per cent during the pandemic. However, things went better than feared in 2020, partly due to low fleet growth and because the outcome of the pandemic has been different in the various shipping segments. The tanker market was affected by the COVID-19 pandemic. Sea transport of crude oil fell by 6.6 per cent in 2020 compared with the previous year, and the market was still weak at the end of the year. The tanker market may improve in 2021 as a result of low fleet growth and great potential for ship recycling. The market for gas tankers remained better than expected through 2020. The dry bulk market experienced a decline in demand during the pandemic, but the second half of 2020 was better than the first and had significant upswings in periods. The container line operators did better than expected in 2020. This was due to good capacity management and a large increase in demand during the autumn, especially between Asia and the United States. At the end of 2020, the container market was very good.

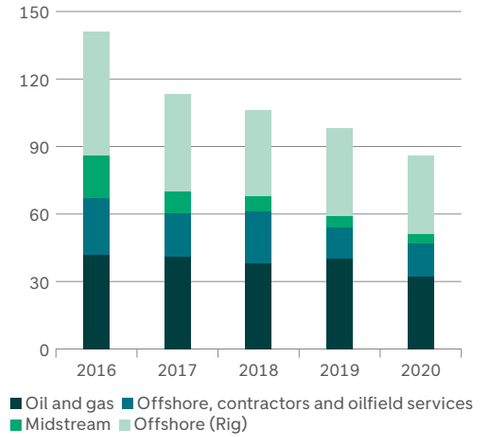
SUSTAINABILITY IN CREDIT ACTIVITIES

Sustainability assessments have a central position in DNB's credit decisions. Environmental, social and governance (ESG) factors are assessed on an equal basis as financial analysis in extension of credit and are important parameters on an equal basis as debt servicing capacity. DNB's long-term profitability is dependent on our customers integrating corporate responsibility into their strategic choices. By requiring our customers to be accountable, we can both make a positive contribution to society and reduce our customers' and our own risks.

DNB has adopted a separate model for assessing companies' sustainability risk based on recognised market practices, and in 2020, this model was further developed to include industry-specific risk assessments. We have also established guidelines for assessing industry-specific ESG risk. For all exposures with a value of more than NOK 50 million, ESG risk levels are classified as standard, moderate and high risk. Customers who are classified as having high ESG risk must have an action plan for monitoring conditions that do not meet DNB's expectations and requirements. These action plans have a 12-month horizon and are important tools for establishing a good dialogue with the customer and for increasing internal expertise. The ESG classification also determines the decision level for the credit exposure. In cases of high ESG risk, the exposure is escalated to the highest decision level. You can read more about how DNB integrates sustainability in its credit activities in the chapter on climate risk later in this report and under 'Responsible lending' in the Group's annual report.

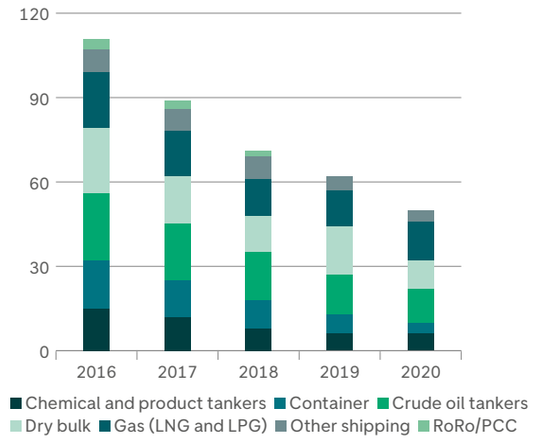
Development in oil, gas and offshore[1], EAD[2]

NOK billion



Development in shipping[1], EAD[2]

NOK billion



1) Excluding exposure in associated companies
2) EAD from the internal monitoring of credit risk where all exposures are measured with internal models

CAPITAL REQUIREMENTS FOR CREDIT RISK

The total capital requirement for credit risk in DNB at the end of 2020 came to NOK 68.5 billion, about the same level as the previous year. Capital requirements for credit risk reported according to the standardised approach were reduced by NOK 0.1 billion and the capital requirement for the IRB portfolio was reduced by NOK 0.2 billion.

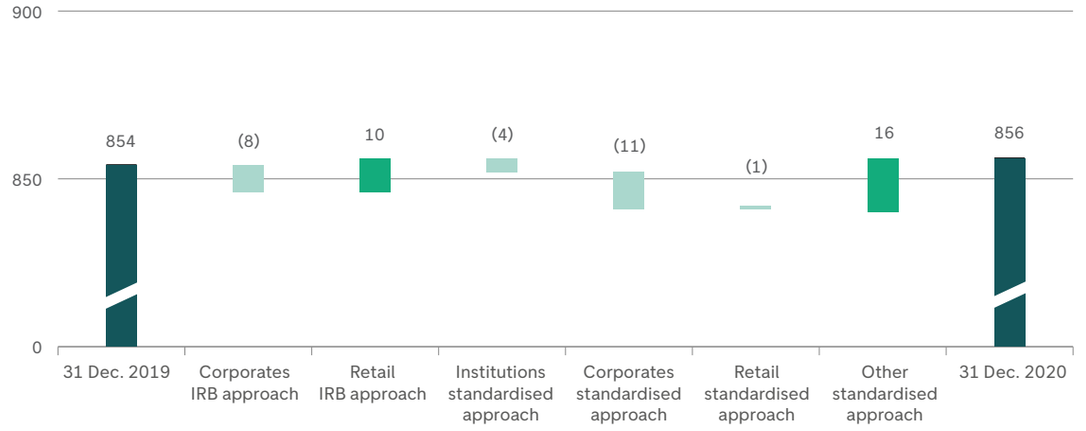
The figure shows changes in the risk-weighted assets (RWA) for the credit portfolio divided into the most significant portfolios.

RWA in the IRB corporate portfolio was reduced by NOK 8 billion, measured by EAD. This is attributable to reduced credit volume and increased impairment losses in 2020. RWA for the IRB portfolio associated with personal customers, primarily retail mortgage loans, increased by NOK 10 billion. This is partially due to the increase in volume of the retail mortgage loans portfolio. In addition, mortgage loans in Private Banking were approved for IRB reporting in 2020, which resulted in an increase in RWA for the IRB portfolio of approximately NOK 5 billion, and a corresponding reduction in the standard portfolio of approximately NOK 10 billion.

In December, Finanstilsynet (the Financial Supervisory Authority of Norway) issued a circular that elaborated on how exposures associated with particularly high risk (Article 128 in CRR) should be defined and treated under the standardised approach in the capital adequacy calculations. DNB conducted a review of both ownership shares and the credit portfolio to ensure that it complies with the regulations. As a result of the review, a total volume of NOK 4.6 billion, consisting of construction loans for residential or office purposes, was marked as high risk. This increased RWA by about NOK 3 billion. The bank's IRB portfolio is not affected. The commitments that have been reclassified to high risk are shown in the figure as part of "other standardised approach" and amount to NOK 7 billion.

Development risk-weighted assets, credit risk

NOK billion



Specification of risk-weighted assets and capital requirements, credit risk

NOK million	Nominal exposure	EAD	Risk weights, %	Risk weighted assets	Capital requirement[1] 31 Dec. 20	Capital requirement[1] 31 Dec. 19
IRB approach						
Corporate	*992 409*	*795 424*	*47*	*373 616*	*29 889*	*30 537*
Specialised Lending (SL)	*13 993*	*13 330*	*48*	*6 449*	*516*	*503*
Retail - mortgage loans	*870 431*	*870 431*	*21*	*186 641*	*14 931*	*13 893*
Retail - other exposures	*88 301*	*71 589*	*25*	*18 001*	*1 440*	*1 653*
Total credit risk, IRB approach	*1 965 134*	*1 750 774*	*33*	*584 706*	*46 776*	*46 586*
Standardised approach						
Central government	*358 289*	*357 379*	*0*	*236*	*19*	*6*
Institutions	*208 915*	*176 506*	*13*	*23 822*	*1 906*	*2 300*
Corporate	*178 666*	*154 151*	*68*	*105 421*	*8 434*	*9 320*
Retail - mortgage loans	*29 149*	*28 137*	*61*	*17 069*	*1 366*	*2 245*
Retail - other exposures	*163 965*	*60 264*	*74*	*44 744*	*3 580*	*2 812*
Equity positions	*29 951*	*27 873*	*206*	*57 387*	*4 591*	*3 852*
Other assets	*24 864*	*24 258*	*93*	*22 646*	*1 812*	*1 279*
Total credit risk, standardised approach	*993 799*	*828 566*	*33*	*271 325*	*21 706*	*21 814*
Total credit risk	*2 958 933*	*2 579 340*	*33*	*856 031*	*68 483*	*68 400*

1) Minimum capital requirement of 8 per cent of risk weighted assets

The COVID-19 pandemic

Forbearance

As a result of the commercial and financial effects of the COVID-19 pandemic, DNB has offered several customers forbearance to provide a temporary relief from the current situation, mainly by providing reduced or deferred repayments of outstanding loans. In the first two quarters of 2020, DNB has offered several customers forbearance directly related to the pandemic. Combined with an otherwise healthy financial situation for the customer, the relief will not result in a forbearance classification. However, when the forbearance is combined with a high credit risk and an expectation that the measures are not temporary, the customer must nevertheless be reclassified into the forbearance category.

The assessment of a significant increase in credit risk and the calculation of expected credit loss (ECL) take into account available and relevant historical, current and forward-looking information. Uncertainty related to the assessment of forward-looking information has increased significantly following the drastic shutdown and gradual reopening of the economy as a result of the COVID-19 pandemic and the related imbalance in the oil market. The high level of uncertainty reflects the extent and duration of the commercial and financial impacts, as well as the effects of the various financial relief measures and support schemes implemented by the authorities.

All aspects of the situation have been carefully evaluated when assessing the duration and financial and commercial consequences of the COVID-19 pandemic on expected credit loss.

The loan guarantee programme

The use of the authorities' guarantee programme for bank loans to the business community was greatest in April, with 533 applications and NOK 725 million in funding, but this gradually decreased throughout the year and ended in December with 78 applications and NOK 208 million in financing. In total, the bank's customers have been granted just over NOK 2.8 billion in guaranteed loans out of DNB's total limit of NOK 9.2 billion. Following the implementation of the direct support scheme in the Brønnøysund Register Centre, DNB has received very few applications for guaranteed loans. It therefore seems that our customers have to a greater extent utilised the direct support schemes rather than the debt schemes. In total, the bank's customers have received close to NOK 3.2 billion from the compensation scheme.

Risk weighting of deferred taxes contributed to the increase in the other standardised approach of about NOK 8 billion.

Exposures[1] by exposure class, industry and country

Net exposures came to NOK 2 914 billion at the end of 2020. The figures show net exposures broken down by exposure class, industry and country.

Loans and credit extended to personal customers accounted for 39 per cent of net exposures, the same level as at the end of last year. Loans to corporates comprised 40 per cent. Exposures with governments and central banks, equity positions and other assets are included in the graph as the category Other exposure classes.

Most of the credit portfolio is linked to Norway or Norwegian customers. Norwegian-related exposures accounted for 66 per cent of the portfolio at year-end 2020. You can find more detailed information in the additional Pillar 3 disclosures.

The corporate loan portfolio is well diversified among different industries.

Forborne exposures

Forborne exposures are defined as credit exposures where the loan terms have been changed as a result of the customer having financial problems.

Forborne exposures include both defaulted and performing exposures. The objective of forbearance is to assist the customer through a financially challenging period. It is a prerequisite that customers must be expected to be able to meet their obligations at a later date.

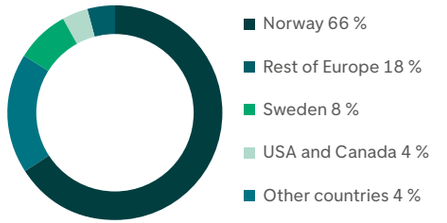
1) Net exposures as in regulatory reporting (Corep)

Net exposures, split by exposure class, 31 December 2020

Per cent

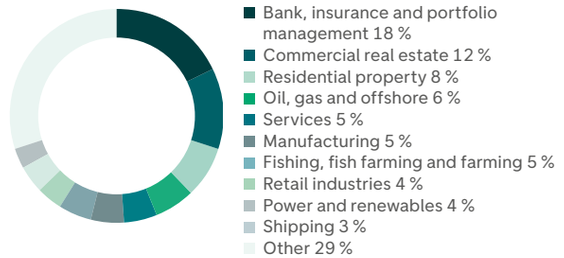
Net exposures, split by country, 31 desember 2020

Per cent



Net exposures, corporate portfolio split by industry segments, 31 December 2020

Per cent



OVERVIEW OF CREDIT EXPOSURES

Definition of default

DNB's definition of a defaulted portfolio is in conformity with the IRB rules: An exposure is deemed to be in default if an owed amount is more than 90 days overdue, the overdue amount is significant, and the default is not due to delays or incidental circumstances that affect the counterparty. In DNB, a 'significant overdue amount' is defined as more than NOK 2,000. The amount for credit cards is NOK 200.

An exposure should also be classified as defaulted if the bank:

- Due to a weakening of the counter-party's creditworthiness, records an impairment provision representing a not insignificant amount.
- Due to a weakening of the counterparty's creditworthiness, sells a claim at a discount and the discount represents a not insignificant amount.
- Expects debt settlement, bankruptcy proceedings or public administration to be opened against the counterparty.
- Agrees to changes of terms and conditions, due to the counterparty's payment problems, that it must be assumed will reduce the value of the cash flow by a not insignificant amount.
- Has other reasons for expecting that the payment obligation will not be met (anticipated default).

Anticipated default means that there is a probability that ordinary business operations will not give the customer sufficient debt-servicing capacity to meet all of its debt obligations. The factors used to evaluate debt-servicing capacity include:

- sufficient cash flow to service all financial obligations, including an assessment of refinancing risk
- the probability that new capital will be injected
- the possibility of selling assets

The rule for corporate customers is that if there is a default event, the customer is deemed to have defaulted on all of its loans. If there are controlling influences or financial ties between multiple companies (debtors) in a corporate group, the default of one debtor will result in all of the debtors being defined as being in default. For personal customers, a default of one agreement will result in all agreements of the same type being considered to be in default, for example, if one mortgage loan is in default, all mortgage loans will be considered to be in default.

The definition of defaulted credit exposures used in the financial statements (IFRS) is somewhat different from the one used in the calculations of capital requirements. Exposures that are restructured to avoid default are classified as performing in accordance with IFRS, while they are reported as in default with regard to capital adequacy requirements.

In September 2016, the European Banking Authority, EBA, published new recommendations on the definition of defaulted exposures. The deadline for fulfilment of the recommendation was 1 January 2021, and DNB began phasing in new default rules in 2020. The changes include clarification of the definition of anticipated default, contagion between agreements to the same debtor, materiality threshold levels and a required minimum disqualification period after non-performing exposure has been reclassified as performing. This will have consequences for the inter-pretation and reporting of defaults and for the bank's IRB models.

The most common forms of forbearance are:

- changing the term of the loan
- refinancing
- debt forgiveness, including forgiveness of overdue interest payments
- deferment of overdue interest payments

Forbearance is an element of DNB's strategy for limiting losses. Procedures for handling these exposures have been incorporated in the credit process. DNB has operative guidelines describing how business units should identify, analyse and approve forbearance cases. Developments in the volume of forborne exposures are reported quarterly to the boards of DNB ASA and DNB Bank ASA.

Impairment and defaults

Defaults discussed here are based on the accounting definition of the credit impairment, also referred to as Stage 3 (IFRS). Exposures that are restructured to avoid default are classified as performing in accordance with this definition, while they are reported as in default with regard to IRB rules. For a more detailed definition of default, see the text box.

A credit exposure should be assessed for impairment in Stage 3 as soon as a loss event occurs that provides objective evidence of a reduced future cash flow for servicing the loan. Loss events include

- significant financial problems
- payment defaults or other material breach of contract
- the approval of deferred payment or new credit to pay instalments
- agreed changes to interest rates or other loan terms due to financial problems or the likelihood that the borrower will enter into debt negotiations
- other financial restructuring, or if the borrower is subject to bankruptcy proceedings

When calculating expected credit losses, all credit exposures are divided into three groups (stages):

- Stage 1: Includes exposures that have not experienced a major negative development in lifetime PD since the agreement was signed. According to IFRS 9, an expected credit loss is to be calculated for the next 12 months.
- Stage 2: Includes exposures with significant negative development in PD compared to PD upon entering into the agreement. In addition, it includes loans with PD between 5 and 40 per cent, exposures with forbearance and personal customers with payments that are between 30–60 days overdue. For these, an expected credit loss is calculated over the entire life of the agreement
- Stage 3: Includes defaulted loans. Like Stage 2, Stage 3 will calculate the expected credit loss without any time limitation

For the exposures in Stages 1 and 2, expected losses are estimated using DNB's ECL model, which is based on internal models for EAD, PD and LGD and on forecasts for future economic development. For Stage 3, the impairments are calculated individually per customer, and without the use of models. The impairments in Stage 3 are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. Estimated future cash flows are based on the development of the customer's exposure, the value of collateral, previous experience with the customer, the probable outcome of negotiations and expected macroeconomic developments that will affect the customer's expected cash flow. For credit exposures below NOK 5 million, a portfolio assessment is used to calculate ECL in Stage 3.

DNB has decided to continue the comparison between defaults and Stage 3 under the new definition of default. Customers who are in the qualifying period under the new definition will be presented in Stage 3, but will no longer be subject to individual assessments of their loss potential.

Instead, the model currently used for Stages 1 and 2 will be used to calculate expected losses for customers in the qualifying period.

For further information on DNB's calculation of impairment in accordance with IFRS 9, see note 5 in DNB's annual report.

The figure shows the impact of net impairment provision on profits in 2020. Net impairments are the sum of all impairments during the period minus all reversals made during the same period

Accumulated impairment losses on the balance sheet

The figure to the right shows the change in accumulated impairment losses on the balance sheet from year-end 2019 to year-end 2020. Accumulated impairment losses amounted to NOK 16 billion at year-end, an increase of NOK 4 billion from 2019.

Defaulted exposures

Net defaulted exposures increased by NOK 7.2 billion in 2020 and amounted to NOK 25.9 billion at year-end. This corresponds to approximately 2 per cent of the loan portfolio. About half of DNB's defaulted exposures are in the oil, gas and offshore segment. Defaulted exposures in this segment increased by NOK 5.0 billion in 2020 and amounted to NOK 13.9 billion at year-end. The increase was due to negative effects of COVID-19 and a reduction in oil prices.

The figure to the left shows the distribution of net non-performing (defaulted) exposures by industry. More detailed information can be found in the additional Pillar 3 disclosures.

Development in net impairments

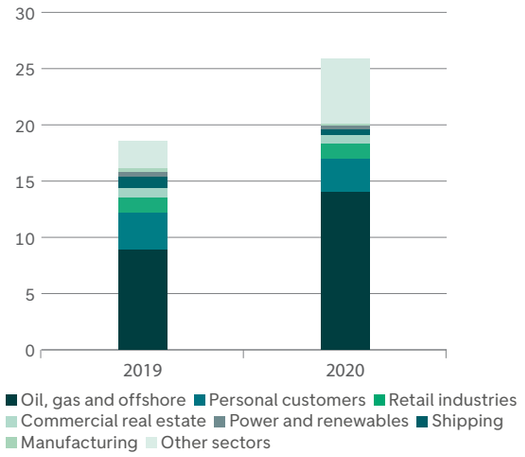
NOK million

Gross carrying amount with forbearance measures

NOK million	31 Dec. 2020	31 Dec. 2019	31 Dec .2018
Exposures with forbearance measures not in default	*23 988*	*23 438*	*25 540*
Exposures with forbearance measures in default	*14 586*	*12 133*	*15 299*
Total exposures with forbearance measures	*38 574*	*35 571*	*40 839*

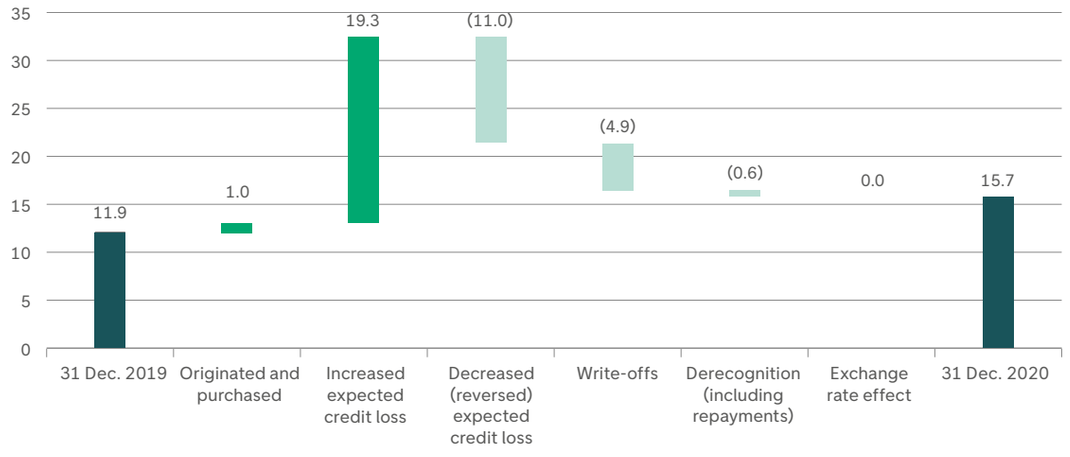
Net defaulted exposures

NOK billion



Development in accumulated impairment of loans and financial commitments

NOK billion

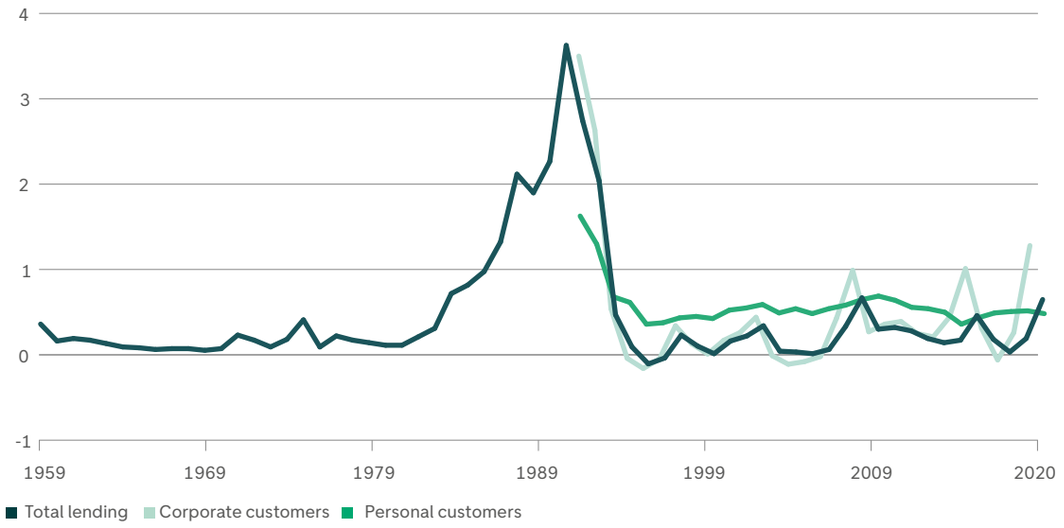


Historical development of impairment losses

The figure shows the net annual impairment losses as a proportion of lending for the period 1959–2020. From 1992, net impairment losses are also broken down between personal and corporate customers, excluding the public sector and credit institutions. The period from 1987 to 1993 is referred to as the Norwegian banking crisis and stands out from other years. Other years that stand out are 2009, when the financial crisis led to increased losses, inter alia linked to Baltic operations, and 2016 when DNB was compelled to record substantial impairment losses on the oil-related portfolio.

