DNB GROUP

2015

Risk and capital management

Disclosures according to Pillar 3

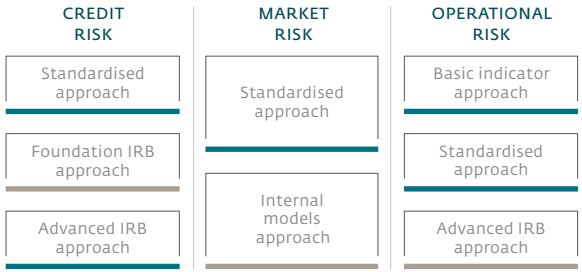
CONTENT

Introduction

This report contains information about risk management, risk measurement and capital adequacy in accordance with the disclosure requirements in Pillar 3 of the capital adequacy regulations.

The capital adequacy regulations consist of three pillars. **Pillar 1** includes the quantitative minimum requirements for bank's capital, and descriptions of measurement methods for risk-weighted assets and eligible capital. The capital adequacy regulations allow different methods for calculating the capital requirement, as shown in the illustration below.

DNB reports credit risk according to the advanced IRB approach, where internal risk models for PD, LGD and EAD are used. 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 generally reported using the standardised approach, while some subsidiaries use the basic indicator approach.



Pillar 2 sets out requirements for the Internal Capital Adequacy Assessment Process, ICAAP, and the bank's responsibility for assessing risks other than those described under Pillar 1. **Pillar 3** contains disclosure requirements and shall enable the market to assess financial institution's capital and risk management.

This report is updated annually, while information on capital adequacy and minimum primary capital requirements is updated quarterly in the Group's Fact Book. The Board of Directors of DNB ASA approves the guidelines and procedures for the Pillar 3 reporting, and also reviews the report prior to publication. The Pillar 3 report is not subject to audit. Tables can be found in the appendix to the report.

NORWAY'S LEADING FINANCIAL SERVICES GROUP

DNB represents more than 190 years of financial history, from the establishment of Christiania Sparebank in 1822 to the position as Norway's largest financial services group, with total assets of NOK 2 901 billion as at 31 December 2015.

DNB is among the world's leading banks within its international priority areas, especially the energy, shipping and seafood sectors. The bank ffers costumer service, Internet bank and telephone banking service 24 hours a day, every day, and has a physical presence in 19 countries and throughout Norway through its branch offices, post offices and in-store postal and banking outlets.

The company's largest shareholder is the Norwegian government, represented by the Ministry of Trade, Industry and Fisheries, which owns 34 per cent of the shares. The second largest shareholder is the DNB Savings Bank Foundation, which has a 9.4 per cent shareholding.

Fundamentals of the Norwegian economy

Norway has 5.1 million inhabitants, and a GDP per capita which is significantly higher than in the EU. For the last 15 years the Norwegian economy has experienced higher growth and less volatility in GDP than the other Nordic countries and the euro countries.

The strong financial situation has given Norway considerable fiscal policy leverage and flexibility to face a period of slower economic activity. Due to the brisk economic growth, the key policy rate has been higher than in most other Nordic and European countries. With a national currency with floating exchange rate, the effects of cyclical fluctuations are less pronounced. In addition to oil and gas Norwegian export is also dominated by fish and aluminum, the latter due to good access to low priced electricity from hydropower.

Norway has the highest credit rating available and has been ranked highest on the UN's Human Development Index, a composite statistics of life expectancy, education and income indices.

Over the past 20 years, there has been a significant increase in Norwegian housing prices, reflecting high income growth, low and stable unemployment rates, periodically low interest rates and limited housebuilding activity relative to population growth. Approximately 90 per cent of households own their own home. Thus, there is a limited residential tenancy market. Since the first petroleum discoveries in the late 1960s, the importance of oil to the economy has grown substantially. In 2014 oil and gas extraction amounted to 20 per cent of the Norwegian GDP and 45 per cent of Norway's goods export revenues. Demand stemming from investment activity on the Norwegian Continental Shelf also benefits mainland enterprises. Income from petroleum activities amounted to 20.1 per cent of the Government's total income in 2014. The income is transferred to the Government Pension Fund Global, which serves as a buffer between current petroleum revenues and the spending of revenues in the economy. The Fund only invests abroad, and its value has increased substantially over the past ten years. In January 2015, the value of the Fund's investment size had increased to 218 per cent of GDP. The fiscal rule is set up to ensure that petroleum revenues are being phased into the economy gradually, at a level that can be sustained over time. In a normal year, only the expected real return of the fund, estimated to 4 per cent, can be spent over government budgets. Actual spending has been lower than this.

High cost inflation over time in combination with a steep fall in oil prices from the autumn of 2014, led to significant cuts in petroleum investment in 2015. This has in turn resultet into to a turnaround in the Norwegian economy, and both growth and capacity utilisation are lower than normal across the country. Unemployment is rising, but so far primarily in oil-dominated occupations and regions. Oil investments are likely to fall further over the next two years, and will thus continue to have a negative impact on Norwegian business and the labour market. Lower interest rate, a weak national currency and considerable fiscal latitude nevertheless helps soften the landing, with lower than normal growth in the Norwegian mainland economy rather than a decrease.

The CRO's summary of the year

2015 was another good year for DNB, with positive developments in most areas in spite of weaker prospects for the Norwegian economy. Efforts to build up capital to a common equity Tier 1 capital level of approximately 15.5 per cent were intensified, and were ahead of schedule at the end of the year.

The fall in oil prices and the resulting weakening of the Norwegian krone and reduced interest rate levels have thus far had no pronounced impact on DNB's profits, in spite of a certain increase in impairment losses towards the end of the year. Most customers whose operations are susceptible to oil prices, are robust. Nevertheless, persistent low oil prices could result in rising credit losses in 2016. The industries that are directly affected by the price of oil are particularly exposed, along with companies which are influenced by the lower investment rate in the petroleum industry. In parallel to this, other Norwegian industry sectors benefit from the weak Norwegian krone, such as the seafood, travel and other export industries.

Loan volumes increased by just over NOK 100 billion during the year. In spite of this, credit risk exposure, in terms of risk-weighted assets, remained virtually unchanged. This is due to the fact that the large corporate units continued to reduce their exposure, for

example to volatile industries and foreign currencies, in 2015. A large share of DNB's loans is denominated in foreign currencies, which has increased risk-weighted assets over the past few years as a consequence of the weaker Norwegian krone.

