DNB Group

Risk and capital management

Disclosure according to Pillar 3 2021

The CRO's summary of the year

The year 2021 was another unusual year, where the pandemic continued with several waves of high infection rates and associated infection control measures. The year was nevertheless marked by budding optimism and the belief that vaccinations would bring us out of the pandemic. Though infection rates rose at the end of the year, hospital admissions remained low. Both personal and corporate customers did far better than could be expected at the outset. Although we are still in the pandemic, the underlying economic development is positive and DNB enter 2022 with a robust portfolio.

Chief Risk Officer
Group Risk Management

Most of DNB's employees worked at home until the vaccines reduced infection rates in August. Then a scheme for hybrid working was rolled out to take advantage of the flexibility of being able to work either at home or in the office. There were minimal disruptions to DNB's business operations during all phases of the coronavirus shutdown.

Some industries were hit particularly hard by the infection control measures. This was true for many service industries, but perhaps first and foremost those related to tourism. Moving into the summer of 2021, a number of restrictions were eased, and that had a positive effect for companies in those industries. However, towards the end of the year, travel restrictions were tightened once again, which in turn increased uncertainty. Good support schemes from the authorities were still important for the most vulnerable companies and private individuals at the end of 2021.

Coronavirus shutdowns in various parts of the world have led to delays in deliveries of goods in several industries. The supply problems, together with the extensive support schemes from the authorities during the pandemic, have contributed to increased inflation in many countries, especially in the USA and Europe. In Norway, a particularly sharp increase in electricity prices was a concern in the last half of the year. Both supply problems and inflation are affecting some of DNB's customers, but we did not see any signs of increased loan defaults in 2021. The upturn in the Norwegian economy is expected to continue in 2022.

Sustainability and especially climate risk continued to be high on the agenda in 2021, in DNB as well as in society in general. In 2021, the Group's sustainable strategy was updated with a primary target of net zero emissions in our investment and lending portfolios by 2050, and important 2030-milestones for emissions reduction and sustainable financing. In December, Group Management decided to establish a Group Sustainability Committee to ensure progress and target attainment. In 2021, Group Risk Management carried out several climate stress tests of the bank. Within credit activities, there was extensive work in 2021 to classify all corporate customers on a sustainability scale. These classifications will be followed up in risk reporting to the Board. Work is also underway to obtain both internal and external data that can be used to make a comprehensive survey of the portfolios' climate impact, and to support further analyses of climate risk and sustainability. Access to high-quality sustainability data is important in order to comply with new regulatory requirements and to be able to steer DNB's portfolio in a more sustainable direction.

DNB works to continuously develop internal control and operational risk management. Operational risk management is part of all our business activities and concerns all employees. Facilitating good risk assessments and conducting training in this area is an important part of Group Risk Management's work. In 2021, a large number of risk and control assessments were carried out in all the Group's units. This work is supported by the Group's tools for monitoring operational risk and compliance, which are now in use in all units.

Data security is like a race where we build defences to withstand threats and vulnerabilities. The threat landscape is characterised by organised criminals who continuously attack companies, and their methods are constantly evolving. The digitalisation of DNB and society in general increases our vulnerability to cyberattacks. During the COVID-19 pandemic, the number of attacks has increased worldwide, and DNB's defence system must be continuously developed and improved. The bank has established a 'Cyber Security Roadmap' to reduce risk by strengthening DNB's comprehensive defence system. In addition to technical measures, it is important that all employees have basic knowledge about security, such as how to recognise dangerous links and attachments. Group Risk Management monitors the risk landscape through second-line controls of data security.

The Interbank Offered Rate (IBOR) is a reference rate used in the pricing of financial agreements. As of January 2022, some of the most well-known money market rates were no longer available, and in the future, more such rates will be phased out. Instead, transaction-based alternative reference rates will be used. The changes affect bank loans to companies (margin loans), deposits, floating-rate bond loans and interest rate derivatives. Development and testing of the IT systems that are affected by alternative reference rates has been going on throughout 2021. At the end of the year, we had solutions in place that ensure that the bank can enter transactions related to derivative trading and financing based on new reference interest rates, and loan agreements have been updated with new reference interest rates.

DNB was very well capitalised at the end of 2021. The Common equity Tier 1 (CET1) capital ratio increased from 18.7 per cent to 19.4 per cent during the year. At the same time, there was a positive development in the risk landscape. Analyses and stress tests performed throughout the year, both on specific portfolios and the Group as a whole, have shown that DNB has good capital adequacy and the ability to withstand far greater losses than our loss forecasts suggest.

At the time of publication of the Pillar 3 report, Russia has invaded Ukraine and strict sanctions have been imposed against Russia and Belarus. The consequences of the acts of war are uncertain. DNB has insignificant activity in and exposure to these countries, but is following developments closely to detect any increased cyber risk as well as other indirect consequences that may follow from the conflict.

"DNB has good capital adequacy and the ability to withstand far greater losses than our loss forecasts suggest."

Risk statement from the Board of Directors

The Board of Directors of DNB Bank 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.

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 313 billion at year-end 2021. 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 2021, DNB had 2.1 million personal customers and 231 000 corporate customers.

At year-end, the Group's Common equity Tier 1 (CET1) capital ratio was at 19.4 per cent, which is a solid 3.1 percentage point headroom above the current supervisory authorities' capital level expectation. The capital adequacy ratio was 24.0 per cent at year-end 2021. The supervisory expectation plus some headroom will be DNB's target capital level. The headroom will reflect expected future regulatory capital changes and market-driven CET1 fluctuations.

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 are notified and provided with an analysis of the reasons and an action plan, to control the development of the risk level.

Despite the COVID-19 pandemic and volatile oil- and gas prices continuing through major parts of 2021 the overall credit risk showed improvement compared to last year. Predictable and effective measures from the authorities have made a good contribution to mitigating the effects of the pandemic on businesses and households in Norway. The risk in DNB's portfolios has to a major part been limited to the offshore sector where a prolonged overcapacity have a greater impact than direct effects of the pandemic. Even with lingering uncertainty about the further development of the pandemic, increased costs for important input factors and delays in several distribution channels, the development show a gradual improvement in credit risk in DNB.

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. The Board of Directors receives reports on utilisation of these limits at least quarterly and is notified immediately if any limits are exceeded.

During 2021 the market risk level for DNB Group was relatively stable and remained at the same level at year-end 2020. Measured in economic capital the market risk stayed well within the risk appetite limit of 10 per cent of total economic capital. Utilisation of the risk limits set by the Board of Directors has been moderate and only minor adjustments were made to the market risk limits in 2021.

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 aims 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, tenors and instruments.

During 2021 DNB had ample access to funding in various currencies and had a very strong liquidity position at the end of 2021.The ratio of deposits to net loans increased throughout the year. The liquidity indicators LCR and NSFR were stable and well above the limits in risk appetite throughout 2021.

DNB successfully issued several senior non-preferred bonds at favourable prices during 2021 and is well positioned to meet the Minimum requirements for own funds and eligible liabilities (MREL) requirements.

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. S&P Global and Moody's confirmed DNB's ratings in January and February 2022, respectively.

Environmental, social and governance (ESG) risk is managed in accordance with the Group policy for risk management and the Group standard for sustainability in credit activities. ESG risk assessments are an integrated part of DNB's credit decision process for all corporate customers with credit exposure above NOK 8 million and is assessed on equal footing with other risk factors.

In 2021, the Group's sustainable strategy was updated with a primary target of net zero emissions in our investment and lending portfolios by 2050, and important 2030-milestones for emissions reduction and sustainable financing. An ESG data task force was also initiated, with the objective of building a data hub to allow for collection, structuring and analysis of ESG data, to quantify DNB's ESG risk.

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 detailed report on the operational risk in the Group.

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

DNB did not record any major operational losses (above NOK 25 million) in 2021. The total operational losses were NOK 98.4 million, which is considered at a normal level for DNB.

IT operational performance has improved during the year, with a record low number of critical incidents despite an all-time high number of implemented changes.

During 2021, DNB have worked methodically towards making compliance an integrated and fundamental part of our business. The implementation of new routines and changes to the fundamental craft of banking requires effort, time and competence. It is work that is both complex and time consuming. It is a task without an end-date that continues to be one of our most important prioritisations going forward.

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 been stable within the category 'good reputation' for the last four years.

Oslo, 10 March 2022
The Board of Directors of DNB Bank ASA

Olaug Svarva
(Chair of the Board)

Svein Richard Brandtzæg
(Vice Chair of the Board)

Gro Bakstad

Julie Galbo

Lillian Hattrem

Jens Petter Olsen

Stian Tegler Samuelsen

Jaan Ivar Semlitsch

Eli Solhaug

Kim Wahl

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

Sverre Krog
(Group Chief Risk Officer, CRO)

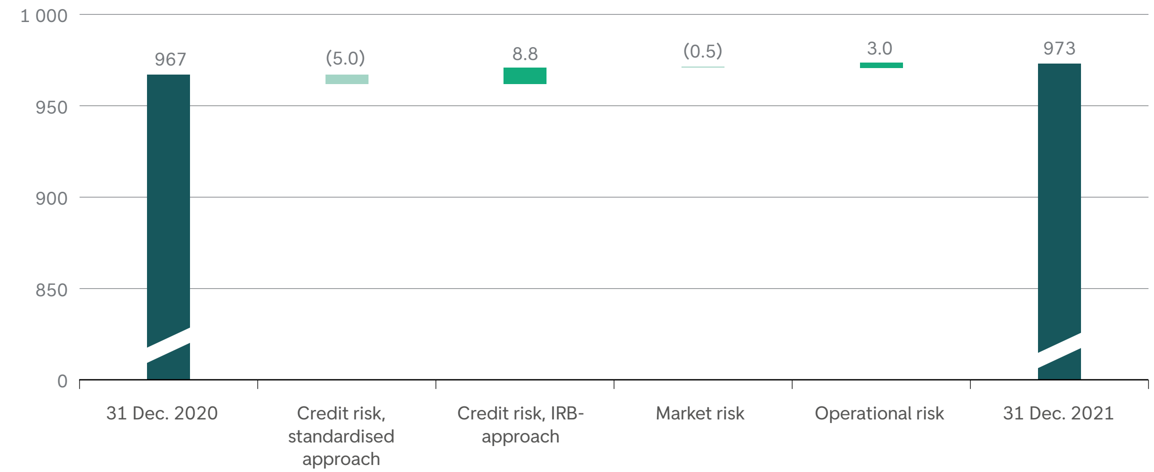
Key figures

Capital	31 December 2021	31 December 2020
Risk exposure amount (NOK billion)	973	967
Own funds (NOK billion)	234	214
CET 1 capital ratio	19.4 %	18.7 %
Capital adequacy ratio	24.0 %	22.1 %
Leverage ratio	7.3 %	7.1 %
Liquidity		
LCR, significant currencies	135.2 %	148.0 %
NSFR, significant currencies	112 %	109 %
Credit and counterparty credit risk		
Credit risk, EAD (NOK billion)	2 683.6	2 579.3
- of which counterparty credit risk, EAD (NOK billion)	69.3	63.7
Net impairments for the year (NOK billion)	0.9	(9.9)
Capital requirement[2], credit and counterparty credit risk (NOK billion)	68.8	68.5
Market risk		
Market risk as a share of economic capital[1]	12.8 %	13.0 %
Capital requirement[2], market risk (NOK billion)	1.2	1.3
Operational risk		
Operational losses (NOK million)	98	724
Capital requirement[2], operational risk (NOK billion)	7.9	7.6
Reputational risk, RepTrak (points)	71.0	76.7

1) Including strategic ownership
2) Minimum capital requirement of 8 per cent of risk exposure amount

Development in risk exposure amount

NOK billion

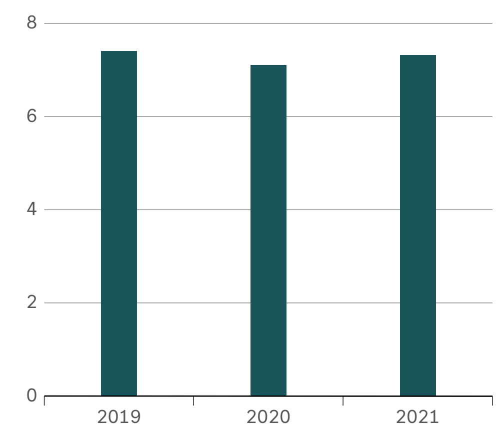


Capital adequacy ratio

Per cent

Leverage ratio

Per cent



Content

About this report

The Pillar 3 report contains information on risk management, risk measurement and capital adequacy. The report has been prepared in accordance with the requirements of CRR and EBA's guideline for compliance with these requirements. The Pillar 3 report including it's attachment, together with the annual report, quarterly interim reports and fact books, covers the requirements for disclosure on risk and capital management.

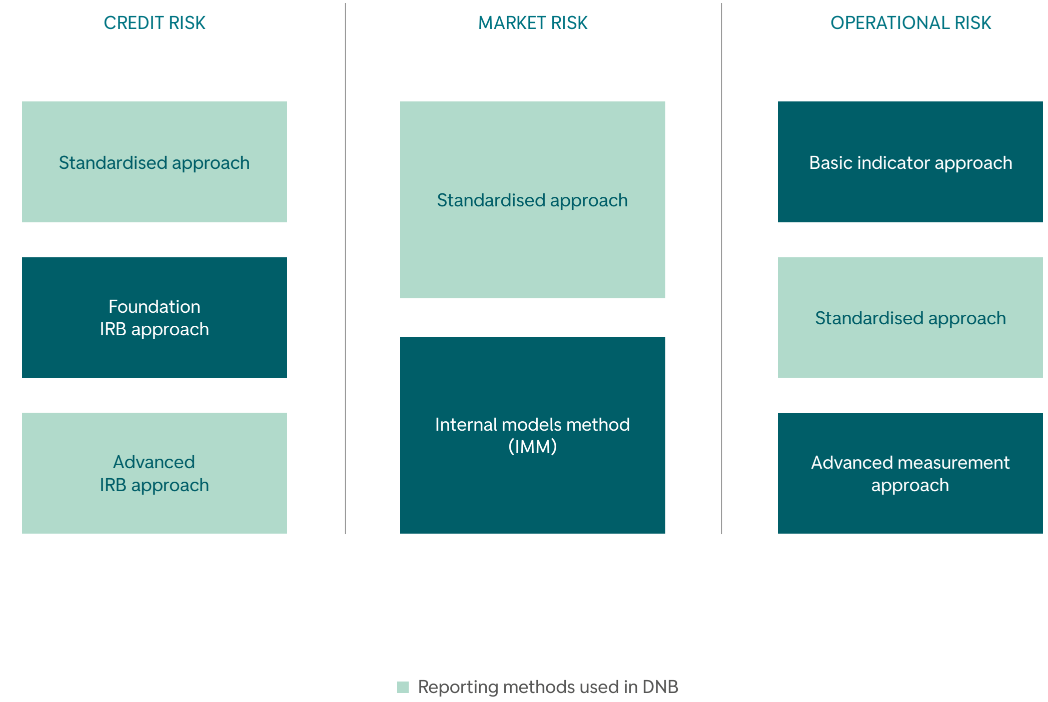
REGULATORY FRAMEWORK

On 31 December 2019, Norway fully implemented the EU's capital requirement legislations CRR/CRD IV. This report, together with DNB's annual report, provides the consolidated disclosure of DNB as required in these regulations 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 575 2013 (EBA-GL-2016-11). The report is prepared in accordance with the legislation (CRR/CRD IV) as the EU Banking package is not yet in force in Norway. The EU Banking Package consists of amendments to the capital requirements legislation (CRR II/CRD V) and to the Bank Recovery and Resolution Directive (BRRD II). The Storting (Norwegian parliament) has passed a bill on the implementation of the EU Banking Package in Norwegian law. However, there is some uncertainty as to when this legislation will be incorporated into the EEA Agreement and enter into force in Norway. The entry incorporation into the EEA Agreement depends on when constitutional reservations regarding individual legislative acts can be lifted in all three EEA/EFTA member states. This is not expected to happen until the first half of 2022 at the earliest.

The capital requirement regulations consist of three pillars:

- **Pillar 1** covers the regulatory requirements for banks' capital and descriptions of the calculation methods for risk exposure amounts 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** covers public disclosure requirements and allows 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 the figure to the right. 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 is measured using the standardised approach. Operational risk is reported using the standardised approach.

The Board of Directors of DNB Bank ASA approves the guidelines and procedures for Pillar 3 reporting and reviews the report prior to publication. The Pillar 3 report is not subject to external audit.

LEGAL STRUCTURE AND CONSOLIDATION RULES

This Pillar 3 report complements DNB's annual report with additional information, and is intended to be read in conjunction with the annual report, in particular the sections Corporate Governance and disclosures in relation to remuneration. Together with the annual report, this report provides information on DNB's material risks, and includes details on the Group's risk profile which form the basis for the calculation of capital requirements.

The Pillar 3 report is based on the Group's consolidated situation as at 31 December 2021. The DNB Group consist of several legal entities, where subsidiaries are defined as companies where DNB has direct or indirect control. Following the merger of DNB ASA and DNB Bank ASA in 2021, DNB Bank ASA is the parent company in the DNB Group. DNB Bank ASA has several subsidiaries, including DNB Livsforsikring AS and DNB Asset Management Holding AS, each having underlying subsidiaries. The CRR/CRD IV regulations do not apply to insurance companies, therefore DNB Livsforsikring AS will publish its own Pillar 3 report, Solvency and Financial Condition Report, on 8 April 2022.

When referring to 'DNB', 'the Group' or 'the bank' in this report, it normally relates to the activities in DNB that are regulated by CRR/CRD IV.

DNB prepares its consolidated financial statements in accordance with the international accounting standards IFRS. A description of the accounting principles is presented in 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 requirements 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 between the accounting and regulatory scopes of consolidation are shown in Tables EU CC2 and EU LI1 in the appendix to this report. In accordance with the capital requirements regulations, only companies in the financial sector and companies providing ancillary services are included in the consolidated capital adequacy. Associated companies are proportionally consolidated (pro rata up to 50 per cent) based on DNB's ownership interest. For 2021, 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 of about 20 per cent).
- Vipps AS (ownership interest of about 45 per cent).

At year-end 2021, DNB's share of the risk exposure amounts for credit and market risk in Eksportfinans amounted to NOK 1.4 billion, and NOK 13.4 billion in Luminor. The companies are also included in the basis for calculating capital requirements for operational risk. Risk exposure amounts in Vipps were insignificant. Consolidation of capital adequacy is 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-1-juli-2021.pdf

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 Corporate Governance, see DNB's annual report: 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

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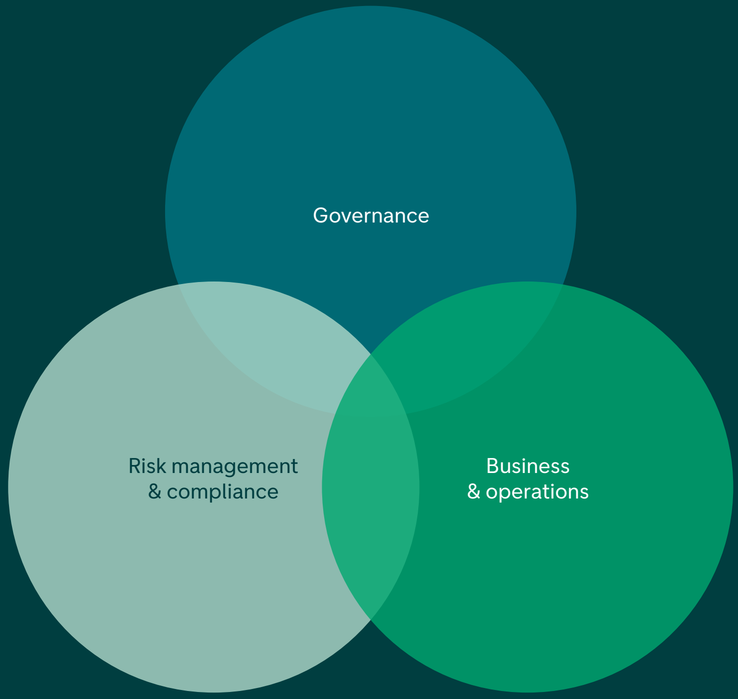
Risk management and control

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 for achieving DNB's targets.

Content

DNB culture must be characterised by individual responsibility, transparent methods and processes that support sound risk management.

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



CORPORATE GOVERNANCE AND THE RISK AND CAPITAL MANAGEMENT FRAMEWORK

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. DNB's executives and Board of Directors carry out an annual assessment of corporate governance principles and practices. Risk management is part of our operations and is integrated into DNB's corporate governance processes and management system.

The Board of Directors has approved three Group policies that are closely linked to risk management: the risk management policy, the compliance policy and the security policy.

The group executive vice president for Group 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 the 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.

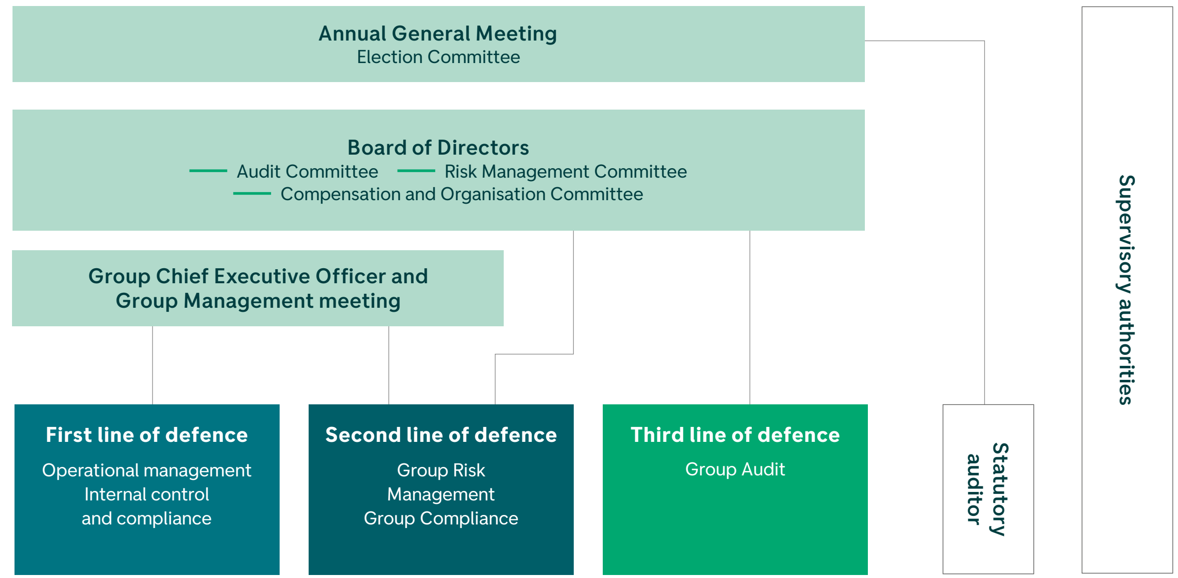
The recovery plan aims to ensure that DNB can recover from a very serious stress situation without involving or getting support from the authorities. The plan is updated annually and is an integrated part of the Group's risk and capital management framework. There are a number of overlaps between indicators 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.

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

Governing bodies of DNB Bank ASA

As at 31 December 2021



- **The first line of defence** includes all of DNB'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. The 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 independent and autonomous control functions, which use a risk-based approach to monitor, report on and give advice about risk-related issues and compliance and follow up the internal control activities carried out by the management and employees in the operative functions. In DNB, second line of defence functions are organised under Group Risk Management and Group Compliance.
- **The third line of defence** is internal audit (Group Audit), which uses a risk-based approach to review and assess the Group's processes for governance and internal control. Group Audit is independent of the Group's executive management and reports to the Board of Directors.

ROLES AND RESPONSIBILITIES

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 DNB. In addition, the CRO makes independent assessments of the risk level and reports on the Group's risk situation.

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, model risk and operational risk. In addition, the Group has independent units that are responsible for model development, model validation, risk data, risk analysis and risk reporting.

GRM defines the framework for operational risk management and acts as advisor for the first line. The unit also checks, monitors and reports on the status of operational risk.

The CRO is responsible for annual validation of the most important models used in capital adequacy reporting and financial reporting. The validations are performed by a unit that is independent from the personnel and management function responsible for originating or renewing exposures and for the model design or development. The Board of Directors sets requirements for validation. The results of the validation of the IRB models are described in the chapter on credit risk.

Stress testing is a second line function, where the CRO has the overall responsibility. The Board of Directors is responsible for approving the standard for stress testing. Stress tests are presented for comments to the Group Advisory Credit Committee or the Asset and Liability Committee (ALCO), 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 later in this chapter and in other chapters where relevant.

Group Risk Management is responsible for conducting a credit risk review and model input review. The credit risk review assesses 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.

The purpose of internal control is to assure the organisation's objectives in areas such as operational effectiveness and efficiency, reliable reporting, and compliance with laws, regulations and policies.

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 attestation, where the executive managers of all significant organisational units in the Group produce a summarising assessment of the internal control in their area.

Group Risk Management has Operational Risk Officers (ORO) who work with all of DNB's business areas and major subsidiaries. Operational Risk Officers advise, challenge and control the areas' risk management, including risk assessments, risk treatment, risk event management and risk reporting.

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

The compliance function

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, companies in DNB authorised under financial market regulations, and other companies as decided by the GCCO, must have a compliance function which is a part of the Group's Compliance function.

DNB'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 for 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 DNB'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.

Group Audit

DNB's internal audit or 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, which also approves Group Audit's annual plans and budgets. Group Audit is responsible for determining whether adequate and effective risk management and internal control procedures have been established and are carried out in the Group. Group Audit must also assess whether management processes and control measures are effective and contribute to the Group's target attainment.