Net impairment losses per year, 1959 - 2020

Per cent



"The period from 1987 to 1993 is referred to as the Norwegian banking crisis and stands out from other years."

INTERNAL MEASUREMENT METHODS (IRB)

DNB started using internal credit risk models in 1995. The calculations from models approved for credit risk measurement in capital adequacy are fully integrated into the bank's internal management tools. DNB uses the Advanced IRB (A-IRB) approach for its corporate portfolios. The Foundation IRB (F-IRB) method is not used. There is no distinction between A-IRB and F-IRB for retail mortgage loans.

The table shows the reporting methods used for the different credit portfolios in DNB, distributed among asset classes.

Reporting methods for credit portfolios in DNB

Asset class	Main reporting methods
Corporate and Specialised Lending (SL)	*A-IRB*
Retail, mortgage loans	*IRB*
Retail, other exposures	*IRB*
Governments and central banks	*Standardised approach*
Institutions	*Standardised approach*
Equity positions and other assets	*Standardised approach*

The IRB approach is used in the corporate portfolio for most exposures. Retail mortgage loans are reported using the IRB approach. The retail other exposures portfolio is also reported using the IRB approach and mainly consists of unsecured credit and object financing. Some portfolios in subsidiaries and/or sub-segments are not reported according to the IRB approach.

The purpose of the IRB system is to ensure sound risk management. This calls for high quality and transparency throughout the value chain. The Board of Directors assesses the need for capital on the basis of risk measurements and an overall evaluation of operating parameters and business and strategic targets. The IRB value chain must be validated to determine whether the authorities' requirements and internal quality requirements have been met. The validation will thus both verify the adequacy of the IRB system and identify needs for improvement.

A standard has been established for the decision-making process for credit risk classification and quantification models that sets out the guidelines for all work on classification models in DNB. The independent unit responsible for model risk conducts an annual validation of the IRB models, and assesses all changes before approval. Group Audit prepares an annual report with an assessment of whether the IRB system in DNB meets external requirements.

Measured by EAD, 68 per cent of the credit portfolio was reported according to the IRB approach at year-end 2020, the same level as at year-end 2019. The figure to the right shows the distribution of asset classes in the IRB portfolio, including counterparty credit risk.

The areas of application for the IRB models are:

- capital adequacy calculations
- decision-support in the credit process
- setting limits in the risk appetite framework and credit strategies
- risk measurement and ongoing reporting
- pricing risk and measuring portfolio profitability
- basis for models for stress testing and IFRS 9 expected credit loss

Risk classification

DNB divides its performing credit portfolio into ten risk categories based on the Probability of Default (PD) for the exposures, see the table to the right. The risk classification should reflect the long-term risk related to the customer and the exposure. Non-performing (defaulted) exposures are assigned a PD of 100 per cent.

Asset classes in the IRB portfolio, EAD, 31 December 2020

Per cent

DNB's credit risk classification

Risk grade	From PD	To PD	Moody's	S&P Global
1	*0.01*	*0.10*	*Aaa - A3*	*AAA - A÷*
2	*0.10*	*0.25*	*Baa1 - Baa2*	*BBB+ - BBB*
3	*0.25*	*0.50*	*Baa3*	*BBB÷*
4	*0.50*	*0.75*	*Ba1*	*BB+*
5	*0.75*	*1.25*	*Ba2*	*BB*
6	*1.25*	*2.00*		
7	*2.00*	*3.00*	*Ba3*	*BB÷*
8	*3.00*	*5.00*	*B1*	*B+*
9	*5.00*	*8.00*	*B2*	*B*
10	*8.00*	*Defaulted*[1)]	*B3, Caa/C*	*B÷, CCC/C*

1) PD in risk grade 10 goes to maximum 40 per cent

DNB's models for classifying risk on individual customers are adapted to industries and segments and are updated if calibrations show that their explanatory power has diminished.

DNB's models reflect the fact that different variables give the best explanations for risk in different portfolios. DNB's IRB models are developed on the basis of historical data using statistical methods. A distinction is made between the data used to develop models and the data used for calibrating them (setting levels). The historical data used for calibration purposes covers a longer period of time that includes a major economic downturn. For the large corporates portfolio, DNB uses models that combine statistical methods and expert assessments, as well as simulation models.

The PD level in the models should reflect the expected average default frequency over a full business cycle. The levels in the models for exposure at default (EAD) and loss given default (LGD) should similarly reflect an economic downturn. DNB is required to include the Norwegian banking crisis in the period 1988–1993 when calibrating models. The estimates in the models include an uncertainty factor and conservative approaches, which increases the likelihood that the models do not to underestimate the risk over time.

Special requirements for DNB's IRB models

Finanstilsynet (the Norwegian Financial Supervisory Authority) has stipulated that, in practice, the PD level in the large corporates portfolio should provide a virtually invariable capital requirement irrespective of economic conditions. In addition, a floor has been set for LGD which makes the models more conservative than that warranted by the statistical basis.

Finanstilsynet has set requirements for the PD level in the home mortgage portfolio by defining the level during recessions in addition to weighting good and bad economic periods. There is a minimum PD requirement of 0.2 per cent for all credit agreements. Finanstilsynet has also issued requirements for LGD levels. As a result of these requirements, the risk-weights for the residential mortgage portfolio are much higher than they would have been if they had been based on unbiased estimated PD and LGD.

Models used in IRB reporting

For an overview of the IRB models used by DNB, please see the additional Pillar 3 disclosures. The tables in the overview display a brief description of the models and comments are included where models have been adjusted to meet requirements issued by Finanstilsynet.

In order to comply with the new adjustments to the definition of default, in force from 1 January 2021, DNB has calculated new calibration levels for the IRB models. DNB has applied to Finanstilsynet for new calibration levels for the home mortgage portfolio and will, in the course of 2021, apply for acceptance for changed calibration levels for the other portfolios. The calibration levels have been calculated in accordance with new guidelines for estimation from the EBA, which are applicable to Norway from 1 January 2021.

Validation of IRB models

Independent validation is a key control function of DNB's IRB system. A prerequisite for the IRB approval is that the IRB system, with the IRB models, be tested and validated at least annually by an entity that is organisationally independent of the model development process and business environments. The validation results provide a basis for assessing whether the Group's calculations of credit risk and capital requirements are sound. Risk-mitigating measures are recommended in cases where validation results indicate a need for improvement. The results of this work are presented annually to DNB's Board of Directors.

The validation process should enable the bank to assess the performance of the IRB system and the models in an appropriate and consistent manner. DNB has a total of 32 IRB models of various complexity and varying degrees of automation. Validation is carried out on the basis of a model life cycle consisting of six elements: design and development, input data, implementation, model use, performance and governance. Each element is evaluated for each model, with the exception of governance, which is evaluated across all IRB models.

The six elements included in the validation are assessed using qualitative and quantitative methods. Validation of governance is a qualitative analysis that will provide an assessment of whether governance of the models is consistent and useful throughout the life cycle of the model. The assessment of the model's performance consists largely of quantitative analyses, with a particular focus on the rating of borrowers' creditworthiness (discriminatory power) and estimation of the level of the risk parameters (proper calibration). A PD model with good discriminatory power can to a large extent distinguish between customers who default on their loan obligations and those who do not. An LGD model should be able to predict which defaulted credit exposures will result in relatively large and small losses.

Validation of the calibration level should provide an assessment of whether the risk parameters are set at the correct level. Level requirements vary between the risk parameters. Level requirements mean that we should expect deviations between predicted and observed levels in given periods. Whether the deviations are acceptable depends on the business cycle in which the given period occurs. When LGD level should correspond to the loss severity during an economic downturn, the severity observed during a normal period should be lower than LGD. The same applies to EAD.

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«In order to comply with the new adjustments to the definition of default, in force from 1 January 2021, DNB has calculated new calibration levels for the IRB models.»

Validation results

The figures at the top show the predicted PD at the beginning of the year compared with the observed default rate in the course of the year for the largest portfolios. Other results are shown in the additional Pillar 3 disclosures.

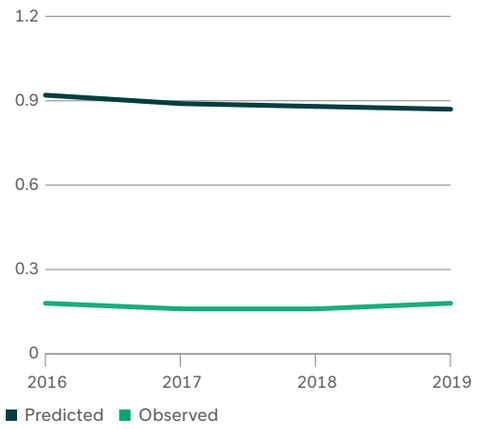
The observed default rate throughout the period has been lower than the predicted PD for the portfolio of residential real estate mortgages. The observed values for the SME portfolio were also lower than those predicted for the period. The observed default rate among large corporate customers is more volatile because there are so few customers and defaults in the portfolio. The year 2016 was marked by a recession for large parts of the portfolio.

The figures at the bottom show the results of the LGD validation that affect the largest portfolios. The observed severity for the customers who defaulted during the year is the sum of the customers' total losses as a percentage of the customers' total defaulted exposures. The observed severity is compared with the customers' predicted LGD from the beginning of the year. This predicted LGD level is based on defaulted customers and will normally give a higher level than for the entire portfolio, which also includes performing customers. The exception is the figure for large corporates, which, due to few defaults, shows the level of the entire performing portfolio at the beginning of the year.

The observed severity is considerably lower than the predicted LGD for the portfolio of residential real estate mortgages. LGD for large corporates is lower than observed severity in recent years. The volatile industries in the large corporates portfolio have been in an economic downturn during the period, and the few defaults that have occurred are mainly related to these industries. The downturn is also contributing to a long and partly unfinished work-out period for these exposures, so that the actual severity is uncertain.

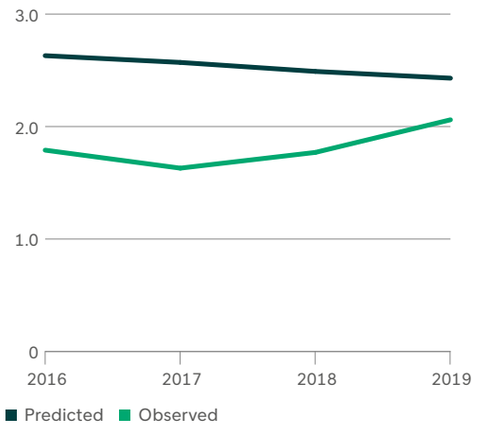
Comparison of predicted and observed PD for retail mortgage loans

Per cent



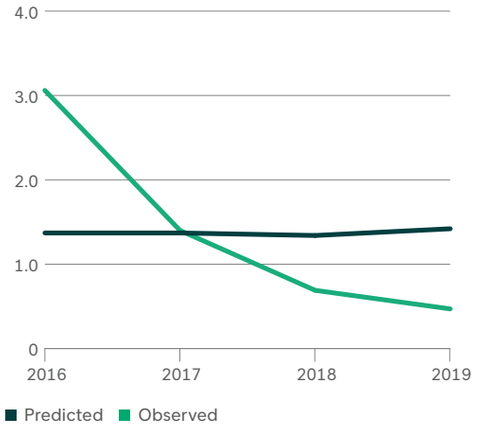
Comparison of predicted and observed PD for small and medium-sized enterprises

Per cent



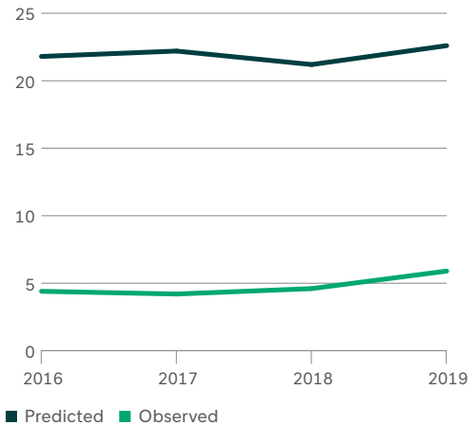
Comparison of predicted and observed PD for large corporates

Per cent



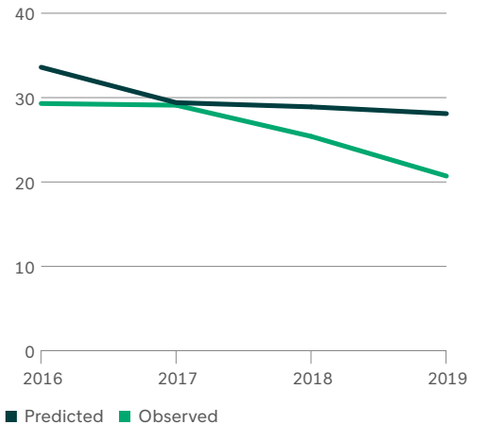
Comparison of predicted and observed LGD for retail mortgage loans

Per cent



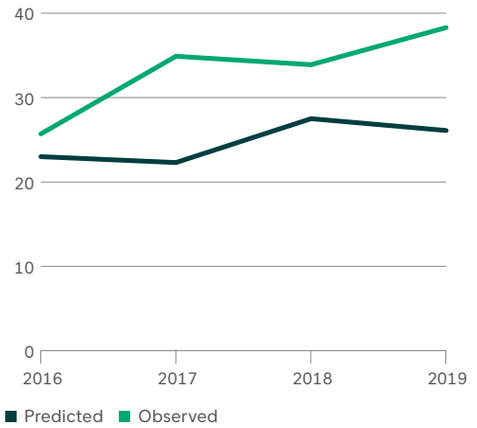
Comparison of predicted and observed LGD for small and medium-sized enterprises

Per cent



Comparison of predicted and observed LGD for large corporates

Per cent



The increase in predicted LGD in 2018 is due to an upward adjustment attributable to a decline in predicted values over time.

EXPOSURES IN THE IRB PORTFOLIOS

The proportion of DNB's credit portfolio reported according to the IRB approach amounted to NOK 1 751 billion, measured by EAD, at the end of 2020. The tables show the key figures used in the capital adequacy calculation for the IRB portfolio. The tables do not include counterparty credit risk. The counterparty credit risk in the IRB portfolio companies came to NOK 27 billion in EAD at the end of 2020.

The risk parameters DNB uses to measure risk in the large corporate customer and retail mortgage loans portfolios are different from those that have been approved for calculating capital adequacy according to the advanced IRB approach. The approved models have mandatory mechanisms that ensure more stable capital adequacy requirements over time and are more conservative in their calibration levels. More risk-sensitive risk models are preferable for internal management purposes.

IRB portfolios distributed by PD intervals

The tables show the key risk parameters for the IRB portfolios, split by PD intervals. Finanstilsynet does not allow retail mortgage loans to have a PD lower than 0.2 per cent.

The retail mortgage loans portfolio was of excellent quality throughout 2020. The volume, measured by EAD, rose by NOK 74 billion, which corresponds to 9 per cent, to NOK 870 billion. In the fourth quarter, the retail mortgage loans portfolio in Private Banking was included in the IRB portfolio and contributed NOK 31 billion to the increase. The default rate was 0.15 per cent, slightly lower than at the end of 2019. The proportion of the portfolio that had PD below 0.5 per cent was 45 per cent at the end of 2020, compared with 43 per cent the year before, and for 13 per cent of the portfolio, PD was lower than 0.15 per cent. The positive

IRB retail, mortgage loans

	31 December 2020				31 December 2019			
	EAD, NOK billion	PD, %	LGD, %	Risk weight, %	EAD, NOK billion	PD, %	LGD, %	Risk weight, %
PD 0.00 til 0.15	-	-	-	-	-	-	-	-
PD 0.15 til 0.25	110	0.20	18	7.8	94	0.20	18	7.9
PD 0.25 til 0.50	286	0.30	20	11.3	249	0.30	20	11.4
PD 0.50 til 0.75	206	0.59	20	18.7	202	0.60	20	18.8
PD 0.75 til 2.50	208	1.32	21	32.7	193	1.32	21	32.5
PD 2.50 to 10.00	58	3.37	21	58.6	56	3.30	21	57.4
PD 10.00 to 100.00	2	14.07	22	118.1	2	14.36	22	117.8
Performing portfolio	869	0.84	20	21.1	795	0.86	20	21.5
PD 100.00 (Defaulted exposure)	1	100.00	25	217.6	1	100.00	26	218.8
Total	**870**	**0.99**	**20**	**21.4**	**796**	**1.03**	**20**	**21.8**

IRB corporate portfolio

	31 December 2020				31 December 2019			
	EAD, NOK billion	PD, %	LGD, %	Risk weight, %	EAD, NOK billion	PD, %	LGD, %	Risk weight, %
PD 0.00 til 0.15	92.4	0.08	28	14.2	81.9	0.07	27	14.7
PD 0.15 til 0.25	46.6	0.2	25	24.3	67.3	0.19	25	24.8
PD 0.25 til 0.50	184.4	0.37	23	29.5	189.6	0.37	24	30.7
PD 0.50 til 0.75	121.6	0.61	25	39.9	120.2	0.60	25	39.2
PD 0.75 til 2.50	201.2	1.34	25	51.4	204.5	1.38	25	53.0
PD 2.50 to 10.00	89.1	4.12	25	71.0	93.4	4.47	27	80.7
PD 10.00 to 100.00	12.9	16.82	27	124.8	11.3	16.99	29	132.4
Performing portfolio	748.2	1.35	25	41.5	768.2	1.37	25	43.3
PD 100.00 (Defaulted exposure)	33.5	100	32	156.1	22.2	100.00	37	181.4
Total	**781.7**	**5.58**	**25**	**46.4**	**790.5**	**4.15**	**26**	**47.2**

development in the portfolio is also reflected in reduced risk weights.

The IRB corporate portfolio was reduced by NOK 9 billion, measured by EAD. This corresponds to around 1 per cent. A total of 41 per cent of the volume in the portfolio had a PD lower than 0.5 per cent, against 43 per cent the previous year, and for 12 per cent of the portfolio, PD was lower than 0.15 per cent. The risk weight was reduced for the performing portfolio, from 43.3 to 41.5. On the other hand, there was an increase in defaults. The increased defaults are related to sectors affected by the COVID-19 pandemic and falling oil prices, see comments on industries.

IRB portfolios distributed by industry

The table shows the IRB portfolio distributed by industry. As previously mentioned, the COVID-19 pandemic and falling oil prices have posed challenges for the oil, gas and offshore and the hotel, cruise and tourism segments. This is reflected in an increased proportion of defaults for both segments. For the hotel, cruise and tourism segment, PD and risk weight for the performing portfolio also increased, reflecting negative developments and continued increased uncertainty in the segment. The credit quality in the performing part of the oil, gas and offshore segment has improved since the turn of the year. This is because some of the high-risk exposures have migrated to defaults.

For other changes, see the description of developments in the credit portfolio in general and for selected industries at the start of the chapter.