Market risk exposure was also reduced in 2015. Due to extensive financial market volatility, DNB chose to implement a number of measures to limit its exposure, both within life insurance and in banking operations. DNB Livsforsikring has also adapted its asset mix to the new Solvency II regulations. At the end of the year, the pro forma solvency margin, in accordance with the new requirements, was well within the minimum requirement.

«Initiatives to digitalise banking services are high on the agenda for Group Risk Management»

The banking and financial services industry is facing extensive changes, where new digital solutions are replacing traditional banking services. Technological developments enable increased digitalisation, self-service options and information sharing. This trend is manifesting itself in all of the Group's business areas and requires continual adaptation of the organisation and the cost base. DNB is committed to proactively capitalising on the opportunities offered by new technology. Initiatives to digitalise banking services are also high on the agenda for Group Risk Management. The risk organisation contributes to this work both through its expertise on credit processes and model development and by identifying and assessing risk arising in the new digital solutions.

In 2015, new regulations came into effect which further regulate requirements governing collateral, debt servicing capacity and minimum instalment payments for retail mortgages in Norway. DNB fulfilled the requirements in the regulations with a wide margin at year-end 2015. Group Risk Management plays a key role in formulating the credit strategy and following up lending practices and portfolio quality. Losses and non-performing loans in the retail mortgage portfolio are now at a very low level, far below normalised losses.

As from 2015, DNB has chosen to use other credit models in internal risk management than those used to calculate capital requirements. This applies to both retail mortgages and loans to large corporates. The models have been developed based on the same information. When calculating capital requirements, however, limitations and safety margins have been included which affect the measured risk level. The internal models are more price-sensitive and provide better management information both for assessing both individual loans and in portfolio management. The anti-money laundering regulations require that the executive management has an updated and reliable overview of the current status in this field. With effect from 2016, Group Risk Management has established a separate anti-money laundering reporting process to ensure that group management and the Board of Directors are informed of any non-compliance in order to ensure that corrective measures are quickly implemented. DNB had few and low operational losses in 2015. Nevertheless, there were several topics within operational risk which received a lot of attention from Group Risk Management. These were the bank's IT systems, where an extensive moving process was implemented in 2015, and conduct risk, where incorrect or deficient information in products and services could result in expensive and time-consuming compensation processes.

In my opinion, the DNB Group's risk and capital management report gives a good and accurate description of the risk situation and of the way risk is measured, managed and reported in DNB.

Terje Turnes, CRO

1

MAJOR DEVELOPMENTS

Major developments

At year-end 2015, there were weaker prospects for the Norwegian economy than a year earlier. There is fear that the effects of falling oil prices and the decline in oil investments may spread to sectors where growth has thus far been sustained. There are less favourable growth prospects for most Norwegian industry sectors. The rate of unemployment is still increasing, mainly in oil-dominated regions. Analysts nevertheless believe in low, but positive GDP growth in Mainland Norway in 2016 and 2017.

Developments in the global economy were mixed towards the end of 2015. In early 2016, there was a severe stock market downturn, triggered by new uncertainty relating to economic developments in China. The geopolitical situation and the turbulence in the Middle East added to the uncertain future outlook.

On its Capital Markets Day in November 2015, DNB raised its common equity Tier 1 capital ratio target to minimum 15 per cent at year-end 2016 and its long-term target to 15.5 per cent from 2017. The Norwegian authorities assess Norwegian banks according to the Basel III transitional rules. The common equity Tier 1 capital ratio was 14.4 per cent and the capital adequacy ratio 17.8 per cent at year-end 2015, compared with 12.7 and 15.2 per cent, respectively, a year earlier. The leverage ratio was 6.7 per cent at year-end 2015.

The short-term liquidity requirement, Liquidity Coverage Ratio (LCR), was stable at more than 100 per cent in 2015. At year-end 2015, the total LCR was 133 per cent, with 330 and 118 per cent, respectively, for the Euro and the USD.

Throughout 2015, operations, governance and control were of high quality in all of the Group's units. The number of reported events entailing operational risk was somewhat higher than in the

RISK-ADJUSTED CAPITAL

NOK billion	31 Dec. 2014	31 Dec. 2015
Credit risk	58.8	55.5
Market risk	9.5	7.1
Market risk in life insurance	15.7	8.3
Insurance risk	2.0	2.0
Operational risk	10.7	11.2
Business risk	6.8	7.1
Total risk-adjusted capital before diversification	103.5	91.2
Diversification *	- 17.4	- 15.5
Total risk-adjusted capital after diversification	**86.0**	**75.7**
Diversification in per cent of gross risk-adjusted capital	16.8 %	17.0 %

* Diversification effect refers to the risk reduction effect achieved by the Group as the different types of risks can not be expected to cause loss simultaneously.

previous year, though losses were low. During the year, DNB completed MoveIT, a very extensive project whereby the IT infrastructure was upgraded and the Group's data processing centres were moved to a single location. Comprehensive measures were initiated to achieve optimal operational security and reduce the risk related to the project. Again in 2015, information technology was identified as one of the key risk areas for the Group in light of the rapidly increasing pace of change within digital services and products.

The DNB Group quantifies risk by measuring risk-adjusted capital. The risk adjusted capital declined by NOK 10.4 billion from year-end 2014, to NOK 75.7 billion.

The risk-adjusted capital requirement for credit declined by NOK 3.3 billion in 2015, reflecting a reduction in credit volumes in the large corporate portfolio towards the end of the year. There was continued sound and stable credit quality in most portfolios. However, some sectors showed a negative trend in 2015, mainly oil service and offshore, but also energy and some shipping segments. The reduction in oil and gas investments had the most pronounced effect on oil service companies. A number of companies now struggle with tight liquidity and reduced debt servicing capacity. In addition to the sectors that are directly exposed to oil prices, the prolonged low oil prices are expected to have ripple effects on other sectors and particularly exposed geographical areas in Norway. At year-end 2015, the price of oil was USD 37 per barrel, which was the lowest price since 2004.

The number of residential properties sold remained stable at a high level. On a national basis, prices were 7.2 higher in December 2015 than in December 2014. Regional differences increased through 2015. Housing prices in Oslo rose by 9.5 per cent on a twelve-month basis, while prices in Stavanger fell by close to 4 per cent. This trend is expected to continue in 2016.

The risk-adjusted capital requirement for market risk in DNB Livsforsikring declined by NOK 7.4 billion during the year. The reduction was a consequence of the sale of properties for a total of NOK 11.6 billion and a lower equity exposure. The freed-up capital was reinvested in home mortgages and fixed-income securities, which entail lower market risk. The company strengthened its solvency capital by NOK 6.6 billion in 2015 through retained earnings, an increase in subordinated loan capital, changes in unrealised gains on financial assets and provisions for higher life expectancy. DNB Livsforsikring's solvency margin according to Solvency II was 113 per cent at year-end 2015.