Group 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 large or complex 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, stress tests, 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 Group Chief Compliance Officer (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 DNB. 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 DNB's management of non-financial risks. The NFRC contributes to ensuring a consistent approach and joint coordination of the first-line responsibility for the management of operational risk, compliance and security. 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.
- **The Group Sustainability committee (GSC)** is headed by the Group Executive Vice President of Communications and Sustainability. The GSC is an advisory body which defines, coordinates and prioritises initiatives that affect multiple business areas and support functions within DNB. The committee ensures necessary progress in DNB's sustainability efforts, particularly towards the Group's sustainability targets, and evaluates the sustainable strategy and long-term competitiveness in light of market developments. The Committee also follows up on the Group's implementation of new Environmental, Social and Governance (ESG) regulations and reporting requirements.

Group Chief Executive Officer (CEO) and the Group Management team

The CEO is responsible for implementing risk management measures that contribute to the achievement of targets the Board of Directors 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.

Board of Directors and Board Committees

The Board of Directors of DNB Bank 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 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 (the Internal Capital Adequacy Assessment Process).

Each year, the Board of Directors 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 Risk Management Committee

The Risk Management Committee oversees DNB'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. The Committee consists of up to 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 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 DNBs internal control, including internal audit and risk management systems, works effectively. In addition, the committee ensures that DNB has independent and effective external audit procedures. The Audit Committee reviews quarterly financial reporting for DNB. The committee makes a thorough review of discretionary assessments and estimates in addition to any changes in accounting practice. The committee monitors DNB's internal control systems as well as DNB'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 Bank ASA and the DNB Group.

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.

The Compensation and Organisation Committee

The Board of Directors elects up to four members to a Compensation and Organisation Committee. The committee normally meets six to seven times a year. One of the members is a board member elected by the employees.

The Committee is responsible for preparing guidelines, frameworks and matters concerning remuneration that require the approval of the Board, including variable remuneration for employees in all or part of the Group and other important personnel-related matters concerning senior executives. The Committee is also responsible for preparing selected matters for the Board relating to culture, management and succession planning.

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 Board of Directors 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.

MONITORING AND REPORTING

DNB'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.

The purpose of internal control is to ensure the organisation meets its objectives for operational effectiveness and efficiency, reliable reporting, and compliance with laws, regulations and policies. DNB has a common framework for internal control. An important element is the annual internal control assessment, where the Group Executive Vice President produce a summarising assessment of the internal control in their area.

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. 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 the loss and events database. Actions taken in respect of all major incidents and compliance breaches must be registered, and the status reported to management.

Risk reporting to the Board of Directors

The table shows the regular independent reports on risk and compliance to the Board of Directors. 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.

Frequency	Reporting
Quarterly	**Risk Report** The Risk report includes a broad review of the risk situation, with analyses and comments. The report is the second-line assessment of status and development in the Group's risk. Key elements are reporting of key risk metrics according to the risk appetite framework and status of the indicators set out in the recovery plan.
Semi-annually	**GCCO Compliance Report** Group Compliance prepares a report on the status and development of the compliance situation. 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 Report** The report is a second-line assessment of the risk situation and the risk development within operational risk. The report is presented to the Group management team and the Board of Directors along with DNB's risk report in the first and third quarters.
Annually	**ICAAP Report (Internal Capital Adequacy Assessment Process)** The ICAAP report contains a detailed description of DNB 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. DNB's process for self-assessment of the liquidity situation, ILAAP, describes and assesses DNB's liquidity situation. ILAAP is 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** The recovery plan, which is part of the framework laid out in the Bank Recovery and Resolution Directive, is an integral part of DNB's risk and capital management. Descriptions of various measures that could improve the solidity and liquidity situation in the event of a crisis, are an important element of the recovery plan. The plan is revised yearly. The status of defined recovery indicators is reported to the Board of Directors quarterly. **Validation Report** The precision of models used in the calculation of capital requirements, i.e. IRB and IMM models, are examined annually by the independent unit responsible for validation in two separate processes. The results are presented to the Board of Directors in separate validation reports. Group Audit prepares compliance reports assessing compliance with the respective requirements for IRB and IMM models. These reports are considered by the Board of Directors in the same board meeting as the validation.

Risk reporting to the Board of Directors

The table shows the regular independent reports on risk and compliance to the Board of Directors. 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.

STRESS TESTING

Stress testing is a key element in the assessment of DNB'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 DNB and the subsidiary 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.

RISK APPETITE

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

The risk appetite framework is implemented throughout the organisation. Risk indicators on lower organisational levels 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 DNB. 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 2021.

Risk types and associated dimensions in the risk appetite framework

Risk type	Dimensions
Profability and loss- absorbing ability	→ Risk-adjusted profit
Capital adequacy	→ Common equity Tier 1 (CET1) capital ratio
	→ Solvency Capital Requirement, 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 credit loss), total and per customer segment
	→ Credit growth, total credit portfolio and per customer segment
Liquidity risk	→ Liquidity Coverage Ratio
	→ Net Stable Funding Ratio
	→ Deposits to loans ratio
Operational risk	→ IT Risk - operational performance (forward-looking assessment)
	→ IT Risk - operational performance (retrospective assessment)
	→ Past loss events
	→ Cyber security risk
Reputational risk	→ Overall risk assessment and reputation score

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 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.
- **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.

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.

DNB'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 Management team.
- Breach of the orange limit can be handled by the Group Management team, 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.

RECOVERY PLAN
The EU's Bank Recovery and Resolution Directive (BRRD) requires banks to have a recovery plan. The plan is prepared as an integrated part of DNB's risk and capital management framework and will be activated if pre-defined recovery indicators are breached. Recovery indicator breaches will trigger a thorough 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 DNB 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.

Furthermore, DNB 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 the Group Managment team, 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.

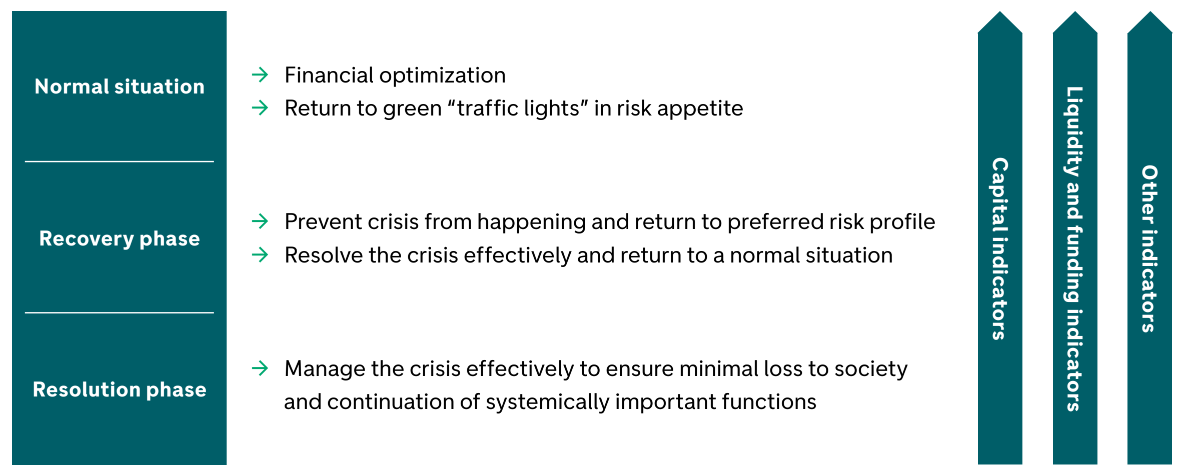
DNB has a hierarchy of contingency measures as illustrated in the figure on the right. Because the risk appetite framework functions as an early warning system, there are a number of overlaps between indicators in the risk appetite statements and recovery plans. For common indicators, red lights in a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

The recovery plan includes:
- strategic analysis of DNB and essential critical functions performed by DNB
- operational and legal dependencies within and outside DNB
- governance processes in recovery planning and recovery plan implementation
- crisis scenarios that could trigger a recovery situation
- recovery measures that could improve DNB'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.

The durability of the risk management framework has been actively tested throughout the COVID-19 pandemic. The framework has provided the Group Management team with updated and relevant analyses of DNB's risk profile throughout the COVID-19 pandemic. In reality, the pandemic has been a full-scale test of the risk management framework

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



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

2
Capital management

Annual updating of risk appetite limits, financial targets and strategy are important elements of capital management.

Content

CET1 capital ratio

Per cent

19.4 (18.7)

Capital ratio

Per cent

24.0 (22.1)

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 2021, Common equity Tier 1 (CET1) capital ratio for DNB was 19.4 per cent, which is a solid 3.1 percentage point headroom above the current supervisory authorities' capital level expectation.

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 DNB. In addition to the regulatory requirement for the CET1 capital ratio, Finanstilsynet's (the Financial Supervisory Authority of Norway) view is that the DNB Group should maintain a margin in the form of CET1 capital that is 1.5 percentage points above the overall capital requirement (Pillar 2 Guidance). At year-end 2021, the CET1 supervisory expectation, constituting the CET1 capital requirement and the Pillar 2 Guidance, was 16.3 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 DNB was 19.4 per cent and the capital adequacy ratio was 24.0 per cent at year-end, compared with 18.7 and 22.1 per cent, respectively a year earlier. CET1 capital increased by NOK 8.2 billion to NOK 189.3 billion at year-end 2021. Risk Exposure Amount (REA) increased during 2021 by NOK 6.3 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 8.8 billion.

Development in risk exposure amount

REA 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 REA for credit risk, market risk and operational risk. REA is also used for the calculation of the capital conservation buffer, systemic risk buffer, buffer for systemically important institutions and countercyclical capital buffer.

REA increased by NOK 6.3 billion during the year and amounted to NOK 973 billion at the end of 2021. REA for credit risk, including counterparty risk, and market risk was approximately unchanged, while REA for operational risk increased by NOK 3.3 billion.

Capital requirements

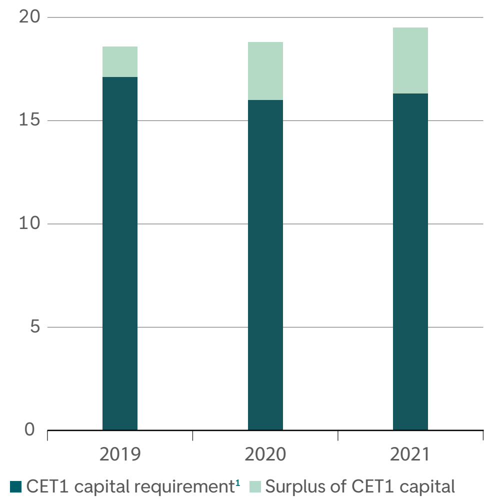
According to the capital adequacy regulations, DNB must meet minimum requirements and combined buffer requirements under Pillar 1 and Pillar 2 requirements.

Minimum requirements

The minimum requirement for capital adequacy under Pillar 1 is that own funds must constitute at least 8 per cent of the bank's REA. The requirement must be fulfilled by at least 4.5 per cent 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 REA that include credit risk, market risk and operational risk.

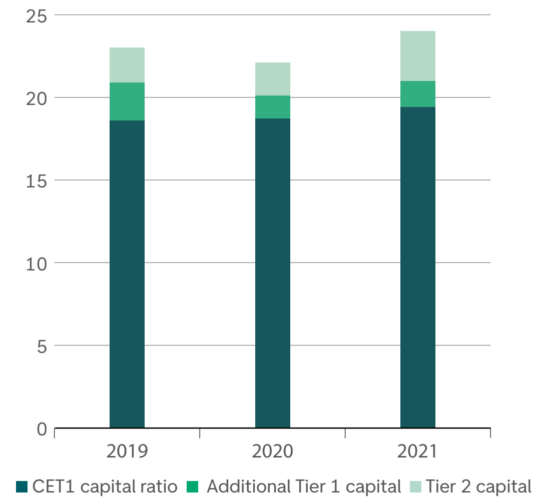
CET1 capital ratio

Per cent



Capital ratio

Per cent



Composition of different capital adequacy requirements

Per cent	Dec. 2021	Dec. 2020	Dec. 2019
Minimum Common equity Tier 1 capital requirement	4.5	4.5	4.5
Systemic risk buffer	3.1	3.2	3.0
Buffer for other systemically important institutions (O-SII)	2.0	2.0	2.0
Countercyclical buffer	0.8	0.8	2.1
Capital conservation buffer	2.5	2.5	2.5
Pillar 2 capital requirement	1.9	2.0	2.0
CET1 capital requirement[1]	14.8	15.0	16.1
Additional Tier 1 capital	1.5	1.5	1.5
Equity Tier 1 capital requirement[1]	16.3	16.5	17.6
Tier 2 capital instruments	2.0	2.0	2.0
Own funds requirement[1]	18.3	18.5	19.6

1) In addition, a margin of minimum 1 per cent in 2019 and 2020 and 1.5 per cent in 2021 (Pillar 2 Guidance)

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 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). The main conclusion of Finanstilsynet's assessment in the 2021 SREP process was that, based on the prevailing risk level and external factors, the DNB Group was adequately capitalised as of 31 December 2020. The Pillar 2 requirement for the DNB Group is 1.9 per cent of REA and must be met with CET1 capital.

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 the combined buffer requirements are not being met, the institution cannot pay dividends to shareholders, interest on Additional Tier 1 (AT1) instruments or variable renumeration to employees without the consent of Finanstilsynet.

The institution-specific countercyclical buffer requirement amounted to 0.77 per cent by year-end 2021. 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 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. On 17 June 2021 it was decided that the buffer rate will increase to 1.5 per cent effective from 30 June 2022, and on 16 December it was decided to further increase the buffer rate to 2.0 per cent effective from 31 December 2022. In the latter decision Norges Bank, based on the prevailing economic developments and expectations for losses and credit expansion in the banking sector, expects to increase the buffer rate to 2.5 per cent in the first half of 2022, effective one year later.

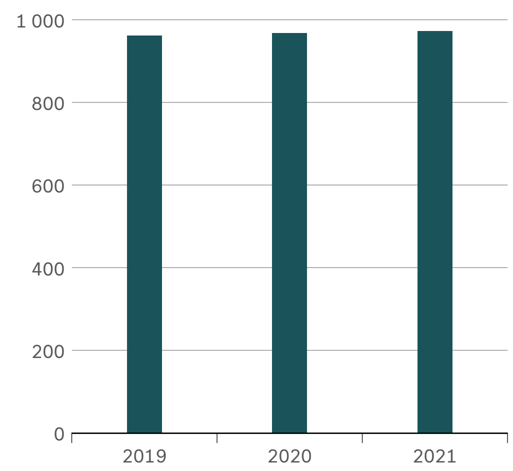
The effective systemic risk buffer for DNB was 3.1 per cent at year-end 2021 and is a weighted average of the systemic buffer rates applicable for the bank's exposures. From the end of 2020, the systemic risk buffer has been 4.5 per cent for Norwegian exposures.

The Norwegian capital buffer requirement for systemically important banks (Other Systemically Important Institutions, O-SII) buffer is 1.0 per cent or 2.0 per cent, depending on the size of the bank and applies to the entire REA. For DNB, the requirement is 2.0 per cent.

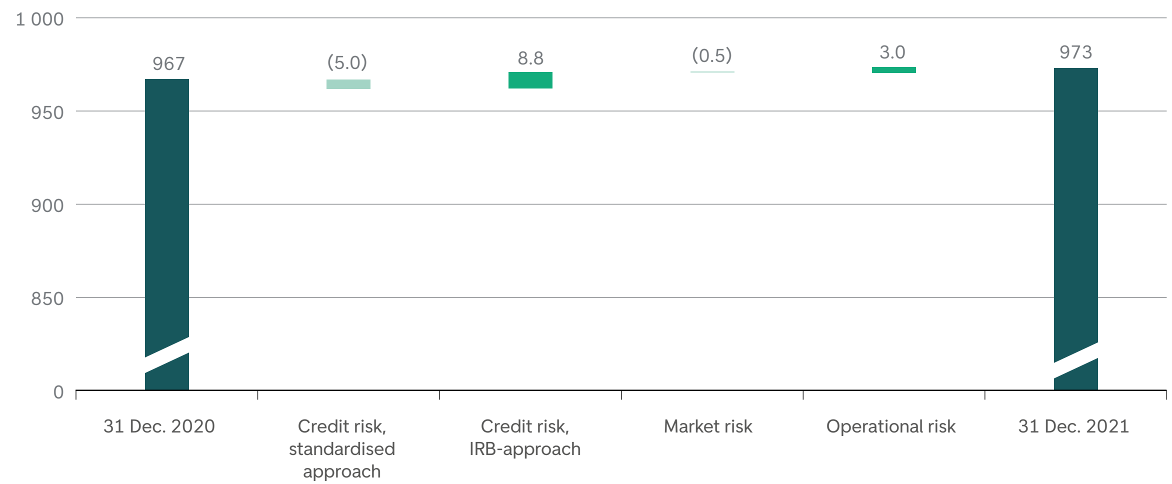
The total combined buffer requirement for DNB was 8.4 per cent at the end of 2021, and the supervisory expectation for the CET1 ratio was 16.3 per cent[2].
In its capital planning, DNB has taken into account the full counter-cyclical buffer requirement of 2.5 per cent in Norway, which is expected to take full effect in 2023, and which will increase the supervisory expectation

2) Including Finanstilsynet's expectation of a margin of 1.5 per cent to the requirements (Pillar 2 Guidance)

Risk exposure amount
NOK billion



Development in risk exposure amount
NOK billion



for the CET1 level to 17.6 per cent.

The table to the right shows the compliance with the minimum and buffer requirements as at year-end. By year-end 2021, the CET1 capital exceeded the corresponding requirement by NOK 45.5 billion.

Leverage ratio
Following the global 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 Regulation 575/2013 (CRR). 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 the only bank in Norway that is required to have a leverage ratio of 6 per cent.

Through the so-called banking package, the EU 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 will therefore change when the EU banking package is implemented in Norwegian law, which is expected to take place in the first half of 2022 at the earliest.

At year-end 2021, the Group's leverage ratio was 7.3 per cent, compared to 7.1 per cent a year earlier. The leverage ratio is significantly influenced by the level of central bank deposits on the balance sheet. The Group's leverage ratio excluding all claims on central banks was 8.2 per cent at year-end 2021 and was stable throughout the year. Central bank deposits were at year-end NOK 270 billion while the daily average in 2021 was NOK 708 billion.

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:

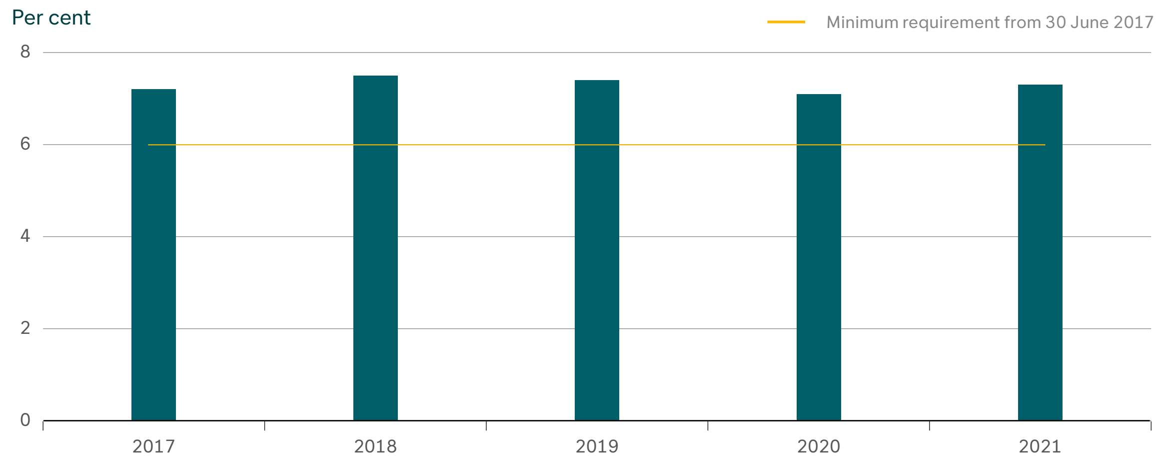
- meets regulatory requirements with a margin that corresponds to the Group's risk profile and risk tolerance
- achieves competitive terms in the funding market
- achieves a competitive return on equity
- can fulfil the Group's dividend policy
- has flexibility to take advantage of growth opportunities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

Capital assessment process
The process for assessing capital adequacy (Internal Capital Adequacy Process, ICAAP) must ensure that DNB's capitalisation is adapted to the risk level. The

Total capital requirements, 31 December 2021

NOK million	Rate	DNB Group
Risk exposure amount (REA)		**973 431**
Minimum Common equity Tier 1 capital requirements	4.5 %	43 804
MinimumTier 1 capital requirement	6.0 %	58 406
Minimum Total own funds requirement	8.0 %	77 875
Pillar 2 capital requirement	2.0 %	18 495
Common equity Tier 1 buffer requirements		
Capital conservation buffer	2.5 %	24 336
Systemic risk buffer	3.1 %	30 176
Buffer for other systemically important institutions (O-SII)	2.0 %	19 469
Counter-cyclical buffer	0.8 %	7 495
Combined buffer requirement	8.4 %	81 476
Allocation of capital to cover capital requirements		
Total eligible capital		233 639
Total eligible capital requirement		177 846
Surplus of Total eligible capital		**55 793**
Tier 1 capital		204 400
Tier 1 capital requirement		158 377
Surplus of Tier 1 capital		**46 023**
Common equity Tier 1 capital		189 305
Common equity Tier 1 capital requirement		143 776
Surplus of Common equity Tier 1 capital		**45 529**

Leverage ratio



process must be in line with Finanstilsynet's requirements for the ICAAP and is based on the following:

- Assessments of risk, including climate and ESG risk, regulatory requirements and capital needs must be forward-looking and based on DNB's business strategies and financial plans. DNB's capitalisation, liquidity and funding are subject to stress tests. The capital assessment process includes risks that are not covered by the requirements in Pillar 1. Risk is quantified and assessed based on calculations of economic capital and stress tests in addition to the regulatory risk exposure amount.
- Risks and the capital situation are assessed on an ongoing basis, and this is an integral part of DNB's framework for risk and financial management. Financials and risk assessments are reported monthly (see also 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 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. 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).
- 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 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 must in normal situations operate with a headroom in form of CET1 capital to the supervisory authorities' expectation. This headroom covers unexpected volatility in REA and in the capital base, underpin strategic flexibility and provide confidence in DNB's ability to pay dividends according to dividend policy and coupons on Additional Tier 1 capital. DNB's long-term dividend policy is to have a pay-out ratio of more than 50 per cent of profits as cash dividends, provided that the 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. The leverage ratio for DNB at the consolidated level, at the parent bank level and at the sub-consolidated level must 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 must be in compliance with relevant Norwegian, other national and international rules on transfer pricing. The capitalisation of subsidiaries must otherwise reflect that capital resources are kept as high in the corporate structure as possible. Profits in subsidiaries are channelled to DNB Bank ASA through dividends and group contributions. DNB Boligkreditt AS must 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 AS must fulfil the solvency requirements with a reasonable margin, see Solvency and Financial Condition Report, to be published on 8 April 2022.

Capitalisation of international subsidiaries is based on fulfilment 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 tenor of 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 potential price corrections in real estate markets. 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 residential real estate 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. In the Regulation on requirements for retail mortgage loans, risk in the residential real estate market has been addressed by means of higher risk weights for residential mortgages, and minimum requirements for down payments, payments of principal and debt servicing capacity.

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.

Comparison of economic capital and regulatory minimum requirements
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 unexpected losses for different types of risks and for the Group as a whole. The quantification is based on historical data. A diversification effect arises when the risks are assessed together, since it is unlikely that all 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 the business areas had been independent companies.

The figure shows a comparison of economic capital and the regulatory minimum capital requirements in Pillar 1, i.e. 8 per cent of risk exposure amount (REA). 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 2021, 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 2021, 31 per cent of the risk exposure amount for credit was measured according to the standardised approach, which assign higher risk weights 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, however, 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 book are treated as credit risk in the capital adequacy calculations, with a risk weighting of 100 per cent, and corresponding minimum capital adequacy requirement of 8 per cent. Calculated economic capital needs for the same investments are 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 methodology for calculating economic capital for insurance risk is based on DNB Livsforsikring AS's capital requirements under the Solvency II regulations, adjusted up to a 99.9 per cent confidence level. 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.

Business risk is not covered in the Pillar 1 requirements. In the calculation of economic capital, business risk is treated as a residual risk, and reflect the risk of losses that cannot be linked to the other quantified risk categories.