Total IRB portfolio

	31 December 2020					31 December 2019				
			Performing portfolio					Performing portfolio		
NOK Million	EAD	EAD default, %	Weighted PD, %	Weighted LGD, %	Risk weight, %	EAD	EAD default, %	Weighted PD, %	Weighted LGD, %	Risk weight, %
Commercial real estate	*181 019*	*0.6*	*0.95*	*23*	*37.1*	*175 113*	*0.7*	*0.93*	*24*	*37.0*
Shipping	*46 027*	*1.7*	*2.00*	*25*	*59.1*	*53 662*	*2.4*	*1.86*	*27*	*64.1*
Oil, gas & offshore	*81 736*	*25.9*	*2.35*	*25*	*48.4*	*94 518*	*13.0*	*2.52*	*24*	*54.9*
Power & Renewables	*45 025*	*1.0*	*0.47*	*29*	*33.4*	*41 090*	*0.0*	*0.52*	*29*	*33.4*
Healthcare	*31 063*	*0.0*	*0.53*	*23*	*30.9*	*38 949*	*0.0*	*0.65*	*23*	*34.5*
Public sector	*1 392*	*0.0*	*0.09*	*23*	*6.3*	*1 334*	*0.0*	*0.12*	*23*	*7.6*
Fishing, fish farming and farming	*52 804*	*0.8*	*0.96*	*25*	*36.7*	*43 605*	*1.0*	*0.97*	*25*	*35.8*
Retail industries	*36 138*	*8.5*	*1.38*	*28*	*43.4*	*40 731*	*6.0*	*1.48*	*28*	*45.4*
Manufacturing	*56 944*	*0.5*	*1.45*	*27*	*40.5*	*61 498*	*1.0*	*1.55*	*26*	*44.1*
Technology, media and telecom	*30 912*	*0.1*	*0.89*	*27*	*42.6*	*29 539*	*0.1*	*0.96*	*30*	*44.3*
Hotel, cruise & tourism	*22 451*	*11.5*	*3.83*	*21*	*59.4*	*21 184*	*5.2*	*1.07*	*19*	*34.9*
Services	*44 889*	*3.9*	*2.47*	*27*	*54.9*	*51 060*	*2.1*	*2.20*	*27*	*56.2*
Residential property	*78 336*	*0.5*	*1.07*	*23*	*35.5*	*64 936*	*0.6*	*1.30*	*24*	*36.0*
Construction	*16 960*	*2.5*	*1.88*	*30*	*46.1*	*20 099*	*2.9*	*2.37*	*29*	*47.6*
Transport road/rail	*17 831*	*0.9*	*1.02*	*27*	*41.3*	*19 318*	*0.6*	*1.14*	*25*	*42.8*
Bank, insurance and portfolio management	*27 617*	*0.2*	*1.14*	*26*	*39.8*	*27 057*	*2.0*	*1.00*	*25*	*38.3*
Other	*10 582*	*5.0*	*1.88*	*28*	*40.8*	*6 770*	*1.5*	*1.24*	*31*	*55.6*
Total Corporate portfolio	**781 727**	**4.3**	**1.35**	**25**	**41.5**	**790 465**	**2.8**	**1.37**	**25**	**43.3**
Retail mortgage loans	*870 431*	*0.2*	*0.84*	*20*	*21.1*	*796 424*	*0.2*	*0.86*	*20*	*21.5*
Other exposures to personal customers	*71 589*	*1.4*	*1.14*	*34*	*23.5*	*83 466*	*1.8*	*1.28*	*33*	*22.8*
Total	**1 723 746**	**2.1**	**1.08**	**23**	**30.2**	**1 670 355**	**1.5**	**1.12**	**23**	**31.7**

The table shows the EAD-weighted PD for the performing IRB corporate portfolio distributed by industry segment and country. The geographic distribution is based on the customers' addresses. By and large, the EAD-weighted PD is higher in the Norwegian portfolio because it includes a large sub-portfolio of small and medium-sized enterprises. In addition, a significant part of both the shipping and offshore portfolios is linked to Norway. The largest change in 2020 is related to increased risk in the hotel, cruise and tourism sector and applies to Norway as well as the rest of Europe. The table showing EAD distributed by country can be found in the additional Pillar 3 disclosures.

IRB corporate portfolio, weighted PD for the performing portfolio by industry segments and countries

	Norway	Sweden	Rest of Europe	North America	Other Countries	Total 2020	Total 2019
Commercial real estate	*0.99*	*0.46*	*0.67*	*0.31*	*0.00*	*0.95*	*0.93*
Shipping	*2.39*	*2.60*	*1.96*	*1.45*	*1.53*	*2.01*	*1.86*
Oil, gas & offshore	*3.11*	*2.79*	*2.10*	*1.53*	*2.81*	*2.35*	*2.52*
Power & Renewables	*0.26*	*0.39*	*0.47*	*0.58*	*1.37*	*0.47*	*0.52*
Healthcare	*2.61*	*1.39*	*0.54*	*0.37*	*0.95*	*0.53*	*0.65*
Public sector	*0.28*	*0.03*	*0.78*	*0.00*	*0.00*	*0.09*	*0.12*
Fishing, fish farming and farming	*0.84*	*0.28*	*0.71*	*2.47*	*1.13*	*0.96*	*0.97*
Retail industries	*1.33*	*2.33*	*0.72*	*0.13*	*0.00*	*1.38*	*1.48*
Manufacturing	*2.13*	*0.86*	*0.80*	*0.64*	*0.20*	*1.45*	*1.55*
Technology, media and telecom	*1.25*	*0.88*	*0.94*	*0.16*	*0.32*	*0.89*	*0.96*
Hotel, cruise & tourism	*2.86*	*5.12*	*8.34*	*3.80*	*0.00*	*3.83*	*1.07*
Services	*2.67*	*2.12*	*1.90*	*0.60*	*3.63*	*2.47*	*2.20*
Residential property	*1.08*	*0.95*	*0.00*	*0.00*	*0.00*	*1.07*	*1.30*
Construction	*2.07*	*0.67*	*1.34*	*0.00*	*0.00*	*1.88*	*2.37*
Transport road/rail	*1.02*	*0.71*	*0.78*	*0.00*	*0.68*	*1.02*	*1.14*
Bank, insurance and portfolio management	*1.63*	*0.89*	*0.82*	*0.34*	*0.00*	*1.14*	*1.00*
Other corporate customers	*1.31*	*0.89*	*4.41*	*0.26*	*0.23*	*1.88*	*1.24*
Total corporate portfolio	**1.37**	**1.36**	**1.37**	**1.18**	**1.50**	**1.35**	**1.37**

Annual migration in the IRB portfolios

Risk classifications of all customers to which DNB has credit exposure must be done at least once a year. The figures show how volumes, measured by EAD, in the IRB corporate and retail mortgage loans migrated between risk categories over the last year. Defaulted portfolios are included in the figures. Positive figures indicate migration to better risk categories. Migration is measured for customers to which the bank has had exposure for the entire year. New customers that were added to the portfolios in the course of the year are not included. Overall, migration was slightly positive for the retail mortgage loan portfolio. For the IRB corporate portfolio, migration was slightly negative overall. This was due to a fall in oil prices and infection control measures that resulted in negative migration in some at risk segments.

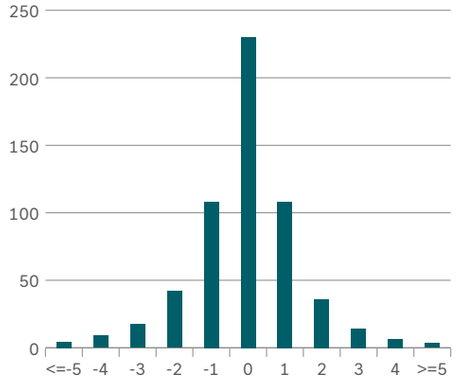
Comparison of expected loss and actual value adjustments

The figures at the bottom show Expected Losses (EL) at the beginning of the year compared with new impairment provisions in IFRS 9 stage 3 recorded during the year for the largest IRB-approved portfolios. EL is calculated by means of the same key figures that are used in the capital adequacy calculation.

EL for the retail mortgage loan portfolio increased as a result of volume growth, while the actual value changes are still very low. Actual change in value for the IRB corporate portfolio increased in 2020. Impairments increased as a result of falling oil prices and the effects of the COVID-19 pandemic.

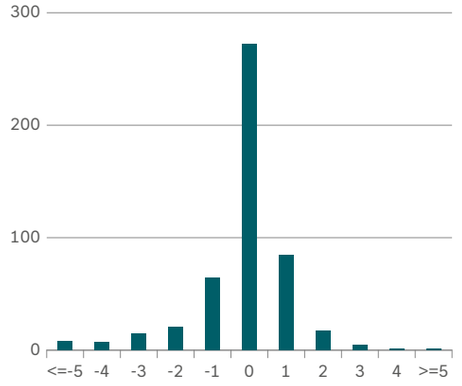
Year-on-year migration, IRB retail mortgage loans, EAD, 2020

NOK billion



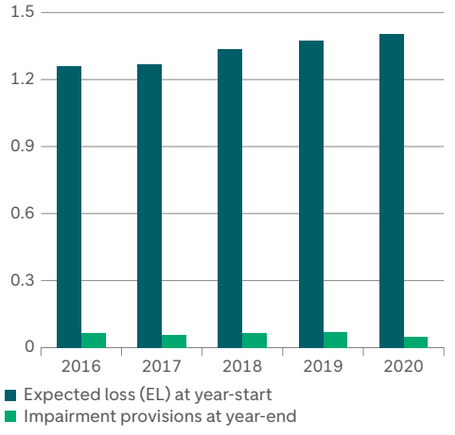
Year-on-year migration, IRB corporates, EAD, 2020

NOK billion



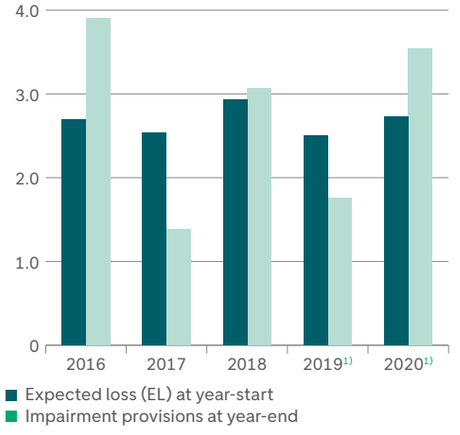
Comparison by expected and actual value adjustment, IRB retail, mortgage loans

NOK billion



Comparison by expected and actual value adjustments, IRB corporates

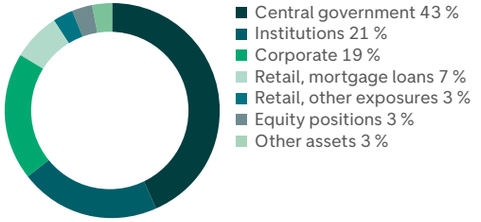
NOK billion



1) The numbers is excluding counterparty credit risk

Asset classes in the Standardised portfolio, EAD, 31 December 2020

Prosent



STANDARDISED APPROACH

DNB reports on the portfolios that are not IRB-approved using the standardised approach. In addition, exposures that could have been reported according to the IRB approach but on which DNB does not have sufficient available data, are reported using the standardised approach. Finanstilsynet has granted an exception from the IRB approach for the following IRB categories: governments, central banks and equity positions. Other portfolios reported according to the standardised approach are considered to be temporary exceptions. This applies to exposures to housing cooperatives in Norway and the portfolios in DNB's subsidiaries in Poland and Luxembourg. During 2020, the real estate mortgage portfolio within Private Banking was approved reported according to IRB.

About 32 per cent of the Group's credit portfolio, measured by EAD, was reported by means of the standardised approach at the end of 2020 – the same level as the year before. Estimated risk-weighted assets and capital requirements for the portfolios reported according to the standardised approach are presented in the section on capital requirements.

In the standardised approach, external ratings are used to set risk weights for foreign government risk and public administration outside Norway as well as international banks and credit institutions, i.e. the exposure categories governments and central banks, local and regional authorities, public enterprises and institutions. The ratings are based on the country ratings and are generally set as the average of the ratings from Moody's, S&P Global and Fitch.

MANAGEMENT AND CONTROL OF CREDIT RISK

The risk appetite framework defines maximum limits for credit exposure. Limits have been set for annual growth, risk concentrations and credit quality. There is a set upper limit for growth, measured in terms of EAD, for each customer segment. To limit concentration risk, there are set limits for risk exposure on individual customers and certain industries. The limits for credit quality are designed as limits for expected losses (EL) and apply to all types of credit risk. Expected losses are measured using internal credit risk models.

The risk appetite framework is operationalised through credit strategies for the individual customer segments. In addition, there are established risk indicators, which are used for monitoring managers on all levels. To read more about risk appetite, please see the chapter on risk management and control in DNB.

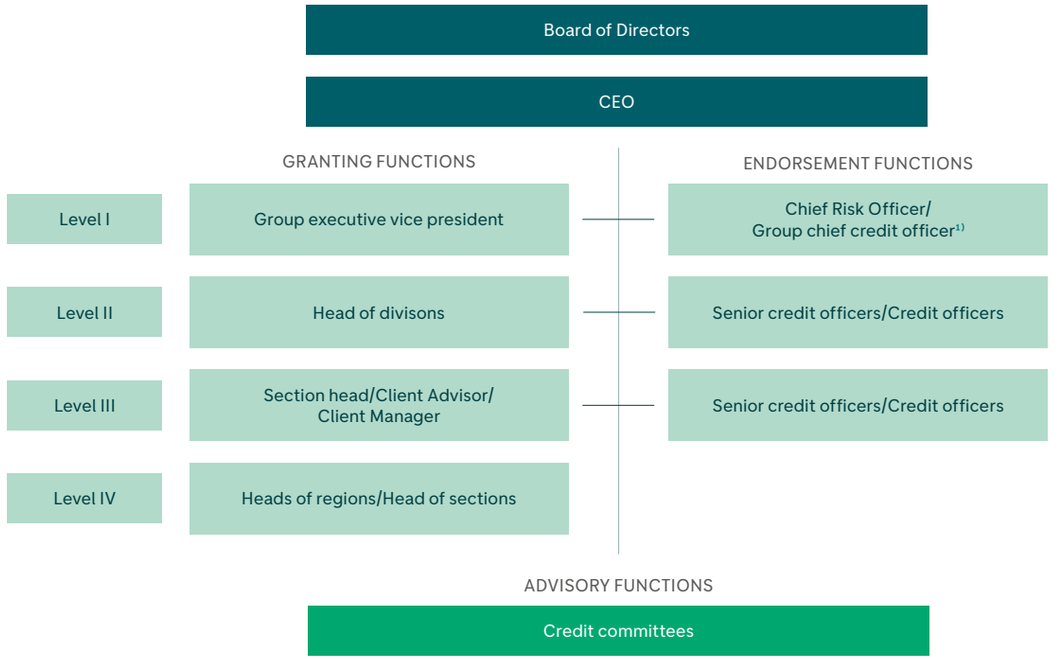
Decision-making processes and authorisations

Group Risk Management is responsible for checking and monitoring the quality of credit portfolios and the effectiveness of the credit process. Group Credit Management is part of Group Risk Management and is responsible for establishing the framework for the credit process and for credit management in all business areas.

Each business area is responsible for managing its own credit activities and portfolios within the confines of the risk appetite limits and credit strategies. To ensure effective, high-quality decisions, DNB has established multiple levels of credit approval authorisations, see the figure. The levels are based on the size, complexity of the credit, the required expertise and the risk involved.

All extension of credit is based on the 'four eyes' principle. This means that one person will make a decision based on the recommendation of another person. In cases where the requested credit exceeds a specific level, the decision

Credit decisions in DNB



1) The Chief Risk Officer (CRO) is the head of the Group Credit Committee (GCC)

The group chief executive has delegated credit-approval authorisations to the business areas and Group Risk Management. These are exercised in a decision-making system where the business area approves the application and Group Credit Management endorses decisions up to the board level on behalf of Group Risk Management.

must be endorsed by a credit officer in Group Credit Management. For the smallest credits in the corporate segment, however, automated risk classification can replace one of the 'pairs of eyes'.

For large corporate customers, the credit process is the process of being digitalised. For customers with a low risk category, credit processing will be simplified and more automated for uncomplicated credit proposals.

In the personal banking market, credit applications should, as a rule, be processed using automated measurement and decision-support systems. Applications from low-risk personal customers with good debt-servicing ability and a moderate debt/asset ratio are approved automatically. The process automatically collects data on income, debt and assets, as well as updated information about the value of the collateral in connection with refinancing existing loans and issuing pre-qualification letters.

Authorisations

All credit approval and endorsement authorisations are personal. The exception is the Board of Directors, which approves credit proposals as a collegiate body. The Board decides credit applications of an extraordinary nature. These are primarily credit applications corresponding to more than 10 per cent of the bank's equity or particularly complex cases presenting challenges of principle. A credit decision must be brought before a higher decision-making body if the decision-maker is in doubt as to whether the credit is within their own authority. The same applies if the case is unusual or raises ethical or reputational issues.

The credit committees are advisory committees for business-area employees who approve credit, and employees in the independent risk organisation who endorse credit decisions. The Group Credit Committee (GCC), headed by the Chief Risk Officer (CRO), considers cases that are of interest to more than one business area.

Credit risk review

Through Credit Risk Review (CRR), DNB has an independent and independent second-line function that controls compliance with credit standards, credit strategies and credit regulations. CRR performs controls in all of the bank's credit areas. One of the elements of CRR is a Model Input Review (MIR), which aims to ensure the correct and consistent application of IRB models that include subjective input. The results from MIR are used for training purposes to ensure continuous improvement in the application of IRB models. CRR findings are used to implement improvement measures in daily credit work, and for training purposes.

Credit risk reporting

The economic capital required to cover the credit risk is calculated for all credit agreements and forms the basis for evaluating the profitability of the agreements. The calculation is based on the risk parameters in the internal credit models and takes into account factors like industry concentration, geographic concentration, especially volatile segments and large individual exposures.

Exposure relative to the limits set in the risk appetite framework is reported to Group management each month. If limits are exceeded, a report is sent to the Board of Directors to inform them of the cause, together with an action plan. The Group's risk report to the Board of Directors provides an extensive description of the risk appetite status and other developments in the credit risk situation. Group Risk Management has established an independent second-line function that conducts reporting and analysis of credit risk, including the follow-up of risk appetite. In the internal monitoring of credit risk, all portfolios are measured and reported using internal models, irrespective of whether or not the internal models have been approved for use in capital adequacy calculations.

The credit manual

If the customer has not proven a satisfactory debt-servicing capacity, credit should not be granted even if collateral is satisfactory. The customer's debt-servicing capacity is determined on the basis of future cash flows. The main sources of these cash flows are income from business operations for corporate customers and wage income for personal customers. In addition, the extent to which realisation of the collateral will cover the bank's exposure in the event of default, and any reductions in future cash flows, are taken into account.

All corporate customers with credit exposures must be risk-classified for each approval of significant size, and at least once a year. The risk classification should reflect the long-term risk related to the customer and the exposure.

Management of the risk classification system is organisationally independent of operational activity and is handled by Group Risk Management. The risk classification models are designed to cover portfolios of exposures. If a model is considered to provide substantially the wrong classification for a single exposure, the model-generated classification may, in exceptional cases, be manually overridden. Overrides must be satisfactorily justified, and made only after an assessment by a unit that is independent of the business unit. Risk classifications of exposure to personal customers are never overridden. For more information, see the description of the classification system in the section on credit models and risk classification.

"All corporate customers with credit exposures must be risk-classified for each approval of significant size, and at least once a year."

Collateral and other risk-mitigating measures

Collateral is also used to reduce credit risk. Collateral primarily consists of physical assets such as homes, commercial property or vessels, or in the form of guarantees, cash deposits, netting agreements or credit insurance. As a rule, physical assets must be insured. In addition, the bank uses negative pledge clauses, which prohibit customers from pledging assets to other lenders. Collateral assets are assessed continuously during the term of the credit, and the credit manual states percentages for collateral values for most collateral categories. For larger/complex pledged objects, environments in the bank with relevant expertise can be consulted. In the large corporates segment, the bank's relative position as a pledgee must also be considered.

The guarantors are largely private individuals, businesses, the government, municipalities, guarantee institutes and banks. The value of a guarantee depends on the guarantor's debt-servicing capacity and financial wealth and is assessed individually. In cases where the bank is given a guarantee by a company, its value will fluctuate along with the company's financial performance and financial strength. A guarantee provided by a limited company could be subject to the restrictions on the pledging of collateral by a limited company stipulated in the Norwegian Private Limited Liability Companies Act.

Watch list

DNB continually updates lists of exposures that need to be monitored particularly carefully. The objective is to identify customers who require close monitoring so as to:

- convince the customer to carry out the necessary improvement measures or phase out the customer relationship while the customer still has financial impetus
- implement the necessary measures to prevent or reduce losses

If a material breach of financial covenants or a loss event occurs, the exposure will be put on a watch list for special monitoring. Loss events include serious financial problems, the approval of interest-only periods due to the debtor's financial problems or a material breach of contract. In addition, exposures with the following characteristics are considered as candidates for the watch list:

- customers classified as high risk
- customers for which grace periods on principal payments or other payment relief have been granted due to liquidity problems
- customers whose financial situation has deteriorated, for instance due to a significant reduction in income, the loss of important business areas, significant changes to operating parameters or the loss of key personnel

When a customer is placed on a watch list, a new risk assessment is performed, the collateral is reviewed, and an action plan is prepared for the customer relationship. When a loss event occurs, an assessment is done to determine whether this calls for impairment of the exposure. Please see the section on impairment and default earlier in this chapter.

STRESS TESTING

DNB's credit portfolios are subjected to a variety of stress tests, both at an overall level and for specific portfolios. The stress tests are used to analyse vulnerability to losses resulting from both loss of income and customer default in a business area or specific portfolio. Stress tests are also used to identify critical drivers of changes in credit risk and capital adequacy. Overall stress testing of the total credit portfolio is done at least once a year in connection with the Internal Capital Adequacy Assessment Process (ICAAP).

Various methods are used to estimate credit losses in connection with stress testing. If there is a need to show detailed results, for instance in connection with stress testing of specific portfolios, the internal credit, the model for calculating expected credit loss (ECL) is used in accordance with IFRS 9. Using a macroeconomic scenario as the point of departure, for example, as described in the chapter on capital management and ICAAP, the PD, LGD and EAD for each individual borrower are calculated forward in time using a stress test scenario as input in the models. The new PD, LGD and EAD values are then used to perform new estimates of expected loss.

DNB uses specially developed scenarios for stress testing subsidiaries, business areas and specific portfolios. These may consist of fewer macroeconomic variables or involve more direct changes of various risk parameters in the model, depending on the needs of the different subsidiaries, business areas or portfolios.

5
Counterparty credit risk

Counterparty credit risk is sensitive to market changes in for instance interest rates and exchange rates. DNB has several measures in place to limit counterparty credit risk. The counterparty credit risk in DNB, measured in EAD, varied throughout the year and, at the end of 2020, was about 19 per cent higher than the year before.

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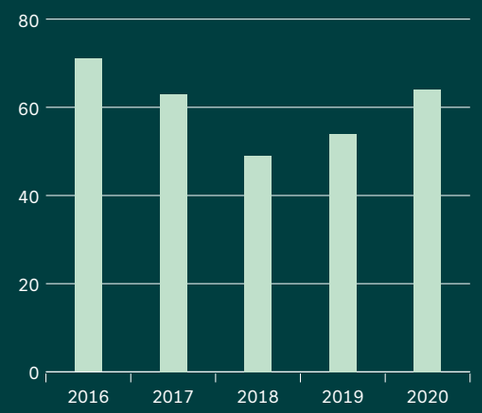
53 Developments in counterparty credit risk in 2020
53 Capital requirements for counterparty credit risk
53 Risk-mitigating measures
54 Settlement risk
54 Management and measurement of counterparty credit risk
54 Stress testing and wrong way risk

Definition

Counterparty credit risk is a form of credit risk that arises in connection with trades in financial instruments, such as derivatives, loans secured by securities or repurchase agreements ('repos'). Derivatives are most often traded Over-the-Counter (OTC), i.e. by individual contracts between two counterparties. Counterparty credit risk is the risk that the counterparty will fail to perform its contractual obligations in a transaction, and it differs from other credit risks in that the exposure usually depends on market risk factors, such as interest rates or exchange rates, commodity prices or share prices.