DNB's market risk exposure in operations other than life insurance was also reduced during 2015, reflecting the sale of property investments and the transition from a defined-benefit to a defined-contribution pension scheme for the Group's employees. A further reduction is expected in 2016 as a result of a scheduled sale of equity and property investments.

IMPORTANT EVENTS IN 2015

- In connection with the IT project MoveIT, large parts of DNB's systems platform were moved.
- The rating agency Moody's upgraded several of DNB Bank's credit ratings, partly due to the fact that the bank's key figures had shown a positive development over a long period of time. Parallel to this, Standard and Poor's revised its outlook for the bank's long-term credit rating from stable to negative due to weaker prospects for the Norwegian economy.
- On 15 June, the Ministry of Finance approved regulations on requirements for new mortgage loans based on prevailing guidelines from Finanstilsynet (the Financial Supervisory Authority of Norway), aiming to dampen growth in debt levels and residential property prices in Norway.
- The Ministry of Finance decided to increase the level of the counter-cyclical capital buffer for banks to 1.5 per cent as of 30 June 2016 in accordance with advice from Norges Bank (the central bank of Norway). It had previously been decided to set the requirement at 1.0 per cent as of 30 June 2015.

- DNB qualified, for the seventh consecutive year, for inclusion in the Dow Jones Sustainability Index, the world's leading sustainability index. DNB is the only Nordic bank in the index, which comprises only the top 10 per cent global banks.
- Along with Nordea Bank Norge and Kommunalbanken, DNB has been defined as a systemically important financial institution, O-SII, and thus became subject to a separate 2 per cent capital buffer requirement as of 1 July 2016.
- In late October, the Pillar 2 requirement for DNB was set at 1.5 percentage points. The total common equity Tier 1 capital requirement will thus be 15 per cent by year-end 2016.
- DNB presented updated financial ambitions at its Capital Markets Day in November, and a number of capital efficiency measures were implemented during the fourth quarter, which included selling individual loans, entering into guarantee contracts and selling property.
- Towards the end of 2015, DNB decided to change the defined-benefit pension scheme for its employees in Norway to a defined-contribution scheme. This had an impact on fourth-quarter profits of approximately NOK 2 billion.
- In DNB Livsforsikring, large parts of the risk equalisation fund were transferred to the policyholders' premium reserve to increase reserves for higher life expectancy. In this connection, the Group's income statement was charged with NOK 980 million.

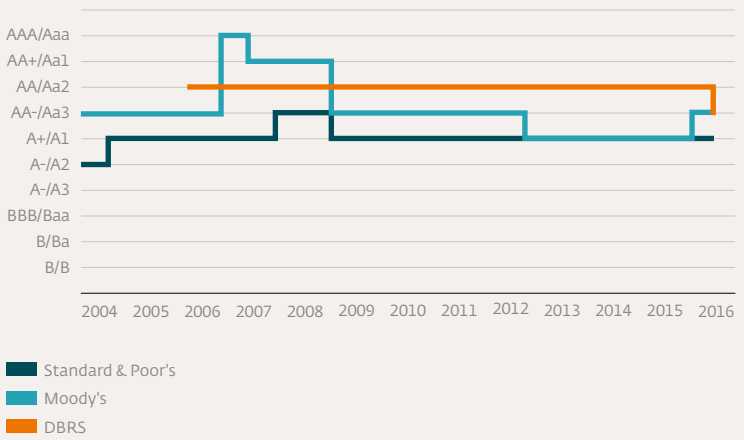
DNB'S CREDIT RATINGS

Credit ratings are forward-looking and reflect how future events may influence the issuer's creditworthiness. Credit ratings represent the credit agencies' assessment of issuers' capacity and willingness to fully meet their financial obligations on a timely basis. Strong credit ratings from recognised rating agencies are therefore important to secure predictable and flexible access to funding. The table below shows the credit ratings of DNB Bank ASA in 2015.

A short-term credit rating reflects the likelihood that issuers will fail to meet their financial obligations during the current year, as well as expected financial losses if these obligations are not met. A long-term credit rating reflects the same likelihood, but over a period of one year or more. The conclusion derived from a credit analysis gives a credit score which helps reduce information asymmetry between the issuer and Investors. The illustration below shows DNB's long-term credit ratings history.

Rating agency	Rating
Standard & Poor's	Short term: A-1
	Long term: A+
	Outlook: Negative
Moody's	Short term: P-1
	Senior unsecured: Aa3
	Long term bank deposits: Aa2
	Outlook: stable
Dominion Bond Rating Service (DBRS)	Short term: R-1 (middle)
	Long term: AA (low)
	Trend: Stable

Long-term credit ratings history



2

LEGAL STRUCTURE AND CONSOLIDATION RULES FOR CAPITAL ADEQUACY REQUIREMENTS

Legal structure and consolidation rules for capital adequacy requirements

DNB Group's legal structure at year-end 2015 is shown on the next page. The consolidated financial statements of DNB ASA (DNB) include DNB Bank ASA, DNB Livsforsikring AS, DNB Asset Management Holding AS and DNB Forsikring AS, all with underlying subsidiaries.

There have been some changes in the DNB Group's legal structure during 2015. DNB Skadeforsikring AS changed its name to DNB Forsikring AS. In addition, DNB Sweden AB and DNB (UK) Ltd were created as new subsidiaries under DNB Bank ASA.

DNB prepares consolidated accounts in accordance with IFRS. A description of the Group's accounting principles can be found in DNB's annual report. When preparing consolidated accounts, intra-group transactions and balances along with unrealised gains or losses on these transactions between group units are eliminated. Consolidation of capital adequacy is regulated by the regulation on the use of solvency rules on a consolidated basis, capital adequacy regulations and in the new EU Capital Requirements Directives for banks and investment firms (CRD IV / CRR). In accordance with these regulations only companies in the financial sector and comapnies providing ancillary services will be included in consolidated capital adequacy. Associates will be proportionately consolidated in relation to shareholding.