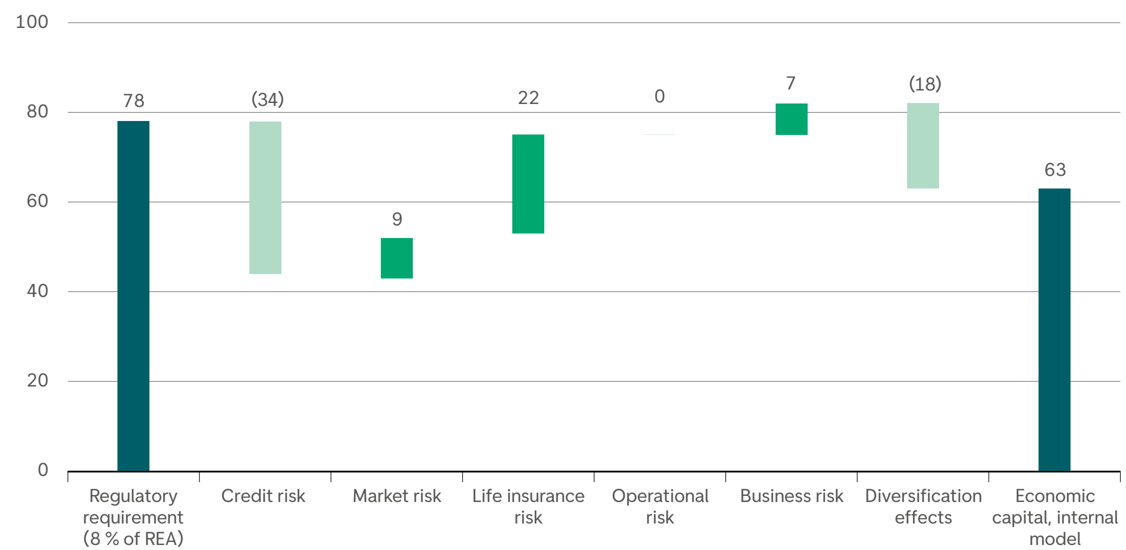
Economic capital

NOK million	31 Dec. 2021	31 Dec. 2020
Credit risk	34 791	36 860
Market risk	10 359	10 978
Life insurance risk[3]	21 626	22 659
Operational risk	7 835	7 458
Business risk	6 516	6 452
Gross economic capital	**81 127**	**84 407**
Diversification effect	(18 271)	(17 988)
Net economic capital	**62 856**	**66 419**
Diversification effect in per cent of gross economic capital	23	21

3) 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



DNB has a significant profit risk related to basis swaps in the banking book. 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 are held to maturity, value fluctuations will be neutralised over the life of the contracts. See a more detailed description of the risk related to basis swaps in the chapter on market risk.

Effects of EU implementation of the finalisation of Basel III reforms
On 27 October 2021, the European Commission (EC) published its draft legislative package implementing the finalisation of the Basel III reforms commonly referred to as CRR3 and CRD6. With this reform, the European Union (EU) aims to balance two objectives: implementing the recommendations of the Basel Committee on Banking Supervision (BCBS) to enhance financial stability while supporting EU institutions' ability to continue financing the economy. The EC proposes that the regulation should apply from 1 January 2025, with transitional arrangements applying over a further five-year period. Based on the draft legislative package, the impact on DNB is assessed to be limited, but there is significant uncertainty regarding both the possible effects of the draft legislation and possible amendments to the draft through the EU's legislative process.

STRESS TESTING OF CAPITAL ADEQUACY

ICAAP stress test
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 DNB's budget for the following year and financial plan for an additional two years, the Target Process. The results from the target process and the ICAAP stress test are an important part of DNB'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 the Asset and Liability Committee (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 for 2022, the scenario is based on a sharp increase in inflation in 2022 due to the intensive public financial support packages during the pandemic, high money supply, as well as scarcity of raw materials and increases in production and transport costs. Central banks will raise key policy interest rates significantly in early 2022 in response to expected persistently high inflation. At the same time, the way out of the pandemic is characterised by high uncertainty. Housing prices and stock markets will fall sharply in the autumn of 2022. Europe and the United States enter a recession in 2023. The decline is driven by problems in servicing high private and public debt and an escalation of the trade war between the United States and China. China's financial imbalances create problems in 2023 and the world enters into a recession. Challenges in the Chinese real estate and construction sector spread to the rest of the country's real economy and low activity in China leads to a sharp fall in commodity prices. Lower energy prices and the global downturn affects Norway through lower oil and gas prices and reduced traditional exports. The global downturn pulls inflation down again, and in 2023, key policy interest rates are set at levels around zero or are slightly negative.

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

- Norwegian mainland GDP falls accumulated by over 4 per cent in 2023 and 2024.
- Oil prices fall to levels around USD 25–45 per barrel, and oil investments on the Norwegian continental shelf decline significantly.
- The registered unemployment rate rises to 6.7 per cent, somewhat above the level from the Norwegian banking crisis in the early 1990s.
- House prices drop around 40 per cent. Households respond to falling house prices, declining real wage growth and an uncertain labour markets by reducing their spending.
- The key policy rate is assumed at 3 per cent in 2022 to combat assumed expectations of persistently high inflation. In 2023, the key policy rate will be set at zero. Higher money market premiums, especially in the beginning of the scenario, will keep three-month NIBOR rates between 4 and 0.5 per cent throughout the stress test period.
- Global GDP growth will fall 0.1 per cent in 2023, comparable to the levels of 2009, as a result of the global financial crisis. Norwegian exports of traditional goods and services are weakened substantially despite a weaker NOK.

The results of the stress test showed a net loss in the first of the four years. The net loss was due to loan losses and losses related to operational risk, business risk and market risk. The CET1 capital ratio drops from 19.4 in 2021 to 17.5 per cent in 2024, until positive results restore it to 17.7 per cent in 2025. 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[4].

4) 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

EBA stress test

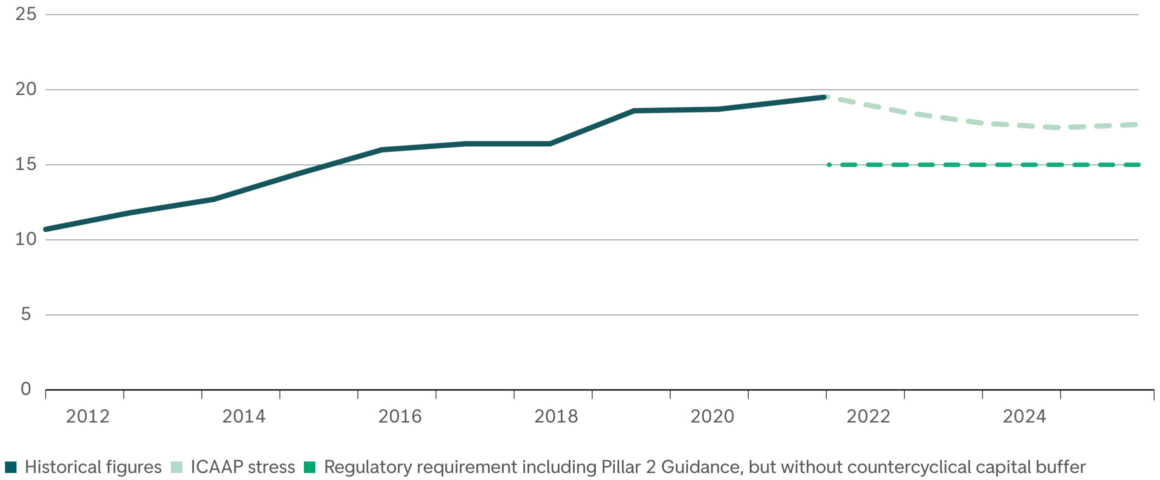
In 2021 DNB took part in the biannual EBA stress test along with 49 other European banks. The stress test showed that DNB is well capitalised and has a good ability to recover. The result of the stress test showed a drop in the Common equity Tier 1 (CET1) ratio for DNB of 2.9 percentage points from 19.6 per cent in 2020 to 16.7 per cent at the end of 2021. In particular, loan losses, losses related to market risk and operational risk, as well as an increase in REA, contributed to the drop in the capital ratio. Positive results in 2022 and 2023, partly offset by a further increase in REA, contributed to an increase in the CET1 capital ratio to 17.1 per cent by the end of 2023. The leverage ratio dropped from 7.3 per cent in 2020 to 6.6 per cent in 2021 but increased again to 7.3 per cent in 2023.

DNB is one of the most solid banks in Europe. Among the 50 European banks, DNB ranks in the top four, after two Dutch public sector banks and SEB, measured by the CET1 capital ratio in last year's stress test. DNB ranks as number nine measured by the size of the drop in the CET1 capital ratio from the highest to the lowest level during the stress test period.

The fact that DNB ends up as the fourth most solid bank is due to high capitalisation at the start of the stress test, as well as good earnings and low costs relative to the other banks.

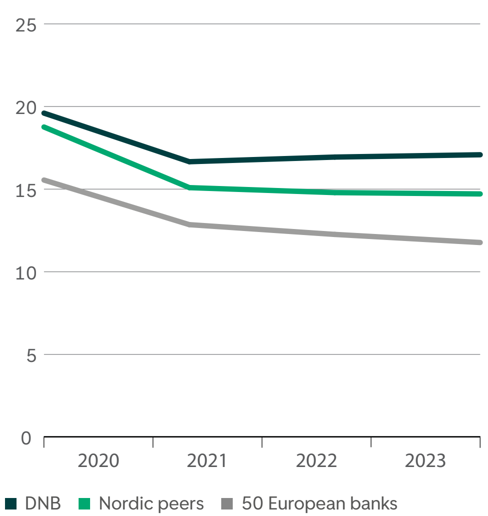
CET1 capital ratio according to the ICAAP stress test

Per cent



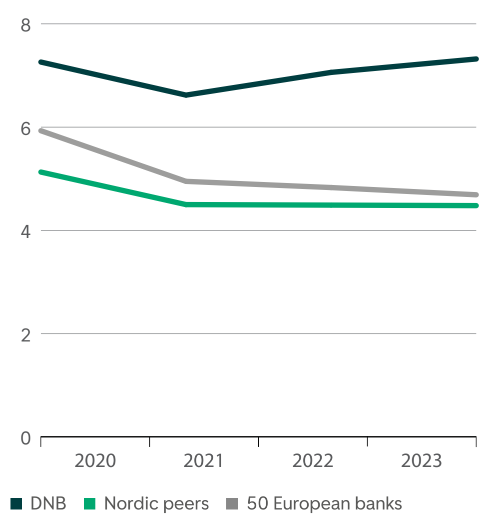
CET1 capital ratio according to the EBA stress test

Per cent



Leverage ratio according to the EBA stress test

Per cent



3
Liquidity risk and asset and liability management

DNB aims to maintain well-diversified funding, which includes a broad deposit base from personal and corporate customers, in addition to market funding. However, the limited Norwegian bond market is insufficient to fund all the bank's lending in Norwegian kroner, and DNB relies on international funding. In 2021, DNB had ample access to funding in various currencies. The ratio of deposits to net loans continued to increase throughout the year and the liquidity situation was satisfactory.

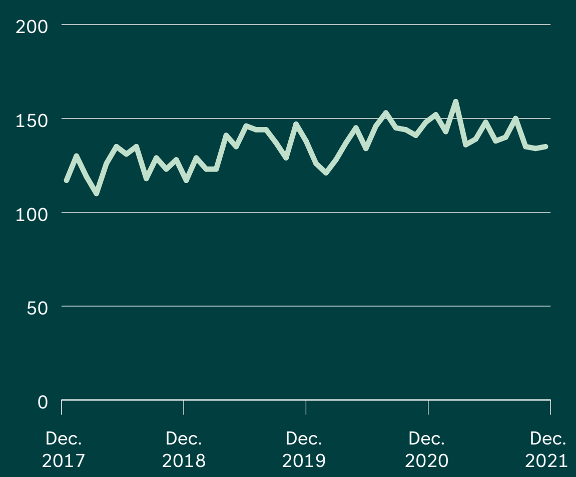
Content

Definiton

Liquidity risk is the risk that DNB 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 DNB's ability to meet its financial obligations.

Development in LCR

Per cent



Liquid assets

NOK billion

576 (609)

Long-term debt securities

NOK billion

560 (618)

Average LCR in 2021

Per cent

137 (140)

Average NSFR in 2021

Per cent

113 (110)

DEVELOPMENTS IN LIQUIDITY RISK IN 2021

DNB had ample access to both long- and short-term funding throughout the year, as well as a satisfactory liquidity situation at year-end. The ratio of deposits to net loans continued to improve throughout the year. DNB has raised significant volumes of long-term funding in preparation for the Minimum requirements for own funds and eligible liabilities (MREL) at favourable prices in a market with a lot of central bank liquidity and reduced funding costs.

The unrest in the market caused by the COVID-19 pandemic outbreak in 2020 resulted in Norwegian and foreign central banks implementing 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 for a short period of time. During 2021, the credit spreads have more or less been normalised to pre-pandemic market levels. However, some volatility in the credit spreads has been observed as the pandemic has unfolded internationally, and from end of November, the credit spread has increased as a result of the market turmoil caused by increased economic uncertainties. The key policy rate, which was lowered from 1.5 per cent to zero by Norges Bank in May 2020, was partly reversed by the 0.25 per cent increases in both September and December 2021. Norges Bank is expected to further increase the policy rates gradually as the economy recovers and markets are normalised. The prospects of inflation growing to higher levels are putting further pressure on rising interest policy rates in 2022.

The short-term liquidity risk target (Liquidity Coverage Ratio, LCR) stayed well above the minimum requirement of 100 per cent throughout 2021, and reached 135.2 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 to the right shows the LCR in the main currencies and in total at year-end 2020 and 2021.

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. NSFR is required to be at least 100 per cent at all times. NSFR for the Group was 112 per cent at the end of 2021, compared to 109 per cent in December 2020.

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 560 billion at year-end 2021, compared with NOK 618 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 the subsidiary company, 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.

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. Part of the MREL requirement must be met with liabilities. Senior debt that has a minimum of one year left until maturity is considered qualifying debt until the end of 2023. From 1 January 2024, after a phase-in period of three years, the eligible liabilities to meet the subordination requirement must be subordinated to senior preferred debt. A new debt class between senior debt and Tier 2 capital, so-called Tier 3 capital, consisting of senior non-preferred (SNP) bonds, will be used to meet the requirement for subordination. The subordination requirement is limited by the financial authorities to a maximum of two times the capital requirements in Pillar 1 and Pillar 2 pluss the combined buffer requirements. This has reduced the need for the bank to issue SNP bonds. 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. DNB issued Tier 3 capital for the first time in September 2020 and an additional five times during 2021, all well received in the market by investors. Thus, DNB is fulfilling the subordination requirement as well as the effective MREL requirement, which are set by the resolution

LCR development, significant currencies

Per cent	EUR	USD	NOK	Total
31 December 2021	170	251	67	135
31 December 2020	221	266	74	148

NSFR development, significant currencies

Per cent	EUR	USD	NOK	Total
31 December 2021	529	158	82	112
31 December 2020	471	102	81	109

Issued senior debt and covered bonds

	Senior debt		Covered bonds	
NOK billion	NOK	Currencies	NOK	Currencies
31 December 2021	11.2	174.7	45.0	328.9
31 December 2020	14.4	169.2	63.3	370.7

authorities from 1 January 2022 to 21.95 per cent and 35.75 per cent respectively of risk exposure amount with a comforting margin.

DNB's framework for issuing green bonds enables DNB to issue green bonds in the format of senior preferred bonds, subordinated MREL-eligible senior non-preferred bonds as well as covered bonds. The funds raised from green senior bonds will be used to finance and refinance the bank's loans within renewable energy, clean transportation and green residential buildings. Funds raised from green covered bonds will be used to finance and refinance the bank's loans within green residential buildings. Read more about the green finance framework and our sustainable strategy on ir.dnb.no.

The figure to the top right shows the development in average term to maturity for DNB's long-term funding at year-end 2021, 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 amount of senior debt issued in 2019. The figure also shows Tier 3 capital that reaches maturity from 2025.

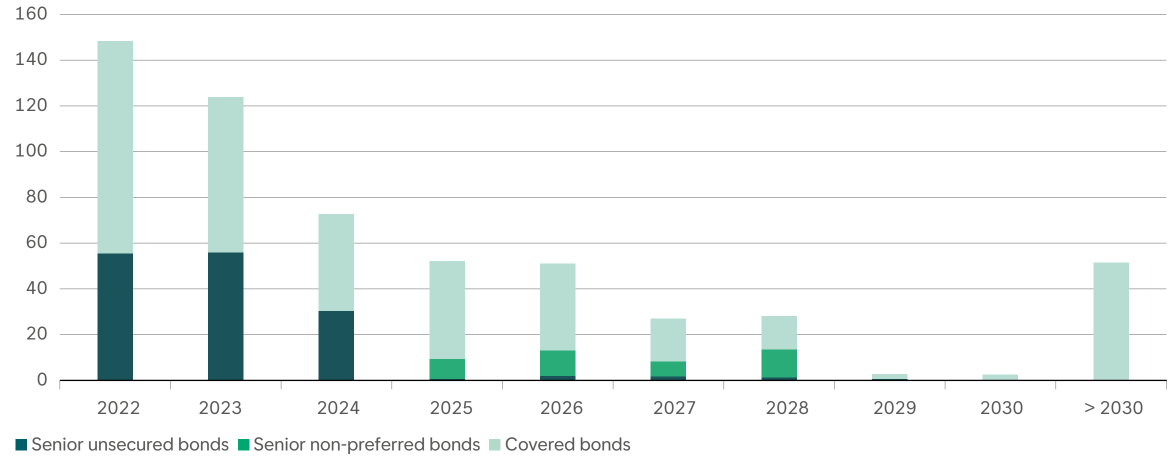
At the end of 2021, the average residual maturity for debt securities issued was 3.5 years, unchanged from 2020. A large amount of senior debt was issued in 2019. This debt is qualified in accordance with the MREL requirement until 2023 and must be refinanced within that time with senior non-preferred debt (Tier 3). Since the financial crisis, the average term to maturity has been about four years for outstanding long-term funding. 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, senior non-preferred 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 74.2 per cent at the end of 2021, compared to 67.3 per cent the previous year. This is due to a continued increase in deposits during the year combined with a more modest growth in lending. Customer deposits were up NOK 139 billion, corresponding to 12.6 per cent in 2021. The corresponding lending growth to customers was NOK 54 billion or 3.3 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 and diversify the funding sources. 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.

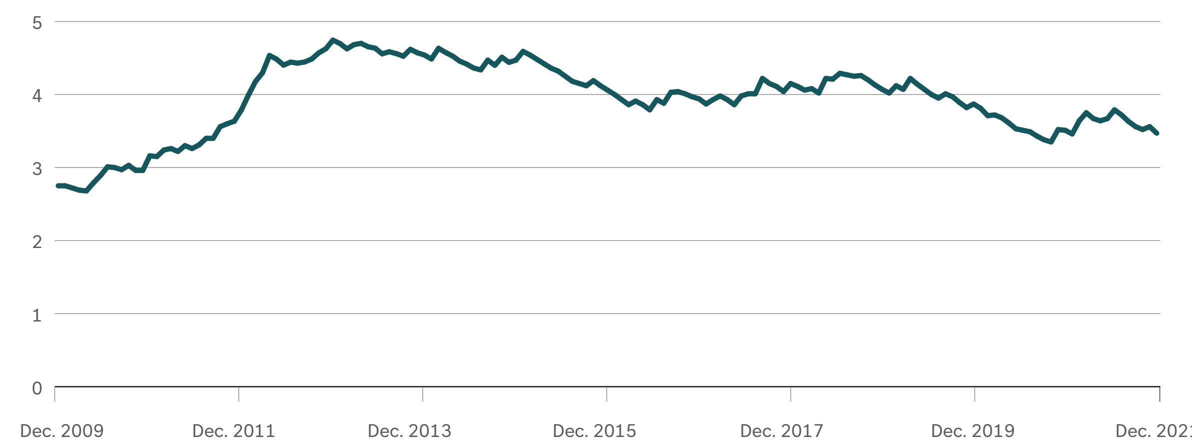
Long-term funding, maturity profile

NOK billion



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

Year



Pledged assets

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

At year-end 2021, pledged assets accounted for NOK 483 billion, which is about 19 per cent of the balance sheet, compared with NOK 665 billion and 25 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 576 billion at the end of 2021, compared with 609 billion in 2020.

The bond portfolio

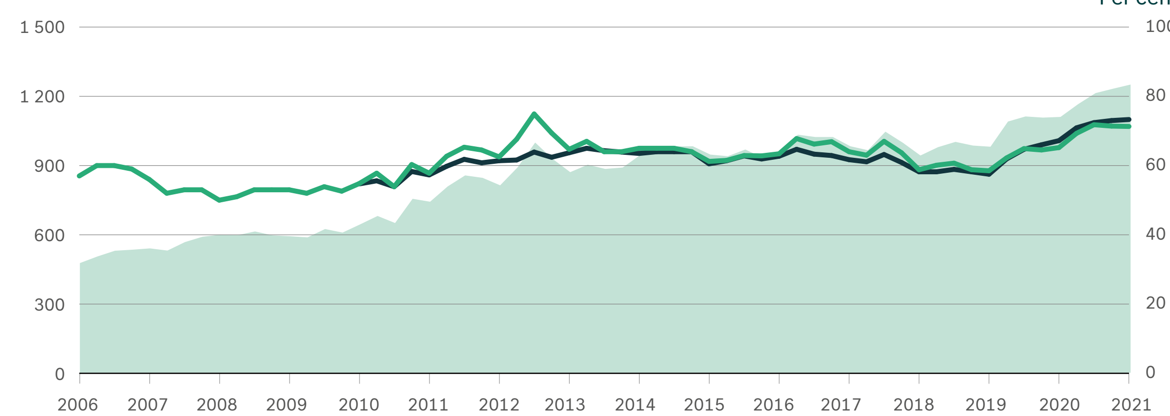
The bank's bond portfolio consists of a domestic NOK portfolio and an international portfolio in foreign currencies. At year-end 2021, the total bond portfolio amounted to NOK 180 billion. The high credit quality of the bond portfolio is reflecting its purpose as a liquidity reserve for the bank and as of end-2021 the share of credit ratings of category AA or better for the portfolio was 99.3 per cent and no bond in the portfolio was having a credit rating of less than category A+. The weighted average time to maturity was 2.4 years and the change in value resulting from a one basis point change in spreads was 44.2 million at year-end 2021.

The NOK portfolio totalled NOK 84 billion, of which Norwegian government bonds and other level 1 public sector bonds accounted for NOK 51 billion. Other level 1 assets in the form of covered bonds accounted for NOK 32 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. In 2020 a new sub-portfolio in NOK was established were market value changes are financially recorded as Other Comprehensive Income (OCI)[1]. At year-end 2021 the value of this portfolio was 17 billion. The remaining NOK bonds are valued at fair value and changes in value are recorded in the income statement.

The international portfolio in foreign currencies totalled NOK 96 billion at year-end 2021 of which Norwegian government bonds and other level 1 public sector bonds accounted for 93 billion while the remainder consisted of covered bonds. In 2019 a new

1) 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



■ Customer deposits (NOK billion) ■ Ratio of deposits to loans (per cent)
■ Ratio of deposits to loans adjusted for short-term money market investments in New York (per cent)

Liquid assets, 31 December 2021

Per cent

■ Cash and balances with central banks 47
■ Securities issued or guaranteed by sovereigns, central banks or multilateral development banks, international organisations, municipalities and public sector entities 40
■ Covered bonds 13

Liquid assets by currency, 31 December 2021

Per cent

■ EUR 45
■ NOK 29
■ USD 15
■ SEK[2] 8
■ Other 3

2) Not a significant currency

sub-portfolio in currencies was established were market value changes are financially recorded as OCI. At year-end 2021 the value of this portfolio was NOK 77 billion. The remaining bonds in foreign currencies are valued at fair value and changes in value are recorded in the income stattement.

LIQUIDITY RISK MANAGEMENT AND CONTROL

The Group's risk appetite framework defines the limits for liquidity management in DNB. DNB has developed internal risk appetite statements for LCR, NSFR and deposit coverage for the Group. From 2022, a new risk appetite statement on MREL will be introduced as well. Risk appetite is operationalised through DNB's liquidity strategy and risk limits framework.

The principles for Group liquidity risk management and control are elaborated in a Group standard for managing liquidity risk that sets out detailed requirements for governance, accountability and responsibilities related to monitoring, measurement, controls and reporting of liquidity risk. Group Treasury manages the liquidity risk on a daily basis, while Group Risk Management represents the independent second line risk management function.

In line with the bank's risk policy and risk appetite, 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 funding sources with respect to both contractual counterparties, tenors and financial instruments.

The Group's liquidity risk management is centralised in Group Treasury. The liquidity risk in branch offices and subsidiaries is consolidated in the balance sheet and included in the basis for the Group's liquidity management. Liquidity risk is managed on both consolidated and individual entity levels. The subsidiaries DNB Livsforsikring AS and DNB Asset Management AS, manage and administrate their own customer assets. This management is covered by internal liquidity guidelines in the respective entities.

Group Treasury is responsible for providing funding to subsidiaries and branch offices outside Norway. DNB Bank ASA and DNB 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 liquidity portfolio.

The governance of liquidity management in DNB is based on a clear separation of duties and reporting structure and is in conformity with regulatory requirements in CRR/CRD IV. The Board of Directors of DNB Bank ASA sets the risk limits and risk strategy and is monitoring the bank's liquidity risk. Liquidity limits are reviewed and reset minimum on an annual basis.

The limit structure for liquidity risk is in conformity with the structure in the EU capital requirements regulations. The liquidity risk is measured and controlled primarily 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 objective of the liquidity risk limits is to reduce the bank's dependency on short-term funding from domestic and international capital markets as funding from such sources tends to be more credit- and market-sensitive than ordinary customer deposits.

The liquidity risk and the utilisation of liquidity risk limits are monitored on an intra-daily basis and positions on LCR for each significant currency are reported daily to Group Treasury and Group Risk Management. NSFR and its limits are measured and reported to the Asset and Liability Committee (ALCO) and Group Management on a monthly basis and every quarter to the Board of Directors as part of the Group's risk report.

Should a breach of any liquidity risk limit occur, established escalation procedures will be followed. Deviations to the limits for LCR and NSFR are immediately reported to Group Treasury, Group Risk Management and the Chief Financial Officer (CFO). The CFO will inform Group Management and the CEO, who then reports to the Board about implementing any action that is considered necessary to adjust positions back to an accepted risk level. The Board also receives reports on risk limit utilisation at least quarterly as part of the Group's risk report from Group Risk Management.

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 brief description of DNB's contingency plan for liquidity.

STRESS TESTING

DNB conducts regular stress testing to ensure that it has sufficient liquid assets to cope with difficult situations in a satisfactory manner. The underlying assumptions of risk factors on which liquidity risk stress scenarios are based are reviewed periodically and, at a minimum, as part of the preparations for the annual renewal of strategy and risk limits. Among other things, this includes a reassessment of the bank's assets that can be classified as liquid and 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 DNB, a so-called bank-specific crisis, and a crisis which affects the banking industry in general, 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 drop 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 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 starting point for this exercise. 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[3].