Counterparty credit risk, EAD

NOK billion



DEVELOPMENTS IN COUNTERPARTY CREDIT RISK IN 2020

DNB enters into derivative contracts on the basis of customer demand for hedging instruments and to hedge its own positions resulting from such activity. In addition, derivatives are used to hedge positions in the trading portfolio, for general position taking and to hedge foreign exchange and interest rate risk that arise in connection with funding and lending.

Counterparty credit risk in the DNB increased by 19 per cent and was NOK 63.7 billion, measured in expected exposure at default (EAD), at the end of 2020, of which 86 per cent comes from derivatives and the remainder from securities financing transactions and repurchase agreements. Due to market turmoil associated with the COVID-19 pandemic, exposure nearly doubled during the first quarter, but declined again in subsequent quarters. The increase in the first quarter was mainly due to changes in market risk factors. When hedging transactions have negative market value for customers, DNB's counterparty credit risk increases. This happened in the first quarter of 2020 for all customers who were hedged against higher interest rates, a stronger Norwegian krone or higher oil prices because the development in these market variables went in the opposite direction.

The figure to the right shows how DNB has reduced the risk in derivative trading by using netting agreements and collateral. Netting agreements and collateral arrangements with major counterparties imply that, on the whole, counterparty credit risk represents a moderate risk in DNB. Counterparty credit risk arising in subsidiaries and affiliates is not included in the figures. Such exposure is limited and mainly related to Eksportfinans. DNB entered into a minor credit default swap in 2020.

CAPITAL REQUIREMENTS FOR COUNTERPARTY CREDIT RISK

Risk-weighted assets for counterparty credit risk in DNB came to NOK 28.2 billion at year-end, up by NOK 2.6 billion from year-end 2019. Following the standardised approach, risk-weighted assets for counterparty credit risk stands for around 3 per cent DNB's total risk-weighted assets. When the capital requirements for counterparty credit risk are calculated, EAD is determined by means of the Current Exposure Method (CEM). EAD is the sum of Mark-to-Market and an add-on for potential future exposure. During 2021, through the introduction of CRR2, CEM will be replaced by a new standardised approach called SA-CCR. Both the IRB and standard methods are used to establish risk weights for counterparty credit risk depending on the method approved for the counterparty. For more information on calculating capital requirements, see the section on credit risk. For information about capital requirements for Credit Value Adjustment (CVA), see the section on market risk.

Internal models (Internal Model Method, IMM) for calculation of counterparty credit risk reflect risk sensitivity better and provide the full effect of all risk-mitigating agreements. DNB is using IMM to monitor and report the counterparty credit risk level internally.

RISK-MITIGATING MEASURES

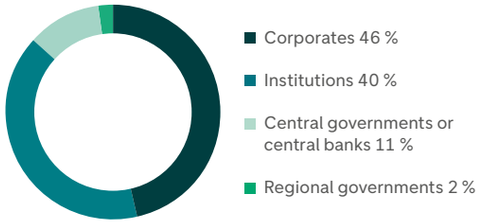
In order to minimise counterparty credit risk against individual counterparties, netting agreements may be entered. These agreements make it possible to net the positive and negative market values linked to contracts with the same counterparty. For repurchase agreements and loans secured by shares or other securities (margin lending), the counterparty can only borrow against part of the market value of the collateral. The loan-to-value ratio is set conservatively to ensure that the bank's exposure is very limited. The value of the collateral exceeds the bank's exposure.

DNB has entered bilateral margin agreements with the largest financial counterparties, in addition to an increasing number of non-financial counterparties. These agreements are called Credit Support Annex (CSA) agreements. Under these agreements, the market value of all derivative contracts between DNB and the counterparty is settled daily, which largely eliminates counterparty credit risk. These transactions are mostly settled in cash, though government bonds and covered bonds are used as well. The agreements are not normally dependent on the credit quality of the counterparty, but DNB does change some of the agreements if one or both counterparties have their credit rating downgraded. The agreements then state that the threshold value for collecting collateral is lowered, in order to further reduce the credit risk for the other counterparty.

In line with market practices and regulations following the financial crisis, an increasing proportion of derivative contracts are being cleared by central counterparties (CCPs). In the EU and Norway, the European Market Infrastructure Regulation (EMIR) requires that a number of standard derivative agreements between financial counterparties be cleared. By clearing derivatives, counterparty risk is moved from several single counterparties to one central counterparty with full netting of all agreements. Central counterparties are regulated and have procedures for reducing risk. Among other things, the financial requirements for the members require both initial margin and variation margin, as well as contributions to the default fund. They also have thorough procedures for dealing with any member default. The central counterparties hold several layers of capital to absorb losses resulting from defaults among the members. The principle is that the defaulting party must cover losses in the first instance via deposited funds. Then, part of the CCP's own capital will be used before the other members' default funds.

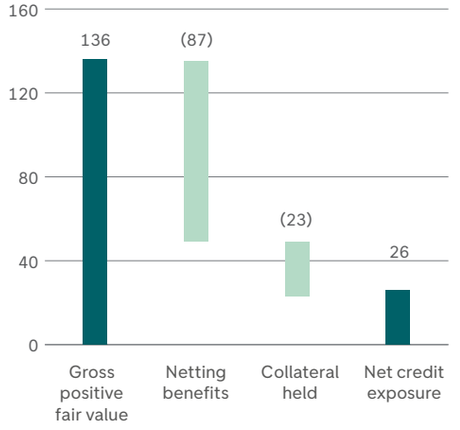
Counterparty credit risk split by sector, EAD, 31 December 2020

Per cent



Risk mitigation of derivatives, 31 December 2020

NOK billion



DNB is a member of several central counterparties and clears both interest rate, equity and commodity derivatives, and repurchase agreements. The largest exposure is against LCH and stems from interest rates derivatives. As at year-end 2020, approximately 90 per cent of DNB's outstanding volume of standard interest rate derivatives had been cleared through LCH.

Capital requirements are calculated for exposure to central counterparties in accordance with CRR. At year-end 2020, risk-weighted assets related to exposure to central counterparties amounted to NOK 1.2 billion. Counterparty credit risk in equity derivatives, securities financing transactions and currency trading for personal customers is reduced by the fact that increases and decreases in market value are settled daily.

SETTLEMENT RISK

Settlement risk is linked to the settlement of transactions where the bank has met its obligation to deliver the agreed security or sum without knowing whether the counterparty has met its obligation to deliver the agreed security or sum to the bank. One example is a currency exchange where the bank sends the agreed amount in one currency before receiving the agreed amount in the other currency. DNB has established various measures for reducing and controlling settlement risk. One important measure is the balance check on the account. This means that the bank does not make payment to the counterparty until coverage is established for the obligation on the counterparty's account. Moreover, in connection with settlements of securities transactions, one of the conditions attached to the securities account is that securities cannot be delivered before the bank has received payment. The normal procedure in the banking market is that the main currencies are settled through Continuous Linked Settlement (CLS). CLS ensures payment versus payment, which means that the final transfer of the bank's payment is not executed before the counterparty's payment takes place. In addition, settlement risk limits have been established which entail a ceiling on the total settlement amounts for a single counterparty that fall due on the same day.

MANAGEMENT AND MEASUREMENT OF COUNTERPARTY CREDIT RISK

Counterparty credit risk is defined as a sub-category of credit risk, but as counterparty credit risk exposure is significantly dependent on market risk factors, it is therefore also treated in the context of market risk. Management of counterparty credit risk in DNB is covered by both the Group Standard for Market Risk and the Group Standard for Credit Risk. The standard for market risk has underlying instructions that determine definitions, calculation methods and reporting of counterparty credit risk. The standard for credit risk is elaborated on in e.g. the credit manual, which describes the credit process, frameworks and credit management. Counterparty credit risk is included in the risk appetite for credit risk and limits are delegated on the different authorisation levels specified in the credit guidelines, which are described in more detail in the section on credit risk.

The Financial Markets Risk Committee (FMRC) is headed by the Chief Market Risk Officer (CMRO) and is responsible for approving and following up principles and procedures for market and counterparty credit risk. In connection with the application to use IMM for capital adequacy calculations, FMRC has been assigned a special responsibility for assessing and approving models and measurement methods in the IMM system. The decision maker for changes to the IMM models is the CRO. DNB uses internal simulation models to calculate risk exposure for monitoring and measurement of counterparty credit risk. A combination of historic time series and the market's forward prices for various risk factors are used to calibrate the simulation models. The simulation models are continuously monitored and upgraded so DNB can ensure that they are suitable for the area of application at all times. Among other things, weekly automated back tests are performed whereby the models' predictive power is tested.

The internal models that are used to calculate counterparty credit risk exposures are validated annually by the validation unit in Group Risk Management. Internal audit also conducts an annual review of the IMM system's compliance with requirements in CRR. Both validation and audit reports are processed in FMRC and by Group Management, and are presented as information to the Board.

STRESS TESTING AND WRONG WAY RISK

DNB has established a special programme for stress testing counterparty credit risk. The stress testing programme is designed to identify undesired future outcomes of the total counterparty credit risk exposure both in isolation and together with the bank's total credit risk exposure. Central to stress tests is the design of various scenarios. In addition to identifying potential losses related to counterparty credit risk exposure, stress tests also identify specific and general correlation risk between credit risk and market risk factors, so-called Wrong Way Risk (WWR). WWR is an additional risk that may arise through an adverse correlation between counterparty exposures and the credit quality of the counterparties.

To define and manage WWR, DNB has drawn up specific governance documents, which describe how the risk is to be identified in individual cases and at portfolio level. WWR is reported to the management of DNB Markets and Risk Management Group, among others. Particularly significant instances of WWR are followed up by FMRC.

The bank's derivative agreements with DNB Boligkreditt AS contain provisions (CSA) that the bank must provide increased security for Boligkreditt's exposure if the bank's rating falls below certain trigger levels. The number of notches that will trigger requirements for increased collateral depends on the rating agency, both because the bank has different ratings with different agencies and because agencies' requirements differ.

6
Market risk

Market risk in DNB, measured as economic capital, increased in 2020 and is still at a low level. Even though financial markets in 2020 were significantly affected by turbulence caused by the COVID-19 pandemic, the market risk in DNB was relatively stable. Market risk arises primarily from the bank's asset and liability management, customer activities in DNB Markets and equity investments. Among the most significant risk factors are interest rates, currencies and credit spreads.

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Definition

Market risk is the risk of losses due to unhedged positions in the foreign exchange, interest rate, commodity and equity markets. The risk reflects potential fluctuations in profits due to volatility in market prices or exchange rates. Market risk occurs in several segments of the DNB Group and includes both risk which arises through ordinary trading activities, and risks that arise as parts of banking activities and other business operations.

Market risk as a share of economic capital
Per cent

Capital requirements for market risk
NOK billion

1.2 (1.2)

Market value of equity and real estate investments in the banking portfolio
NOK billion

15.2 (16.6)

MARKET RISK DEVELOPMENTS IN 2020

The financial markets reacted strongly when a pandemic was declared in first quarter of 2020 but rebounded quickly. In the second half year most of the financial markets continued to normalise. The market risk of the DNB Group was relatively stable throughout the year well within the limits set by the board. The profit and loss volatility was, however, significant, in particular for cross currency basis swaps and credit spreads. The value of basis swaps between NOK and USD usually fluctuates opposite of bonds in the liquidity portfolio. This is important to DNB since the bank to a large extent funds itself in foreign currencies. The diversification contributes to the fairly stable level of market risk in DNB even at market turmoil.

At the end of 2020 the economic capital was NOK 11 billion compared to NOK 7 billion one year earlier. A part of the increase is explained by the inclusion of CVA-risk in the calculation of economic capital. In addition, the strategic equity investments increased somewhat.

The fixed-income market reacted in line with central banks sending interest rates to record lows. The key policy rate in Norway was reduced in several phases over the spring of 2020 and all the way down to 0 per cent on 7 May. Three-month NIBOR has been between 0.25 and 0.50 per cent since May. At the same time, the 10-year interest rate was down to 0.60 per cent, but rose to 1.2 per cent towards the end of the year as a result of hopes for a vaccine and continued stimuli to the economy in both the EU and the US after Biden's election victory. The oil price also followed the market's growth prospects up and down, and has fluctuated between USD 30 and 50 per barrel. In the second half of the year, the equity and credit markets reversed the negative trend from the first half of the year, driven by low interest rates and a supply of liquidity from central banks and stimuli from the authorities.

The simultaneous drop in interest rates and equities at the start of the crisis was demanding for DNB Livsforsikring, and the company had to heavily weight down equity exposures. Financially, the low interest rate level and low buffers mean that it has become significantly more challenging to fulfil the guaranteed rate of return given to customers. Due to changes in accounting principles, monitoring market risk in DNB Livsforsikring has been removed from the Group's risk appetite for market risk.

Information on risk level and risk management in DNB Livsforsikring AS is available in the company's own Pillar 3 report, which will be published on dnb.no on 7 April.

Utilisation of risk limits set by the Board has been moderate, with only small adjustments to the limits in 2020. The limits for market risk are discussed later in this chapter.

The trading portfolio

The definition of the trading portfolio is given in the CRR/CRD IV regulations and DNB has implemented an internal guideline that describes the boundary of the trading portfolio. The trading portfolio consists of positions in financial instruments, commodities and credit derivatives held for the purpose of resale or to take advantage of price or interest rate fluctuations in the short term, as well as hedging such positions. For example, the instruments in the trading portfolio are related to customer transactions through DNB Markets and include 'market making' and facilitating company financing.

The banking portfolio

Market risk that is related to positions and activities that are not included in the trading portfolio is referred to as the banking portfolio in DNB. The banking portfolio is composed of financial instruments that, among other things, come from the Group's financing activities and equity capital investments. There is also market risk in the banking portfolio as a result of different fixed-rate periods for debt and assets.

«The Market risk in DNB was relatively stable in 2020, and remained well within the risk appetite limits and other limits for Market risk.»

CAPITAL REQUIREMENTS FOR MARKET RISK

Capital requirements are calculated according to the CRR/CRD IV regulations. Insurance activities are not included in the calculation of capital requirements for market risk. Information on risk levels and capital requirements for DNB Livsforsikring AS and Fremtind Forsikring AS is available in the companies' own Pillar 3 reports 'Solvency and Financial Condition Report'.

DNB reports market risk according to the standardised approach. According to CRR/CRD IV, capital requirements in Pillar 1 should be calculated for interest and share price risks associated with the trading portfolio. Capital requirements are calculated for currency and commodity risk for the overall operations. In addition, there are capital requirements under Pillar 2 for market risk in the banking portfolio and other risk not covered by Pillar 1. The capital requirement for market risk in Pillar 1 increased by NOK 36 million during 2020. Position risk for debt instruments was reduced by NOK 94 million. The reason for the decline is that the average risk weight for the debt instruments was reduced during the year. Both CVA-risk and the capital requirements for position risk and equity instruments increased.

The market value of derivative contracts depends on the counterparty's creditworthiness and other market risk factors. Credit Value Adjustment (CVA) is an adjustment of the market value of Over-the-counter (OTC) derivatives in order to account for impaired creditworthiness of the counterparty. Provisions are calculated for CVA and recognised in the income statement. The capital requirement for CVA should cover the risk associated with the calculation of CVA provisions. DNB calculates capital adequacy requirements for CVA risk according to the standardised approach in CRR/CRD IV. The capital adequacy requirement for CVA risk was in 2020 about 30 per cent higher than at year-end 2019, see the table to the right. The increase in CVA capital charge is due to slightly reduced credit quality (lower rating) among the financial counterparties in scope, as well as increased maturity of the exposures. The development in risk-weighted assets (RWA) for CVA risk in the DNB Group are shown in the figure to the top right.

MARKET RISK EXPOSURE

Market risk limits

Overall risk limits are established for market risk in the banking activities in the risk appetite framework, expressed as the maximum share of economic capital. Market risk in life insurance is included in a separate risk appetite limit for the solvency margin in DNB Livsforsikring.

The risk appetite framework for market risk is operationalised in the form of limits for each type of risk. The limits for significant market risk exposures are determined by the Board of Directors of DNB ASA. Limits are set at least annually, and automatically expire if they are not renewed. The limits are delegated by the Board of Directors to the Chief Executive Officer (CEO), who delegates them further to risk-taking units that make investment or trading decisions. If limits are exceeded, this must be reported immediately both to whomever delegated the limits and to Group Risk Management.

Administrative limits and escalation levels are set for exposures that are defined as less significant. Such limits are used when there is a need for operational scope of action. Administrative limits are determined by the Group Executive Vice Presidents. Any changes to administrative limits must be reported to the Chief Risk Officer (CRO). The table gives an overview of the most important administrative limits set by the Board that applied at the end of 2020. To provide a complete picture of the exposure, the table also includes the risk limits associated with Fremtind AS and DNB Livsforsikring AS. In addition to these, smaller limits are set for options. Due to the extraordinary situation surrounding the pandemic, there was an additional update of the limits in 2020.

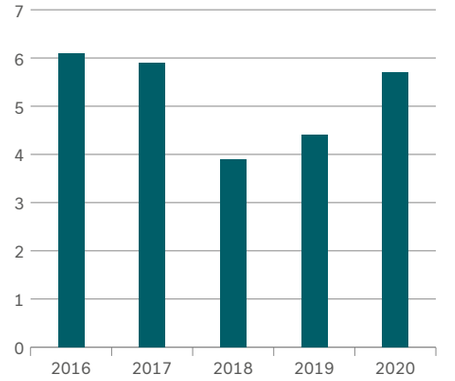
Capital requirements for market risk

NOK million	31 Dec. 2020	31 Dec. 2019
Position and general risk, debt instruments	*748*	*842*
Position and general risk, equity instruments	*52*	*30*
Currency risk	*4*	*1*
Commodity risk	*0*	*0*
Credit value adjustment risk (CVA) [1)]	*459*	*354*
Total market risk	**1 263**	**1 227**

1) In the in CRD IV reporting (Corep) the CVA risk is not included in market risk

Development in RWA for CVA risk

NOK billion



Market risk limits, 31 December 2020

NOK million		Limit, trading portfolio	Limit, banking portfolio	Total	Description
Limits set by the board	*Interest rate risk[1)]*	*4*	*10*	*14*	*Sensitivity limit*
	Currency risk	*2 500*		*2 500*	*Market value limit*
	Equity risk	*2 300*	*2 900*	*5 200*	*Market value limit*
	Commodities risk	*300*		*300*	*Market value limit*
	Basis swap risk[1)]	*15/(-30)*		*15/(-30)*	*Sensitivity limit*

NOK million		Limit, trading portfolio	Limit, banking portfolio	Total	Description
Administrative limits	*Commercial real estate risk*		*3 350*	*3 350*	*Market value limit*
	Physical asset risk[2)]		*7 350*	*7 350*	*Market value limit*
	Strategic investments[3)]		*15 300*	*15 300*	*Market value limit*
	Basis curve risk[1)]	*52*		*52*	*Sensitivity limit*
	Credit spread risk, Markets	*6*		*6*	*Sensitivity limit*
	Credit spread risk, Treasury[4)]	*70*		*70*	*Sensitivity limit*

1) Basis point value 2) Includes residual value of vehicles associated with leasing operations 3) Includes investments in Luminor Group AB and Vipps 4) The liquidity portfolio's mandate specifies the allocation between the trading and the banking portfolio

Interest rate risk

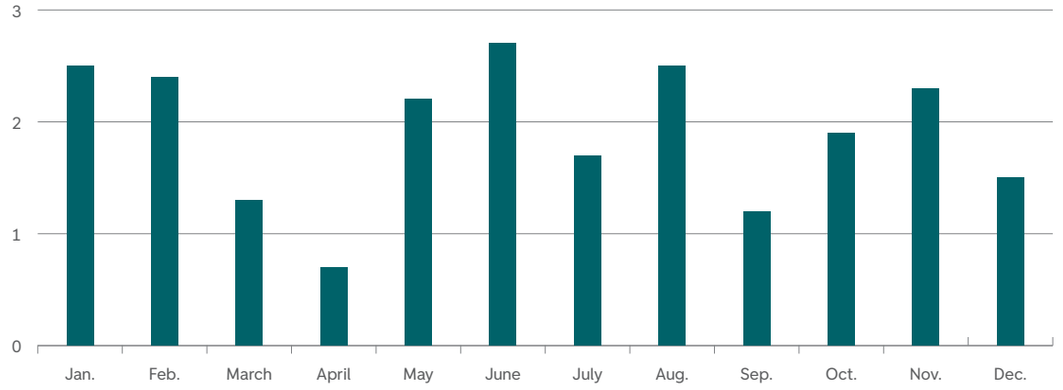
Interest rate risk occurs when financial instruments change value as a result of interest rate fluctuations and occur in both the banking and the trading portfolios.
Interest rate risk is expressed at the basis point value (BPV), which represents how much the present value of the positions will change if the underlying interest rate changes by one basis point. BPV is thus a measure of the sensitivity of the portfolios with regard to changes in interest rate levels. The figures show the interest rate risk in the trading and banking portfolios, respectively. Average exposure to interest rate risk in both the trading and bank portfolio decreased in 2020.

DNB's total interest rate risk limit at the end of 2020 amounted to NOK 14.2 million per basis point change, distributed between NOK 4.1 million in the trading portfolio and NOK 10.1 million for other exposures. Separate limits are set for each currency and the different intervals on the yield curve. Interest rate risk in the banking portfolio is measured and reported daily in DNB Markets and Group Treasury. The limits were not exceeded in 2020. As a part of the update of market risk limits in November 2020, the method for measuring interest rate risk was modified. The modification sets additional limits on risk stemming from non-parallell shifts of the yield curve. Also, a partial recognition of correlation effects between interest rates in different currencies was introduced.