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

INVESTMENTS IN ASSOCIATED COMPANIES

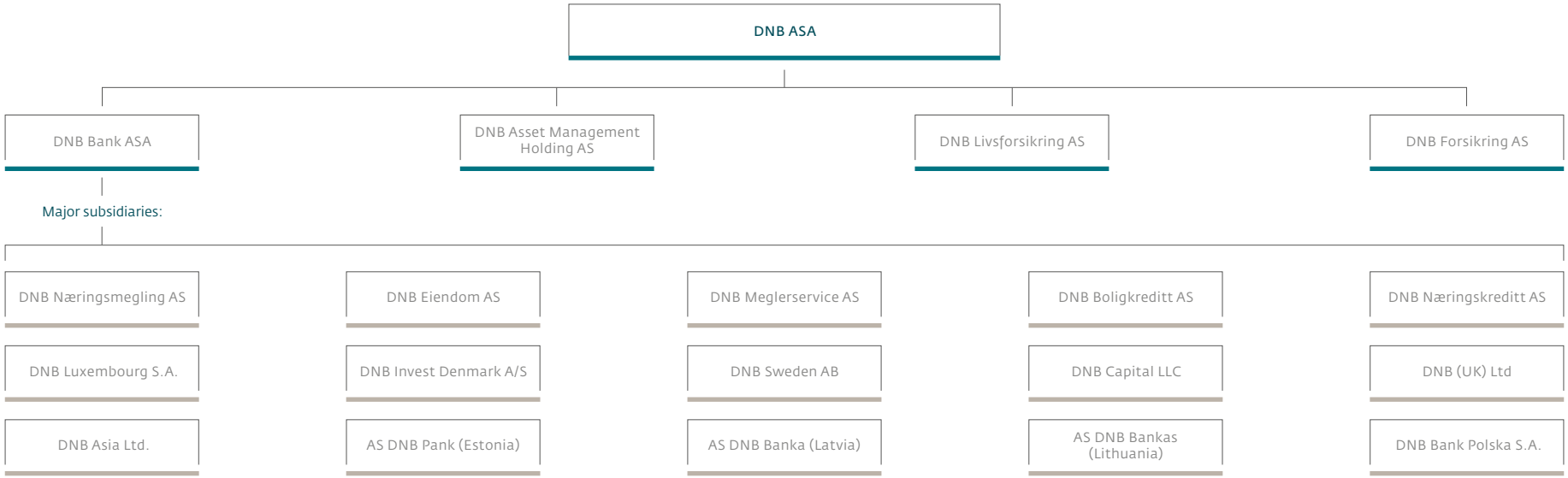
DNB Bank ASA has a 40 per cent ownership interest in Eksportfinans. DNB Bank ASA carries loans in its balance sheets which according to a legal agreement have been transferred to Eksportfinans and are guaranteed by the bank. Pursuant to the agreement, the bank still carries interest rate risk and credit risk associated with the transferred portfolio. According to the IFRS regulations, the loans have therefore not been removed from the balance sheet of the bank. These portfolios totalled NOK 2.2 billion at year-end 2015. The loans are set off by deposits/payments from Eksportfinans. The bank has also issued guarantees for other loans in Eksportfinans. The transactions with Eksportfinans have been entered into on ordinary market terms as if they had taken place between independent parties.

The invesment is recognised in the accounts according to the equity method and consolidated pro rata in the capital adequacy calculations. DNB's share of risk-weighted assets in Eksportfinans was NOK 6.8 billion at year-end 2015

2

Legal structure and consolidation rules for capital adequacy requirements

LEGAL STRUCTURE



3 CAPITAL ADEQUACY

Capital adequacy

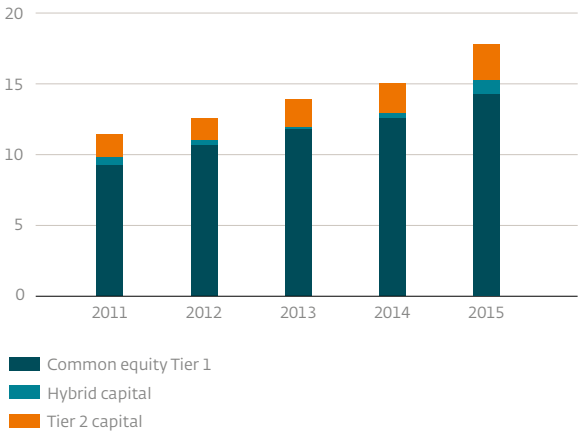
The Basel Committee proposed a new international regulatory framework for capital and liquidity for banks in 2010 (Basel III). The EU has implemented the regulations in its new capital requirements directive, CRD IV, and capital requirements regulation, CRR. The new regulations entered into force as from 1 January 2014. Important parts of the Basel III regulations were transposed into Norwegian legislation as of 1 July 2013.

On its Capital Markets Day in November 2015, the Group raised its targets to a common equity Tier 1 capital ratio of minimum 15 per cent by year-end 2016, and a long-term goal to a common equity Tier 1 capital ratio of 15.5 per cent by year-end 2017.

At year-end 2015, the DNB Group had a common equity Tier 1 capital ratio of 14.4 per cent and a capital adequacy ratio of 17.8 per cent, compared with 12.7 per cent and 15.2 per cent, respectively, a year earlier. These calculations are based on the Basel III transitional rules. Risk-weighted assets were NOK 1 129 billion kroner at year-end 2015.

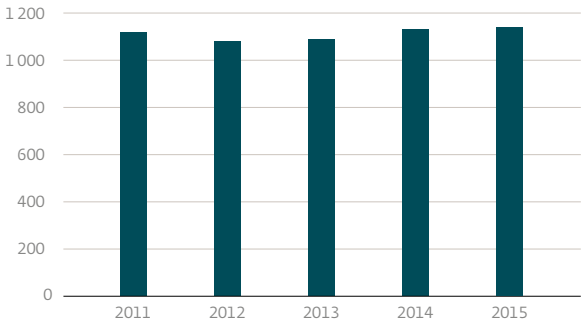
CAPITAL ADEQUACY RATIO, DNB GROUP

Per cent



RISK-WEIGHTED ASSETS, DNB GROUP

NOK billion



The Basel I floor for risk-weighted assets applies to DNB, which reduced the common equity Tier 1 capital ratio by 1.6 percentage points relative to calculations based on the Basel III rules at year-end 2015.

After year-end adjustments and dividend payments, the holding company DNB ASA will have a liquidity reserve of approximately NOK 4 billion.

The DNB Bank Group had a common equity Tier 1 capital ratio of 14.3 per cent and a capital adequacy ratio of 17.9 per cent at year-end 2015, compared with 12.5 and 15.2 per cent, respectively, a year earlier. A separate requirement from the US authorities to the banking group relating to the operations of the subsidiary DNB Markets Inc. in New York must be fulfilled, whereby the Tier 1 capital ratio for the banking group must be 6 per cent and the total capital adequacy ratio 10 per cent. At year-end 2015, this requirement was fulfilled by a widemargin.