Rating

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 their rating reports in February and January 2022, respectively.

3) 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.

Rating DNB Bank ASA

Rating agency	Rating	Latest rating report	Latest rating action
S&P Global	Long term: AA- Short term: A-1+ Outlook: Stable Resolution Counterparty Rating: AA- (LT) Senior Non-Preferred: A	S&P rating report – July 2021	22 Jan. 2019
Moody's	Long term: Aa2 Short term: P-1 Outlook: Negative Counterparty Risk Rating: Aa2 (LT) Senior Non-Preferred: (P)A3	Moody's rating report – January 2021	25 Jan. 2022
Dominion Bond Rating Service (DBRS)[4]	Long term: AA (low)[4] Short term: R-1 (middle)[4] Outlook: Stable[4]	DBRS rating report – August 2021	29 Sep. 2015

4) 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 65 per cent. Despite the COVID-19 pandemic, credit quality remained stable in 2021. The medium and long term effects of the pandemic are yet to be seen. At year-end 2021, there was a growing concern related to increased costs for important input factors and delays in several distribution channels.

Content

Definiton

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

NOK billion

1) Excluding institutions, government, central banks, equity positions and exposure in associated companies. Counterparty credit risk is included.

Capital requirement

NOK billion

68.8 (68.5)

Economic capital

NOK billion

34.8 (36.9)

Net impairments

NOK billion

0.9 (-9.9)

Terms used when discussing credit risk

Gross carrying amount is the total credit exposure before impairments, adjustments for collateral and conversion factors. It is the sum of drawn amounts and off-balance sheet items such as unutilised credit lines and guarantees. The term net exposures reflects the gross carrying amount adjusted for impairments.

Exposure at Default (EAD) indicates the share of the commitment that is expected to be drawn at the time of any future default. It is the sum of the drawn amount and off-balance sheet items multiplied by a conversion factor (CCF). The CCF It is calculated assuming a downturn in the market, and must be equal to or more conservative than the long-term average. EAD is reported as exposure before impairments.

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 using statistical models on the basis of a combination of financial and non-financial factors. The PD forms the basis for risk classification of the customers. Defaulted exposures are automatically assigned a PD of 100 per cent

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 IRB reporting 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, based on the figures calculated by internal credit risk models (IRB models). EL is calculated as PD x LGD x EAD. This figure should under normal circumstances be higher than the actual losses.

Expected Credit Loss (ECL) is calculated according to the IFRS9 regulation. 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 the IRB models, Conservative buffers and adjustments for cyclicality are removed so that the estimates are point-in-time.

In the 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, including defaulted exposures where PD=100 per cent.

DEVELOPMENTS IN CREDIT RISK IN 2021

DNB's portfolio of credit to customers amounted to NOK 2 052 billion, measured by EAD, at the end of 2021, and was nearly evenly distributed between corporate and personal customers. Counterparty credit risk is included in these figures. Credit quality improved somewhat during the year. Impairment provisions ended at NOK 0.9 billion in reversals for 2021. Net impairments in Stage 3 (non-performing loans) amounted to NOK 0.2 billion.

The pandemic led to large fluctuations in activity in the international and Norwegian economy in 2021. Many countries got off to a weak start to the year, which was later replaced by a strong recovery driven by reduced closure measures. The strong increase in activity in the world in combination with reduced production and freight capacity, has led to bottlenecks in production and transport, with consequently strong price growth for raw materials, intermediate goods and transport.

Tourism and travel-related services have been hit hardest 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 uncertainty related to future prospects. There is the possibility of more permanent changes in travel habits after the COVID-19 pandemic, based on changes in preferences and priorities.

The portfolio of credit cards to personal customers was further reduced in 2021 and amounted to 1.9 per cent of EAD at the end of the year and there was 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 developments in the credit portfolio measured in EAD. The bank's credit portfolio increased by NOK 71 billion in 2021. The growth was distributed across all customer segments. Loans to small and medium-sized enterprises increased by 4 per cent, and loans to personal customers increased by 2 per cent. Adjusted for exchange rate effects, the large corporate customers and international portfolio increased by 5 per cent.

DNB maintains a branch office in Grand Cayman, which is under the New York office. Both Finanstilsynet (the Financial Supervisory Authority of Norway) and local and federal supervisors regularly receive access to this business in connection with the supervision of the New York branch. During the last couple of years, our presence in the Cayman Islands has been scaled down.

Developments in credit risk in selected industries

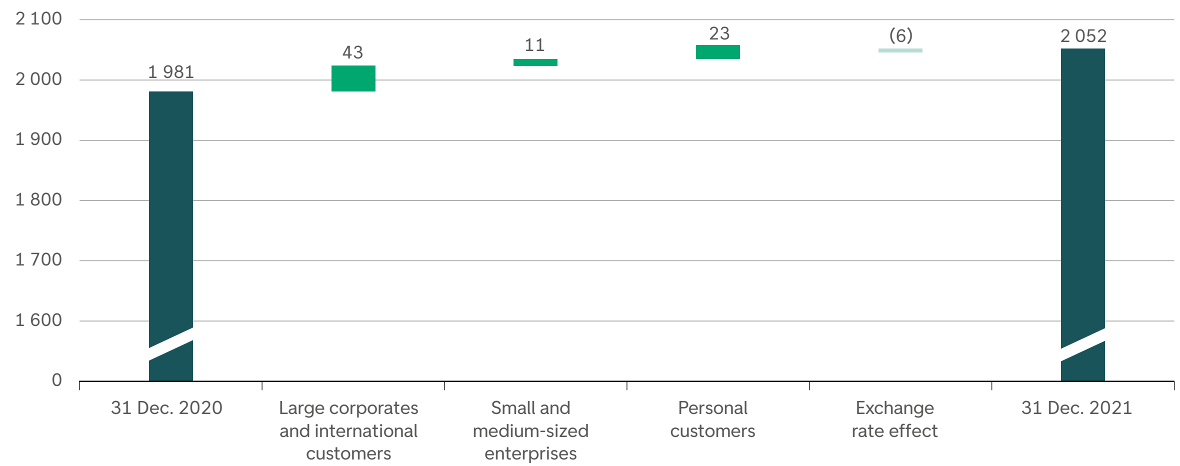
At the end of 2021, the retail mortgage loan portfolio accounted for 45 per cent of the bank's credit portfolio[1], measured by EAD, and is described in more detail below. In addition, the development in commercial real estate, oil, gas and offshore and shipping is described in more detail.

Retail mortgage loans

DNB's retail mortgage loan portfolio mainly consists of loans for financing of homes in Norway. Almost 98 per cent of the mortgage portfolio is located in Norway, of which almost 100 per cent is reported as IRB measured by EAD. DNB has some small retail mortgage portolios in Poland and Luxembourg and also report on the retail mortgage portfolio in Luminor

Development in credit portfolio[2], EAD

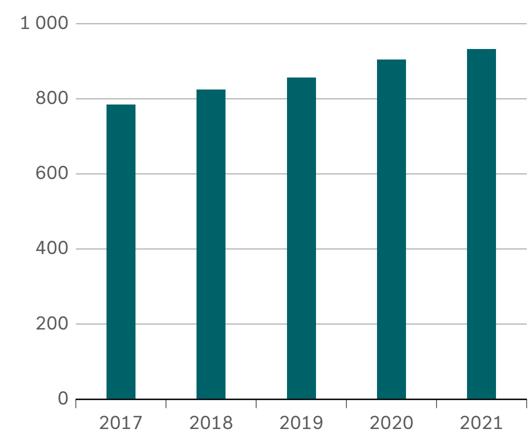
NOK billion



2) Excluding institutions, governments, central banks, equity positions and exposure in associated companies. Counterparty credit risk is included.

Development in retail mortgage loans, EAD

NOK billion



pro rata. The comments below are based on the Norwegian portfolio.

84 per cent of the bank's retail mortgage loan portfolio, measured by EAD, has been transferred to DNB Boligkreditt and serves as the basis for issuing covered bonds.

DNB's market share has shown a slightly declining trend in recent years, and was 25 per cent at the end of 2021. DNB's portfolio of retail mortgage loans is of high quality. Around 80 per cent of the loans are classified as low risk based on internal risk classification. In capital adequacy reporting, a conservative add-on to the PD model for mortgage loans is required. Based on these external PDs, around 70 per cent of the portfolio is low risk. There have been very few defaults in this portfolio. At year-end 2021, the percentage of non-performing retail mortgage loans was 0.24 per cent.

Unlike many other countries Norway has a very high share of privately owned homes. Over 80 per cent of the population owns their own home. The homes are mostly financed by mortgages loans. The housing market in Norway has experienced high growth in prices during the last years. In 2021 the housing prices increased by 5.2 per cent, but there were large geographical differences. It is expected that the increase in the housing prices will continue through 2022, but not at the same rate as seen in the recent years.

The Regulations on financial institutions lending practices (Utlånsforskriften) were updated and extended with effect from 1 January 2021 and will apply up to and including 31 December 2024. Financial institutions may grant loans that do not meet all of the criteria in the regulations for up to 10 per cent of the value of total approved loans. For loans secured with collateral in homes 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 homes are updated with a new estimated value each quarter. The average loan-to-value ratio for DNB's retail mortgage loan portfolio was 56.0 per cent at the end of 2021, compared with 58.4 per cent the previous year. The figure shows an object-oriented LTV distribution of the retail mortgage loan portfolio.

Commercial real estate

Measured by EAD, the commercial real estate portfolio (excluding residential property) constituted 10 per cent of DNB's credit portfolio. The credit quality within commercial real estate was good throughout the year. The share of high risk decreased from 4 per cent at year-end 2020 to 3 per cent at year-end 2021.

There was a negative development in the hotel property segment in 2021 as a result of the travel restrictions due to COVID-19. The risk was still acceptable at the end of the year. We expect that the risk may increase in this segment in connection with the renewal of leases in 2022 where tenants may negotiate contracts without a minimum rent.

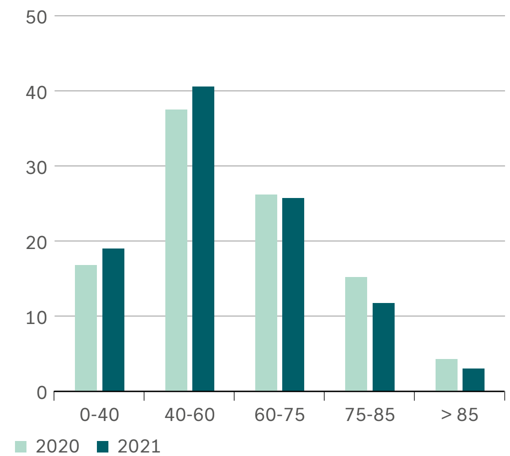
The shopping centres segment has performed relatively well so far during the COVID-19 pandemic, with an increased customer influx to regional centres.

Prices for the most attractive office properties in Oslo and other large Norwegian cities are high and contribute to low yields. The yield in the office property segment is expected to stabilise at the current level the next couple of years, unless a major shift in the interest rates occurs. Based on the experiences from the COVID-19 pandemic with a large number of employees working from home, we expect a need for increased flexibility and adaptation of office space in the future. Non-performing loans in the office property segment amounted to less than 1 per cent at the end of 2021.

Tenants are concerned about the environment, and want buildings with a good indoor climate and low energy consumption. The shorter the technical service life of a building, the increased risk to the landlord and indirectly to the lender. DNB sets requirements for the loan-to-value ratio and carefully assesses the expected value development of the properties.

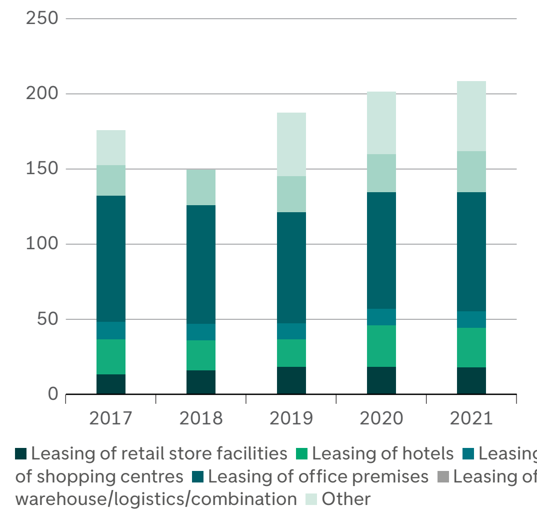
Loan-to-value retail mortgage loans, granted volume

Per cent



Development in commercial real estate, EAD

NOK billion



Oil, gas and offshore
For several years, DNB has been reducing its exposure to oil-related industries, and the total portfolio is less sensitive to fluctuations in oil prices than previously. In 2021, the credit portfolio related to oil, gas and offshore decreased further by NOK 3.8 billion, or 5 per cent. When counterparty credit risk is included in the figures (EAD), total exposure increased by NOK 10 billion, or 11 per cent, due to an increase in the EAD stemming from gas-price related derivatives during the second half of 2021.

The oil and gas industry is a key part of the Norwegian economy. Therefore, the energy restructuring process in Norway will be largely driven by the oil and gas industry's expertise, innovative power and willingness to invest. Environmental, social and governance (ESG) and energy transition are integrated in DNB's 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 transition and align their business with the Paris Agreement, and who are willing to set emission targets for their own operations. DNB has set an overall target for the upstream oil and gas portfolio to reduce emissions intensity by 2030 by 30 per cent. Read more in Financing the climate transition through sustainable products in our annual report on ir.dnb.no.

Oil prices were volatile throughout the year. Towards the end of the year, oil prices (Brent Blend) increased and ended at USD 71 per barrel. Natural gas prices increased from the early third quarter, especially in Europe, and reached an all-time high of USD 360 per barrel oil equivalent on 21 December. The credit quality in oil, gas and offshore developed positively as a result of increasing oil and gas prices. A total of 78 per cent of the customers are classified as low or medium risk.

There are still ongoing restructuring processes as a result of many years of overcapacity in the offshore sector. Oil and gas companies are cautious with investments, which reduces the demand for offshore services. Low revenues in combination with increased environmental focus among investors have led to limited access to the capital markets for the offshore sector. At the end of 2021, the proportion of customers classified as high risk in the offshore portfolio was 65 per cent, measured by EAD. The proportion of defaulted volume was 45 per cent.

Shipping
During the year, the shipping portfolio was reduced by NOK 6 billion, or 12 per cent, measured by EAD, and accounted for 2.2 per cent of DNB's credit portfolio at the end of 2021. Credit quality has improved, and previous impairments were reversed in 2021. The share of customers classified as high risk was 7 per cent at the end of the year, compared to 12 per cent at year-end 2020. Defaulted exposures accounted for under 1 per cent of the portfolio.

Global seaborne trade volumes rebounded by 3.6 per cent in 2021, and exceeded the 2019 levels. Coupled with moderate fleet growth, this led to significant improvement for several of the shipping segments.

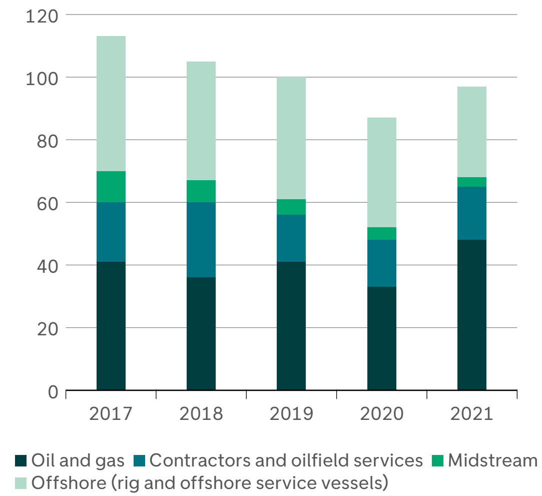
The container market benefitted from a strong trade rebound, and was by far the best performing shipping segment in 2021, with both charter rates and container freight rates reaching five times pre-COVID-19 levels. The second half of 2021 produced strong very large gas carrier (VLGC) rates which has continued into 2022. High energy prices support the demand for liquified petroleum gas (LPG), as it is relatively cheap compared to other fossil alternatives. The dry bulk market experienced an upswing to its highest level in over a decade. Newbuilding orders reached the highest level since 2014, with the container and gas segments accounting for close to 60 per cent of new orders.

The tanker market on the other hand has continued to underperform and remains at historically low levels. Continued low oil demand and reduced production volumes have led to continued poor employment of the very large crude carriers (VLCC) fleet. OPEC expects a 4 per cent increase in oil demand in 2022.

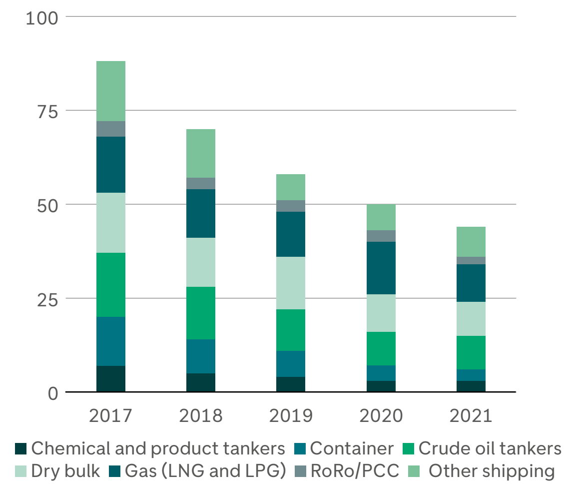
Sustainability in credit activities
Sustainability assessments have a central position in DNB's credit process. DNB's long-term profitability is dependent on our customers integrating sustainability into their business models and strategic choices. By holding our customers accountable, we can both make a positive contribution to society and reduce risk for both our customers and ourselves.

DNB has adopted a model for assessing companies' ESG risk based on recognised market practices. In 2021, an updated version was launched that includes industry-adapted risk assessments for construction, shipping, commercial real estate and oil and gas, as well as a new private equity module. More than 1,500 credit customers were risk assessed during the year. The ESG assessments are an integral part of the

Development in oil, gas and offshore, EAD[3]
NOK billion



Development in shipping, EAD[3]
NOK billion



3) Including counterparty credit risk

credit decision-making process when establishing new corporate loans, and are assessed on an equal footing with other risk factors. In cases of high ESG risk, the credit decision is escalated to the highest decision level.

For customers with credit exposure of more than NOK 8 million, ESG risk is evaluated and commented on in credit proposals. For customers with credit exposure of more than NOK 50 million, DNB's client risk assessment tool is used to classify the customer within standard, moderate and high ESG risk. Customers with high ESG risk must establish an action plan to improve the conditions that do not meet DNB's expectations and requirements. The action plan have a 12-month horizon and act as basis for further dialogue with the customer.

See more about how DNB integrates sustainability in its credit activities in 'ESG assessments in credit analysis and asset management' in the Group's annual report.

CAPITAL REQUIREMENTS FOR CREDIT RISK

The total capital requirement for credit risk, including counterparty credit risk, in DNB at the end of 2021 came to NOK 68.8 billion, about the same level as the previous year. Capital requirements for credit risk reported according to the standardised approach were reduced by NOK 0.4 billion and the capital requirement for the IRB portfolio increased by NOK 0.7 billion.

The figure on the previous page shows changes in the risk exposure amount (REA) for the credit portfolio divided into the most significant portfolios. The REA of the IRB corporate portfolio was reduced by NOK 3 billion. This is attributable to improved credit quality in 2021.

REA for the IRB portfolio associated with personal customers, primarily retail mortgage loans, increased by NOK 12 billion. This is due to volume growth in the portfolio as well as the impact of the new definition of default that was implemented in 2021. A waiting period for the return to performing status after a default was implemented which led to somewhat higher volume of defaulted exposure.

REA for the standardised corporate portfolio increased by NOK 9 billion. This is due to an increase in counterparty credit risk and growth in credit volume. The reduction in 'Other' is related to changes in deferred taxes in addition to the fact that some exposure reported as 'High risk' last year is now reported as Corporates following a change in Finanstilsynet's directive.

Development risk exposure amount, credit risk

NOK billion

Specification of risk exposure amounts and capital requirements for credit risk

NOK million	Original exposure	Exposure at default	Average risk weight	Risk exposure amount	Capital requirements 31 Dec. 2021	Capital requirements 31 Dec. 2020
IRB approach						
Specialised Lending (SL)	9 803	9 396	37 %	3 478	278	516
SME	216 048	189 157	47 %	88 212	7 057	6 931
Other corporates	836 658	644 237	44 %	285 654	22 852	22 958
Retail, secured by real estate property	899 243	899 243	22 %	193 788	15 503	14 931
Other retail	91 296	74 290	30 %	22 382	1 791	1 440
Total credit risk, IRB approach	**2 053 048**	**1 816 323**	**33 %**	**593 513**	**47 481**	**46 776**
Standardised approach						
Central governments or central banks	346 499	345 786	0 %	614	49	19
Regional governments or local authorities	49 442	43 389	3 %	1 157	93	88
Public sector entities	52 629	51 919	1 %	357	29	31
Multilateral developments banks	29 504	30 249	0 %	0	0	0
International organisations	4 706	4 706	0 %	0	0	0
Institutions	94 872	68 090	31 %	21 262	1 701	1 469
Corporates	180 976	159 324	72 %	114 282	9 143	8 402
Retail	156 417	59 223	74 %	44 086	3 527	3 580
Secured by mortgages on immovable property	27 593	26 242	57 %	14 830	1 186	1 366
Exposures in default	3 040	2 110	141 %	2 971	238	233
Items associated with particularly high risk	664	658	150 %	987	79	641
Covered bonds	33 475	33 475	10 %	3 347	268	348
Unit or shares in collective investment undertakings	958	958	23 %	221	18	41
Equity exposures	23 946	23 945	222 %	53 135	4 251	3 908
Other items	17 225	17 224	53 %	9 052	724	1 579
Total credit risk, standardised approach	**1 021 946**	**867 298**	**31 %**	**266 302**	**21 304**	**21 706**
Total credit risk	**3 074 994**	**2 683 621**	**32 %**	**859 815**	**68 785**	**68 483**

Definition of default

In 2021, DNB updated the definition of default in line with the updated EBA guidelines originally published in 2016. The definition of default under IFRS 9 is fully aligned with the regulatory definition of default. The application of the definition of default is different for corporate and personal customers.

Corporate customers

A **qualified payment** default exists if a commitment exceeding NOK 2 000 and more than 1 per cent of the debtor's total commitment with DNB is overdue by more than 90 days.

An **anticipated payment** default exists if it is unlikely that a debtor will pay its liability to DNB without having to take measures, such as realising collateral, to finance the payment. Whether or not there is an anticipated payment default depends on a specific assessment of the probability of a future payment default, for which it may be relevant to consider a wide range of circumstances. Anticipated default can be caused by indicators that are absolute, such as:

- bankruptcy proceedings;
- sale of loans with a discount of more than 5 per cent related to credit risk; or
- a distressed restructuring with liabilities expected to be reduced by more than 1 per cent.

Furthermore, a range of indicators should be considered in order to determine whether an anticipated default has occurred. These indicators are not absolute. Examples include:

- expected failure to service all financial liabilities including refinancing risk;
- violation of financial covenants;
- deterioration in the loan to income ratio; or
- sale of collateral that weakens the banks creditor position

When an incidence of default occurs, all the debtor's commitments in DNB are to be considered in default. Contagion can also occur between debtors with financial dependencies where financing or payment difficulties on the part of one debtor is likely to lead to financing or payment difficulties on the part of one or more other debtors.

Given the fulfilment of specific criteria, a customer can exit default and return to performing after a 3- or 12-month probation period. The 12-month probation period is for customers exiting default after a distressed restructuring.

Personal customers

For personal customers, a **qualified payment default** exists if a commitment exceeding NOK 1 000 and more than 1 per cent of the defaulted amount under the agreement with DNB is overdue by more than 90 days.

The absolute requirements for **anticipated default** for personal customers are similar to the ones listed for corporate customers. Other indicators of anticipated default include a reduction in the customer's income, for example due to unemployment, a significant increase in loan-to-value ratio, or a situation where the guarantor or co-borrower is in bankruptcy or debt settlement proceedings.

For personal customers, default occurs at the agreement level. Therefore, there will not initially be any contagion between agreements belonging to the same debtor. A key exception from this rule is contagion between instruments within the same product category. For example, between two retail mortgage loans to the same debtor. Further, if a default relates to one or more agreements totalling at least 20 per cent of a debtor's total commitments with DNB, all the debtor's agreements with the bank should be set as defaulted.

Given the fulfilment of specific criteria, a customer can exit default and return to performing after a 3- or 12-month probation period. The 12-month probation period is for customers exiting default after the completion of debt settlement proceedings.

Definition of past due exposures

Past due exposures are overdue amounts on loans and overdrafts on credits, assuming a deterioration of customer solvency or unwillingness to pay.

Financial assets qualify as past due when any amount of principal, interest or fee has not been paid at the date it was due. Past due exposures are reported for their entire carrying amount. Past due loans and overdrafts on credit lines are monitored on an ongoing basis.

OVERVIEW OF CREDIT EXPOSURES

Exposures by customer segment, industry and country

Gross carrying amount came to NOK 2 813 billion at the end of 2021. The figures show gross carrying amount broken down by customer segment, industry and country.

Loans and credit extended to personal customers accounted for 43 per cent of gross carrying amount. Loans to corporates comprised 42 per cent. Most of the credit portfolio is linked to Norway or Norwegian customers. Norwegian-related exposures accounted for 63 per cent of the portfolio at year-end 2021. The corporate loan portfolio is well diversified among industries. You can find more detailed information in the additional Pillar 3 disclosures.

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.