To obtain a broader picture of the interest rate risk, changes in net interest income (delta net interest income, delta NII) and the change in the value of interest-rate sensitive assets and liabilities as a result of an interest rate shock (delta economic value of equity, delta EVE) are calculated. According to the EBA Guidelines on the management of interest rate risk arising from non-trading book activities (IRRBB), changes in net interest rates for interest-sensitive products in the banking portfolio are calculated as a result of an instantaneous parallel shift in the yield curve of 200

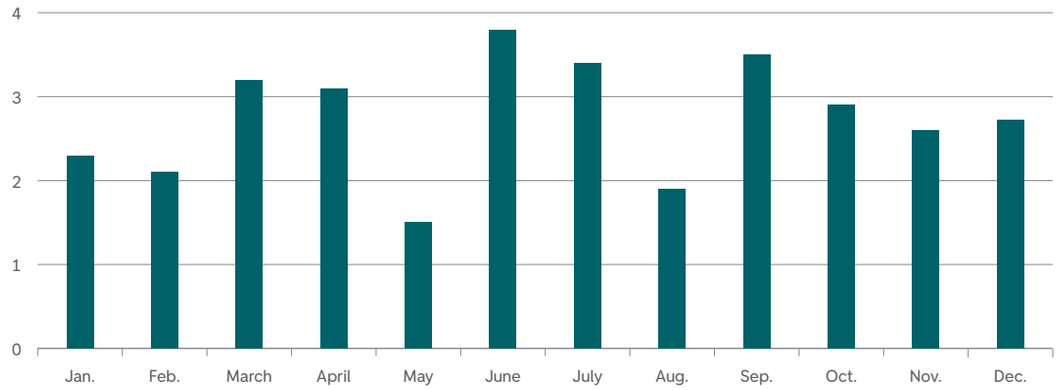
Interest rate exposure in the trading portfolio, BPV, 2020

NOK million



Interest rate exposure in the banking portfolio, BPV, 2020

NOK million



basis points, with a time horizon of 12 months as well as longer time horizons. In addition, methods and assessments that are appropriate for the bank's characteristics and business activities are internally developed. The effect on the present value of the exposure is calculated in six yield curve scenarios, and the scenario associated with the largest loss defines delta EVE. In line with the EBA Guidelines, delta NII, delta EVE and other key figures are calculated and reported at least monthly, and more frequently if necessary, to the management of Group Treasury, the Asset Liability Committee (ALCO), Group Management and the Board of Directors of DNB ASA.

The figure to the right shows interest rate sensitivity in NOK, USD and EUR distributed among maturity bands for the banking portfolio, measured by basis point value. The following instruments are included: forward contracts, bonds, commercial papers, deposits, interest swaps and basis swaps. The exposure is considered to be positive if the bank would profit in the event of an increase in interest rates. The figure shows that DNB's net interest rate at year-end 2020, summed over all maturities, was negative. This means that DNB would have experienced a positive effect on earnings if interest rates fell for all maturities at the end of 2020.

The table in the middle shows the impact of different interest rate changes on the banking portfolio. An interest rate increase of 100 basis points would result in a gain of about NOK 154 million for exposures in NOK, and a similar interest rate decrease will result in a loss of about NOK 154 million. Interest rate risk connected to the banking portfolio is almost linear, so that change in the interest rate multiplied by the interest rate sensitivity provides a comprehensive picture of the interest rate risk.

Interest rate risk for positions outside the trading portfolio

For the most part, it is the bank's own, discretionary decision to set the price (interest rate) of loans. Such loans have no interest rate risk or duration beyond the notice period (currently set at six weeks). Fixed-rate loans make up a very limited part of the loan portfolio, and any costs due to premiums related to early payments are charged to the customer.

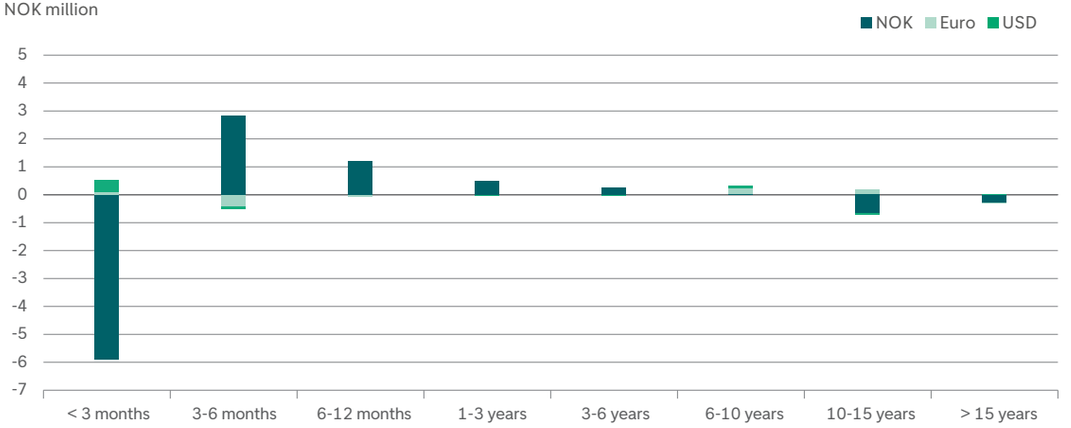
These properties results in there being no optionality in the retail loan portfolios in Norway, and the financial institutions carry no risk related to decisions made by the customer. The bank has chosen not to set interest rate risk or model duration beyond what follows from the notice period of two months for deposits, unless a specific maturity date has been agreed upon. The bank does not have fixed-rate periods for equity so that the bank, in line with the Norwegian banking model, accepts exposure of equity to floating interest rates.

Interest rate risk is reported daily, while other key figures, such as delta Net Interest Income (NII) and delta Economic Value of Equity (EVE) in accordance with the EBA's guidelines on interest rate risk in the bank book (IRRBB), are calculated monthly.

Equity investments

Equity investments in the banking portfolio are grouped into direct investments, venture investments, a credit portfolio, strategic financial investments, strategic subsidiaries, real estate investments and investments in Private Equity funds (PE funds). As a shareholder, DNB actively exercises ownership in selected companies through their Boards of Directors. Exposure relative to market risk limits is measured on the basis of the investments' market value, including any future amounts commitments in PE funds.

Interest rate sensitivity distributed among maturity bands, banking portfolio, BPV, 31 December 2020



Effects on results from interest rate shocks on the rate sensitive instruments in banking activities, 31 December 2020

NOK million	+ 200 bp	+150 bp	+ 100 bp	+50 bp	- 50 bp	-100 bp	-150 bp	-200 bp
Exposure in NOK	*(405)*	*(304)*	*(202)*	*(101)*	*101*	*202*	*304*	*405*
Exposure in EUR	*32*	*24*	*16*	*8*	*(8)*	*(16)*	*(24)*	*(32)*
Exposure in USD	*65*	*49*	*33*	*16*	*(16)*	*(33)*	*(49)*	*(65)*
Total	**(308)**	**(231)**	**(154)**	**(77)**	**77**	**154**	**231**	**308**

Equity and real estate investments in the banking portfolio, 31 December 2020

NOK million	Book value	Fair value	Realized gains/ losses 2020	Total unrealized gains/losses
Direct investments	*116*	*158*	*(3)*	*42*
Venture investments	*76*	*60*	*-*	*(16)*
Credit portfolio	*763*	*731*	*(12)*	*(32)*
Strategic financial investments	*13 333*	*13 328*	*78*	*(5)*
PE funds including loan portfolio	*201*	*211*	*6*	*10*
Total equity investments	*14 489*	*14 488*	*69*	*(1)*
Real estate portfolio investments, M&A	*476*	*652*	*9*	*176*
Real estate portfolio Poland	*76*	*76*	*-*	*-*
Total real estate investments	*552*	*728*	*9*	*176*
Total equity and real estate investments	**15 041**	**15 216**	**78**	**175**

- Direct investments are an investment portfolio in unlisted companies rooted in the customer environment.
- Venture investments, through DNB Venture's mandate, comprise an investment portfolio of Nordic startups with considerable innovation capabilities. The target companies can have synergy effects for the DNB Group.
- The purpose of the credit portfolio is to secure or recover the value of credit exposures through ownership and subsequent realisation. On the basis of business-related and long-term assessments, the bank may decide to sell equities pledged as collateral or convert defaulted debt into equity and ownership.
- Strategic financial investments are investments in the financial sector with strategic anchoring. Ownership of Fremtind Forsikring AS, Luminor Group AB and Vipps AS are among the largest investments.
- Real estate exposures are either strategic real estate investments or properties repossessed as a result of credit default. The real estate exposure is measured as the market value of the underlying properties, regardless of the financing structure.
- The PE (private equity) portfolio consists of shares in unlisted PE funds. The portfolio consists mainly of acquisition funds that invest in mature enterprises and a smaller proportion in venture funds investing in companies in the start-up phase.

For ordinary shareholdings, the difference between the book value and the fair value is used for value adjustments of the shareholding. For subsidiaries and associated companies, the book value is equal to the market value. For real estate, the book value is the carrying amount of the properties in the company accounts, while the market value is the last valuation of the property.

If DNB's ownership interest is less than 20 per cent and DNB does not have significant influence in the company, the investment is measured at fair value.

If the ownership interest is between 20 and 50 per cent, it is usually considered an associated company. Accounts are then kept according to the equity method, which means that DNB takes in its share of the company's profits.

If DNB has control, normally with an ownership interest of more than 50 per cent, the investment is considered a subsidiary and is fully consolidated in the accounts. The assets of the companies that are fully consolidated are valued at fair value in accordance with the Group's accounting principles (IFRS).

Fair value is defined as: "the price that would have been obtained from the sale of an asset or paid to transfer liability in an orderly transaction between market participants at the valuation date". DNB determines the fair value of financial instruments either by using prices obtained directly from external data or by using valuation methods. The valuation uses the most relevant, observable input data and the least possible non-observable input data. Valuation methods can be categorised as 'market approach', 'revenue approach' and 'cost approach'. Assets and liabilities measured or stated at fair value are categorised into the following three levels:

Level 1: Listed prices (not adjusted) in active markets for identical assets or liabilities to which the company has access to at the valuation date.
Level 2: Input data other than listed prices, which can be directly or indirectly observed for the asset or liability.
Level 3: Non-observable input data for the asset or liability.

Other exposures

Basis swap spread risk arises because a substantial portion of DNB's assets in NOK is funded with foreign currency through covered bonds issued by DNB Boligkreditt AS or through other debt instruments. The currency is switched to NOK through basis swaps with the same or shorter term.

A basis swap is a combined interest rate and currency swap where the parties exchange future cash flows and also agree to pay and receive interest. Basis swaps are normally kept to maturity and value is assessed daily. This entails that the recorded value of a swap fluctuates during the term of the swap. There are no limits on basis swaps that are used as hedging instruments.

Currency risk in the Group is hedged against DNB Markets, which is thus the only entity that is directly exposed to traditional currency risk. The exposure is moderate and is predominantly linked to business operations and, to some extent, to supporting customer trades.

Asset risk (other physical assets) is exposure to direct ownership of physical assets that are not standardised. Examples of such assets are industrial equipment and construction machinery. The majority of the limit for this risk covers exposure to the residual value of vehicles associated with leasing operations.

Credit spread risk mostly arises as a result of the bank's liquidity risk management through the management of bonds in the liquidity portfolio. In addition, there is some credit spread risk in the trading portfolio as a result of secondary market trading and investments in the primary market. Secondary market trading takes place mainly through market-making of Norwegian bonds and commercial papers. The credit spread is the add-on to the reference interest rate in a bond coupon. Credit spread risk is the risk of changes in market assessments of the credit spread.

Equity-related risk in the trading portfolio arises mainly as a result of DNB Markets performing market-making in shares and equity derivatives on electronic marketplaces and to customer brokers. In addition, DNB Markets sets prices for convertible bonds. Market risk as a result of all these activities is managed on an ongoing basis within the relatively moderate equity limits allocated to the trading portfolio.

«Currency risk in the Group is hedged against DNB Markets, which is thus the only entity that is directly exposed to traditional currency risk.»

In addition, there are limits for commodities risk and basis curve risk. Commodity exposure is small and the risk associated with the exposure is marginal. Basis curve risk occurs when interest rate instruments denominated in the same currency are not valued with the same yield curve.

MANAGEMENT AND CONTROL OF MARKET RISK

The Group Policy for Risk Management covers all types of risk in the DNB Group. For market and counterparty credit risks, corporate policy is elaborated and concretised in the Group standard for market risk that establishes definitions, principles for delegation of frameworks and requirements for the management of market and counterparty credit risks. The Group standard for market risk is reviewed annually and substantial changes are approved by the CRO. Detailed Group instructions for market risk have also been implemented, as well as local instructions for business areas with significant market risk exposure. The local instructions operationalise the Group standard in the individual business area.

DNB uses various risk measures in the management and control of market risk:

- Economic capital is used to measure the overall market risk, and in the internal risk and capitalisation assessments.
- Value at Risk (VaR) is used to measure aggregated risk across asset classes and is a supplementary risk measure. VaR is calculated for interest rate, equity and currency risk. Limits are not set for VaR.
- Sensitivity measures are used to report and follow up exposures against specific limits, e.g. yield curve intervals. Sensitivity measures in the market risk measurement reflect how much the bank risks losing at a given change in the underlying risk type. The sensitivity measures are important for the qualitative risk assessment and are also used as a basis for quantitative risk modelling.
- Stress tests of EVE and NII are used to measure interest rate risk outside the trading portfolio (IRRBB).

In addition to the risk measures that are included in the follow-up of market risk, stress testing is used to identify exposures and losses that could arise under extreme but, at the same time, plausible market conditions.

DNB observes the principle of three lines of defence in the monitoring of market risk. First line responsibility is performed where the risk is taken. Local control units track and control the activity. Barriers are established between entities that take risks and the control units. The CRO and Group Risk Management establish the principles for management of market risk, perform independent control actions and thus constitute the second line of defence. The local internal control units report risks directly to Group Risk Management in addition to reporting to their own line management. The second line of defence supports, monitors and challenges the first line of defence for risk management. The third line of defence is Group Audit, which reports to the Board of Directors of DNB ASA.

The Financial Markets Risk Committee (FMRC) is headed by the Chief Market Risk Officer (CMRO). The committee follows up and approves the framework for managing market risk related to the bank's activity in financial markets, including methodology and control procedures. FMRC has members from Group Risk Management, DNB Markets and Group Treasury.

Market risk exposure, risk appetite and utilisation of risk limits are reported monthly to Group Management, ALCO and the Boards of Directors of DNB ASA and DNB Bank ASA.

7
Operational risk

The COVID-19 pandemic has had a major impact on the development of operational risk in 2020. Information security and IT operations are the greatest risk areas. Despite the pandemic, operations have been stable, and DNB has had limited operational losses. Developments in risk management are continuing with good progress.

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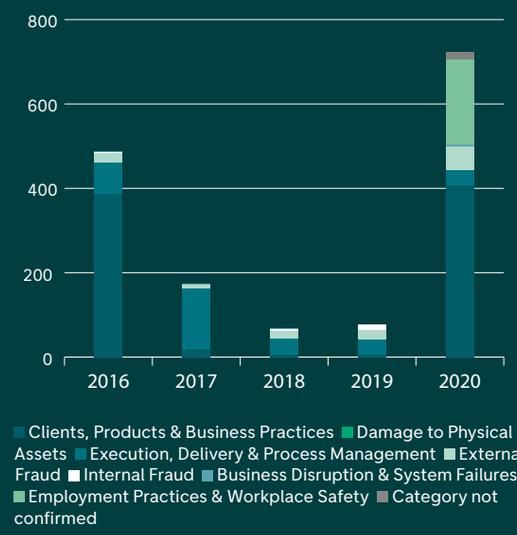
Definition

Operational risk is the risk of loss resulting from inadequate or failed processes, people and systems or from external events. Reputation risk is not covered by this definition, but is a separate type of risk that is discussed at the end of this chapter.

Operational lossess

NOK million



Capital requirements

NOK billion

7 627 (7 228)

Operational events

Number

3 704 (3 957)

DEVELOPMENTS IN OPERATIONAL RISK IN 2020

Crisis management and business continuity during the COVID-19 pandemic

Naturally, DNB's operational risk was affected by the COVID-19 pandemic in 2020. Our offices in Singapore and Shanghai were quick to implement measures – in early February – and in March, the full force of the pandemic hit the entire Group. The situation created uncertainty and unpredictability as a lot was changing at the same time. Since March, most of our employees have been working from home, and infection control measures have been in place in all staffed offices. Extensive use of home-based work affects the operational risk in many ways, such as efficiency and productivity, physical and psychosocial stress and cyber attacks. A number of measures have been introduced to deal with the new way of work in 2020, and assessments of how we should facilitate the workplace of tomorrow are well underway.

In order to coordinate and manage all necessary changes, DNB's crisis organisation was mobilised at an early stage. All business areas have their own plans for maintaining operations in demanding situations. A central crisis staff with a number of associated workflows ensured that measures were coordinated and the bank took a unified approach. The Group Management team was kept informed and made decisions when needed.

The experience of dealing with the COVID-19 pandemic will be used to further develop our contingency and continuity plans. DNB conducts regular exercises to train staff and test our preparedness.

IT and security

In terms of IT, both home-based work and a greater demand for digital banking services were demanding. At the same time, IT suppliers in India were hit by a prolonged shutdown due to the pandemic and later by a cyclone. For a time, IT operations were moved from IT suppliers to DNB's own resources in Norway. This was in accordance with our business continuity plans. Changes in the IT systems were at times kept to a minimum to prioritise stable operations.

The introduction of a new IT operating model continued in 2020. Most IT units are now organised as tech families with responsibility for the entire life cycle of their systems. DNB adopted a new technological strategy in September, and it forms the basis for further developments in IT.

There has been considerable attention to IT security in connection with the pandemic. Criminals have tried to exploit the unusual situation through phishing, fraud attempts and extortion viruses. DNB is constantly strengthening the defences so that the risk of cyber attacks has changed little over the year.

Incidents

A pandemic will always result in greater operational risk, i.e. an increased probability that the Group's operations will be affected by undesirable incidents. A survey carried out in October nevertheless shows that the COVID-19 pandemic has led to few incidents resulting in financial losses for DNB. In total, losses related to the COVID-19 pandemic amounted to just over NOK 200 million. The largest costs are related to preventive measures and delays in projects.

In February, the Supreme Court passed its decision in the group action – known as the DNB Norway case – and DNB had to pay a total of NOK 349 million in price reductions and compensation to customers. The loss was recorded in 2016, when the lawsuit began.

Towards the end of the year, DNB received the preliminary report from the ordinary AML inspection performed by Finanstilsynet (the Financial Supervisory Authority of Norway) in February. The report notified DNB of a possible administrative fine of NOK 400 million. Finanstilsynet's notice is based on inadequate compliance with the Anti-Money Laundering Act, not on DNB having been complicit in money laundering. Finanstilsynet will draw a conclusion in this case once DNB has delivered its response. As a precaution, a provision has been made in the accounts for the entire amount, and is therefore reported as an operational loss in 2020.

In 2020, DNB registered 3 704 operational incidents, most of which can be categorised as clients, products & business practices and execution, delivery & process management. Each single incident is followed up, and analyses are used to find risk-mitigating measures. The biggest losses can be categorised as employment practices and workplace safety, as the Basel regulations dictate that losses due to the pandemic should be recognised under this item, and clients, products & business practices, because of the AML-fine.

"In total, losses related to the COVID-19 pandemic amounted to just over NOK 200 million."

CAPITAL REQUIREMENTS FOR OPERATIONAL RISK

DNB uses the standardised approach to calculate capital requirements for operational risk. Capital requirements for operational risk increased by NOK 399 million in 2020.

MANAGEMENT AND CONTROL OF OPERATIONAL RISK

Operational Risk Management should contribute to efficient and successful operations. Good risk management includes establishing a healthy risk culture, as well as clear roles and responsibilities for working with operational risk. All managers in DNB are required to be aware of and manage operational risk in their own processes, systems, products and services. The largest areas have separate departments that work with this.

The Group Operational Risk division in Group Risk Management is DNB's central specialist unit for operational risk management, and constitutes the Group's second-line defence for such risk. Group Operational Risk is an independent control function with responsibility for the framework for operational risk management, group reporting and risk reduction through insurance. Group Operational Risk is also responsible for the maintenance and development of the Group's risk management tools, which facilitate comprehensive management and measurement of risk and compliance. There are dedicated operational risk officers who are affiliated with Group Operational Risk to monitor operational risk in all business areas and support units, in important subsidiaries and at international offices.

Operational risk management is important to ensure compliance with the requirements set for DNB. When DNB's strategy was updated in the autumn of 2020, ensuring compliance was included in the Group's strategic goals. Giving compliance such a central place in DNB's strategy will help to increase awareness and focus on risk management in the years to come.

The figure on the right shows the most important elements of DNB's operational risk management. The Group should be characterised by a sound risk culture which involves identifying and assessing risk, establishing, implementing and evaluating measures as well as ensuring pertinent reporting to relevant stakeholders. All identified losses and incidents must be recorded in a loss and incident database, along with any relevant measures.

The Group's governing documents, together with laws and regulations, set the premises for managing operational risk in DNB. The Group's risk management policy contains general principles, which are elaborated in a more detailed standard for operational risk. The standard is also based on Finanstilsynet's Module for Operational Risk and the Basel Committee's document, 'Principles for the Sound Management of Operational Risk'. The standard focuses on responsibility for operational risk management and helps to ensure that DNB's operational risk management is developed based on recognised principles. The standard is elaborated in instructions that provide practical guidance in various risk management topics. In 2020, the Group also introduced a new internal control standard under the risk policy, which will enable DNB's management to monitor risk management regularly.