DNB Bank ASA had a common equity Tier 1 capital ratio of 15.1 per cent at year-end 2015 compared with 13.2 per cent a year earlier. The capital adequacy ratio was 19.3 per cent at year-end 2015, compared with 16.3 per cent a year earlier.

DNB Livsforsikring had a capital adequacy ratio of 31.3 per cent and a solvency margin of 306 per cent at year-end 2015, which is well above the regulatory requirements of 8 per cent and 100 per cent, respectively. Total annual profits after tax were NOK 1.5 billion. A corresponding amount of Tier 1 capital will be transferred to the company. As of 2016, a common regulatory framework for the capitalisation of insurance companies in Norway and Europe, Solvency II, applies. By year-end 2015 DNB Livsforsikring had a pro forma solvency margin of 113 per cent without the use of transitional rules, and 192 per cent calculated based on the transitional rules. Further information can be found in the chapter on DNB Livsforsikring.

At year-end 2015, DNB Boligkreditt AS had a common equity Tier 1 capital ratio of 15.2 per cent and a capital adequacy ratio of 17.3 per cent, calculated using the transitional rules.

LEVERAGE RATIO

As a supplement to the risk-weighted capital requirements, and as a measure to counteract adjustments and gaps in the regulation, it will also be introduced a requirement to unweighted core capital ratio, Leverage Ratio. The design of the claim is still pending internationally, but it is assumed a minimum requirement of 3 per cent.

LEVERAGE RATIO CALCULATION, DNB GROUP

NOK million	31 Dec. 2015
Tier 1 capital	168 556
Leverage exposure	
Securities financing transaction (SFTs)	318 513
Derivatives market value	79 626
Potential future exposure on derivatives	35 774
Eligible cash variation margin	(17 432)
Off-balance sheet commitments	250 749
Loans and advances and other assets	1 867 764
Deductions	(10 441)
Total leverage exposure	**2 524 553**
CRD IV leverage ratio (%)	**6.7 %**

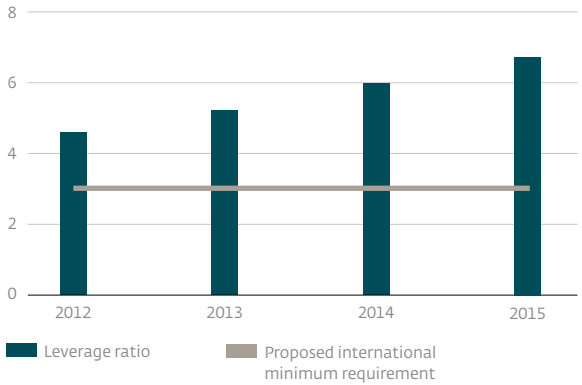
The European Commission will by year-end 2016 propose a non-risk based capital requirement, applicable in the EU from 2018. DNB has set an internal target of minimum 5 per cent leverage ratio.

The DNB calculates its leverage ratio, LR, in accordance with the revised article 429 of the CRR, and the EU Commission Regulation that entered into force on 18 January 2015.

At year-end 2015, the Group's leverage ratio was 6.7 per cent, up from 6 per cent a year earlier. The diagram shows that DNB is well positioned to meet the announced future requirements.

LEVERAGE RATIO, AGAINST AN ANTICIPATED MINIMUM REQUIREMENT OF 3 PER CENT

Per cent



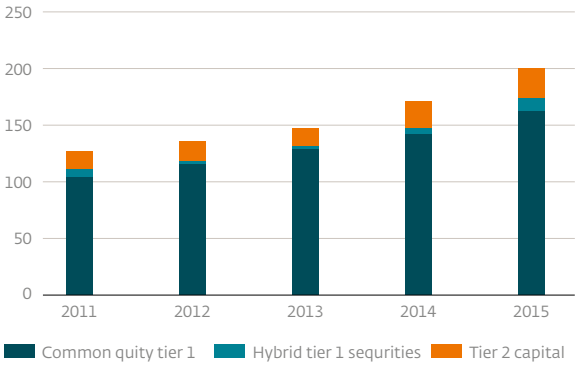
PRIMARY CAPITAL

A strong level of profits of NOK 24.8 billion for 2015 enabled the DNB Group to continue to build capital. The healthy profit reflected an increase in net interest income, an increase in other revenues and reduced costs. DNB's common equity Tier 1 capital has been increased by NOK 21 billion over the past twelve months. Core capital was further increased by the issuance of NOK 6 billion in hybrid securities. Tier 2 capital was increased by NOK 4 billion in 2015 from issuance of subordinated debt. Further information about primary capital can be found in the attachment.

When considering the dividend proposal for 2015, the Board of Directors has taken the regulatory capital adequacy requirements for the coming years into account. The Board of Directors has thus proposed a dividend for 2015 of NOK 4.5 per share. The proposed dividend gives a dividend yield of 4.1 per cent based on a share price of NOK 109.8 as at 31 December 2015. The proposed dividend implies that DNB ASA will distribute a total of NOK 7.3 billion in dividends for 2015. The payout ratio represents approximately 30 per cent of earnings per share. According to DNB's long-term financial ambitions, DNB shall, in the period up to 2018, achieve a return on equity above 12 per cent, a long-term common equity Tier 1 capital ratio of minimum 15.5 per cent and a dividend payout ratio of more

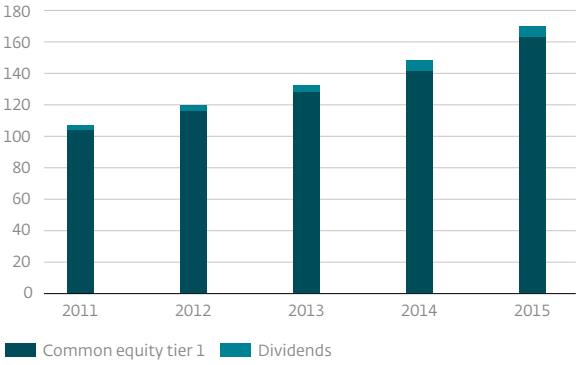
PRIMARY CAPITAL, DNB GROUP

NOK billion



CET 1 AND DIVIDENDS, DNB GOUP

NOK billion



than 50 per cent, subject to a satisfactory capital adequacy level.