The most common forms of forbearance are:

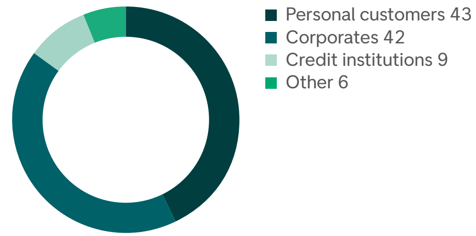
- changing the term of the loan
- refinancing
- debt remission, including remission of overdue interest payments
- deferment of overdue interest payments

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 Board.

For more information see Note G5 Credit risk management in our annual report.

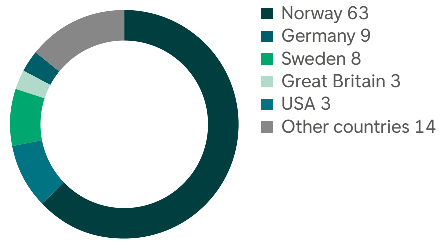
Gross carrying amount, split by customer segments, 31 December 2021

Per cent



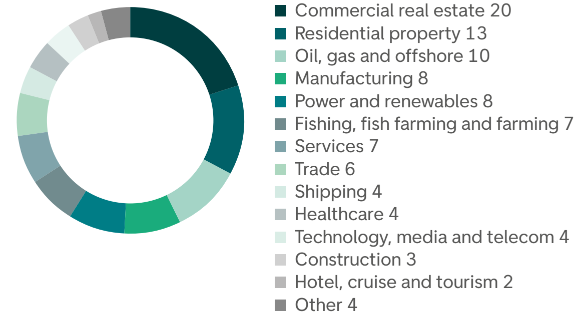
Gross carrying amount, split by country, 31 December 2021

Per cent



Gross carrying amount to non-financial corporates, split by industry segments, 31 December 2021

Per cent



IMPAIRMENT AND DEFAULT

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

- **Stage 1:** Includes exposures that have not experienced a significant negative development in lifetime PD[4] since origination. 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 lifetime 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.

When a customer becomes credit impaired (Stage 3), the probability of default is set to 100 per cent.

The stage 3 ECL provision is estimated as the difference between the carrying amount and the net present value of the estimated future cash flows discounted by the original effective interest rate. The estimated future cash flows are based on developments in the customer's exposure, past experience with the customer, the probable outcome of negotiations and expected macroeconomic developments that will influence the customer's expected cash flow. If the exposure is collateralised, the value of the collateral is included in the estimated future cash flows regardless of whether foreclosure is probable or not.

The methodology for estimating ECL is under continuous improvement, and during 2021, DNB has updated the methodology for estimating the ECL for credit-impaired financial instruments (stage 3) for customers with a commitment of more than NOK 50 million. The changes made to the methodology did not have a material impact on the Group's ECL estimate. The purpose is to be able to better reflect the actual solutions under consideration for customers in financial difficulties. The new method increases the number of scenarios that need to be assessed. ECL is calculated as probability-weighted ECL from the considered scenarios. The scenarios should represent the actual possibilities of a customer in financial difficulties.

The main rule is that three different scenarios should be considered:

- **Going concern:** What is the probability of a development where all debt is repaid without concessions in the form of debt conversion or write-offs? The ECL in this scenario is zero.
- **Restructuring:** What is the probability of a development where the customer must restructure the capital structure to maintain going concern, and what is the ECL for DNB in such a restructuring?
- **Liquidation:** What is the probability of a development where a company is liquidated through bankruptcy, orderly liquidation etc., and what is the ECL for DNB in this scenario?

The ECL within each scenario, and the probability of each scenario occurring, will be dependent on both market conditions and customer-specific factors. The sum of the scenario weights must always be 100 per cent. If a scenario is highly unlikely, the probability can be set to zero.

The ECL within the restructuring scenario will be dependent on the discounted present value of the customer's expected future cash flows, as well as on the expected debt level that may be agreed upon with the stakeholders in a restructuring. The ECL in the liquidation scenario will be dependent on the expected realisation value of collateral given a sale of assets for example as part of a bankruptcy or orderly liquidation process.

For corporate customers with commitments of less than NOK 50 million, the main scenario is liquidation. The ECL is therefore primarily dependent on the expected realisation value of collateral in a sales process. In this valuation, we will normally include two cases to reflect the uncertainty of the estimate.

For credit-impaired personal customers with commitments of more than NOK 5 million, an individual assessment of collateral and debt servicing capability is done to determine the ECL. For credit-impaired personal customers with commitments of less than NOK 5 million, a portfolio approach is used to estimate the ECL. The estimate is calculated using a discounted expected collateral value that provides expected recovery rates for a representative sample of customers in default. The expected recovery rates are then applied to customers with similar characteristics to the customers in the sample. When a customer is in the 3- or 12-month return to non-default period, the customer will continue to be presented in stage 3, but with stage 2 lifetime ECL from the ECL model.

4) Lifetime PD is the probability that the customer will default the loan at any point in time over the entire life of the agreement.

Impairment of financial instruments
Net impairments are the sum of all impairments during the period minus all reversals made during the same period. The figure shows the impact of net impairments on profits in 2021.

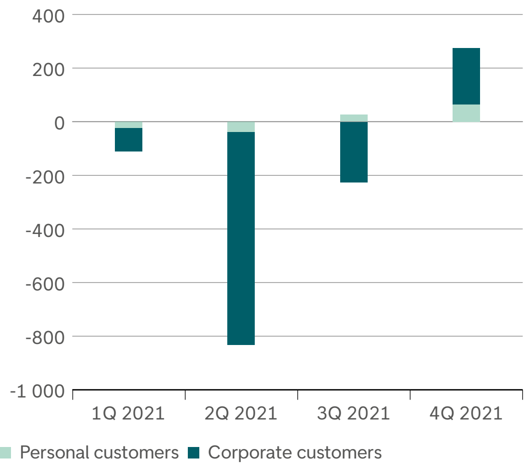
The figure at the bottom shows the change in accumulated impairments of loans to customers at amortised cost and financial commitments on the balance sheet from year-end 2020 to year-end 2021. Accumulated impairments amounted to NOK 11 billion at year-end, a reduction of NOK 4 billion from 2020. The change in accumulated impairments includes allowances due to the origination of new financial instruments during the period. The figure also shows increases and decreases in expected credit loss resulting from changes in input parameters and assumptions including macro forecasts, as well as the effect of partial repayments on existing facilities and the unwinding of the time value of discounts due to the passage of time. Further the table includes write-offs, changes in allowance due to the derecognition of financial instruments during the period and exchange rate effects.

Defaulted exposures
Net defaulted exposures increased by NOK 0.8 billion in 2021 and amounted to NOK 26.7 billion at year-end. The increase was related to specific customers in energy production and in tourism-related industries. A total of 44 per cent of DNB's defaulted exposures are in the oil, gas and offshore segment and mainly related to challenges within the offshore segment. Defaulted exposures in oil, gas and offshore decreased by NOK 2.2 billion in 2021 and amounted to NOK 11.7 billion at year-end. The positive development is a result of increasing oil and gas prices and finalised restructuring processes.

The figure to the far right shows the distribution of net defaulted exposures by industry. More detailed information can be found in the additional Pillar 3 disclosures.

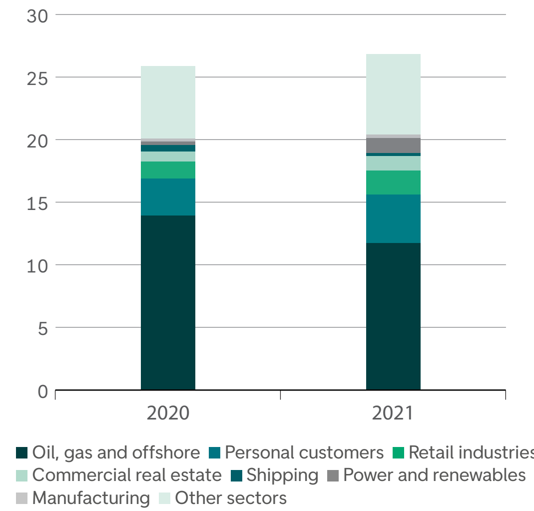
Development in net impairments

NOK million



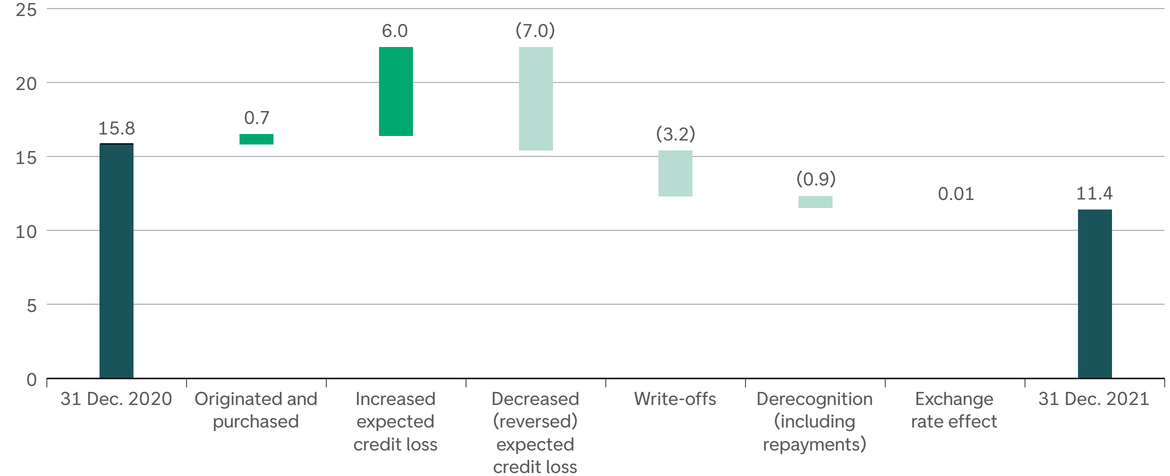
Net defaulted exposures

NOK billion



Development in accumulated impairment of loans and financial commitments

NOK billion

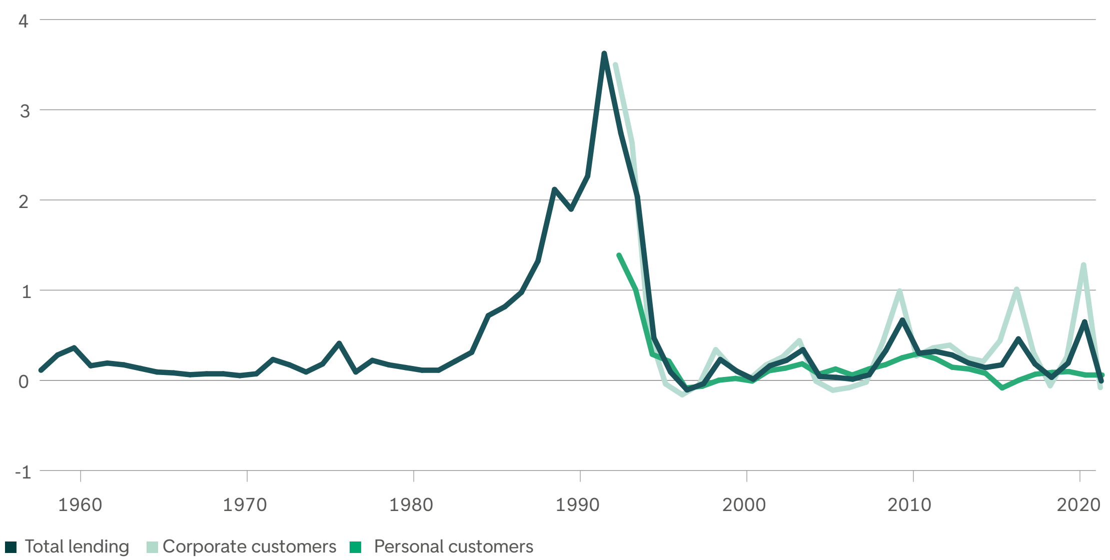


Historical development of impairment of financial instruments

The figure shows the net annual impairments as a proportion of lending for the period 1957–2021. From 1992, net impairments 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 impairments, inter alia linked to Baltic operations, and 2016 when DNB was compelled to record substantial impairment in the oil-related portfolio. The COVID-19 pandemic did not have much effect on the impairments in 2020. The increase in 2020 is mainly due to additional impairments in the offshore portfolio while 2021 has been a more normal year with low impairments.

Net impairment per year, 1957 - 2021

Per cent



Reporting methods for credit portfolios in DNB

Exposure 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

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.

In the internal monitoring 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. The risk parameters that DNB uses to measure risk in the large corporate portfolio 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.

DNB uses the Advanced IRB (A-IRB) approach for its corporate and retail portfolios. Some portfolios in subsidiaries or specific segments are exempted. The Foundation IRB (F-IRB) method is not used. There is no distinction between A-IRB and IRB for retail loans.

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

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 independent unit responsible for model risk conducts annual validations of the IRB models. Group Audit prepares an annual report with an assessment of whether the IRB system in DNB meets external requirements.

The areas of application for the IRB models are:
- capital adequacy calculations
- decision-support in the credit process
- limits in the risk appetite framework and credit strategies
- risk measurement and ongoing reporting
- pricing of credit risk
- measuring portfolio profitability
- basis for models applied in stress testing and calculation of expected credit loss

Measured by EAD, 68 per cent of the credit portfolio was reported according to the IRB approach at year-end 2021, the same level as at year-end 2020. The figure to the right shows the distribution of exposure classes in the IRB portfolio, including counterparty credit risk.

Models used in IRB reporting
A brief description of the IRB models in use for capital adequacy reporting, including comments where models have been adjusted to meet requirements issued by Finanstilsynet, can be found in the additional Pillar 3 disclosures.

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 all portfolios. The calibration levels have been calculated in accordance with new guidelines for estimation from the EBA, which were applicable in Norway from 1 January 2021. Updated calibration levels are required from 1 January 2022 according to the regulations but depend on approval from the regulator.

DNB has applied (2020) for a new PD model for retail mortgages loans. The new model is being run as a complementary model in internal risk management until the formal IRB model approval from Finanstilsynet is granted.

Special requirements for DNB's IRB models
Corporates: Finanstilsynet has stipulated that the PD level in the large corporates portfolio should be relatively stable, irrespective of economic conditions, in order to avoid large variation in the capital requirement. In addition, a floor has been set for certain LGD models which makes the models more conservative than warranted on a statistical basis.

Retail mortgage loans: Finanstilsynet has set requirements for the PD level in the retail mortgage loan portfolio by defining rules for weighting of good and bad economic periods in the modelling. There is a minimum PD requirement of 0.2 per cent for all credit agreements. Finanstilsynet has also issued requirements for LGD levels. At the portfolio level, LGD should not be lower than 20 per cent. As a result of these requirements, the risk weights for the retail mortgage loan portfolio are higher than they would have been if they had been based on unbiased estimated PD and LGD.

Risk classification
DNB divides its performing credit portfolio into ten risk categories based on the Probability of Default (PD) for the exposures, see table to the right. Non-performing (defaulted) exposures are assigned a PD of 100 per cent.

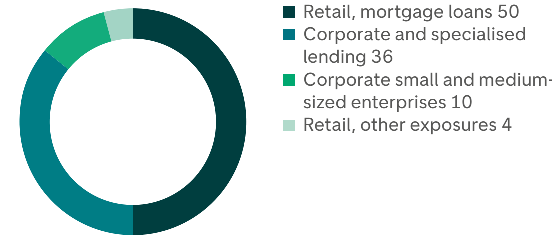
Validation of IRB models
Independent validation is a key control function of DNB's IRB system. A prerequisite for the IRB approval is that the IRB models are validated regularly by an entity that is independent from the entities responsible for model development and loan origination and renewal. The validation results serve as a basis for assessing the accuracy and consistency of the Group's IRB models, processes and the estimation of all relevant risk parameters. 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.

Validation is carried out on the basis of a validation scorecard 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 ranking of borrowers' creditworthiness (discriminatory power) and estimation of the level of the risk parameters (calibration). A PD model with good discriminatory power can to a large extent distinguish

Exposure classes in the IRB portfolio, EAD, 31 December 2021

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[5]	B3, Caa/C	B÷, CCC/C

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

between customers who will default on their loan obligations and those who will 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 appropriate level. Deviations between predicted and observed levels are expected. Whether the deviations are acceptable depends on the risk parameter and the part of the business cycle in which the deviations occur. Since the LGD level should correspond to the loss severity during an economic downturn, the loss level observed during a normal period should be lower than the LGD estimate. The same applies to EAD.

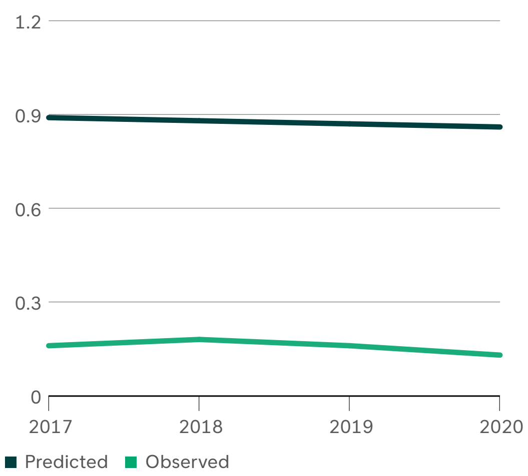
Validation results

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. Since the recalibration of the models to the new definition of default and the new method for calculation of realised loss has not yet been approved by Finanstilsynet, the previous methods are applied.

The observed default rate throughout the period has been lower than the predicted PD for the portfolio of retail mortgage loans. 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 2020 was marked by a recession for large parts of the portfolio.

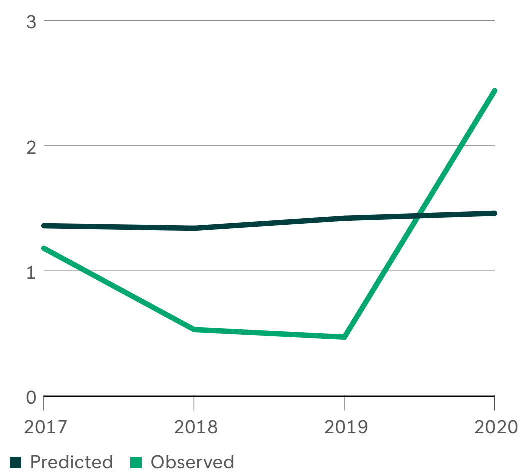
Comparison of predicted and observed PD for retail mortgage loans

Per cent



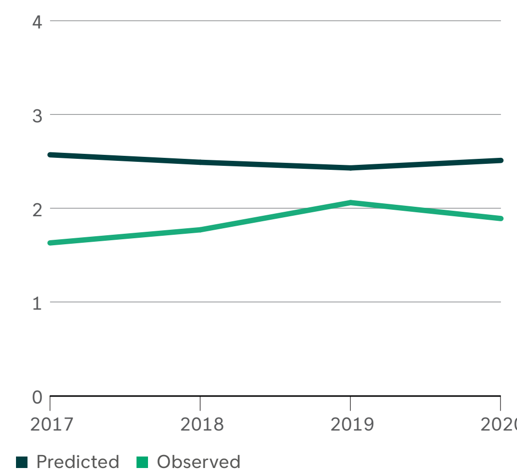
Comparison of predicted and observed PD for large corporates

Per cent



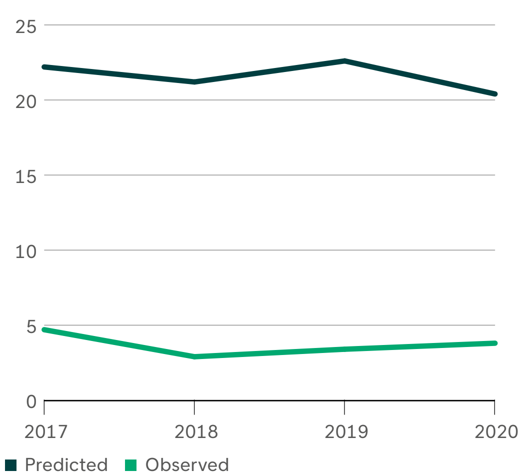
Comparison of predicted and observed PD for small and medium-sized enterprises

Per cent



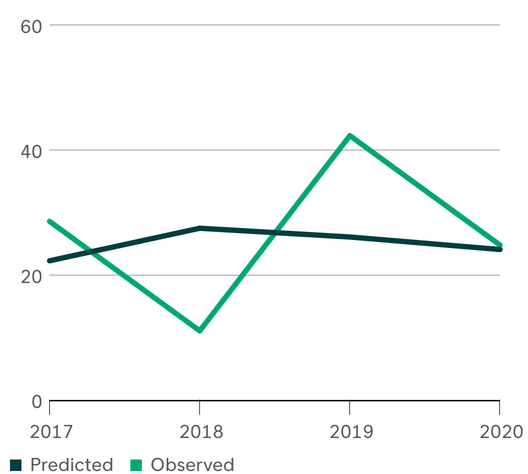
Comparison of predicted and observed LGD for retail mortgage loans

Per cent



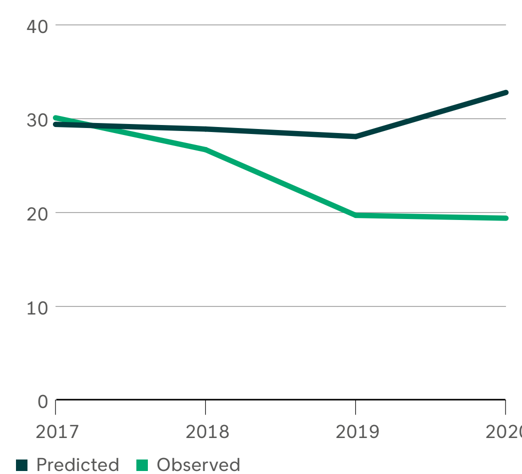
Comparison of predicted and observed LGD for large corporates

Per cent



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

Per cent



The figures at the bottom show the results of the LGD validation that affect the largest portfolios. The observed loss level shown for defaults during a given year is the sum of the customers' total losses as a percentage of the customers' total defaulted exposures. The observed loss level 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 loss is considerably lower than the predicted LGD for the portfolio of retail mortgage loans. For the SME portfolio the observed loss is also lower than the predicted with the exception of 2017. Because of not completed recovery processes, the observed loss levels for recent years are uncertain. The increase in predicted LGD for 2020 is due to a regulatory imposed margin of conservatism. The volatile industries in the large corporates portfolio, such as shipping and offshore 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 recovery process for these exposures, so that the actual loss is uncertain especially for recent years. 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 1 786 billion, measured by EAD, at the end of 2021. The tables show the key figures used in the capital adequacy calculation for the two main IRB portfolios: mortgage loans and corporates. The tables do not include counterparty credit risk. The counterparty credit risk in the IRB corporate portfolio came to NOK 30 billion in EAD at the end of 2021.

IRB portfolios distributed by PD intervals

The tables show the key risk parameters for the two largest IRB portfolios, split by PD intervals.

The retail mortgage loan portfolio was of excellent quality throughout 2021. The volume, measured by EAD, increased by NOK 29 billion, which corresponds to 3 per cent, to NOK 899 billion. Finanstilsynet does not allow retail mortgage loans to have a PD lower than 0.2 per cent.

The IRB corporate portfolio increased by NOK 30 billion, measured by EAD. This corresponds to around 3 per cent. The risk weight was stable for the performing portfolio. The share of defaulted credit exposures decreased during 2021, from 4.3 per cent by year-end 2020 to 3.4 by year-end 2021. The reduction in defaulted exposures is mostly related to the industry segments oil, gas and offshore, shipping and services.

IRB retail, mortgage loans

	31 December 2021				31 December 2020			
	EAD, NOK billion	PD, %	LGD, %	Risk weight, %	EAD, NOK billion	PD, %	LGD, %	Risk weight, %
PD 0.00 to 0.15	-	-	-	-	-	-	-	-
PD 0.15 to 0.25	156	0.20	25	24.1	110	0.20	18	7.8
PD 0.25 to 0.50	168	0.37	24	31.0	286	0.30	20	11.3
PD 0.50 to 0.75	134	0.62	25	39.6	206	0.59	20	18.7
PD 0.75 to 2.50	228	1.32	24	50.1	208	1.32	21	32.7
PD 2.50 to 10.00	86	4.33	25	72.7	58	3.37	21	58.6
PD 10.00 to 100.00	13	14.66	21	96.2	2	14.07	22	118.1
Performing portfolio	**897**	**0.83**	**20**	**21.0**	**869**	**0.84**	**20**	**21.1**
PD 100.00 (Defaulted exposure)	2	100.00	25	258.9	1	100.00	25	217.6
Total	**899**	**1.05**	**20**	**21.6**	**870**	**0.99**	**20**	**21.4**

IRB corporate portfolio

	31 December 2021				31 December 2020			
	EAD, NOK billion	PD, %	LGD, %	Risk weight, %	EAD, NOK billion	PD, %	LGD, %	Risk weight, %
PD 0.00 to 0.15	85	0.08	28	15.1	92.4	0.08	28	14.2
PD 0.15 to 0.25	71	0.20	25	24.1	46.6	0.2	25	24.3
PD 0.25 to 0.50	168	0.37	24	31.0	184.4	0.37	23	29.5
PD 0.50 to 0.75	134	0.62	25	39.6	121.6	0.61	25	39.9
PD 0.75 to 2.50	228	1.32	24	50.1	201.2	1.34	25	51.4
PD 2.50 to 10.00	86	4.33	25	72.7	89.1	4.12	25	71.0
PD 10.00 to 100.00	13	14.66	21	96.2	12.9	16.82	27	124.8
Performing portfolio	**785**	**1.30**	**25**	**41.3**	**748.2**	**1.35**	**25**	**41.5**
PD 100.00 (Defaulted exposure)	28	100.00	30	150.5	33.5	100	32	156.1
Total	**812**	**4.67**	**25**	**45.0**	**781.7**	**5.58**	**25**	**46.4**

IRB portfolios distributed by industry
The table shows the IRB portfolio distributed by industry. There has been a slight increase in credit quality in the corporate portfolio. The segment hotel, cruise and tourism was one of the segments that were hit hardest by the COVID-19 pandemic and is still struggling with increased default rate and worsened PD. Other segments such as retail industries, manufacturing and services have had an improvement in the weighted PD during 2021. The credit quality in the performing part of the oil, gas and offshore segment continued to improve in 2021, as a result of increasing oil and gas prices and finalised restructuring processes.