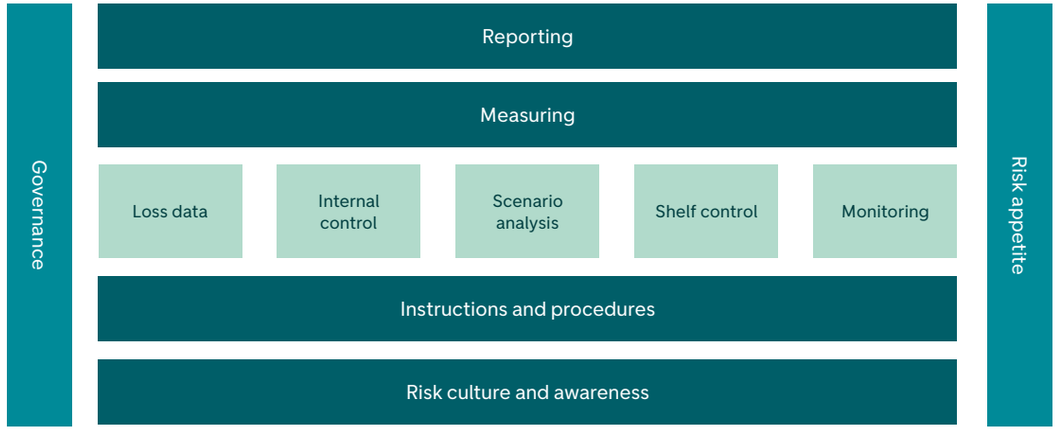
The Group's risk appetite sets the limits for how much operational risk DNB is willing to accept. Risk identification and assessment, together with registration and follow-up of operational events, should provide an overall picture of the operational risk and contribute to reliable measurement of risk. The Group's business areas and support units report their greatest risks to Group Risk Management quarterly. Developments in risks that are considered significant to the Group, such as cyber risk, are reported to the Board of Directors quarterly.

The insurance programme is intended to help limit the financial consequences of undesirable events which occur

Capital requirements for operational risk

NOK million	Factors	31 Dec. 2020	31 Dec. 2019
Corporate finance	*18 %*	*262*	*262*
Trading and sales	*18 %*	*720*	*552*
Retail brokerage	*12 %*	*14*	*20*
Commercial banking	*15 %*	*4 176*	*4 046*
Retail banking	*12 %*	*1 795*	*1 808*
Payment end settelments	*18 %*	*452*	*340*
Agency services	*15 %*	*4*	*54*
Asset management	*12 %*	*203*	*147*
Total capital requirements		**7 627**	**7 228**

Operational risk management in DNB



despite established security procedures and other risk-mitigating measures. The insurance policies cover fire and other disasters, criminal activities, embezzlement, cyber attacks, professional liability and directors' and officers liability in the Group's operations worldwide. The insurance market in 2020 was demanding, but DNB has succeeded in renewing its insurances and expanding its coverage in some areas.

The instructions for approval of products and services (the 'Shelf Control' scheme) are an important part of the Group's operational risk framework. The purpose of this standard is to ensure high quality in DNB's portfolio of products and services, thus ensuring competitiveness, customer satisfaction and compliance. The instructions ensure that all products and services are risk assessed before they are approved. There should also be a description of what the product or service means to the customer, who the target group is, and who in DNB is responsible for the product.

The Non-Financial Risk Committee (NFRC) is central to coordinating the management of operational risk across DNB. In connection with the NFRC there are Subject Matter Groups for anti-money laundering, the 'know-your-customer process', fraud, IT risk, privacy, third-party risk and behavioural risk, respectively. To read more about the NFRC, please see the chapter on risk management and control.

The Group standard for internal control in DNB provides a common conceptual framework and understanding of internal control, and forms the basis for a framework for structured internal control work. An important element is the annual internal control certification, where all areas in the Group confirm that:

- the have sufficient risk management resources
- they have identified their main processes
- they have identified their main risks
- there are risk-mitigating measures and controls in place for each risk
- controls are tested
- they know the strengths and weaknesses of the controls
- action is taken to close up any gaps

The self-assessment is reported to the Group Management team and the Board of Directors.

REPUTATIONAL RISK

A company's reputation is a crucial factor in ensuring sustainable operations over the long term. For DNB, reputation is most often assessed in connection with confidence in the DNB brand. A solid reputation, and thus a high level of confidence in DNB, has a positive effect on our operations in many areas. Reputational risk is positively affected through an active relationship to sustainability and a good dialogue with our stakeholders, through effective compliance work, and through our Code of Conduct, which is DNB's ethical rules for employees. DNB manages reputational risk through group policies and business activities, including compliance. In the Shelf Control, reputational risk must be assessed for all products and services, and the unit with group-level responsibility for communication must be involved in such decisions. DNB monitors reputational risk in close connection with operational risk.

The risk appetite framework states that DNB must work to have a good reputation and deliver on expectations from society and stakeholders. Reputational risk is followed up through monitoring and analyses of media coverage and customer satisfaction. A limit has been set for what is an acceptable level in the reputation survey (RepTrak) and forward-looking assessments are made of any relevant cases that could damage DNB's reputation.

Measuring reputational risk

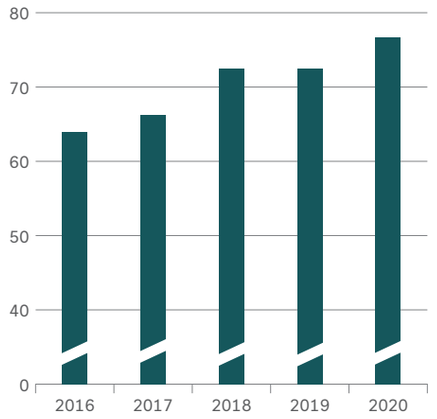
Measuring reputational risk independently of other risk categories is challenging, as reputational risk is often a direct consequence of risk in other categories. Reputational risk can mainly arise from two sources: internally in the company (changes in business practices, new or revised products, marketing campaigns, infrastructure downtime or other technical issues) or externally (changes in the external business environment, market trends, expectations from stakeholders, changes in public opinion).

DNB measures the brand's reputation using RepTrak. It is an industry standard that has been broadly adopted both in Norway and internationally, which enables DNB to study its reputation using a standard measure over time, as well as a measure against competitors and comparable companies in other sectors.

In the RepTrak system, a company receives a score between 0 and 100, where a score between 60 and 70 is considered to be average and a score above 70 is considered to be good. DNB's reputation has gradually improved over several years. Every quarter in the last two years, DNB's reputation has received a score over 70 points, and in the fourth quarter of 2020 the result was 76.7 points.

Reputation score[1] per year

Score



1) Reputation score RepTrak's Q4 per year

8
Climate risk

Investors, lenders and other stakeholders are increasingly asking for information on sustainability and climate risk. DNB views sustainability and climate risk as strategically important issues for long-term value creation, and for DNB's role as a healthy and responsible player in Norwegian society. The Paris Agreement, adopted in 2015, sets clear ambitions for limiting global warming to well below 2 °C. The goal is to mitigate the long-term physical risk, although it may increase the transition risk in the short and medium term. DNB works continuously to develop and improve the identification, management and control of climate risk.

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Definition

Climate risk is the risk of economic loss and financial instability as a result of climate change itself and society's response to it. Climate risk is usually divided into two categories:

- Physical risk is associated with potential harmful effects from climate change such as extreme weather, floods, droughts and rising sea levels.
- Transition risk arises from tightening climate policies, rules and legislation aimed at moving economic activity away from emissions-intensive industries and activities, disruptive climate-driven innovation that reduces the profitability of existing business models and climate-related changes in customer behaviour.

DEVELOPMENTS IN CLIMATE RISK IN 2020

In the spring of 2020, climate change and sustainability were topics that fell off society's radar for the first few weeks after the pandemic caused a global shutdown. After a couple of months, however, the issue once again became an important focus. Authorities around the world have used the rebuilding of the economy after the pandemic as an opportunity to accelerate sustainable development and create a green restart, where energy restructuring in particular is an important climate measure. The EU has decided that a quarter of its package of measures aimed at helping the EU countries through the coronavirus pandemic (Next Generation EU) should be allocated to climate measures that will contribute to essential energy restructuring and green growth.

In 2020, the EU presented further regulations under the EU Sustainable Finance Action Plan, including details on the EU Taxonomy for Sustainable Activities. The EU Taxonomy is a classification system with technical criteria for determining which economic activities can be seen as 'green' and environmentally sustainable. It will make it easier for investors, customers and consumers to assess whether companies are acting in keeping with the ambitions of the Paris Agreement. Once it has been completed in 2021 (for climate-related activities) and 2022 (for remaining environmental-related activities), the EU taxonomy will contribute to common standards for sustainable finance and will be highly significant for the financial industry in the time ahead.

DNB works continuously to develop and improve the identification, management and control of climate risk. DNB took the following key actions to address and reduce climate risk in 2020:

- Participated in phase two of the pilot project implemented by the Task Force on Climate-related Financial Disclosures (TCFD), through the UN Environment Programme Finance Initiative (UNEP FI). This involved modelling and quantifying climate risk through scenario and sensitivity analyses of credit portfolios, where DNB contributed data to UNEP FI's publication of two TCFD-related reports. DNB prioritised assessments of the oil and gas sector, and the analyses provided good insight into the resilience of the oil and gas portfolio in a short- (<5 years), medium- (2030) and long-term (2040) perspective.
- Reported for the first time climate adaptation in the shipping portfolio, along with 15 other banks globally, in line with Poseidon Principles. DNB's portfolio is 2.5 per cent above target, and close to the average for the 15 banks that reported.
- Analysed and investigated how to strengthen the process for identifying, obtaining and quality assuring the correct use of climate-related data.
- Expanded the scenario analyses to include more industries, and there is ongoing work related to the energy, shipping and commercial real estate industries, among others. In addition, DNB is working to understand how climate change affects the Group in a broader perspective, both strategically and commercially.
- Expanded the assessments carried out related to climate risk and ESG (environmental, social and governance factors) in credit decisions, and at the same time improved our risk assessment tool and adapted it for specific industries. To read more about this, see page 36 in this report as well as the chapter 'Responsible lending' in the annual report.

MANAGEMENT AND CONTROL OF CLIMATE RISK

Both transition risk and physical risk can have significant financial consequences, which can affect financial institutions through e.g. loan defaults, losses on investments and higher insurance settlements. In the short and medium term, transition risk is more significant than physical risk for DNB. This is based on assessments of ESG risks for DNB's credit portfolios carried out in 2019 and 2020. The Group has established overarching governance principles for sustainability, which form the basis for obligations, processes and sustainability metrics, including climate-related efforts. Measurement parameters, or metrics, are used to monitor and manage the climate risk DNB are exposed to, and the work of following up these metrics and targets is regularly endorsed by the Board and the Group Management team. Among other things, DNB set a target in 2019 to contribute with NOK 450 billion to the financing of renewable energy and related infrastructure and NOK 130 billion to the financing of green property up until 2025.

DNB reports on Scope 1, Scope 2 and several categories of Scope 3 emissions in an annual carbon accounting report. In 2020, a new metric was introduced for reporting on emissions associated with DNB's data storage. DNB follows the GHG Protocol Corporate Standard and Scope 2 Guidance when measuring and reporting both market-based and location-based Scope 1 and Scope 2 greenhouse gas emissions.

Direct emissions

DNB works at several levels to handle direct emissions and impacts from its own operations:

- DNB has been certified in accordance with ISO 14001 on environmental management since 2014. This involves an annual internal and external audit (by DNV), which measures continuous improvement of emissions and energy consumption.
- DNB has had specific reduction targets for greenhouse gas emissions since 2009, and has reported and published an annual carbon accounting report since 2011.
- DNB has made a significant effort to identify climate risk in the Carbon Disclosure Project (CDP) reporting, and in 2020, it achieved the top ranking of A for the fourth year in a row. CDP includes both direct and indirect emission measures. The experience from reporting own emissions, and clear reduction targets, has been useful for the work of incorporating climate risk in the credit process and in guidelines for asset management.

Indirect emissions

DNB has been working systematically to gain an overview of indirect emissions arising from credit portfolios and asset management since joining TCFD in 2017. From 2017–2020, DNB participated in three TCFD pilot projects under the auspices of UNEP FI. However, more insight surrounding climate risk is needed to achieve quantifiable results. In 2020, DNB continued working on stress-tests and scenario analyses, with a broader scope in terms of both industries and scenarios. The climate scenario analysis showed a moderate to low risk until 2030. DNB will continue working with the findings in 2021 and integrate them into the financial planning and strategy of prioritising customers who work proactively with energy restructuring, in accordance with the Paris Agreement.

Integration of climate risk in DNB's risk management

- Climate risk assessments are integrated into DNB's credit manual. This means that the Group sets specific requirements for corporate customers to assess their own climate risk, and that climate is part of the ESG assessment for all corporate customers with loans above NOK 8 million.
- In addition to established procedures at the credit transaction level, DNB is working on developing an adapted risk management tool at the portfolio level. In this work, insight from the scenario analyses of the various sectors is a significant contribution.
- DNB collaborates with customers to reduce climate risk and carbon emissions. As one of the world's leading shipping banks, DNB has worked with other banks, as well as climate and industry experts, to develop the Poseidon Principles, which is a global framework for responsible financing of ships that influences the industry to reduce climate risk and carbon intensity.
- When conducting stress tests at the portfolio level, climate must always be assessed in connection with the development of scenarios.

Climate impact disclosure

Energy consumption (MWh)	2020	2019	2018
Own means of production			
Transportation	*1 242.1*	*1 764.2*	*2 008.8*
Total energy consumed	*1 242.1*	*1 764.2*	*2 008.8*
Energy purchased			
Electricity	*32 476.1*	*32 831.2*	*37 326.5*
District heating	*19 063.3*	*15 949.6*	*17 541.1*
Total energy purchased	**51 562.7**	**48 780.8**	**54 867.7**

Emissions (tCO_2e)	2020	2019	2018
SCOPE 1[1] & 2[2]			
Direct (GHG Scope 1)	*281.6*	*403.3*	*451,0*
Indirect (GHG Scope 2)	*3158.3*	*3 390.2*	*4 186.3*
SCOPE 3[3]			
Business travel	*508.6*	*786.1*	*626.8*
Air travel	*999.2*	*5 809.8*	*6 443.5*
Waste management	*202.2*	*240.4*	*252.5*
Data storage (new metric in 2020)	*31.5*	*n/a*	*n/a*
Other	*144.9*	*75.7*	*648.8*
Total emissions (GHG scope 1, 2, 3)	**5 326.3**	**10 705.8**	**12 608.7**
RECs (renewable certificates) or GOs (guarantees of origin) purchased, coverage ratio	*100 %*	*100 %*	*100 %*
CDM and Gold Standard quotas purchased, coverage ratio	*100 %*	*100 %*	*100 %*

1) Scope 1: Mandatory reporting on all sources of direct emissions where the organisation has operational control
2) Scope 2: Mandatory reporting on all indirect emissions related to purchased energy, electricity and district heating/cooling where the organisation has operational control
3) Scope 3: Optional reporting on indirect emissions in the value chain

You can read more about DNB's climate and sustainability work in the Group's annual report and in our Sustainability Library:
dnb.no/om-oss/samfunnsansvar/barekraftsbibliotek.html

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Risk categories, explanation of terms and abbreviations

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RISK CATEGORIES

In DNB, risk is divided into six main categories which are subject to special measurement and monitoring.

Credit risk is the risk of financial losses due to failure on the part of the Group's customers to meet their payment obligations towards DNB. Credit risk is attached to all claims against customers, primarily loans, but also liabilities in the form of other extended credits, guarantees, interest-bearing securities, undrawn credits, derivative trading and interbank deposits. Credit risk includes concentration risk, which is the risk associated with large exposures to a single customer, concentration within geographical areas, industries or with homogeneous customer groups.

Counterparty credit risk is a form of credit risk that arises in connection with trades in financial instruments, such as derivatives. Counterparty credit risk is the risk that the counterparty will fail to perform its contractual obligations in a transaction.

Market risk is the risk of losses due to unhedged positions in the foreign exchange, interest rate, commodity and equity markets. The risk reflects potential fluctuations in profits due to volatility in market prices and exchange rates. Market risk includes both the risk that arises through ordinary trading activities and the risk that arises as part of banking activities and other business operations. In addition, market risk arises in DNB Livsforsikring ASA through the risk that the return on financial assets will not be sufficient to meet the obligations specified in agreements with customers.

Credit spread risk is the risk of changes in the market value of securities and derivatives as a result of changes in credit spreads. Credit spread risk in the liquidity portfolio is managed to ensure that losses resulting from changes of credit spreads never exceed a fixed limit.

Basis risk is the risk that changes in the value of a hedge are not correlated with the changes in value of the underlying position being hedged. The most pronounced form of basis risk in DNB, which arises in connection with currency hedging of future cash flows in foreign currencies, is called basis swap risk.

Residual risk is the risk that non-standard assets in the balance sheet experience a greater drop in value than expected, and it arises in connection with the value of cars, construction machinery and other physical objects that are leased out and then sold. In the capital adequacy regulations, residual risk is treated as credit risk, but internally in DNB, it is treated as market risk.

Operational risk is the risk of losses due to deficiencies or errors in processes and systems, human errors or external events. This definition includes legal risk, but excludes strategic and reputational risk.

Insurance risk is risk associated with operations in DNB Livsforsikring AS and refers to changes in insurance obligations due to e.g. changes in life expectancy and disability rates.

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due, or will be unable to meet its liquidity obligations without a substantial rise in associated costs. Liquidity is vital for financial operations, but as a rule this risk does not materialise until other events give rise to concern about the Group's ability to meet its financial obligations.

In addition to the above risk categories, the Group is exposed to the following:

Strategic risk, which can be defined as the risk of a decline in income if the Group fails to exploit available strategic opportunities. The Group's strategic risk is not measured or reported, but is on the agenda in discussions concerning annual strategy processes.

Business risk is the risk of profit fluctuations due to changes in external factors such as the market situation, government regulations or weakened reputation. The Group's business risk is generally handled through the strategy process and through on-going work to safeguard and improve the Group's reputation. When determining and monitoring the Group's risk appetite, reputational risk is treated separately.

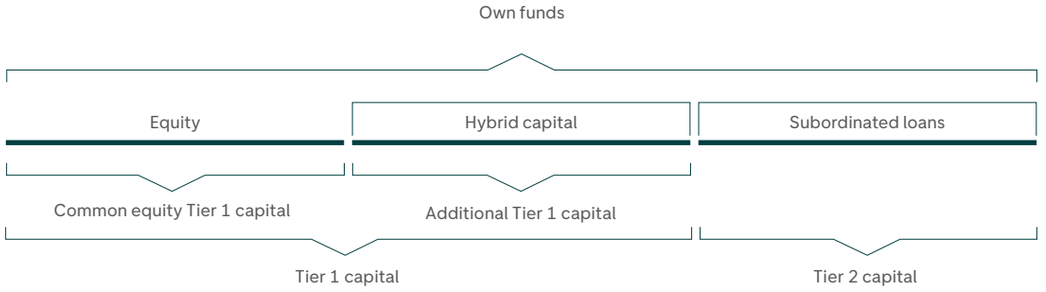
Compliance risk is the risk of DNB failing to comply with external regulations or internal rules derived from external regulations.

EXPLANATIONS OF TERMS

Own funds

Own funds is capital that can be used to cover capital requirements. Own funds includes core capital (Tier 1) and supplementary capital (Tier 2). Common equity Tier 2 capital consists of paid-in capital and retained earnings, minus certain items such as good will and allocated dividends. Additional Tier 1 capital (hybrid securities) is also included in Tier 1 capital. Additional Tier 1 capital has both debt and equity characteristics. It cannot exceed 1.5 percentage points of the minimum Tier 1 capital requirement of 6 per cent. Additional Tier 1 capital is perpetual and can be written down or converted to equity when the common equity Tier 1 capital ratio falls below 5.125 per cent.

Tier 2 capital consists of subordinated debt. Subordinated debt can be either perpetual or time-limited. It is interest-bearing and repayment may be demanded, but it is ranked after other debt and above Tier 1 capital. Subordinated debt cannot represent more than 2 percentage points of the minimum eligible capital requirement of 8 per cent.



Basel III

Basel III is a global, voluntary regulatory standard on bank capital adequacy, stress testing and market liquidity risk issued by the Basel Committee for Banking Supervision. The final elements of this framework were added in December 2017 and, in accordance with the agreement, will be implemented by 1 January 2022 at the latest. Basel III has been implemented in EU and EEA by means of CRR/CRD IV.

- CRR (Capital Requirements Regulation) is a regulation that applies throughout the EU independent of national legislation. In accordance with the EEA agreement, Norway is required to implement the directive into Norwegian legislation.
- CRD IV (Capital Requirements Directive) is the legal framework for the supervision of credit institutions and investment firms in the EU that Norway is required to implement in its own legislation pursuant to the EEA treaty.

CRR/CRD IV were implemented in Norway on 31 December 2019 through Regulations on capital requirements and national adaptation of CRR/CRD IV. For more information, see the explanation of the capital requirements calculation used in DNB (below).

Basis swap

In this context we use the term basis swap for a type of swap in which two parties exchange variable interest and principal payments in different currencies. This is usually done to hedge future cash flows in foreign currencies.

Buffer requirements

Banks are subject to buffer requirements that entail holding far more capital than what is necessary to meet the minimum requirement. These are buffers that banks can draw on in especially unfavourable situations but that they, in normal/good times, are required to have in addition to meeting the minimum requirements. These buffer requirements must be met by common equity Tier 1 capital.

Financial institutions must fulfil a combined buffer requirement consisting of four separate requirements:

- The capital conservation buffer is a buffer imposed on all banks to provide time and space for correcting measures if the bank were to get into a crisis situation.
- The systemic risk buffer is a buffer that reflects especially high, structural, non-cyclical risk factors in the economy.
- The buffer for systemically important financial institutions is a buffer to mitigate the likelihood that systemically important financial institutions come into a crisis situation.
- The countercyclical capital buffer is a buffer that takes into account that credit risk may increase during periods of strong credit growth. The buffer should reduce the effect of cyclical variations. During recessions the buffer requirement can be reduced or waived to make it easier for banks to provide credit.

In addition, financial institutions must have a capital requirement margin, for which Finanstilsynet (the Financial Supervisory Authority of Norway) provides guidance through the Supervisory Review and Evaluation Process (SREP).

According to Section 2-9(e) of the Financial Contracts Act, financial institutions that do not fulfil the above buffer requirements must prepare a plan for increasing their common equity Tier 1 capital ratio, and cannot pay dividends to shareholders and bonuses to employees without Finanstilsynet's consent.

EAD – Exposure at Default

EAD is the share of the approved credit that is expected to be drawn at the time of any future default at the same time as there is downturn in the market. EAD = drawn amount + unutilised credit or allocation multiplied by a factor. See credit conversion factor.