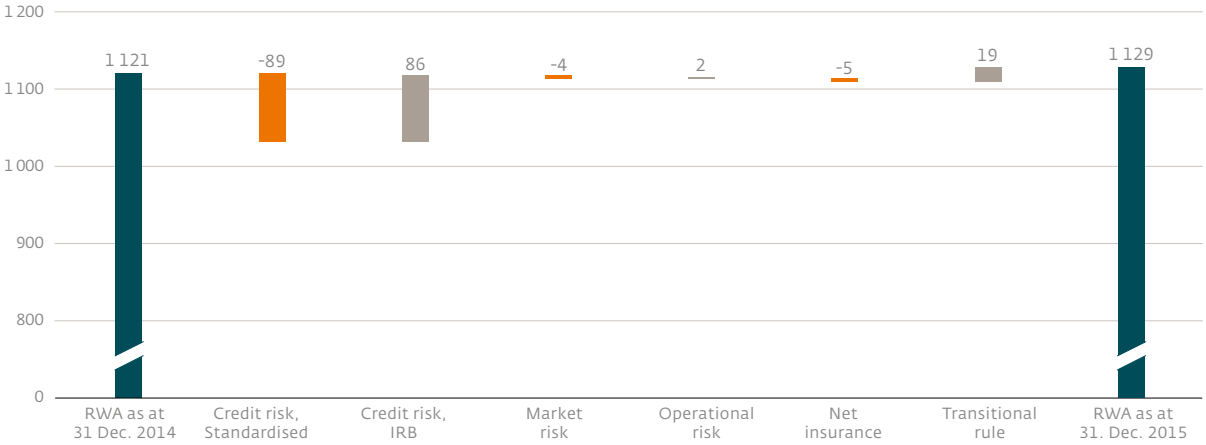
RISK-WEIGHTED ASSETS

The DNB Group reports credit risk for the major part of the portfolio according to the IRB approach, which means that internal models based on the bank's loss records for previous years are used to calculate capital requirements. For the corporate portfolio, the advanced IRB approach is used, which implies that internal models for probability of default, (PD), loss given default, (LGD), exposure at default (EAD) and maturity (M) are used both for governance purposes and in capital adequacy calculations. The IRB portfolios are described in further detail in the chapter on credit risk. DNB Bank ASA reports operational risk according to the standardised approach, while some subsidiaries use the basic indicator approach. Market risk is reported according to the standardised approach.

Risk-weighted assets increased by NOK 9 billion during 2015, totalling NOK 1 129 billion at the end of the year. The supplementary capital, calculated in accordance with the transitional rules, increased by 19 billion compared with year-end 2014. Calculated by the Basel III rules risk-weighted assets decreased by 10 billion in 2015. Calculated according to the IRB approach,

DEVELOPMENT IN RISK-WEIGHTED ASSETS, DNB GROUP

NOK billion



credit risk rose by NOK 86 billion, while the volume calculated by the standardised approach was equivalently reduced. The explanation is that the simulation models for large corporates were adopted for reporting from the fourth quarter of 2015.

BUFFER REQUIREMENTS

The combined buffer is a key element in the new capital adequacy regulations. This buffer represents the total of the capital conservation buffer, the systemic risk buffer, the buffer for other systemically important institutions (O-SII) buffer and a possible counter-cyclical buffer. These buffers must consist of common equity Tier 1 capital. If the common equity Tier 1 capital falls below the level required to meet the minimum and the combined buffer requirements, there will be restrictions on dividend and bonus payments and on repayment of hybrid capital.

1) EAD, exposure at default.
2) Due to transitional rules, the minimum capital adequacy requirements cannot be reduced below 80 per cent of the corresponding figure calculated according to the Basel I regulations.

SPECIFICATION OF RISK-WEIGHTED VOLUME AND CAPITAL REQUIREMENTS, DNB GROUP

NOK million	Nominal exposure 31 Dec. 2015	EAD[1] 31 Dec.2015	Average risk weights in per cent 31 Dec. 2015	Risk weighted volume 31 Dec. 2015	Capital requirements 31 Dec. 2015	Capital requirements 31 Dec. 2014
IRB approach						
Corporate	1 108 681	903 210	46,3	417 760	33 421	29 699
Specialised Lending (SL)	10 813	10 042	58,2	5 844	468	179
Retail - mortgage loans	667 612	667 612	22,9	153 008	12 241	8 705
Retail - other exposures	111 886	92 132	26,7	24 568	1 965	2 016
Securitisation	19 162	19 162	78,3	15 007	1 201	1 820
Total credit risk, IRB approach	**1 918 154**	**1 692 158**	**36,4**	**616 187**	**49 295**	**42 419**
Standardised approach						
Central government	60 174	74 103	0,6	411	33	18
Institutions	345 489	109 775	25,4	27 873	2 230	2 730
Corporate	176 199	138 347	87,3	120 710	9 657	16 153
Retail - mortgage loans	48 498	46 475	47,4	22 046	1 764	1 657
Retail - other exposures	93 085	43 513	75,9	33 024	2 642	2 757
Equity positions	3 193	3 193	107,9	3 444	276	241
Securitisation	2 474	2 474	30,2	748	60	66
Other assets	5 912	5 912	113,1	6 684	535	674
Total credit risk, standardised approach	**735 025**	**423 792**	**50,7**	**214 939**	**17 195**	**24 297**
Total credit risk	**2 653 178**	**2 115 950**	**39,3**	**831 127**	**66 490**	**66 715**
Market risk						
Position risk, debt instruments				14 261	1 141	1 380
Position risk, equity instruments				456	36	39
Currency risk						0
Commodity risk				38	3	9
Credit value adjustment risk (CVA)				6 407	513	601
Total market risk				**21 161**	**1 693**	**2 029**
Operational risk				83 381	6 670	6 546
Net insurance, after eliminations				80 791	6 463	6 828
Deductions						0
Total risk-weighted volume and capital requirements before transitional rules				**1 016 460**	**81 317**	**82 119**
Additional capital requirements according to transitional rules[2]				**112 913**	**9 033**	**7 534**
Total risk-weighted volume and capital requirements				**1 129 373**	**90 350**	**89 653**

The table shows compliance with the minimum and buffer requirements as at 31 December 2015. With respect to the 8 per cent minimum capital adequacy requirement, Tier 2 capital can represent up to 2 per cent while hybrid capital can represent up to 1.5 per cent. Both the banking group and the financial services group meet the minimum requirement by using the maximum amount of Tier 2 capital. Hybrid capital represented approximately 1 per cent of the maximum allowed 1.5 per cent. This means that common equity Tier 1 capital must be used to meet the remainder of the minimum requirement, which reduces the amount of common equity Tier 1 capital that can be used to meet the bufferrequirements.