For other changes, see the description of developments in the credit portfolio at the start of the chapter.

Total IRB portfolio

	31 December 2021					31 December 2020				
			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	192 168	0.6	1.02	24	39.6	181 019	0.6	0.95	23	37.1
Shipping	42 139	1.0	1.85	24	56.7	46 027	1.7	2.00	25	59.1
Oil, gas and offshore	77 566	21.0	1.78	24	44.2	81 736	25.9	2.35	25	48.4
Power and Renewables	55 800	3.0	0.51	26	32.9	45 025	1.0	0.47	29	33.4
Healthcare	32 092	0.0	0.68	23	35.7	31 063	0.0	0.53	23	30.9
Public sector	15	16.4	0.40	31	27.9	1 392	0.0	0.09	23	6.3
Fishing, fish farming and farming	60 307	0.5	1.02	25	39.3	52 804	0.8	0.96	25	36.7
Retail industries	38 411	5.4	0.88	28	39.2	36 138	8.5	1.38	28	43.4
Manufacturing	57 809	0.7	0.79	27	35.4	56 944	0.5	1.45	27	40.5
Technology, media and telecom	32 091	0.3	0.89	26	40.9	30 912	0.1	0.89	27	42.6
Hotel, cruise and tourism	22 036	13.4	7.35	21	74.8	22 451	11.5	3.83	21	59.4
Services	45 790	2.2	2.00	28	52.1	44 889	3.9	2.47	27	54.9
Residential property	74 952	0.6	1.08	23	36.3	78 336	0.5	1.07	23	35.5
Construction	18 502	2.3	1.57	29	43.6	16 960	2.5	1.88	30	46.1
Transport road/rail	18 608	1.2	0.97	24	37.7	17 831	0.9	1.02	27	41.3
Bank, insurance and portfolio management	29 765	0.3	1.35	24	39.1	27 617	0.2	1.14	26	39.8
Other	14 315	1.7	2.07	25	41.7	10 582	5.0	1.88	28	40.8
Total Corporate portfolio	**812 364**	**3.4**	**1.30**	**25**	**41.3**	**781 727**	**4.3**	**1.35**	**25**	**41.5**
Retail mortgage loans	899 243	0.2	0.83	20	21.0	870 431	0.2	0.84	20	21.1
Other exposures to personal customers	74 290	2.1	1.38	33	23.5	71 589	1.4	1.14	34	23.5
Total	**1 785 897**	**1.7**	**1.07**	**23**	**30.2**	**1 723 746**	**2.1**	**1.08**	**23**	**30.2**

The table shows the EAD-weighted PD for the performing IRB corporate portfolio distributed by industry segments and country. The geographic distribution is based on the customers' addresses.

The largest change in 2021 is related to increased risk in the hotel, cruise and tourism segment as a result of the COVID-19 pandemic. Figures 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

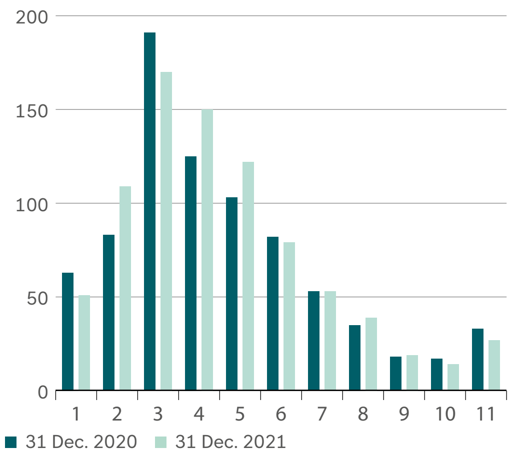
Per cent	Norway	Sweden	Rest of Europe	North America	Other countries	Total 2021	Total 2020
Commercial real estate	1.02	0.76	1.29	0.00	0.00	1.02	0.95
Shipping	2.25	0.00	1.58	1.59	1.74	1.85	2.01
Oil, gas and offshore	2.02	0.83	1.54	1.46	3.46	1.78	2.35
Power and Renewables	0.25	0.63	0.80	0.63	0.97	0.51	0.47
Healthcare	1.55	2.02	1.28	0.46	2.30	0.68	0.53
Public sector	0.44	0.00	0.26	0.00	0.00	0.40	0.09
Fishing, fish farming and farming	0.82	0.32	0.64	2.86	2.01	1.02	0.96
Retail industries	0.93	0.62	0.75	0.13	0.00	0.88	1.38
Manufacturing	1.05	0.54	0.54	0.55	0.70	0.79	1.45
Technology, media and telecom	1.41	0.92	0.83	0.37	0.34	0.89	0.89
Hotel, cruise and tourism	4.58	8.31	10.94	9.68	10.73	7.35	3.83
Services	2.02	1.59	2.16	0.31	7.61	2.00	2.47
Residential property	1.08	1.18	0.00	0.00	0.00	1.08	1.07
Construction	1.63	1.14	4.13	0.00	0.00	1.57	1.88
Transport road/rail	0.98	3.50	0.29	0.00	0.00	0.97	1.02
Bank, insurance and portfolio management	1.90	1.19	1.06	0.40	0.00	1.35	1.14
Other corporate customers	2.01	0.27	4.01	0.22	0.25	2.07	1.88
Total corporate portfolio	**1.21**	**1.25**	**1.35**	**1.32**	**2.49**	**1.30**	**1.35**

IRB portfolios distributed by risk grade
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, are distributed by risk grades. Defaulted engagements are included in the figures (grade 11). There is an underlying improvement in credit quality. The weighted PD for the performing part of the IRB corporate portfolio decreased from 1.35 to 1.30 per cent. Continuous improvements to the use of IRB models have contributed to a more dispersed distribution. The portfolio of retail mortgage loans remained stable. Weighted PD for the performing part of the portfolio decreased from 0.84 to 0.83 per cent.

Comparison of expected loss and actual value adjustments
The figures 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 portfolios. EL is calculated by means of the key figures that are used in the capital adequacy calculation. Actual change in value for the IRB corporate portfolio decreased in 2021. Impairments decreased as a result of a overall recovery in the Norwegian economy and improvement in the credit quality. EL for the retail mortgage loan portfolio increased as a result of volume growth, while the actual value changes are still very low.

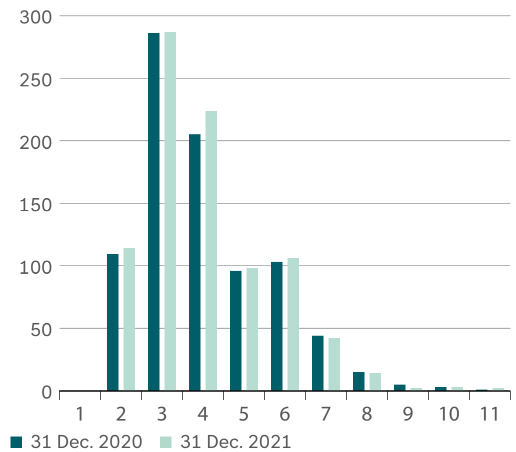
IRB corporate, by risk grades, EAD

NOK billion



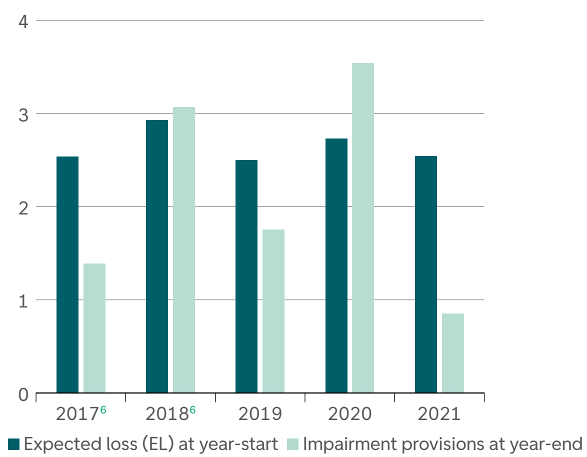
IRB retail mortgage loans, by risk grades, EAD

NOK billion



Comparison by expected and actual value adjustments, IRB corporates

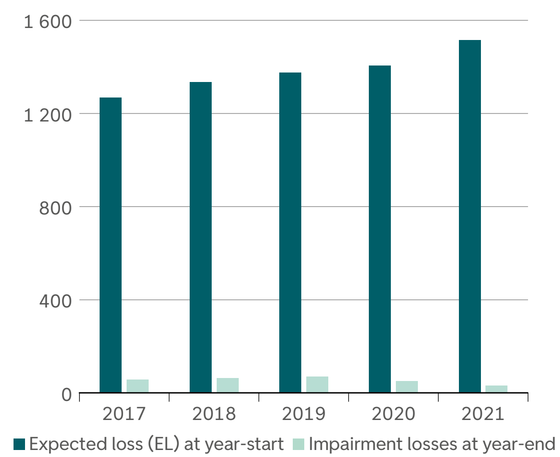
NOK billion



6) Including counterparty credit risk

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

NOK billion



EXPOSURES IN THE STANDARDISED PORTFOLIO

About 32 per cent of the Group's credit portfolio measured by EAD was reported according to the standardised approach at the end of 2021, the same as in 2020. Key figures for the portfolios reported according to the standardised approach are presented in the section on capital requirements for credit risk on page 37.

DNB has been granted permission from Finanstilsynet to use the standardised approach to calculate risk exposure amounts (REA) to governments and central banks and for equity positions. The subsidiaries in Poland and Luxembourg and the associated companies calculate REA according to the standardised approach. Other portfolios that are reported according to the standardised approach are exposures to institutions, factoring and housing cooperatives in Norway. In addition, the approach is used when DNB does not have sufficient data to calculate REA according to the IRB approach.

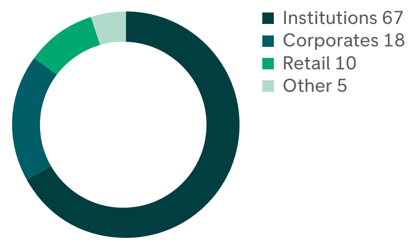
DNB's exposures calculated according to the standardised approach are allocated to 15 different exposure classes.

- central governments or central banks
- regional governments or local authorities
- public sector entities
- multilateral development banks
- international organisations
- institutions (banks, credit institutions, investment firms)
- corporations (non-financial companies, insurance companies, housing cooperatives)
- retail (private individuals)
- secured by mortgages on immovable property
- exposures in default (exposures overdue for 90 days)
- items associated with particular high risk
- covered bonds
- collective investment undertakings (exposures in the form of units or shares in CIU's)
- equity exposures (holdings of shares and other equity instruments not in the trading book)
- other exposures (prepaid expenses, cash in hand, deferred tax assets etc.)

According to the regulation, either the rating from an export credit agency or, where not available, the country rating from eligible credit assessment agencies such as Moody's, S&P Global and Fitch can be used to determine the risk weight for exposures to central governments, central banks and institutions.

Asset classes in the Standardised portfolio, EAD, 31 December 2021

Per cent



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 upper limit for growth, measured in terms of EAD, for each customer segment. To limit concentration risk, there are limits for risk exposure on individual customers and industry segments. The limits for credit quality are designed as limits for Expected Credit Loss (ECL) and apply to all types of credit risk. ECL are measured using internal credit risk models, and forward-looking macroeconomic assumptions.

In addition to the risk appetite framework there are credit strategies for the individual customer segments. Furthermore, 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.

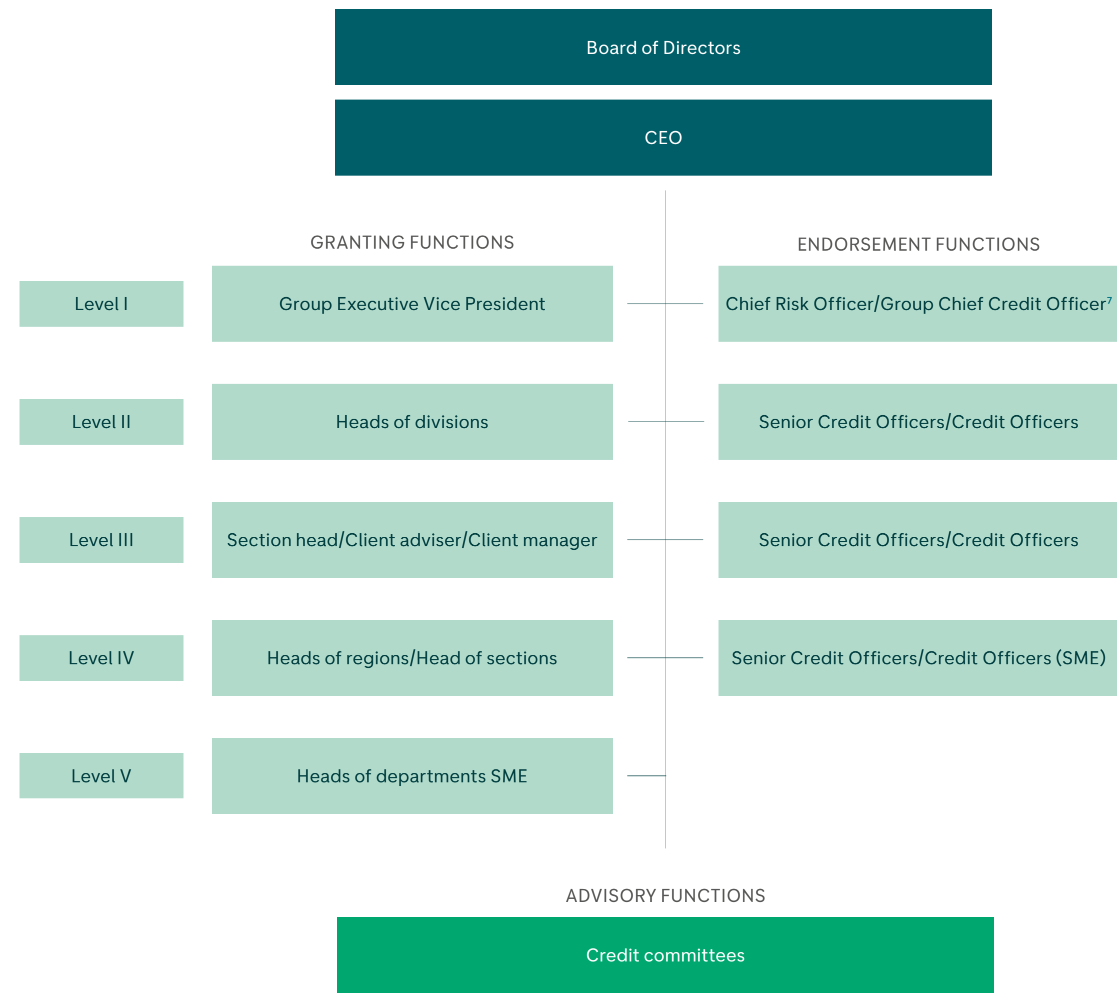
Each business area is responsible for managing its own credit activities and portfolios within the confines of the risk appetite limits and credit strategies. To ensure effective, high-quality decisions, DNB has established multiple levels of credit approval authorisations, see the figure. The levels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

In the retail 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 digitally. 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. For large customers classified as low risk, the credit process will be digitalised to a greater extent. Uncomplicated credit proposals will be simplified and more automated.

If the customer has not proven a satisfactory debt-servicing capacity, credit should normally not be granted even if the 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.

Credit decisions in DNB



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

The Group Chief Executive Officer 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.

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 a substantially incorrect 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 an independent unit. Risk classifications of exposures 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.

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 own funds. 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.

Collateral and other risk-mitigating measures

Collateral is 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. The value of collateral assets are assessed continuously during the term of the credit and haircuts are applied to most collateral categories. For larger/complex pledged objects, expert areas in the bank can be consulted. In the large corporates segment, the bank's relative position as a pledgee must be considered.

Guarantors are largely private individuals, businesses, the government, municipalities, export credit agencies 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.

There are credit committees which are advisory committees for employees in the business area who approve credit, and the employees in the independent risk organisation who endorse credit decisions. There is a hierarchy of committees, where the Group Credit Committee (GCC), headed by the Chief Risk Officer (CRO), considers large or complex cases that are of interest to more than one business area.

Credit risk review

Through Credit Risk Review (CRR), DNB has an 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. CRR findings, including MIR 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.

Watch list

DNB continually updates lists of exposures that need to be monitored extra carefully. The objective is to identify customers who require close monitoring so as to implement the necessary measures to prevent or reduce losses.

If a material breach of financial covenants or other negative events influencing the customer occur, the exposure will be put on a watch list for special monitoring. Such 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. If anticipated default is considered a likely option, 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 gauge vulnerability to losses resulting from either loss of income or customer defaults within a business area or a specific portfolio. Stress tests are used to identify critical drivers for credit risk. Stress testing of the total credit portfolio is done at least twice a year in connection with the Internal Capital Adequacy Assessment Process (ICAAP) and the recovery plan review.

Several methods are used to estimate credit losses in stress testing. In the group-wide stress tests, the model for calculating Expected Credit Loss (ECL) is used. Starting with a stressed macroeconomic scenario like the one described in the chapter on capital management and ICAAP, the PD, LGD and EAD for each individual borrower are calculated forward in time using the stressed scenario as input to the models. The new PD, LGD and EAD values are then applied in new estimates of expected credit loss.

DNB uses a bottom-up methodology and specially developed scenarios for stress testing of subsidiaries, business areas and specific portfolios. These may consist of fewer macroeconomic variables or involve more direct changes to risk parameters in the models.

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 risk. The counterparty credit risk in DNB, measured in EAD, varied throughout the year and, at the end of 2021, was about 9 per cent higher than the year before.

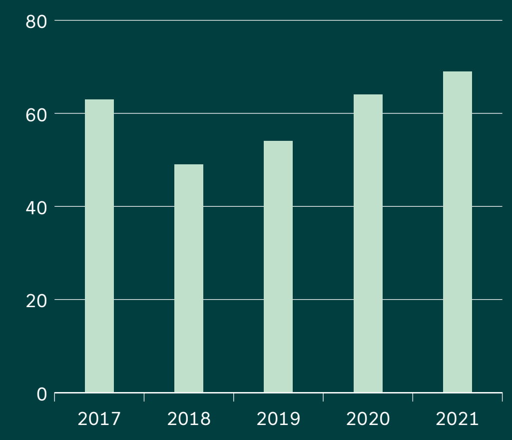
Content

Definiton

Counterparty credit risk is a form of credit risk that arises in connection with trades in financial instruments, such as derivatives, securities financing transactions 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



Capital requirements for counterparty credit risk

NOK billion

2.0 (2.3)

DEVELOPMENTS IN COUNTERPARTY CREDIT RISK IN 2021

DNB enters into derivative contracts on the basis of customer demand for hedging instruments and to hedge its own market positions resulting from customer 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 risks that arise in connection with funding and lending.

During 2021, counterparty credit risk in DNB increased by 9 per cent, and at the end of 2021, it was NOK 69.3 billion, measured in exposure at default (EAD); 89 per cent of EAD arises from derivatives and the remainder from securities financing transactions and repurchase agreements.

The increase was largely due to the rising commodity and energy prices, mainly natural gas prices in the European market. As clients who are involved in energy production hedge parts of their production against falling prices, their hedge contracts increase in value from DNB's point of view when the price increases, thus increasing the EAD. DNB's non-financial derivatives customers mainly use derivatives to hedge against adverse movements in market prices e.g. energy prices. Thus, inherently, their exposure is right-way risk.

The figure 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 associated companies is not included and is negligible.

CAPITAL REQUIREMENTS FOR COUNTERPARTY CREDIT RISK

The Risk Exposure Amount (REA) for counterparty credit risk in DNB came to NOK 24.7 billion at year-end, down from 28.2 NOK billion from year-end 2020. REA for counterparty credit risk stands for around 2.5 per cent of DNB's total REA. The capital requirement for counterparty credit risk is calculated in the same manner as for credit risk, with the exception of the calculation of EAD. DNB applies the Current Exposure Method (CEM) to calculate EAD, which gives EAD as the sum of Mark-to-Market and an add-on for potential future exposure. With the introduction of CRR2 in the first half of 2022 at the earliest, CEM will be replaced by a new standardised approach called SA-CCR. The risk weight for counterparty credit risk is calculated by using the credit risk method approved for the counterparty (Internal Ratings-Based Approach (IRB) or standardised method). For more information on calculating capital requirements, see the chapter on credit risk. For information about capital requirements for Credit Value Adjustment (CVA), see the chapter 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 uses IMM to monitor and report the counterparty credit risk level internally in its risk management.

RISK-MITIGATING MEASURES

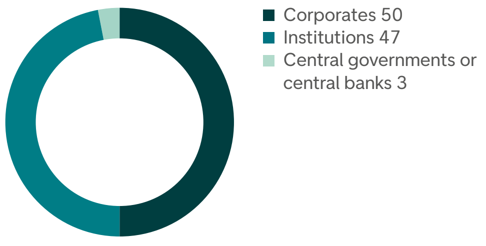
In order to minimise counterparty credit risk against individual counterparties, netting agreements may be entered. These agreements make it possible to net the positive and negative market values linked to contracts with the same counterparty. For repurchase agreements and securities financing transactions, 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 collateral customers have to post exceeds the present value of the portfolios for these transactions. This overcollateralisation is required in order to protect ourselves from sudden large changes in 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 thatclearing of OTC (Over-The-Counter) derivative contracts between financial counterparties is mandatory. By clearing of derivatives, counterparty

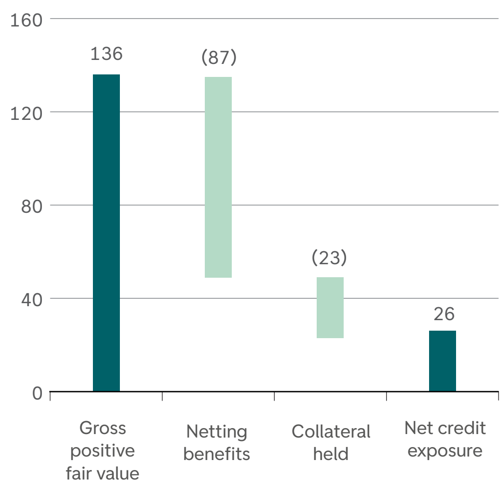
Counterparty credit risk split by sector, EAD, 31 December 2021

Per cent



Risk mitigation of derivatives, 31 December 2021

NOK billion



credit 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.

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 2021, 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 2021, REA related to exposure to central counterparties amounted to NOK 1.7 billion. Counterparty credit risk in equity derivatives, securities financing transactions and currency trading for private 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 amount without knowing whether the counterparty has met its obligation to deliver the agreed security or amount 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 CONTROL OF COUNTERPARTY CREDIT 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 an underlying governing framework that outlines definitions, calculation methods and reporting of counterparty credit risk. The standard for credit risk is described in detail and operationalised in 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 chapter 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. FMRC has been assigned a special responsibility for assessing and approving measurement methods related to internal models. The decision maker for changes to the internal models is the Chief Risk Officer.

DNB uses internal simulation models to calculate risk exposure for monitoring and measurement of counterparty risk. During 2021, the responsibility for maintenance and development of models relevant to CCR was moved to Group Risk Management. A combination of historic time series and the current market prices for various risk factors are used to calibrate the models. The 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 independent validation unit in Group Risk Management. In addition, Group Audit conducts an annual review of the system's compliance with requirements in the CRR. Both validation and audit reports are processed in FMRC and by Group Management, and are presented 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 Group Risk Management, 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, remained stable at a low level in 2021. Market risk arises primarily from the bank's asset and liability management, customer activities in DNB Markets AS and equity investments. Among the most significant risk factors are interest rates, currencies and credit spreads.

Content

Definiton

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 DNB 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 (1.3)

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

NOK billion

18.4 (15.2)

DEVELOPMENTS IN MARKET RISK IN 2021

As a result of the recovery of the economy after the pandemic, interest rates are on the rise in Norway and internationally. The Norwegian key policy rate was increased twice in 2021. In September the rate was increased by 0.25 percentage points from a record low level of 0 per cent and in December the rate was increased by another 0.25 percentage points. The projected future path indicates that the policy rate is expected to continue to increase by one percentage point during 2022. Internationally it has become increasingly clear that the inflation we see now is not a temporary phenomena but needs to be addressed by the central banks. Increasing interest rates also leads to increased volatility in the capital markets. However, the stock market continued the rise and the main index at Oslo Stock exchange increased by approximately 23 per cent in 2021.

Despite the strong depreciation in NOK after the outbreak of the pandemic in March 2020, the currency has by year-end 2021 more or less returned to the same level as before the pandemic.

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 2021, economic capital for market risk was NOK 11 billion, the same level as at the end of 2020.

Utilisation of risk limits set by the Board has been moderate, with only small adjustments to the limits in 2021. The limits for market risk are discussed later in this chapter.

The trading portfolio

The trading portfolio consists of positions in securities and 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 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 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.

CAPITAL REQUIREMENTS FOR MARKET RISK

Capital requirements are calculated according to the CRR/CRD IV regulations, and 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 decreased by NOK 44 million during 2021. The change is attributed to a decrease in risk connected to debt instruments which is partly offset by an increase in Credit Value Adjustment (CVA) risk.