ECL – Expected Credit Loss

DNB uses a three-step approach in measuring expected credit loss (ECL) on loans to customers, loan obligations, financial guarantees and other financial instruments subject to the write-down rules in IFRS 9. The measurements are made based on the following principles:

- A financial instrument is initially classified as group 1 (stage 1) unless it has already been written down at the time of acquisition. The exposures in group 1 (stage 1) are calculated as expected credit losses on a one-year horizon.
- If a significant increase in credit risk is identified after the initial classification, the financial instrument is moved to group 2 (stage 2) and the expected credit loss is calculated for the entire remaining term of the credit. An increase in credit risk reflects both customer-specific circumstances and the development of relevant macro factors for the segment to which the customer belongs. The assessment of what is considered to be a significant increase in credit risk is based on a combination of quantitative and qualitative indicators.
- If the credit risk worsens and the financial instrument is considered to be in default or at risk of loss, the financial instrument is moved to group 3 (stage 3). For exposures in group 3 ('stage 3'), expected credit losses are determined based on individual assessments.

For exposures in group 1 and group 2, a model (the ECL model) is used to calculate expected credit losses.

EL – Expected Loss

EL indicates the average annual expected losses over a business cycle, including inherent safety margins and cyclicality that are taken into account in the bank's IRB models. EL is calculated as EL = PD x LGD x EAD. Under normal circumstances, this figure should be higher than the actual losses.

ICAAP – Internal Capital Adequacy Assessment Process

Financial institutions are required to have an ongoing internal assessment of risk and capital needs. The process is outlined in Pillar 2 of the capital adequacy regulations. The bank must assess all risks inherent in operations. Updating of risk appetite limits, financial plans and strategies and setting financial targets are important elements of the ICAAP process. The process is documented annually through the ICAAP report to Finanstilsynet. Based on this report and other information that Finanstilsynet has about the bank, an overall assessment of the bank's risk and capital situation (SREP) is performed. In connection with the assessment, a separate add-on to the other capital requirements, the Pillar 2 capital add- on, is also set.

Capital requirement calculations used in DNB

- **IRB approach – credit risk:** An approach to measure risk-weighted assets (RWA) for credit risk using internal risk models. Advanced IRB (A-IRB) is a method for calculating credit risk using internal PD, LGD and EAD models. Finanstilsynet gives permission to use internal models.
- **Standardised approach – credit risk:** Method for where set risk weights (templates) are used to calculate risk-weighted assets (RWA). Risk weights depend on e.g. the type of counterparty, asset class, collateral and external rating.
- **Standardised approach – market risk:** The risk is divided into four asset classes in the standardised approach for market risk (interest, equity, currency, and commodity positions) and the CVA risk for derivatives is also calculated. Different calculation methods are used for each of these asset classes.
- **Standardised approach – operational risk:** A method where income is allocated to eight different business areas, where Finanstilsynet defines which service categories are included in each area. When calculating the minimum requirement, average gross income over the past three years is multiplied by fixed percentages ranging between 12 and 18 per cent, depending on which business area has generated the income.

The calculation methods are described in CRR/CRD IV. Also see Basel III.

CCF – Credit Conversion Factor

CCFs are used in determining the EAD in relation to credit risk exposures. The CCF is an estimate of the proportion of undrawn commitments expected to have been drawn at the time of default.

LGD – Loss Given Default

LGD is the percentage of the EAD which the Group expects to lose if a customer fails to meet his obligations at the same time as there is a major slump in the market. The model takes the collateral pledged by the customer, future cash flows and other relevant factors, such as a severe slump in the market, into consideration.

Liquidity indicators

- LCR (Liquidity Coverage Ratio) measures short-term liquidity risk. The LCR requires banks to hold risk-free assets that may be easily liquidated in order to meet required payments during a thirty-day crisis period without central bank support.
- NSFR (Net Stable Funding Ratio) measures long-term liquidity risk. The aim of the NSFR is to provide additional incentives for banks to fund their activities with more stable sources of funding.

MREL – A minimum requirement for own funds and eligible liabilities (Minimum Requirement for Own Funds and Eligible Liabilities)

MREL is an EU requirement stating that banks must have a minimum amount of own funds and convertible liabilities that can be written down or converted into equity (bail-in) when a bank is close to liquidation. The MREL regulation defines a requirement for senior non-preferred debt that must be met by 1 January 2024. The requirement means that qualified senior debt must be replaced by senior non-preferred debt, which is called Tier 3 capital. Tier 3 is a new debt class between senior and Tier 2.

Covered Bonds

Covered bonds give DNB coverage for claims in an underlying cover pool if the issuer fails in the performance of its obligations. Norwegian covered bonds can only be issued by mortgage institutions, while foreign covered bonds may be issued by both banks and mortgage institutions.

PD – Probability of Default

PD is the probability that a given customer will default on their credit commitment within the next 12 months. PD is calculated on the basis of financial and non-financial factors and forms the basis for risk classification of credit exposures. Non-performing and doubtful exposures are automatically assigned a PD of 100 per cent.

RWA – Risk-Weighted Assets

Risk-weighted assets are the basis for calculating capital requirements and are used for assessing the bank's solvency. Risk-weighted assets are a quantification of credit risk, Counterparty credit risk, market risk and operational risk. The calculation methods are described in the EU's Capital Requirements Regulation (CRR).

Solvency II

The Solvency II Directive is an EU Directive that describes capital requirements for insurance companies. Solvency II entered into force on 1 January 2016 and is based on a three-pillar structure, corresponding to the one in the Basel III Directive for banks:

- Pillar 1 consists of the quantitative requirements MCR (minimum capital requirement) and SCR (solvency capital requirement).
- Pillar 2 sets out requirements for risk management and internal control as well as supervisory control and monitoring.
- Pillar 3 is intended to ensure market discipline, including public disclosure requirements and mandatory reporting to supervisory authorities.

Systemically Important Financial Institution (G-SII and O-SII)

Some financial institutions are systemically important and are crucial for the financial system and the economy. These are defined as Globally Systemically Important Institutions (G-SII) or Other Systemically Important Institutions (O-SII). Due to their size and market importance they would be difficult to replace. Problems in such institutions could have ripple effects that would significantly disrupt society. In Norway, this applies to DNB ASA and Kommunalbanken AS, which are defined as O-SII.

LR – Leverage ratio

The leverage ratio is the ratio between Tier 1 capital and total exposure calculated without risk-adjustment of the exposures.

VaR – Value at Risk

VaR is a measure of the risk of loss on investments. VaR estimates potential future impairment of an investment under normal market conditions. VaR is calculated for a given confidence level and for a specific period of time.

WWR - Wrong Way Risk

WWR is the additional risk that arises through an adverse correlation between counterparty exposures and the credit quality of the counterparties in derivative trades. In other words, a correlation between credit risk and market risk.

Economic capital

DNB calculates economic capital for all of the main risk categories. The simulation model used in the calculation, the total risk model, calculates unanticipated losses for different types of risk and for the Group as a whole. DNB has determined that economic capital should correspond to 99.9 per cent of potential expected losses within a horizon of one year.

ABBREVIATIONS

A-IRB
Advanced IRB

ALCO
Asset Liability Committee

BICRA
Banking Industry Country Risk Assessment

BRRD
Bank Recovery and Resolution Directive

CCF
Credit Conversion Factor

CCR
Counterparty Credit Risk

CDP
Climate Disclosure Project

CEM
Current Exposure Method

CEO
Chief Executive Officer

CET1
Common Equity Tier 1

CFO
Chief Financial Officer

CLS
Continuous Link Settlement

CRD IV
Capital Requirements Directive

CRO
Chief Risk Officer

CRR
Capital Requirements Regulation

CSA
Credit Support Annex

CVA
Credit Value Adjustment

EAD
Exposure at Default

EBA
European Banking Authority

ECB
European Central Bank

ESG
Environmental, Social and Governance

EL
Expected Loss

EMTN
European Medium Term Note

F-IRB
Foundation IRB

FMRC
Financial Markets Risk Committee

FRA
Forward Rate Agreement

GCC
Group Credit Committee

GCCO
Group Chief Compliance Officer

G-SII
Global Systemically Important Institutions

ICAAP
Internal Capital Adequacy Assessment Process

IFRS
International Financial Reporting Standards

ILAAP
Internal Liquidity Adequacy Assessment Process

IMM
Internal Model Method

IRB
Internal Ratings-Based Approach

LCH
London Clearing House

LCR
Liquidity Coverage Ratio

LGD
Loss Given Default

LR
Leverage Ratio

LTV
Loan to Value

MREL
Minimum Requirement for Own Funds and Eligible Liabilities

MTM
Mark-to-Market

NFRC
Non-Financial Risk Committee

NSFR
Net Stable Funding Ratio

O-SII
Other Systemically Important Institutions

OTC
Over the Counter

PD
Probability of Default

RWA
Risk-Weighted Assets

SCR
Solvency Capital Requirement

SREP
Supervisory Review and Evaluation Process

TCFD
Task Force on Climate-related Financial Disclosures

UNEP FI
United Nations Environment Programme Finance Initiative

VaR
Value at Risk

10
Appendix

Content

Reference table for CRR pursuant to EBA/GL/2016/11
DNB Risk and capital management / Pillar 3 additional disclosures

Reference table for CRR pursuant to EBA/GL/2016/11

This report, Risk and capital management - Disclosure according to Pillar 3 2020, together with DNB's Annual report, provides information as stipulated in the disclosure requirements regarding risk and capital management in Part Eight of Regulation (EU) No 575/2013 (CRR). For each article, the reference table below states in which of the publications the information can be found.

Requirements on disclosures regarding banks' risk and capital management are stipulated in the accounting and capital requirement regulations. As of 2020, the risk and capital information that is applicable in order to fulfil both sets of regulations is presented in DNB's Annual report for 2020. The disclosures that are specific to CRR can be found in this report in the form of quantitative information to be provided as stipulated in EBA/GL/2016/11 and explanatory texts to the tables.

More information about DNB's management of operational risk, compliance risk, risks in the remuneration system, risks in the insurance operations, market risk, funding and liquidity risk can be found in the Annual report.

Information to be provided quarterly as stipulated in EBA/GL/2016/11 is published on DNB's website. For each article in Part Eight of Regulation (EU) No 575/2013 (CRR), the reference table below states in which of the publications the information can be found. This mapping is followed by a separate reference table for the additional disclosures to the Pillar 3 report.

Article in CRR	Description	Reference in Risk and capital management - Disclosures according to Pillar 3 2020	Reference in Pillar 3 additional disclosures (table)	Reference in DNB's Annual report and interim report or on the DNB website
Title I	**General principles**			
Article 431	**Scope of disclosure requirements**			*Financial reports on ir.dnb.no*
1	*General disclosure requirements*	*This report, Risk and capital management-Disclosure according to Pillar 3 2020*		*Corporate Governance, description of Risk management and internal control, on ir.dnb.no*
2	*Requirement to disclose information about operational risk*	*Ch. 0: Introduction; Ch. 7: Operational risk*		
3	*Requirement to have a formal policy to comply with the disclosure requirements*	*Ch. 0: The CRO's summary of the year*		
4	*Upon request, explanations of rating decisions to SMEs or other corporate applicants for loans*	*Can be provided upon request*		

Article in CRR	Description	Reference in Risk and capital management - Disclosures according to Pillar 3 2020	Reference in Pillar 3 additional disclosures (table)	Reference in DNB's Annual report and interim report or on the DNB website
Article 432	**Non-material, proprietary or confidential information**			
1-4	*Institutions may exclude non-material, proprietary or confidential information under certain conditions*	*Information items not disclosed under EBA/GL/2016/11*	*EU templates not applicable for DNB is documented*	
Article 433	**Frequency of disclosure**			
	Frequency requirements for publishing disclosures of Pillar 3 information	*Ch. 0: Introduction*	*Contents page*	*Financial Calendar in Annual report and on ir.dnb.no*
Article 434	**Means of disclosure**			
1	*Information medium for Pillar 3 disclosures and references to equivalent data in other media*	*This report Risk and capital management - Disclosures according to Pillar 3 2020 and this table; Reference table for CRR pursuant to EBA/GL/2016/11*		*Financial Reports on ir.dnb.no*
2	*Reference to the locations where equivalent disclosures that fulfil CRR, accounting, listing or other requirements are published*	*This report Risk and capital management - Disclosures according to Pillar 3 2020 and this table Reference table for CRR pursuant to EBA/GL/2016/11*		*Financial Reports on ir.dnb.no*
Title II	**Technical criteria on transparency and disclosure**			
Article 435	**Risk management objectives and policies**			
1	*Institutions shall disclose their risk management objectives and policies for each separate category of risk, including the risks referred to under this Title. These disclosures shall include:*			*Annual report, chapter on Corporate Governance*
1a	*Strategies and processes to manage the risks*	*Ch. 2: Capital management; Ch. 3: Liquidity risk and asset and liability management; Ch. 4: Credit risk, Ch. 5: Counterparty credit risk; Ch. 6: Market risk; Ch. 7: Operational risk*		*Annual report, chapter on Corporate Governance*
1b	*Structure and organisation of the risk management organisation including its authority and statutes*	*Ch. 2: Capital management; Ch. 3: Liquidity risk and asset liability management; Ch. 4: Credit risk; Ch. 5: Counterparty credit risk; Ch. 6: Market risk; Ch. 7: Operational risk*		*Annual report, chapter on Corporate Governance*
1c	*Scope and nature of risk reporting and measurement systems*	*Ch. 2: Capital management; Ch. 3: Liquidity risk and asset liability management; Ch. 4: Credit risk; Ch. 5: Counterparty credit risk; Ch. 6: Market risk; Ch. 7: Operational risk*		*Annual report, chapter on Corporate Governance regarding risk and capital management and Corporate Governance on ir.dnb.no*
1d	*Policies for hedging and mitigating risk*	*Ch. 2: Capital management; Ch. 4: Credit risk; Ch. 5: Counterparty credit risk; Ch. 6: Market risk*		*Annual report, chapter on Corporate Governance regarding risk and capital management and Corporate Governance on ir.dnb.no*
1e	*Declaration of conformity that the risk management system is fit-for-purpose in relation to the institution's profile and strategy*	*Ch.0: Risk Statement; Ch. 7: Operational Risk*		*Annual report, chapter on Corporate Governance regarding risk and capital management and Corporate Governance on ir.dnb.no*
1f	*Risk statement with overall risk profile*	*Ch.0: Risk statement; Ch. 1: Risk management and control*	*KM1*	
2	*Institutions shall disclose the following information, including regular, at least annual updates, regarding governance arrangements:*			

Article in CRR	Description	Reference in Risk and capital management - Disclosures according to Pillar 3 2020	Reference in Pillar 3 additional disclosures (table)	Reference in DNB's Annual report and interim report or on the DNB website
2a	*Corporate governance disclosures*			*Annual report, chapter on Corporate Governance regarding risk and capital management and Corporate Governance on ir.dnb.no*
2b	*Corporate governance disclosures*			*Annual report, chapter on Corporate Governance regarding risk and capital management and Corporate Governance on ir.dnb.no*
2c	*Corporate governance disclosures*			*Annual report, chapter on Corporate Governance regarding risk and capital management and Corporate Governance on ir.dnb.no*
2d	*Whether or not the institution has set up a separate risk committee*			*Annual report, chapter on Corporate Governance regarding risk and capital management and Corporate Governance on ir.dnb.no*
2e	*Description of the information flow on risk to the management body*	*Ch. 1: Risk management and control*		*Annual report, chapter on Corporate Governance regarding risk and capital management and Corporate Governance on ir.dnb.no*
Article 436	**Scope of application**			
a	*Name of the institution to which the requirements in CRR apply*	*Front page and Ch. 0 Introduction*		
b i-iv	*Outline of the differences in the basis of consolidation for accounting and prudential purposes*	*Ch. 0: Introduction*	*EU LI1; EU LI3*	
c	*Current or foreseen material practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries*	*Ch 2: Capital management*	*EU LI2*	
d	*Amount by which own funds are less than required in those subsidiaries not included in the consolidation*	*Not applicable*		
e	*If applicable, the circumstance of making use of the provisions laid down in Articles 7 and 9*	*Not applicable*		
Article 437	**Own Funds**			
	Institutions shall disclose the following information regarding their own funds:		*A01*	
1a	*General disclosure requirements regarding own funds*	*Ch. 2: Capital management*	*CC1,CC2; KM2; TLAC1*	
1b	*Description of the main features of capital instruments*	*Ch. 2: Capital management*		*Annual and interim reports, note 3 on Capitalisation policy and capital adequacy*
1c	*Full terms and conditions of capital instruments*	*Ch. 2: Capital management*		*Annual report and interim reports, note 3 on Capitalisation policy and capital adequacy*
1d		*Ch. 2: Capital management*	*CC1*	

Article in CRR	Description	Reference in Risk and capital management - Disclosures according to Pillar 3 2020	Reference in Pillar 3 additional disclosures (table)	Reference in DNB's Annual report and interim report or on the DNB website
1d - i-ii	*Separate disclosures on the nature of prudential filters, deductions, and items not deducted*	*Ch. 2: Capital management*	*CC1*	*Annual and interim report, note 3 on Capitalisaton and capital adequacy*
1d - iii	*Separate disclosures on the nature of prudential filters, deductions, and items not deducted*	*Ch. 2: Capital management*	*CC1*	*Annual and interim report, note 3 on Capitalisaton and capital adequacy*
1e	*Description of restrictions applied to the calculation of own funds*	*Ch. 2: Capital management*	*CC1*	
1f	*Explanation of the basis on which capital ratios have been calculated if other than the basis specified in CRR*	*Not applicable*		
Article 438	**Capital requirements**			
	Institutions shall disclose the following information regarding the compliance by the institution with the requirements laid down in Article 92 of this Regulation and in Article 73 of Directive 2013/36/EU:		*A02, A03, A04*	
a	*Institution's approach to assessing the adequacy of its internal capital*	*Ch. 2: Capital management*		
b	*Upon demand from the relevant competent authority, the result of the institution's internal capital adequacy assessment process*	*Provided upon request; DNB's ICAAP-report*	*KM1*	
c	*Capital requirements for credit risk calculated using the standardised approach*	*Ch. 4: Credit risk*	*EU 0V1*	*Annual and interim report, note 3 on Capitalisaton and capital adequacy*
d	*Capital requirements for credit risk calculated using the IRB approach*	*Ch. 4: Credit risk*		*Annual and interim report, note 3 on Capitalisaton and capital adequacy*
d-i	*Capital requirements for credit risk calculated using the IRB approach*	*Not applicable*		
d-ii	*Capital requirements for credit risk calculated using the IRB approach*	*Not applicable*		
d-iii	*Capital requirements for credit risk calculated using the IRB approach*	*Not applicable*		
d-iv	*Capital requirements for credit risk calculated using the IRB approach*	*Not applicable*		
e	*Capital requirements for market risk*	*Ch. 6: Market risk*		*Annual and interim report, note 3 on Capitalisaton and capital adequacy*
f	*Capital requirements for operational risk*	*Ch. 7: Operational risk*	*EU 0V1; INS1*	*Annual and interim report, note 3 on Capitalisaton and capital adequacy*
g	*Capital adequacy ratio of the financial conglomerate*		*EU INS2; EU CR8*	
Article 439	**Exposure to counterparty credit risk**			
a	*Methodology to assign internal capital and credit limits for counter-party credit exposures*	*Ch 5: Counterparty credit risk*		
b	*Policies for securing collateral and establishing credit reserves*	*Ch 5: Counterparty credit risk*		
c	*Policies with respect to wrong-way risk exposures*	*Ch 5: Counterparty credit risk*		

Article in CRR	Description	Reference in Risk and capital management - Disclosures according to Pillar 3 2020	Reference in Pillar 3 additional disclosures (table)	Reference in DNB's Annual report and interim report or on the DNB website
d	*Exposure to counter party credit risk Impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating*	*Proprietary information, as public disclosure would undermine DNB's competitive position.*		
e	*Net derivatives credit exposure*	*Ch 5: Counterparty credit risk*	*EU CCR1*	
f	*Methods for measures of exposure value*	*Ch 5: Counterparty credit risk*	*EU CCR1*	
g	*Notional value of credit derivative hedges and the distribution of current credit exposure by types of credit exposure*	*Ch 5: Counterparty credit risk*		
h	*Notional amounts of credit derivative transactions in the bank's own credit portfolio as well as intermediation activities*		*EU CCR2*	
i	*Estimate of alpha if the institution has received the permission of the competent authorities to estimate alpha*		*EU CCR1; EU CCR8*	
Article 440	**Capital buffers**			
	An institution shall disclose the following information in relation to its compliance with the requirement for a countercyclical capital buffer referred to in Title VII, Chapter 4 of Directive 2013/36/EU:			
1a	*Geographic distribution of credit exposures for calculating the countercyclical capital buffer*		*CCyB1; A05*	
1b	*Amount of the countercyclical capital buffer*			
Article 441	**Indicators of global systemic importance**			
1	*Indicators used for determining the score of the institution in accordance with the identification methodology*	*Not applicable*		
Article 442	**Credit risk adjustments**			
a	*Definitions for accounting purposes of 'past due' and 'impaired'*	*Ch. 4: Credit risk*		*Annual report note 1 Accounting principles and note 4 Credit risk management*
b	*Methods for determining specific and general credit risk adjustments*	*Ch. 4: Credit risk*		*Annual report note 4 Credit risk management*
c	*Total amount of all exposures and the average amount of the exposures over the period, broken down by different types of exposure classes*	*Ch. 4: Credit risk*	*EU CQ1; EU CQ3; EU CR1; EU CQ4; EU CQ5; EU CQ7, EU CRB B; EU CR1 A; EU CR1 A; EU CR2 A*	
d	*Geographic distribution of the exposures, broken down by exposure classes*	*Ch. 4: Credit risk*	*EU CQ3; EU CRB C*	
e	*Distribution of exposures by industry or counterparty type, broken down by exposure classes*	*Ch. 4: Credit risk*	*EU CQ4; EU CQ5; EU CRB D*	*Annual report note 11 and interim report note 8; Loans and financial commitments to customers by industry segment*
f	*Residual maturity of all exposures, broken down by exposure classes*	*Ch. 4: Credit risk*	*EU CR1, EU CRB E, EU CR1 A, EU CR2 A*	
g		*Ch. 4: Credit risk*	*EU CR1 A*	