At year-end 2015 there was a surplus of common equity in relation to total capital requirements at 18.6 and 25.5 billion respectively for the banking group and financial conglomerate.

The introduction of buffer requirements happens incrementally. At year-end 2015 the combined buffer requirement was composed of capital conservation buffer, systemic risk buffer, O-SII buffer and the counter cyclical buffer, and constituted 7.5 per cent. By mid-year 2016 countercyclical buffer will increase from 1 to 1.5 per cent and buffer for systemically important institutions will increase from 1 to 2 per cent.

TOTAL CAPITAL REQUIREMENTS, DECEMBER 2015

NOK million	Rate	DNB Bank Group	DNB Group
Risk-weighted volume (minimum capital requirement)		1 056 731	1 129 373
Risk-weighted volume (buffer requirements) [1)]		1 056 731	1 066 026
Minimum Common equity Tier 1 capital req.	4,5 %	47 553	50 822
MinimumTier 1 capital req.	6,0 %	63 404	67 762
Minimum Total primary capital req.	8,0 %	84 538	90 350
Allocation of capital to cover minimum capital requirements			
Common equity Tier 1 capital		53 137	57 495
Additional Tier 1 securities		10 267	10 267
Tier 2 capital		21 135	22 587
CET1 buffer requirements			
Capital conservation buffer	2,5 %	26 418	26 651
Systemic risk buffer	3,0 %	31 702	31 981
Buffer for systemically important institutions (O-SII)	1,0 %	10 567	10 660
Counter-cyclical buffer	1,0 %	10 567	10 660
Combined buffer requirement		79 255	79 952
Common equity Tier 1 capital vs combined capital requirements			
Common equity Tier 1 capital		150 948	162 965
Minimum capital requirement - CET1		-53 137	-57 495
Buffer capital requirements		-79 255	-79 952
Surplus of Common Equity Tier 1 Capital		**18 556**	**25 518**

1) The risk-weighted volume for calculation of buffer requirements is without cosolidation of the insurance companies, and therefor somewhat lower for the DNB Group

4

RISK MANAGEMENT AND CONTROL IN DNB

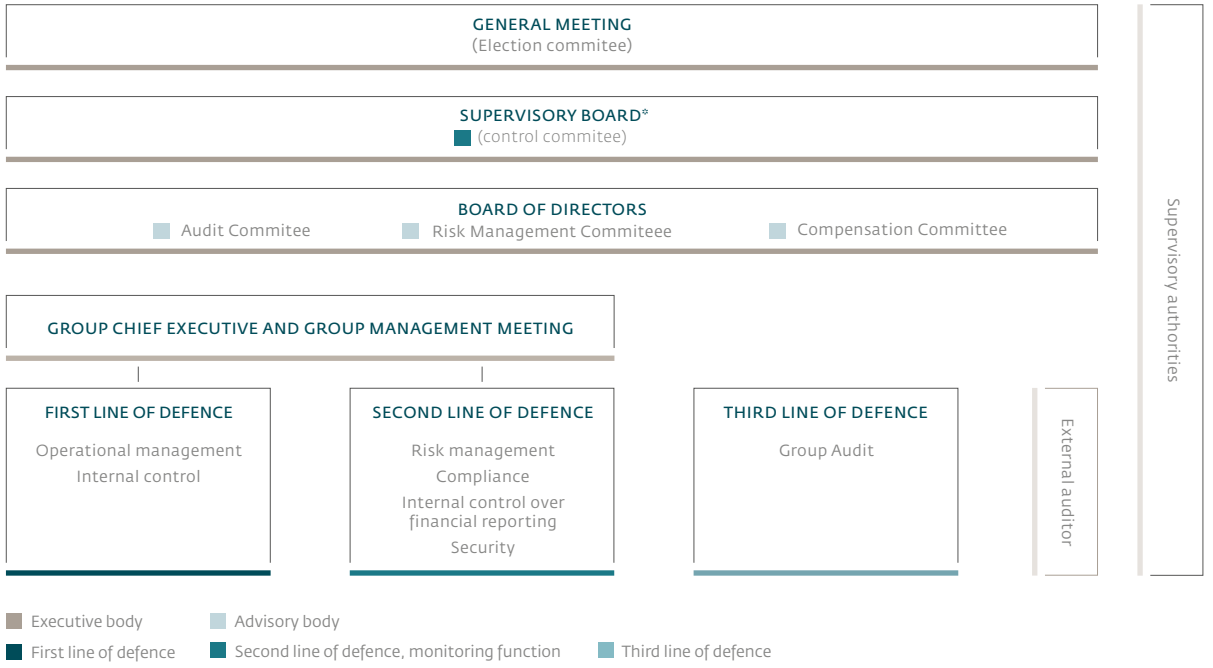
Risk management and control in DNB

DNB Bank ASA shall have a low overall risk profile, and will only assume risk which is comprehensible and possible to follow up. DNB is committed not to offer products or services or perform other acts which entail a significant risk of contributing to unethical conduct, the infringement of human or labour rights, corruption or serious environmental harm. DNB Bank ASA aims to maintain an AA level international rating for ordinary long-term debt.

The primary aim of risk management in DNB is to achieve an optimal balance between the Group's risk of losses and its earnings potential in a long-term perspective. Risk management implies that profitability is considered relative to risk, while ensuring that the Group is secured against unintentional risk.

Healthy risk management is based on a strong risk culture, which is characterised by a high level of awareness concerning risk and risk management in the organisation. A common risk management framework provides the basis for developing a sound culture and for effective management of the Group.

GOVERNING BODIES IN THE DNB GROUP



*The committee was closed down as of 1 January 2015.

RESPONSIBILITIES AND ORGANISATION

Risk management in DNB is based on a model with three lines of defence. Key risk management principles are clear goals and strategies, policies and guidelines, as well as an effective operating structure and transparent reporting.

The first line of defence is the operational management's governance and internal control, including processes and activities to reach defined goals relating to operational efficiency, reliable financial reporting and compliance with laws and regulations. The business units own the risk and are responsible for daily risk management within their area. They shall at all times ensure that risk management and risk exposure are within the limits and overarching principles decided by the Board of Directors.

The second line of defence represents independent functions which monitor and follow up the operational management's governance and internal control. The functions are established to ensure that the first line of defence is properly designed and functions as intended. The second line of defence is responsible for setting the premises for risk management and for coordination across organisational units. The risk management function supervises the implementation of effective risk management in the first line, and is responsible for identification, quantification, analysis and reporting of all risks. The function develops classification models and processes that help business units manage risk. The compliance function ensures that operations are carried out in compliance with applicable laws and regulations. Internal control over financial reporting monitors financial risks and accounting issues.