The market value of derivative contracts depends on the counterparty's creditworthiness and other market risk factors. 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 volatility of CVA provisions. DNB calculates capital adequacy requirements under Pillar 1 for CVA risk according to the standardised approach in CRR/CRD IV. The development in the risk exposure amount (REA) for CVA risk in the DNB Group is shown in the figure to the top right.

MARKET RISK EXPOSURE

Market risk limits

Overall risk limits are established for market risk in the risk appetite framework, expressed as the maximum share of economic capital.

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. 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 breached, 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 Group Risk Management (GRM) and the Chief Risk Officer (CRO). The table gives an overview of the most important administrative limits and limits set by the Board that applied at the end of 2021. 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.

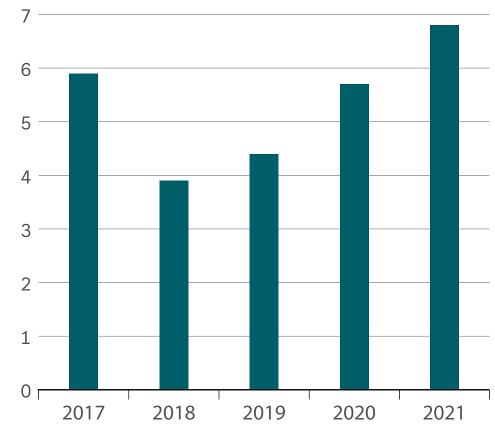
Capital requirements for market risk

NOK million	31 Dec. 2021	31 Dec. 2020
Position and general risk, debt instruments	621	748
Position and general risk, equity instruments	53	52
Currency risk	2	4
Commodity risk	0	0
Credit value adjustment risk (CVA)[1]	542	459
Total market risk	**1 219**	**1 263**

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

Development in REA for CVA risk

NOK billion



Market risk limits, 31 December 2021

NOK million		Limit trading portfolio	Limit banking portfolio	Total	Description
Limits set by the Board	Interest rate risk[2]	4	10	14	Sensitivity limit
	Currency risk	2 500		2 500	Market value limit
	Equity risk	2 200	2 900	5 100	Market value limit
	Commodities risk	300		300	Market value limit
	Basis swap risk[2]	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[3]		8 550	8 550	Market value limit
	Strategic investments[4]		20 300	20 300	Market value limit
	Basis curve risk[2]	52		52	Sensitivity limit
	Credit spread risk Markets	6		6	Sensitivity limit
	Credit spread risk Treasury[5]	70		70	Sensitivity limit

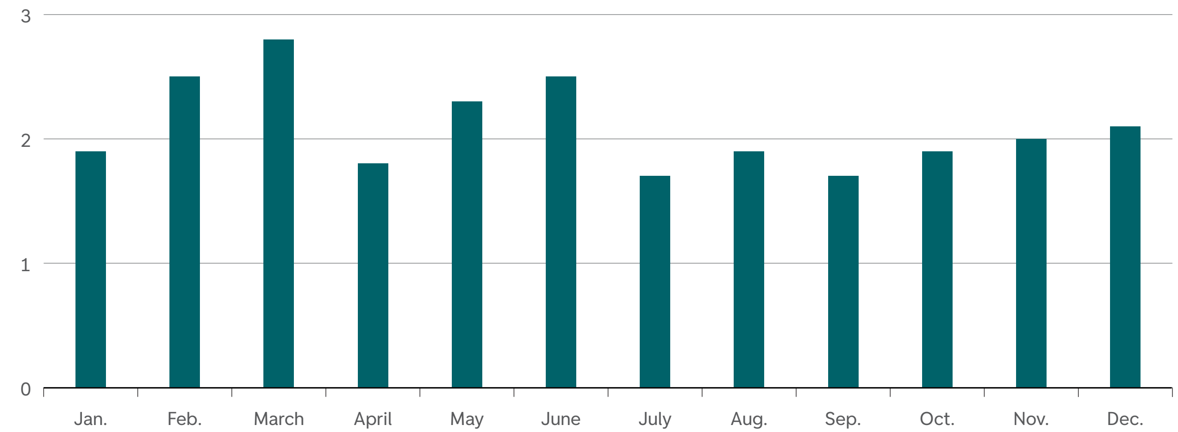
2) Basis point value 3) Includes residual value of vehicles associated with leasing operations 4) Includes investments in Luminor Group AB and Vipps AS
5) The liquidity portfolio's mandate specifies the allocation between the trading and the banking portfolio

Interest rate risk
Interest rate risk occurs when financial instruments change value as a result of interest rate fluctuations and occur both in the banking and the trading portfolios. Interest rate risk is expressed as 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. The average exposure to interest rate risk over the whole year was NOK 2.1 million per BPV for the trading portfolio and NOK 2.4 million per BPV for the banking portfolio. Note that the levels are not directly comparable to figures for 2020 due to a change in the method for measuring interest rate risk from the fall of 2020.

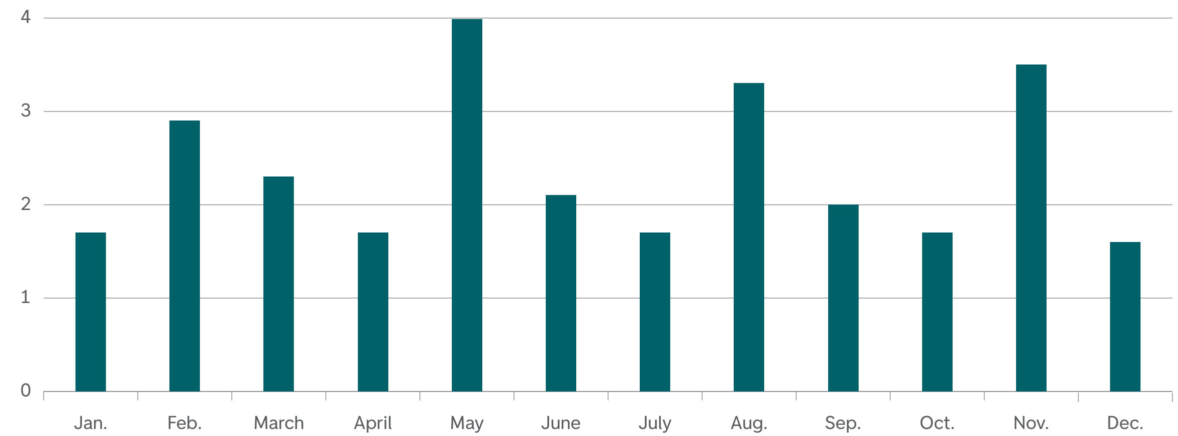
DNB's total interest rate risk limit at the end of 2021 amounted to NOK 14.2 million per basis point change, distributed between NOK 4.1 million in the trading portfolio and NOK 10.1 million for the banking portfolio. Separate limits are set for each currency and the different intervals on the yield curve. Interest rate risk is measured and reported daily in DNB Markets and Group Treasury. The limits were not breached in 2021.

To obtain a broader picture of the interest rate risk, changes in expected future profitability (delta net interest income, delta NII) and the change in the net present value of interest-rate sensitive assets and liabilities over their remaining life 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 expected net interest income for the banking portfolio are calculated as a result of an instantaneous upwards and downwards parallel shift in the yield curves of 200 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 economic value of the interest rate sensitive instruments is calculated according to the six prescribed yield curve shock scenarios, as well as through other assessments and methods. In addition to the minimum requirement stated in the EBA guidelines on quarterly reporting to the management body, delta NII, delta EVE and other key figures are calculated and reported at least monthly, and more frequently if necessary, to other relevant recipients, including the management of Group Treasury and the Asset Liability Committee (ALCO).

Interest rate exposure in the trading portfolio, BPV, 2021
NOK million



Interest rate exposure in the banking portfolio, BPV, 2021
NOK million



The figure to the right shows interest rate sensitivity in NOK, USD and EUR distributed over 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 2021, 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 2021.

In general terms, earnings and economic value measures mentioned above are considered positive if the bank would profit from increasing interest rates.

The table shows the impact of different interest rate shocks on the value for items in the banking portfolio. An interest rate increase of 100 basis points would result in a loss of about NOK 78 million for exposures in NOK, and a similar interest rate decrease will result in a gain of about NOK 78 million for exposures in NOK.

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 set by law. Fixed-rate loans constitute a very limited part of the loan portfolio, and the bank can pass on to the customer any reduced premia related to early payments.

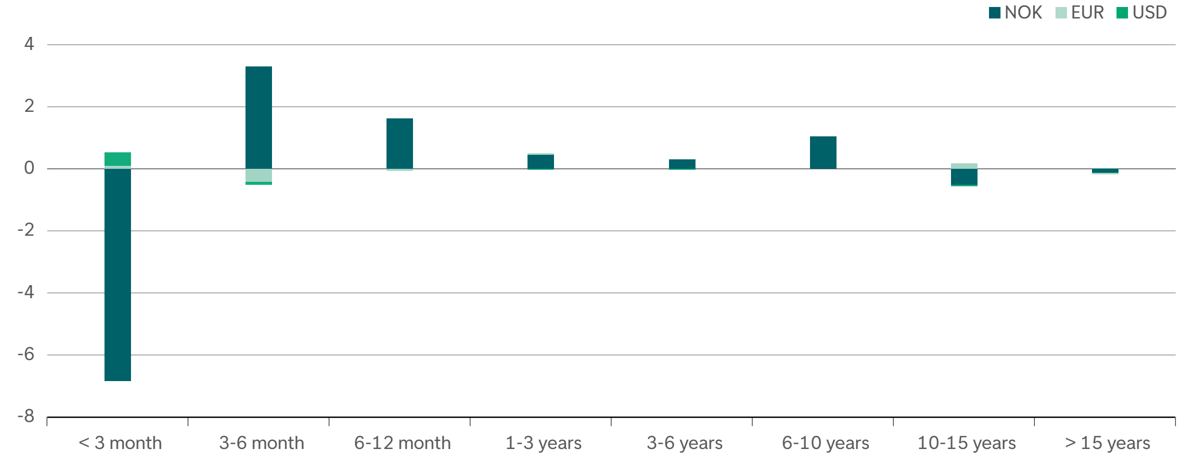
Based on internal analyses, the volume of deposits without contractual maturity (NMD) which are both stable and interest-independent is negligible. This insight forms the basis for the bank's assumption of not attributing any interest rate risk to NMD and not modelling any duration beyond what follows from the notice period set by law.

DNB has concluded not to assign any long-term tenor on its equity capital. This assumption is closely linked to the fact that the bank's lending and deposits are highly exposed to floating interest rates. This is consistent with the IRRBB guideline that the bank follows to identify the implications of this approach for the volatility of both earnings and economic value.

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 at least monthly.

Interest rate sensitivity distributed among maturity bands, banking portfolio, BPV, 31 December 2021

NOK million



Effects on results from interest rate shocks on the rate sensitive instruments in banking activities, 31 December 2021

NOK million	+ 200 bp	+150 bp	+ 100 bp	+50 bp	- 50 bp	-100 bp	-150 bp	-200 bp
Exposure in NOK	(156)	(117)	(78)	(39)	39	78	117	156
Exposure in EUR	32	24	16	8	(8)	(16)	(24)	(32)
Exposure in USD	65	49	33	16	(16)	(33)	(49)	(65)
Total	**(59)**	**(44)**	**(29)**	**(15)**	**15**	**29**	**44**	**59**

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.

- Direct investments is an investment portfolio of unlisted companies.
- 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.
- Credit portfolio, which purpose 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 investments 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.

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.

Equity and real estate investments in the banking portfolio, 31 December 2021

NOK million	Book value	Fair value	Realised gains/losses	Non-realised gains/losses
Direct investments	111	160	1	4
Venture investments	26	46	83	28
Credit portfolio	1 795	1 978	241	232
Strategic financial investments	15 450	15 358	8	-90
Private equity portfolio	151	219	5	61
Total equity iInvestments	**17 533**	**17 761**	**338**	**235**
Real estate portfolio investments, M&A	306	618	31	60
Real estate portfolio Poland	-	-	-	-
Total real estate investments	**306**	**618**	**31**	**60**
Total equity and real estate investments	**17 839**	**18 379**	**369**	**295**

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 swapped 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 in connection with funding.

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.

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 is elaborated and specified in the Group standard for market risk that establishes definitions, principles for delegation of limits and requirements for the management of market risk. The Group standard for market risk is reviewed annually and material 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 exposure 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.

The Financial Markets Risk Committee (FMRC) is headed by the Chief Market Risk Officer (CMRO). The committee follows up 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 limit utilisation are reported monthly to Group Management and ALCO, and quarterly to the Board of Directors.

7
Operational risk

DNB's operations have been stable, and we have had limited operational losses in 2021. Information security and IT operations remain among the most significant risks.

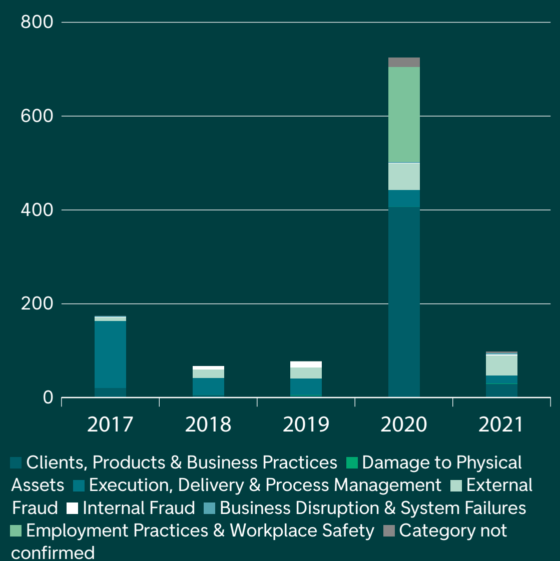
Content

Definiton

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 losses

NOK million



Capital requirements

NOK billion

7.9 (7.6)

Operational events

Number

4 007 (3 704)

DEVELOPMENTS IN OPERATIONAL RISK IN 2021

Managing the impact of the COVID-19 pandemic

The COVID-19 pandemic made its mark on 2021, but DNB has solid measures in place to manage the situation. A majority of employees worked from home until the vaccines slowed the infection rate down in August. At that point, a hybrid workplace programme was introduced to take advantage of the flexibility of being able to work from home or from the office.

Operations have been stable throughout 2021, with only limited losses directly attributable to the pandemic. Certain projects and other complex tasks have been delayed or otherwise affected by infection control measures, but business has been conducted as normal.

The rise of the Omicron variant shows that the COVID-19 pandemic is not over, and we are prepared to deal with it for a long time to come, if necessary. In addition to facilitating working from home and managing other infection control measures, our focus is on fatigue and other long-term effects.

IT and security

DNB continuously improves and develops our IT risk management. Improvements in management and control of the IT portfolio have been achieved through better tools and by bolstering employee competence. The implementation of the new IT operating model that started in 2020, continued in spite of the pandemic. The new operating model ensures increased agility and end-to-end ownership of business services by autonomous teams. In addition, the Group-wide IT governance model has been implemented to ensure that effective mechanisms are in place to govern, prioritise and optimise the IT capabilities.

IT operational performance has improved during the year, with a record low number of critical incidents despite an all-time high number of implemented changes.

The global threat picture is escalating and the risk of a successful ransomware attack has increased in 2021. Cyber security controls are enhanced on a continuous basis, and a new cyber security roadmap is being implemented to further improve the cyber defence capabilities.

Incidents

For IT operations, the primary indicator of incidents is green days. A green day is a day when IT services run smoothly without any significant impact on customers. In 2021, there were 352 green days, a solid improvement from the previous year, continuing the positive trend over the last several years.

Some of our banking services were hit by a Distributed Denial of Service (DDoS) attack in June. The DDoS attack caused downtime for 25 minutes. DNB did not receive demands for ransom or other threats in connection with the incident.

"DNB continuously improves and develops its IT risk management."

CAPITAL REQUIREMENTS FOR OPERATIONAL RISK

DNB uses the standardised approach to calculate capital requirements for operational risk. The capital requirements for operational risk were NOK 7 870 million at year-end 2021, an increase of NOK 244 million from the previous year.

MANAGEMENT AND CONTROL OF OPERATIONAL RISK

Operational Risk Management aims to 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 business units have dedicated risk departments.

DNB has a central specialist unit for operational risk management, which constitutes the Group's second-line defence for such risk. This is an independent control function with responsibility for the framework for operational risk management, group reporting and risk reduction through insurance. The unit 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 the unit to monitor operational risk in all business areas and support units, in important subsidiaries and at international offices.

The figure to the right shows DNB's operational risk management process. A sound risk culture involves identifying and assessing risk, establishing, implementing and evaluating treatment 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 standards, instructions and processes for operational risk. The primary external requirements are Finanstilsynet's Module for Operational Risk and the Basel Committee on Banking Supervision's revised Principles for the Sound Management of Operational Risk. The standard is elaborated in instructions that provide practical guidance in various risk management topics.

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.

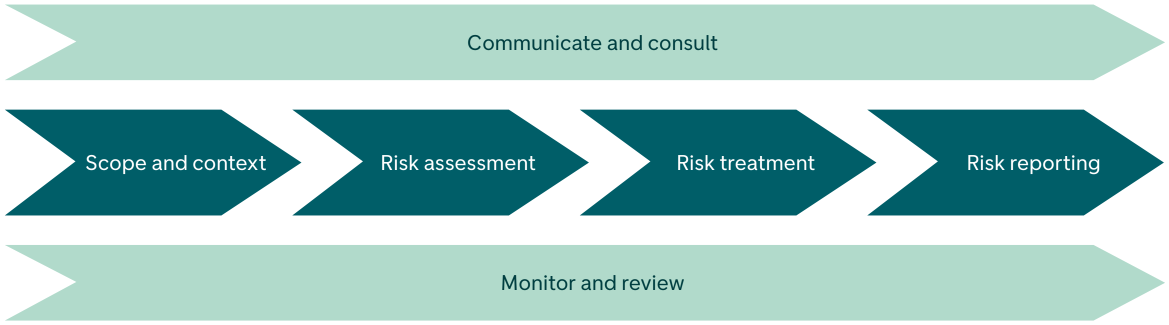
The Group's business areas and support units report their most significant risks to Group Risk Management quarterly. Significant developments related to operational risk are reported to the Board of Directors every quarter as part of the overall risk report.

The insurance programme is intended to help limit the financial consequences of undesirable events which occur despite established security procedures and other risk-mitigating measures. The insurance

Capital requirements for operational risk

NOK million	Factors	31 Dec. 2021	31 Dec. 2020
Corporate finance	18 %	331	262
Trading and sales	18 %	764	720
Retail brokerage	12 %	8	14
Commercial banking	15 %	4 305	4 176
Retail banking	12 %	1 760	1 795
Payment end settlements	18 %	469	452
Agency services	15 %	11	4
Asset management	12 %	222	203
Total capital requirements		**7 870**	**7 627**

Operational risk management in DNB



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 2021 was demanding, with significantly increased costs, but DNB has nonetheless mostly maintained its broad coverage.

The instruction for approval of products and services is an important part of the Group's operational risk framework. The purpose of this instruction is to ensure high quality in DNB's portfolio of products and services, thus ensuring competitiveness, customer satisfaction and compliance. The instruction ensures that the risk is assessed before a product or a service is approved. In addition, each description must explain 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. Eight Subject Matter Groups work on topics such as anti-money laundering, fraud, IT risk, privacy, third-party risk and conduct risk. Each group reports to the committee. 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 assessment, where the executive managers of all significant organisational units in the Group produce a summarising assessment of the internal control in their area.

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. We maintain a good reputation by being a driving force for sustainable transition, engaging in good dialogue with our stakeholders, through effective compliance work and through our Code of Conduct, which describes DNB's ethical rules for employees. DNB manages reputational risk through governance and business activities. In accordance with the product approval process, reputational risk must be assessed for all products and services, and the Group-level function responsible for Communication and Sustainability must be involved in such assessments. 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. DNB has defined a limit for what is an acceptable score in the reputation survey and assesses the potential impact of any relevant cases that could damage DNB's reputation.

Measuring reputational risk

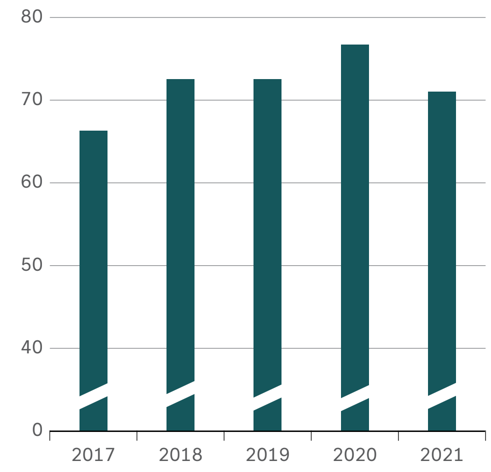
Measuring reputational risk independently of other risk categories is challenging, as reputational risk is often a direct consequence of risk in other categories. Reputational risk can mainly arise from two sources: internally in the company for example, changes in business practices, new or revised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

DNB measures the brand's reputation with RepTrak, which is an industry standard that has been broadly adopted both in Norway and internationally. This standard indicator enables DNB to study its reputation over time and also 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 has consistently scored over 70 since 2018; in 2021, the score was 74 in the first three quarters, then dropped to 71 in Q4. The reduction is believed to be a result of the the media coverage regarding DNB's attempted acquisition of Sbanken, the AML report from Finanstilsynet in addition to the two increases in mortgage interest rates.

Development in reputation score

RepTrak score, end of year



8
Climate risk

A key strategic objective for DNB is to be a driving force for sustainable transition and ensure long-term value creation through sustainable business practice and sound risk management. This is a vital part of our responsibility not only to investors and other stakeholders, but also to Norwegian society. Our overarching ambition is to reach net-zero emissions by 2050, a necessary milestone in order to mitigate long-term physical climate risk, even if this increases the transition risk in the short and medium term. DNB works continuously to develop and improve the identification, management, and control of climate risk.

Content

Definiton

Climate risk is defined as the effect that climate change and society's response to it may have on a company's long-term results and financial stability. Whereas how a company affects climate change and society is defined as climate impact.
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 2021

Global developments

Climate change is recognised as one of the greatest challenges of our lifetime, and how to mitigate and control its effects was a dominating factor on the global agenda in 2021. Extreme weather events of increasing intensity and frequency ravaged communities across the globe and were a stark reminder of what the world is facing in the coming decades and the economic devastation of such events. At the UN Climate Change Conference, COP26, in November, the countries of the world strengthened their commitments to the Paris Agreement and the 1.5°C target, but the path to reach that target is still unclear and requires significant technological and political innovation, accompanied by large amounts of funding. The finance industry therefore has a vital role to play, in directing the needed capital into sustainable development and transition.

In 2021, the EU continued its work with the Sustainable Finance Action Plan and, most importantly, the EU Taxonomy. The taxonomy is a classification system for environmentally sustainable economic activities. Providing a common understanding of what is environmentally sustainable makes it easier for investors, customers and other stakeholders to assess whether companies are directing their activities to be aligned with the ambitions of the Paris Agreement. Earlier this year, the final version of the technical screening criteria for the first two environmental objectives, climate mitigation and adaption, was published, and in 2022 the criteria for the last four environmental objectives will be finalised. From 2022, financial institutions will start reporting on the taxonomy-eligibility[1] of their portfolios, and by 2024 they will have to report on full taxonomy-alignment[2]. You can read more about DNB's work with the EU taxonomy in our annual report on ir.dnb.no.

Developments in DNB's risk management

DNB works continuously to develop and improve the identification, management and control of climate risks. In 2021, DNB took the following key actions to address and mitigate ESG (environmental, social and governance) risks:

- Updated the Group's sustainable strategy with a primary strategic objective to be a driving force for sustainable transition. Three key material topics have been identified:
  - Finance the climate transition and be a driving force for sustainable value creation.
  - Be a driving force for diversity and inclusion.
  - Combat financial crime and contribute to a safe digital economy.
- Set 2050 net zero targets for our lending and investment portfolios and defined specific milestones to be reached by 2030:
  - Reduce the emissions intensity for Scope 1 and 2[3] within the shipping, upstream oil and gas and commercial real estate portfolios by between 25 and 35 per cent.
  - Provide and facilitate sustainable financing of NOK 1 500 billion.

  Read more about DNB's updated strategy, including current progress towards our targets, in our annual report on ir.dnb.no.
- Initiated a data task force with the objective of building a data hub to allow for collection, structuring and analysis of ESG data, to meet coming reporting requirements, quantify DNB's ESG risk and allow for improved risk management.
- Expanded the assessments related to climate risk and ESG in credit decisions and expanded the client risk assessment tool with industry specific versions for commercial real estate, construction, shipping and oil and gas, and a new module for private equity. To read more about this, see the chapter on credit risk as well as our annual report on ir.dnb.no.
- Participated in climate scenario analysis pilots, a TCFD[4]-pilot under the auspices of the UN Environmental Programme Finance Initiative (UNEP FI) and a PACTA[5]-pilot under the auspices of the Ministry of Finance and the Ministry of Climate and Environment of Norway, covering climate sensitive sectors such as power generation, automotive manufacturing and upstream oil and gas. The methods and key take aways of the pilots are elaborated on in the text box on the following page.

MANAGEMENT AND CONTROL OF CLIMATE RISK

The Group has established overarching governance principles for sustainability, which form the basis for strategic ambitions, processes and obligations, including climate-related efforts. Both transition risk and physical risk can have significant financial consequences, which can affect financial institutions through for instance loan defaults, investment losses and higher insurance settlements. In the short to medium term, transition risk is more significant than physical risk for DNB[6]. Building a system to monitor DNB's climate risks and impacts to ensure strategic alignment and meet reporting requirements is important to DNB's risk management. Progress of this work is regularly reported to and endorsed by Group Management and the Board of Directors.