Article in CRR	Description	Reference in Risk and capital management - Disclosures according to Pillar 3 2020	Reference in Pillar 3 additional disclosures (table)	Reference in DNB's Annual report and interim report or on the DNB website
g -i	*Distribution of exposures by industry and counterparty type broken down by impaired exposures and past due exposures, specific and general credit risk adjustments, and the charges for specific and general credit risk adjustments*	*Ch. 4: Credit risk*		
g-ii		*Ch. 4: Credit risk*		*Annual report note 9 and interim report note 6; Development of gross carrying amount and maximum exposure*
g-iii		*Ch. 4: Credit risk*		
h	*Geographic breakdown of impaired and past due exposures*		*CR1 A*	
i	*Reconciliation of changes in specific and general credit risk adjustments for impaired loans*		*EU CR2 B*	*Annual report note 9 and interim report note 6; Development of gross carrying amount and maximum exposure*
i - i	*Reconciliation of changes in specific and general credit risk adjustments for impaired loans*	*Ch. 4: Credit risk*	*EU CR2 B*	*Annual report note 10 and interim report note 7; Development of accumulated impairment of financial instruments*
i - ii	*Reconciliation of changes in specific and general credit risk adjustments for impaired loans*	*Ch. 4: Credit risk*	*EU CR2 B*	*Annual report note 10 and interim report note 7; Development of accumulated impairment of financial instruments*
i - iii	*Reconciliation of changes in specific and general credit risk adjustments for impaired loans*	*Ch. 4: Credit risk*	*EU CR2 B*	*Annual report note 10 and interim report note 7; Development of accumulated impairment of financial instruments*
i - iv	*Reconciliation of changes in specific and general credit risk adjustments for impaired loans*	*Ch. 4: Credit risk*	*EU CR2 B*	*Annual report note 10 and interim report note 7; Development of accumulated impairment of financial instruments*
i - v	*Reconciliation of changes in specific and general credit risk adjustments for impaired loans*	*Ch. 4: Credit risk*	*EU CR2 B*	*Annual report note 10 and interim report note 7; Development of accumulated impairment of financial instruments*
	Reconciliation of changes in specific and general credit risk adjustments for impaired loans	*Ch. 4: Credit risk*	*EU CR2 B*	*Annual report note 8 Impairment of financial instruments*
Article 443	**Unencumbered assets**			
	Disclosure of unencumbered assets in accordance with EBA guidelines EBA/GL/2014/03		*A06*	
Article 444	**Use of external credit assessment institutions**			
	For institutions calculating the risk-weighted exposure amounts in accordance with Part Three, Title II, Chapter 2, the following information shall be disclosed for each of the exposure classes specified in Article 112:			
a	*Names of the nominated external credit assessment institutions (ECAIs) and export credit agencies (ECAs)*		*CR4*	

Article in CRR	Description	Reference in Risk and capital management - Disclosures according to Pillar 3 2020	Reference in Pillar 3 additional disclosures (table)	Reference in DNB's Annual report and interim report or on the DNB website
b	*Exposure classes for which each ECAI or ECA is used*		*CR4*	
c	*Description of the process used to transfer the issuer and issue credit assessments onto items not included in the trading book*	*Not applicable*		
d	*Association of the external rating of each nominated ECAI or ECA with the institution's scale of credit quality steps*	*Not applicable*		
e	*Exposure values before and after credit risk mitigation associated with each credit quality step*		*CR4, CCR3*	
Article 445	**Exposure to market risk**			
	Capital requirements for market risk	*Ch. 6: Market risk*	*EU MR1*	*Annual and interim report note 3 on Capitalisaton and capital adequacy*
Article 446	**Operational risk**			
	Methodology for calculating capital requirements for operational risk	*Ch. 2: Capital management; Ch. 7: Operational risk*	*A07*	
Article 447	**Exposure to interest rate risk on positions not included in the trading book**			
a	*Differentiation between exposures based on their objectives*	*Ch. 6: Market risk*	*KM1*	*Annual report note 12 Market risk*
b	*Balance sheet value, fair value and, for those traded on an exchange, comparison to the market price where it is materially different from fair value*	*Ch. 6: Market risk*	*KM1*	
c	*Types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures*		*KM1*	
d	*Cumulative realised gains or losses arising from sales and liquidations in the period*	*Ch. 6: Market Risk*	*KM1*	
e	*Total unrealised gains or losses*	*Ch. 6: Market Risk*		
Article 448	**Exposure to interest rate risk on positions not included in the trading book**			
	Institutions shall disclose the following information on their exposure to interest rate risk on positions not included in the trading book:			
a	*Nature of the interest rate risk and key assumptions and frequency of measurement of interest rate risk*	*Ch.6: Market risk*		
b	*Variation in earnings, economic value or other relevant measure used by management for upward and downward rate shocks according to methods for measuring interest rate risk, broken down by currency*	*Ch.6: Market risk*		
Article 449	**Exposure to securitisation positions**			
a-r		*Not applicable*		

Article in CRR	Description	Reference in Risk and capital management - Disclosures according to Pillar 3 2020	Reference in Pillar 3 additional disclosures (table)	Reference in DNB's Annual report and interim report or on the DNB website
Article 450	**Remuneration policy**			
1				
1-a	*Decision-making process used for determining remuneration policy, and number of meetings held by main body overseeing remuneration during the financial year*			*Annual report, chapter on Corporate Governance regarding risk and capital management and Corporate Governance on ir.dnb.no*
1-b				
1-c	*Criteria for performance measurement, parameters and rationale for any variable component scheme*			
1-d				*Annual Report note 46 Remunerations etc.*
1-e				
1-f				
1-g - 1-i	*Aggregate quantitative information on remuneration, including breakdowns*			*Remuneration report EBA on ir.dnb.no (Updated annually in June)*
1-j				*Annual report note 46 Remunerations etc.*
2	*Quantitative information about remuneration to members of the institution's management body for significant institutions*			*Annual report note 46 Remunerations etc.*
Article 451	**Leverage**			
1			*LR1; LR2; LR3*	
1-a	*Leverage ratio*	*Ch. 2: Capital management*	*LR2*	
1-b	*Breakdown of the total exposure amount*		*LR1; LR2; LR3*	
1-c	*Where applicable, the amount of derecognised fiduciary items*		*LR2*	
1-d	*Description of the processes used to manage the risk of excessive leverage*	*Ch.2: Capital management*		
1-e	*Description of factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers*		*LR2*	
Title III	**Qualifying requirements for the use of particular instruments or methods**			
Article 452	**Use of IRB approach to credit risk**			
a	*"Competent authority's permission of the approach or approved transition"*	*Ch. 4: Credit risk*		
b	*Explanation of the following:*			
b-i	*"Structure of internal rating systems and relation between internal and external ratings"*	*Ch. 4: Credit risk*		

Article in CRR	Description	Reference in Risk and capital management - Disclosures according to Pillar 3 2020	Reference in Pillar 3 additional disclosures (table)	Reference in DNB's Annual report and interim report or on the DNB website
b-ii	*"Use of internal estimates other than for calculating riskweighted exposure amounts"*	*Ch. 4: Credit risk*		
b-iii	*Process for managing and recognising credit risk mitigation*	*Ch. 4: Credit risk*		
b-iv	*Control mechanisms for rating systems*			
c	*Description of internal ratings process, provided separately for each IRB exposure class*			
c-i	*Description of internal ratings process, provided separately for each IRB exposure class*	*Not applicable*		
c-i		*Ch. 4: Credit risk*		
c-i		*Not applicable*		
d	*Exposure values, provided separately for each IRB exposure class*	*Ch. 4: Credit risk*		
e- eiii	*Total exposures, exposure-weighted average risk weight, and total amount of undrawn commitments by risk class for the exposure classes central governments and central banks, institutions, corporates, and equities*	*Ch. 4: Credit risk*		
f	*Information on retail exposures in the IRB approach*			
g	*Actual specific credit risk adjustments in preceding period*	*Ch. 4: Credit risk*	*EU CR6; EU CCR4; EU CR2 A*	
h	*Factors that impacted on the loss experience in preceding period*	*Ch. 5: Credit Risk, page 46*	*EU CR9, IRB A2*	
i	*Institution's estimates against actual outcomes*	*Ch. 4: Credit Risk*	*IRB A3, IRB A5, IRB A6*	
j i - j ii	*Geographic breakdown of PD and LGD for all IRB exposure classes*	*Ch. 4: Credit risk*	*IRB A5; IRB A6*	
Article 453	**Use of credit risk mitigation techniques**			
a	*Policies and processes for on- and off-balance-sheet netting*	*Ch. 5: Counterparty credit risk*		*Annual Report note 4 Credit risk management*
b	*Policies and processes for collateral valuation and management*	*Ch. 4: Credit risk*		*Annual Report note 6 Credit risk exposure and collateral*
c	*Main types of collateral taken by the institution*	*Ch. 4: Credit risk*		*Annual Report note 6 Credit risk exposure and collateral*
d	*Main types of guarantor and credit derivative counterparty and their creditworthiness*	*Ch.4: Credit risk*		
e	*information about market or credit risk concentrations within the credit mitigation taken*	*Not applicable*		*Annual Report note 6 Credit risk exposure and collateral*
f	*Exposure value covered by eligible financial and other collateral for exposures under the standardised approach or the IRB approach without own estimates of LGD and CCF*	*Ch 5: Counterparty credit risk*	*EU CR3; EU CR4*	*Annual Report note 6 Credit risk exposure and collateral*
g	*Exposure value covered by guarantees or credit derivatives*	*Ch. 5 Counterparty credit risk*	*EU CR3; EU CR4*	*Annual Report note 6 Credit risk exposure and collateral*

Article in CRR	Description	Reference in Risk and capital management - Disclosures according to Pillar 3 2020	Reference in Pillar 3 additional disclosures (table)	Reference in DNB's Annual report and interim report or on the DNB website
Article 454	**Use of the advanced measurement approaches to operational risk** *Description of the use of insurance and other risk transfer mechanisms to mitigate operational risk*		*A07*	
Article 455 **a-g**	**Use of internal market risk models** *Use of internal market risk models*	*Not applicable*		

Information items not disclosed under EBA/ GL/ 2016/11

Reference	Description	Reason for non-disclosure
CRR 439 d	**Exposure to counter party credit risk** *Impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating*	*Proprietary information, as public disclosure would undermine DNB's competitive position.*

DNB Risk and capital management / Pillar 3 additional disclosures

Unless otherwise stated, figures in the templates are figures for DNB Group - regulatory consolidation			Regulation/GL	CRR	Updated
Own funds					
1	*CC1*	*Composition of regulatory own funds*	*EBA/ITS/2014/04*	*Article 437*	*Semi-Annually*
2	*CC2*	*Reconciliation of regulatory own funds to balance sheet in the audited financial statements*	*EBA/ITS/2014/04*	*Article 437*	*Semi-Annually*
3	*INS1*	*Insurance participations*	*EBA/GL/2016/11*	*Article 49*	*Annually*
4	*EU INS2*	*Financial conglomerates information on own funds and capital adequacy ratio*	*BCBS*		*Annually*
5	*A01*	*Own funds and capital ratios, DNB Bank ASA, DNB Bank Group, DNB Group*		*Article 437*	*Quarterly*
6	*A01*	*Own funds and capital ratios, DNB Boligkreditt AS*		*Article 437*	*Quarterly*
Risk weighted assets					
7	*A02*	*Specification of risk-weighted assets and capital requirements, DNB Bank*		*Article 438*	*Quarterly*
8	*A02*	*Specification of risk-weighted assets and capital requirements, DNB Bank Group*		*Article 438*	*Quarterly*
9	*A03*	*Specification of risk-weighted assets and capital requirements, DNB Group*		*Article 438*	*Quarterly*
10	*A03*	*Specification of risk-weighted assets and capital requirements, DNB Boligkreditt AS*		*Article 438*	*Quarterly*
11	*A04*	*Specification of risk-weighted assets and capital requirements, associated companies*		*Article 438*	*Quarterly*
Information on the scope of application of the regulatory framework					
12	*EU LI1*	*Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories*	*EBA/GL/2016/11*	*Article 436 (b)*	*Annually*
13	*EU LI2*	*Main sources of differences between regulatory exposure amounts and carrying values in financial statements*	*EBA/GL/2016/11*	*Article 436 (c)*	*Annually*
14	*EU LI3*	*Outline of the differences in the scopes of consolidation (entity by entity)*	*EBA/GL/2016/11*	*Article 436 (b)*	*Annually*

Unless otherwise stated, figures in the templates are figures for DNB Group - regulatory consolidation			Regulation/GL	CRR	Updated
General quantitative information on credit risk					
15	*EU OV1*	*Overview of RWA's*	*EBA/GL/2016/11*	*Article 438 (c) to (f)*	*Quarterly*
16	*EU CRB B*	*Total and average net amount of exposures*	*EBA/GL/2016/11*	*Article 442 (c)*	*Annually*
17	*EU CRB C*	*Geographical breakdown of exposures*	*EBA/GL/2016/11*	*Article 442 (d)*	*Annually*
18	*EU CRB D*	*Concentration of exposures by industry segments*	*EBA/GL/2016/11*	*Article 442 (e)*	*Annually*
19	*EU CRB E*	*Maturity of exposures*	*EBA/GL/2016/11*	*Article 442 (f)*	*Annually*
20	*EU CR1 A*	*Credit quality of exposures by exposure class and instrument*	*EBA/GL/2016/11*	*Article 442 (c), (g) and (h)*	*Semi-Annually*
21	*EU CR2 A*	*Changes in the stock of general and specific credit risk adjustments*	*EBA/GL/2016/11*	*Article 442 (c,f), 452 (g)*	*Semi-Annually*
22	*EU CR2 B*	*Changes in the stock of defaulted and impaired loans and debt securities*	*EBA/GL/2016/11*	*Article 442 (i)*	*Semi-Annually*
Disclosure of non-performing and forborne exposures					
23	*EU CQ1*	*Credit quality of forborne exposures (Template 1)*	*EBA/GL/2018/10*	*Article 442 (c)*	*Semi-Annually*
24	*EU CQ3*	*Credit quality of performing and non-performing exposures by past due days (Template 3)*	*EBA/GL/2018/10*	*Article 442 (c,d)*	*Annually*
25	*EU CR1*	*Performing and non-performing exposures and related provisions (Template 4)*	*EBA/GL/2018/10*	*Article 442 (c,f)*	*Semi-Annually*
26	*EU CQ4*	*Quality of non-performing exposures by geography (Template 5)*	*EBA/GL/2018/10*	*Article 442 (c,e)*	*Semi-Annually*
27	*EU CQ5*	*Credit quality of loans and advances by industry (Template 6)*	*EBA/GL/2018/10*	*Article 442 (c,e)*	*Semi-Annually*
28	*EU CQ7*	*Collateral obtained by taking possession and execution processes (Template 9)*	*EBA/GL/2018/10*	*Article 442 (c)*	*Semi-Annually*
General quantitative information on CRM (credit risk mitigation)					
29	*EU CR3*	*CRM techniques - Overview*	*EBA/GL/2016/11*	*Article 453 (f,g)*	*Semi-Annually*
Credit risk and CRM in the standardised approach					
30	*EU CR4*	*Standardised approach – Credit risk exposure and CRM effects*	*EBA/GL/2016/11*	*Articles 453 (f,g) and 444 (a,b,e)*	*Semi-Annually*
31	*EU CR5*	*Standardised approach*	*EBA/GL/2016/11*	*Article 444 (a,b,e)*	*Semi-Annually*
Credit risk and CRM in the IRB approach					
32	*EU CR6*	*IRB approach – Credit risk exposures by exposure class and PD range*	*EBA/GL/2016/11*	*Article 452 (g)*	*Semi-Annually*
33	*EU CR8*	*RWA flow statements of credit risk exposures under the IRB approach*	*EBA/GL/2016/11*	*Article 452*	*Quarterly*
34	*EU CR9*	*IRB approach – Backtesting of PD per exposure class*	*EBA/GL/2016/11*	*Article 452 (h)*	*Annually*
IRB Additional information					
36	*IRB A1*	*Models used in IRB reporting in DNB in 2020*	*EBA/GL/2016/11*	*Article 452*	*Annually*
37	*IRB A2*	*IRB portfolio, comparison of risk parameters versus actual outcome*	*EBA/GL/2016/11*	*Article 452 (h)*	*Annually*
38	*IRB A3*	*IRB portfolio, value adjustments*	*EBA/GL/2016/11*	*Article 452 (i)*	*Annually*
39	*IRB A4*	*IRB portfolio, by industry segments*	*EBA/GL/2016/11*		*Annually*
40	*IRB A5*	*IRB portfolio, additional information about corporate exposures*	*EBA/GL/2016/11*	*Article 452 (j-i)*	*Annually*
41	*IRB A6*	*IRB portfolio, by principal customer sectors and geographical location (CR6 template format)*	*EBA/GL/2016/11*	*Article 452 (j-i)*	*Annually*

Unless otherwise stated, figures in the templates are figures for DNB Group - regulatory consolidation			Regulation/GL	CRR	Updated
CCR - Credit Counterpary Risk					
42	*EU CCR1*	*Analysis of CCR exposure by approach*	*EBA/GL/2016/11*	*Article 439 (e,f,i)*	*Semi-Annually*
43	*EUCCR2*	*CVA capital charge*	*EBA/GL/2016/11*	*Article 439 (h)*	*Semi-Annually*
44	*EU CCR3*	*Standardised approach – CCR exposures by regulatory portfolio and risk*	*EBA/GL/2016/11*	*Article 444 (e)*	*Semi-Annually*
45	*EU CCR4*	*IRB approach – CCR exposures by portfolio and PD scale*	*EBA/GL/2016/11*	*Article 452 (g)*	*Semi-Annually*
46	*EU CCR8*	*Exposures to CCPs*	*EBA/GL/2016/11*	*Article 439 (i)*	*Semi-Annually*
47	*EU CCR5-A*	*Impact of netting and collateral held on exposure values*	*EBA/GL/2016/11*	*Article 439 (e)*	*Semi-Annually*
48	*EU CCR5-B*	*Composition of collateral for exposures to CCR*	*EBA/GL/2016/11*	*Article 439 (e)*	*Semi-Annually*
Market risk					
49	*EU MR1*	*Market risk under the standardised approach*	*EBA/GL/2016/11*	*Article 445, 92 (4) (b)*	*Semi-Annually*
Key Metrics					
50	*KM1*	*Key metrics (at consolidated group level)*	*BCBS*		*Quarterly*
51	*KM2*	*Key metrics - MREL*	*BCBS*		*Semi-Annually*
52	*TLAC1*	*Composition - MREL*	*BCBS*		*Semi-Annually*
53	*CCyB1*	*Geographical distribution of credit exposures used in the countercyclical capital buffer*	*EBA/RTS/2014/17*	*Article 440, article 140 (4) CRD*	*Semi-Annually*
54	*PV1*	*Prudent valuation adjustments (PVA)*	*BCBS*		*Annually*
55	*A05*	*Calculation of capital buffer requirements*	*BCBS*	*Article 440*	*Quarterly*
Leverage ratio			**Commission implementing regulation-EU 2016/200)**		
56	*LR1*	*Summary comparison of accounting assets vs leverage ratio exposure*		*Article 451*	*Semi-Annually*
57	*LR2*	*Leverage ratio common disclosure template*		*Article 451*	*Semi-Annually*
58	*LR3*	*Split up of on balance sheet exposures (excluding deratives, SFTs and exempted exposures)*		*Article 451*	*Semi-Annually*
Liquidity, Asset encumbrance, Operational risk, and regulatory capital instruments					
59	*LIQ1*	*Liquidity Coverage Ratio (LCR)*	*BCBS*		*Quarterly*
60	*AE*	*Disclosure of asset encumbrance*	*EBA/RTS/2017/03*	*Article 443*	*Annually*
61	*A06*	*Operational risk*		*Articles 446 and 454*	*Annually*
62	*A07*	*Disclosure of main features of regulatory capital instruments as at 31 December 2020*			*Quarterly*

The following EU templates are not applicable for DNB		Regulation /GL	
Template 5: EU-CR10	*IRB (Specialised lending and equities)*	*EBA/GL/2016/11*	*DNB uses the standardised apporach for calculating RWA for equities and does not use the slotting approach for SL*
Template 12: EU CR1-B	*Credit quality of exposures by industry segments*	*EBA/GL/2016/11*	*Replaced by EBA/GL/2018/10, template 5*
Template 13: EU CR1-C	*Credit quality of exposures by geography*	*EBA/GL/2016/11*	*Replaced by EBA/GL/2018/10, template 6*
Template 14: EU CR1-D	*Ageing of past-due exposures*	*EBA/GL/2016/11*	*Replaced by EBA/GL/2018/10*
Template 15: EU CR1-E	*Non-performing and forborne exposures*	*EBA/GL/2016/11*	*Replaced by EBA/GL/2018/10*
Template 22: EU CR7	*IRB approach – Effect on the RWAs of credit derivatives used as CRM techniques*	*EBA/GL/2016/11*	*DNB has no credit derivatives as at December 31 2020*
Template 30: EU CCR7	*RWA flow statements of CCR exposures under the IMM*	*EBA/GL/2016/11*	*DNB does not calculate CCR exposures according to IMM*
Template 33: EU CCR6	*Credit derivatives exposures*	*EBA/GL/2016/11*	*DNB has no credit derivatives as at December 31 2020*
Template 35: MR2-A	*Market risk under the IMA*	*EBA/GL/2016/11*	*DNB does not calculate CCR exposures according to IMM*
Template 36: MR2-B	*RWA flow statements of CCR market risk exposures under the IMM*	*EBA/GL/2016/11*	*DNB does not calculate CCR exposures according to IMM*
Template 37: MR3	*IMA values for trading portfolios*	*EBA/GL/2016/11*	*DNB does not calculate market risk according to IMA*
Template 38: MR4	*Comparison of VaR estimates with gains/losses*	*EBA/GL/2016/11*	

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So you can stay ahead.

DNB

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