Integrating climate risk into DNB's risk management framework is a high priority:

- ESG risk assessments are an integrated part of DNB's credit decision process for corporate customers and is assessed on equal footing with other risk factors. ESG risk is to be assessed for all corporate customers with credit exposure exceeding NOK 8 million. For corporate customers with credit exposure exceeding NOK 50 million our ESG client risk assessment tool is used to provide a more thorough assessment and classify the customer within standard, medium and high ESG risk. Customers with high ESG risk must establish an action plan to improve the conditions that do not meet DNB's expectations and requirements. The action plans have a 12-month horizon and act as basis for further dialogue with the customer.
- An important part of DNB's ambition to be a driving force for sustainable transition, is to help our customers through their transition journeys and promote global initiatives for best practise. 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. This global framework for responsible financing of ships encourages the industry to reduce climate risk and emission intensity.

1) For an activity to be taxonomy-eligible, it needs to be within a category covered by the taxonomy.
2) For an activity to be taxonomy-aligned, in addition to being taxonomy-eligible, it needs to provide a significant contribution to at least one of the taxonomy's six environmental objectives, do no significant harm to any of the other five objectives, and meet the minimum safeguards.
3) When applicable and data is available.
4) Task Force on Climate-Related Financial Disclosures
5) Paris Agreement Capital Transition Assessment
6) Based on assessments of climate risks for DNB's credit portfolios carried out in 2019 and 2020.

- When conducting stress tests of credit portfolios, climate risk is assessed as part of the development of stressed scenarios.
- Emissions from our own operations are continuously reduced through targeted efforts to meet our targets of reducing Scope 1 and 2 emissions by 7 per cent annually towards 2030. Read more about DNB's Scope 1 and 2 emissions in our Sustainability Factbook on ir.dnb.no.

UNEP FI Transition Check – the TCFD pilot to evaluate a loan portfolio's climate transition risk

The Task Force on Climate-related Financial Disclosures (TFCD) was established by the Financial Stability Board in 2017 to develop recommendations for more effective climate-related disclosures that could promote more informed investment, credit and insurance underwriting decisions and, in turn, enable stakeholders to better understand the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks.

Since 2017, DNB has participated in several TCFD pilot projects under the auspices of the UNEP FI. In 2021, DNB has tested the tool Transition Check, developed by Oliver Wyman and UNEP FI. The tool has been developed to assess transition risk, which is the most significant climate risk to DNB in the short to medium term.

The tool enables projections of the probability of default (PD) on the customer level, given different scenarios[7] to achieve the target set out by the Paris Agreement. The projections take into account the customer's risk profile, industry affiliation and individual ESG data. By applying the PD projections in DNB's internal model for calculating expected credit losses, we see an indication of the risk of credit losses associated with the various scenarios.

The probabilities of the different scenarios have not been assessed and hence serve to provide a what-if analysis. Furthermore, the analysis' assumption of maintaining an unchanged portfolio until 2040 is not realistic, and, the availability and quality of data varies from industry to industry. Despite limitations and uncertainty in the projections, we find that the analysis provides useful insight and awareness of the work on climate risk.

PACTA

In 2021, the Ministry of Finance and the Ministry of Climate and Environment invited Norwegian financial institutions to test the PACTA tool[8]. The tool is being developed by the 2° Investing Initiative to help financial institutions assess the climate risk alignment in their portfolios. The pilot project was divided into two parts, one for investors and one for banks, and DNB participated in both. The insights from the bank pilot are summarised below, while the results from the investor pilot are described under 'Reporting of climate-related risks and opportunities' in DNB's annual report at ir.dnb.no.

The bank pilot tested how well the PACTA tool covers DNB's loan portfolio for corporate customers, and whether it provides useful insight. The tool covers industries that together make up around 75 per cent of global greenhouse gas emissions. Only 5 per cent of DNB's loans to corporates ended up in the scope of the analysis. The low coverage was mainly due to low exposure to PACTA-defined industries, as well as somewhat incomplete data coverage on companies in the pilot's external data set. PACTA is working to incorporate additional sectors in the tool. Improved data availability and quality at the company level should gradually improve as more reporting requirements arise.

Overall, we consider the approach to provide relevant insights for future work on climate risk. The tool needs further development before it can be used as basis for strategic action and should be used in combination with other tools.

7) https://www.climatetransitioncheck.com/#/home
8) https://2degrees-investing.org/resource/pacta/

9
Appendix

Content

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

This report, Risk and capital management - Disclosure according to Pillar 3 2021, 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 2021, the risk and capital information that is applicable in order to fulfil both sets of regulations is presented in DNB's annual report for 2021. 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 in explanatory texts to the tables.

More information about DNB's risk management 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 2021	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 2021*		
2	*Requirement to disclose information about operational risk*	*Ch.0: About this report, Ch. 7: Operational risk*	*EU OR1*	*Corporate Governance, description of Risk managment and internal control, on ir.dnb.no*
3	*Requirement to have a formal policy to comply with the disclosure requirements*	*Ch. 0: Risk Statement*		
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 2021	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 disclosuers**			
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 2021 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 - Disclousers according to Pillar 3 2021 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; Ch.8 Climate risk*		*Annual report, chapter on Corporate Governance, and Corporate Governance on ir.dnb.no*
1b	*Structure and organisation of the risk management organisation including its authority and statutes*	*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 regarding risk and capital management and Corporate Governance on ir.dnb.no*
1c	*Scope and nature of risk reporting and measurement systems*	*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; Ch.8 Climate 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; Ch. 7 Operational 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*	*EU KM1*	

Article in CRR	Description	Reference in Risk and capital management - Disclosures according to Pillar 3 2021	Reference in Pillar 3 additional disclosures (table)	Reference in DNB's annual report and interim report or on the DNB website
Article 436	**Scope of application**			
a	*Name of the institution to which the requirements in CRR apply*	*Front page and Ch. 0: About this report*		
b i-iv	*Outline of the differences in the basis of consolidation for accounting and prudential purposes*	*Ch. 0: About this report*	*EU LI1; EU LI2; EU LI3 ; EU CC2*	
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*		
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*	*EU CC1, EUCC2*	
1b	*Description of the main features of capital instruments*	*Ch. 2: Capital management*	*EU CCA*	*Annual report note G4 and interim report note G3 on Capitalisaton and capital adequacy*
1c	*Full terms and conditions of capital instruments*	*Ch. 2: Capital management*	*EU CCA*	*Annual report note G4 and interim report note G3 on Capitalisaton and capital adequacy*
1di-iii	*Separate disclosures on the nature of prudential filters, deductions, and items not deducted*	*Ch. 2: Capital management*	*EU CC1*	*Annual report note G4 and interim report note G3 on Capitalisaton and capital adequacy*
1e	*Description of restrictions applied to the calculation of own funds*	*Ch. 2: Capital management*	*EU CC1*	
1f	*Explanation of the basis on which capital ratios have been calculated if other than the basis specified in CRR*	*Not applicable*	*EU CC1*	
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*	*EU KM1*	
c	*Capital requirements for credit risk calculated using the standardised approach*	*Ch. 4: Credit risk*	*EU OV1*	*Annual report note G4 and interim report note G3 on Capitalisaton and capital adequacy*
d	*for institutions calculating risk-weighted exposure amounts in accordance with Chapter 3 of Part Three, Title II, 8 % of the risk-weighted exposure amounts for each of the expo-sure classes specified in Article 147. For the retail exposure class, this requirement applies to each of the categories of exposures to which the different correlations in Article 154 (1) to (4) correspond. For the equity exposure class, this requirement applies to:*	*Ch. 4: Credit risk*		*Annual report note G4 and interim report note G3 on Capitalisaton and capital adequacy*
d-i	*each of the approaches provided in Article 155;*	*Not applicable*		

Article in CRR	Description	Reference in Risk and capital management - Disclosures according to Pillar 3 2021	Reference in Pillar 3 additional disclosures (table)	Reference in DNB's annual report and interim report or on the DNB website
d-ii	*exchange traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures;*	*Not applicable*		
d-iii	*exposures subject to supervisory transition regarding own funds requirements;*	*Not applicable*		
d-iv	*exposures subject to grandfathering provisions regarding own funds requirements;*	*Not applicable*		
e	*Capital requirements for market risk*	*Ch. 6: Market risk*		*Annual report note G4 and interim report note G3 on Capitalisaton and capital adequacy*
f	*Capital requirements for operational risk*	*Ch 7: Operational risk*	*EU 0V1; INS1*	*Annual report note G4 and interim report note G3 on Capitalisaton and capital adequacy*
g	*Capital adequacy ratio of the financial conglomerate*	*Not applicable*	*EU INS2; EU CR8*	
Article 439	**Exposure to counterparty credit risk**			
a	*Methodology to assign internal capital and credit limits for counterparty 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*		
d	*Impact of the amount of collateral the institution would have to provide given a downgrade in its credit rating*	*Ch 5: Counterparty credit risk; Appendix: Information items not disclosed under EBA/ GL/ 2016/11*		
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**			
1a	*Geographic distribution of credit exposures for calculating the countercyclical capital buffer*		*EU CCyB1;*	
1b	*Amount of the countercyclical capital buffer*	*Ch.2: Capital management*	*EU CCyB2*	
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 G1 Accounting principles and note G5 Credit risk management*
b	*Methods for determining specific and general credit risk adjustments*	*Ch. 4: Credit risk*		*Annual report note G5 Credit risk management*

Article in CRR	Description	Reference in Risk and capital management - Disclosures according to Pillar 3 2021	Reference in Pillar 3 additional disclosures (table)	Reference in DNB's annual report and interim report or on the DNB website
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 CR1A; CR2A*	
d	*Geographic distribution of the exposures, broken down by exposure classes*	*Ch. 4: Credit risk*	*EU CQ3*	
e	*Distribution of exposures by industry or counterparty type, broken down by exposure classes*	*Ch. 4: Credit risk*	*EU CQ4; EU CQ5*	*Annual report note G12 and interim report note G8; 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, CR2A*	
g		*Ch. 4: Credit risk*	*EU CR1-A; CR2A*	
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 G10 and interim report note G6; Development of gross carrying amount and maximum exposure*
g-iii		*Ch. 4: Credit risk*		
h	*Geographic breakdown of impaired and past due exposures*		*EU CQ4*	
ii - v	*Reconciliation of changes in specific and general credit risk adjustments for impaired loans*	*Ch. 4: Credit risk*		*Annual report note G11 and interim report note G7; Development of accumulated impairment of financial instruments*
Article 443	**Unencumbered assets**			
	Disclosure of unencumbered assets in accordance with EBA guidelines EBA/GL/2014/03		*EU AE1; EU AE2; EU AE3*	
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)*		*EU CR4*	
b	*Exposure classes for which each ECAI or ECA is used*		*EU 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*		*EU EU CR4; CCR3*	

Article in CRR	Description	Reference in Risk and capital management - Disclosures according to Pillar 3 2021	Reference in Pillar 3 additional disclosures (table)	Reference in DNB's annual report and interim report or on the DNB website
Article 445	**Exposure to market risk**			
	Capital requirements for market risk	*Ch. 6: Market risk*	*EU MR1*	*Annual report note G4 and interim report note G3 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*	*EU OR1*	
Article 447	**Exposure in equities not inclued in the trading book**			
	Institutions shall disclose the following information regarding the exposures in equities not included in the trading book:			
a	*the differentiation between exposures based on their objec-tives, including for capital gains relationship and strategic reasons, and an overview of the accounting techniques and valuation methodologies used, including key assumptions and practices affecting valuation and any significant changes in these practices;*	*Ch. 6: Market risk*	*EU KM1*	*Annual report note G13 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*	*EU KM1*	
c	*Types, nature and amounts of exchange-traded exposures, private equity exposures in sufficiently diversified portfolios, and other exposures*		*EU KM1*	
d	*Cumulative realised gains or losses arising from sales and liquidations in the period*	*Ch. 6: Market risk*	*EU 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 securitisaton positions**			
a-r	*About securitisation positions*	*Not applicable*		
Article 450	**Remuneration policy**			
1	*Remuneration policy and practices:*			
1-a	*Decision-making process used for determining remuneration policy, and number of meetings held by main body overseeing remuneration during the financial year*	*Ch 1: Risk managment and control*		*Annual report, chapter on Corporate Governance regarding risk and capital management and Corporate Governance on ir.dnb.no*
1-b	*link between pay and performance*			*Annual Report note G47 Remunerations etc. and separate report on Remunerations on dnb.no to be published in April*

Article in CRR	Description	Reference in Risk and capital management - Disclosures according to Pillar 3 2021	Reference in Pillar 3 additional disclosures (table)	Reference in DNB's annual report and interim report or on the DNB website
1 c-f	*Criteria for performance measurement, parameters and rationale for any variable component scheme*			
1 g-j	*Aggregate quantitative information on remuneration, including breakdowns*			*Remuneration Report EBA on ir.dnb.no (updated annually in June) and separate Remuneration report to be published in April* *Annual Report note G47 Remunerations etc. and separate report on Remunerations on report to be published in April*
2	*Quantitative information about remuneration to members of the institution's management body for significant institutions*			
Article 451	**Leverage ratio**			
1-a	*Leverage ratio*	*Ch. 2: Capital management*	*EU LR2*	
1-b	*a breakdown of the total exposure measure as well as a reconciliation of the total exposure measure with the relevant information disclosed in published financial statements;*		*EU LR1; EU LR2; EU LR3*	
1-c	*Where applicable, the amount of derecognised fiduciary items*		*EU LR2*	
1-d	*Description of the processes used to manage the risk of excessive leverage*		*EU LR2*	
1-e	*Description of factors that had an impact on the leverage ratio during the period to which the disclosed leverage ratio refers*		*EU LR2*	
Title III	**Qualifying requirements for the use of particular instruments or methodologies**			
Article 452	**Use of the 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*		
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 i-v	*Control mechanisms for rating systems*			
c	*Description of internal ratings process, provided separately for each IRB exposure class*			
c i-v	*Description of internal ratings process, provided separately for each IRB exposure class*	*Ch. 4: Credit risk*		
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*	*Not applicable*		
f	*Information on retail exposures in the IRB approach*	*Ch. 4: Credit risk*		

Article in CRR	Description	Reference in Risk and capital management - Disclosures according to Pillar 3 2021	Reference in Pillar 3 additional disclosures (table)	Reference in DNB's annual report and interim report or on the DNB website
g	*Actual specific credit risk adjustments in preceding period*	*Ch. 4: Credit risk*	*EU CR6; EU CCR4; CR2A*	
h	*Factors that impacted on the loss experience in preceding period*	*Ch. 4: Credit risk*	*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 G5 Credit risk management*
b	*Policies and processes for collateral valuation and management*	*Ch. 4: Credit risk*		*Annual Report note G7 Credit risk exposure and collateral*
c	*Main types of collateral taken by the institution*	*Ch. 4: Credit risk*		*Annual Report note G7 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 G7 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 G7 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 G7 Credit risk exposure and collateral*
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	*Not applicable*		
Article 455	**Use of Internal Market Risk Models**			
a-g	*Institutions calculating their capital requirements in accordance with Article 363 shall disclose the following information:*	*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.

Pillar 3 additional disclosures

Appendixes			31 December 2021
Unless otherwise stated, figures in the templates are figures for DNB Group - regulatory consolidation		**Article in CRR/BRRD**	**Updated**
A00	Regulatory framework and implementation in Norway		
Disclosure of own funds			
EU CC1	Composition of regulatory own funds	Points (a), (d), (e) and (f) of Article 437	Semi-Annually
EU CC2	Reconciliation of regulatory own funds to balance sheet in the audited financial statements	Point (a) of Article 437	Semi-Annually
A01	Own funds and capital ratios, DNB Bank ASA and DNB Group	Article 437	Quarterly
A03	Own funds and capital ratios, DNB Boligkreditt AS	Article 437	Quarterly
Disclosure of key metrics and overview of risk exposure amounts			
EU OV1	Overview of risk exposure amounts	Point (d) of Article 438	Quarterly
EU KM1	Key metrics (at consolidated group level)	Points (a) to (g) of Article 447 and point (b) of Article 438	Quarterly
EU INS1	Insurance participations	Point (f) of Article 438	Annually
EU INS2	Financial conglomerates information on own funds and capital adequacy ratio	Points (g) of Article 438	Annually
A02	Specification of risk exosure amounts and capital requirements, DNB Group	Article 438	Quarterly
A02	Specification of risk exposure amounts and capital requirements, DNB Bank ASA	Article 438	Quarterly
A03	Specification of risk exposure amounts and capital requirements, DNB Boligkreditt AS	Article 438	Quarterly
A04	Specification of risk exposure amounts and capital requirements subsidiaries and associated companies	Article 438	Quarterly
Disclosure of the scope of application			
EU LI1	Differences between accounting and regulatory scopes of consolidation and the mapping of financial statement categories with regulatory risk categories	Point (c) of Article 436	Annually
EU LI2	Main sources of differences between regulatory exposure amounts and carrying values in financial statements	Point (d) of Article 436	Annually
EU LI3	Outline of the differences in the scopes of consolidation (entity by entity)	Point (b) of Article 436	Annually
EU PV1	Prudent valuation adjustments (PVA)	Point (e) of Article 436	Annually

Appendixes			31 December 2021
Unless otherwise stated, figures in the templates are figures for DNB Group - regulatory consolidation		**Article in CRR/BRRD**	**Updated**
Disclosure of credit risk quality			
EU CQ1	Credit quality of forborne exposures (Template 1)	Point (c) of Article 442	Semi-Annually
EU CQ3	Credit quality of performing and non-performing exposures by past due days (Template 3)	Points (c) and (d) of Article 442	Annually
EU CQ4	Quality of non-performing exposures by geography (Template 5)	Points (c) and (e) of Article 442	Semi-Annually
EU CQ5	Credit quality of loans and advances by industry (Template 6)	Points (c) and (e) of Article 442	Semi-Annually
EU CQ7	Collateral obtained by taking possession and execution processes (Template 9)	Point (c) of Article 442	Semi-Annually
EU CR1	Performing and non-performing exposures and related provisions (Template 4)	Points (c) and (f) of Article 442	Semi-Annually
EU CR1-A	Maturity of exposures	Point (g) of Article 442	Semi-Annually
CR2A	Changes in the stock of general and specific credit risk adjustments	Points (c) and (f) of Article 442 and point(g) of article 452	Semi-Annually
CR2B	Changes in the stock of defaulted and impaired loans and debt securities	Point (i) of article 442	Semi-Annually
Disclosure of the use of credit risk mitigation techniques			
EU CR3	Disclosure of the use of credit risk mitigation techniques	Point (f) of Article 453	Semi-Annually
Disclosure of the use of standardised approach			
EU CR4	Standardised approach – Credit risk exposure and CRM effects	Points (g), (h) and (i) of Article 453 CRR and point (e) of Article 444	Semi-Annually
EU CR5	Standardised approach	Point (e) of Article 444	Semi-Annually
Disclosure of the use of the IRB approach to credit risk			
EU CR6	IRB approach – Credit risk exposures by exposure class and PD range	Point (g) of Article 452	Semi-Annually
EU CR8	REA flow statements of credit risk exposures under the IRB approach	Article 438 point (h)	Quarterly
EU CR9	IRB approach – Back-testing of PD per exposure class (fixed PD scale)	Point (h) of Article 452	Annually
IRB Additional information			
IRB A1	Models used in IRB reporting in DNB in 2021	Article 452	Annually
IRB A2	IRB portfolio, comparison of risk parameters versus actual outcome	Article 452 (h)	Annually
IRB A3	IRB portfolio, value adjustments	Article 452 (i)	Annually
IRB A4	IRB portfolio, by industry segments		Annually
IRB A5	IRB portfolio, additional information about corporate exposures	Article 452 (j-i)	Annually
IRB A6	IRB portfolio, by principal customer sectors and geographical location (CR6 template format)	Article 452 (j-i)	Annually

Appendixes			31 December 2021
Unless otherwise stated, figures in the templates are figures for DNB Group - regulatory consolidation		Article in CRR/BRRD	Updated
Disclosure of exposures to counterparty credit risk			
EU CCR1	Analysis of CCR exposure by approach	Points (f), (g), (k) and (m) of Article 439	Semi-Annually
EU CCR2	Transactions subject to own funds requirements for CVA risk	Point (h) of Article 439	Semi-Annually
EU CCR3	Standardised approach – CCR exposures by regulatory exposure class and risk weights	Point (l) of Article 439 referring to point (e) of Article 444	Semi-Annually
EU CCR4	IRB approach – CCR exposures by exposure class and PD scale	Point (l) of Article 439 referring to point (g) of Article 452	Semi-Annually
EU CCR5-A	Impact of netting and collateral held on exposure values	Point (i) of Article 439	Semi-Annually
EU CCR5-B	Composition of collateral for exposures to CCR	Point (e) of article 439	
EU CCR8	Exposures to Central Counterparties, CCPs	Point (i) of Article 439	Semi-Annually
Disclosure of the use of standardised approach for market risk			
EU MR1	Market risk under the standardised approach	Article 445	Semi-Annually
Key Metrics			
EU KM2	Key metrics - MREL	Article 45 BRRD	Quarterly
EU TLAC1	Composition - MREL	Article 45 BRRD	Semi-Annually
EU TLAC3	Creditor ranking - resolution entity	Article 45 BRRD	Annually
EU CCyB1	Geographical distribution of credit exposures relevant for the calculation of the countercyclical buffer	Point (a) of Article 440	Semi-Annually
EU CCyB2	Amount of institution-specific countercyclical capital buffer	Point (b) of Article 440	Semi-Annually
Disclosure of leverage ratio			
EU LR1	Summary comparison of accounting assets and leverage ratio exposure	Point (b) of Article 451(1)	Semi-Annually
EU LR2	Leverage ratio common disclosure	Article 451(3) - Rows 28 to 31a Points (a), (b) and (c) of Article 451(1) and Article 451(2) - Rows up to row 28	Semi-Annually
EU LR3	Split up of on-balance sheet exposures (excluding deratives, SFTs and exempted exposures)	Point (b) of Article 451(1)	Semi-Annually
Disclosure of liquidity requirements			
EU LIQ1	Quantitative information of LCR	Article 451a(2)	Quarterly
Disclosure of encumbered and unencumbered assets			
EU AE1	Encumbered and unencumbered assets	Article 443	Annually
EU AE2	Collateral received and own debt securities issued	Article 443	Annually
EU AE3	Sources of encumbrance	Article 443	Annually
Disclosure of operational risk			
EU OR1	Operational risk own funds requirements and risk exposure amounts	Articles 446 and 454	Annually

Appendixes			31 December 2021
Unless otherwise stated, figures in the templates are figures for DNB Group - regulatory consolidation		**Article in CRR/BRRD**	**Updated**
Disclosure of interest rate risk in the banking book			
EU IRRBB1	Interest rate risks of non-trading book activities	Article 448 (1)	Annually
EU CCA	Disclosure of main features of regulatory capital instruments as at 31 December 2021	Points (b) and (c) of Article 437	Ad-hoc
CCA footnotes	Disclosure of main features of regulatory capital instruments - footnotes		Ad-hoc
The following EU templates are not applicable for DNB as at 31 December 2021			
EU CR7	IRB approach – Effect on the REAs of credit derivatives used as CRM techniques	DNB has no credit derivatives as at December 31 2021	
EU-CR10	Specialised lending and equity exposures under the simple riskweighted approach	DNB uses the standardised apporach for calculating REA for equities and does not use the slotting approach for SL	
MR2-A	Market risk under the internal Model Approach (IMA)		
MR2-B	REA flow statements of market risk exposures under the IMA	DNB does not calculate market risk according to IMA	
EU MR3	IMA values for trading portfolios		
EU MR4	Comparison of VaR estimates with gains/losses	DNB has no credit derivatives as at December 31 2021	
EU CCR6	Credit derivatives exposures		
EU CCR7	REA flow statements of CCR exposures under the IMM	DNB does not calculate CCR exposures according to IMM as at December 31 2021	
EU SEC1	Securitisation exposures in the non-trading book		
EU SEC2	Securitisation exposures in the trading book		
EU SEC3	Securitisation exposures in the non-trading book and associated regulatory capital requirements	DNB does not have any securitisation exposures as at December 31 2021	
EU SEC4	Securitisation exposures in the non-trading book and associated regulatory capital requirements		
EU SEC5	Exposures securitised by the institution - Exposures in default and specific credit risk adjustments		
EU REM1	Remuneration awarded for the financial year		
EU REM2	Special payments to staff whose professional activities have a material impact on institutions' risk profile		
EU REM3	Deferred remuneration	Information about remuneration and remuneration policy can be found in the annual report, and in a separate Remuneration report to be published in April, and in the EBA annual report to be published in June	
EU REM4	Remuneration of 1 million EUR or more per year		
EU REM5	Information on remuneration of staff whose professional activities have a material impact on institutions' risk profile	These templates will not be disclosed until the Norwegian implementation of the EU Banking Package later in 2022	
EU CQ2	Quality of forbearance		
EU CQ6	Collateral valuation - loans and advances		
EU CQ8	Collateral obtained by taking possession and execution processes – vintage breakdown		

Appendixes			31 December 2021
Unless otherwise stated, figures in the templates are figures for DNB Group - regulatory consolidation		**Article in CRR/BRRD**	**Updated**
EU CR2	Changes in the stock of non-performing loans and advances		
EU CR2a	Changes in the stock of non-performing loans and advances and related net accumulated recoveries		
EU CR6-A	Scope of the use of IRB and SA approaches	These templates will not be disclosed until the Norwegian implementation of the EU Banking Package later in 2022	
EU CR7-A	IRB approach – Disclosure of the extent of the use of CRM techniques		
EU CR9.1	IRB approach – Back-testing of PD per exposure class (only for PD estimates according to point (f) of Article 180(1) CRR)		
EU CCR5	Composition of collateral for CCR exposures		
LIQ2	Net Stable Funding Ratio		

We are here.
So you can stay ahead.

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