The third line of defence is Group Audit, which reviews and evaluates group management's overall governance and internal control. Group Audit reviews risk management in the first and second lines of defence, and identifies potential improvements in operations by evaluating risk management and internal control. Group Audit is independent of the Group's executive management and reports to the Board of Directors of DNB ASA.

Governing bodies in the DNB Group, as well as risk management and internal control, are illustrated below. As of 1 January 2016, financial undertakings are no longer required to have a Control Committee or a Supervisory Board, and these bodies were therefore closed down with effect from the same date.

BOARD OF DIRECTORS

The Board of Directors of DNB ASA carries responsibility for ensuring that the Group is adequately capitalised relative to the risk and scope of operations, and that capital requirements stipulated in laws and regulations are met. The Board of Directors of DNB ASA sets long-term targets for the Group's risk profile through the risk appetite framework. The Board of Directors continually monitors the Group's capital situation; see further information under Capital management and ICAAP.

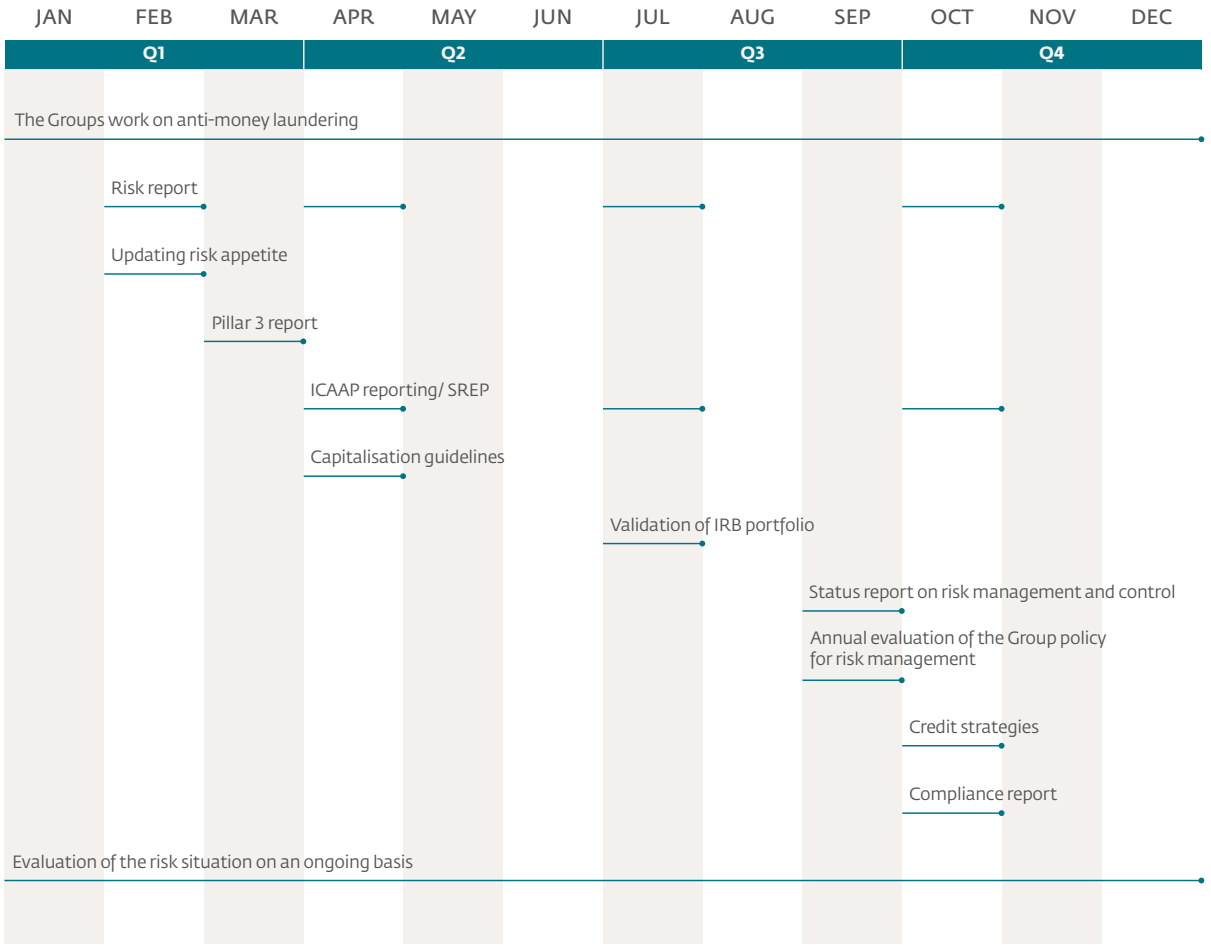
The Board of Directors of DNB ASA annually reviews the Group's principal risk areas and internal control. The review, which is based on reporting from the group chief executive, aims to document the quality of the work performed in key risk areas and to identify any weaknesses and needs for improvement. The Boards of Directors of DNB Bank ASA, DNB Livsforsikring AS and other significant subsidiaries annually evaluate the companies' key risk areas and internal control.

The Risk Management Committee monitors the Group's internal control and risk management systems, as well as the internal audit, and makes sure that they function effectively. In addition, the committee advises the Board of Directors with respect to the Group's risk profile, including the Group's current and future risk appetite and strategy. Advice to the Board of Directors may include strategies for capital and liquidity management, credit risk, market risk, operational risk, risk related to compliance and reputation, as well

as other risks within the Group. The committee makes preparations for the Board's monitoring of risk management within the Group, which includes reviewing and assessing group management's risk reporting. Particular emphasis is placed on the capitalisation of the Group (ICAAP), significant changes in models for calculating risk-adjusted capital and risk-adjusted returns, as well as the monitoring of risk limits and strategies. The committee consists of four members elected by the Board of Directors for terms of up to two years.

The Audit Committee evaluates the quality of the work performed by Group Audit and the statutory auditors, and shall ensure that the Group has independent and effective external and internal audit procedures, as well as a satisfactory financial reporting in compliance with laws and regulations. The Audit Committee considers and submits a recommendation regarding the choice of statutory auditor for the Group and the statutory auditor's remuneration. The Committee assesses and monitors the independence of the auditor. The committee also supervises the financial reporting process, has regular contact with the external and internal auditors on the audit of the financial statements, and reviews the statutory audit of the annual accounts and consolidated accounts. The committee makes preparations for the Board's monitoring of the financial reporting process, and also reviews and assesses the Group's financial reports. The committee consists of

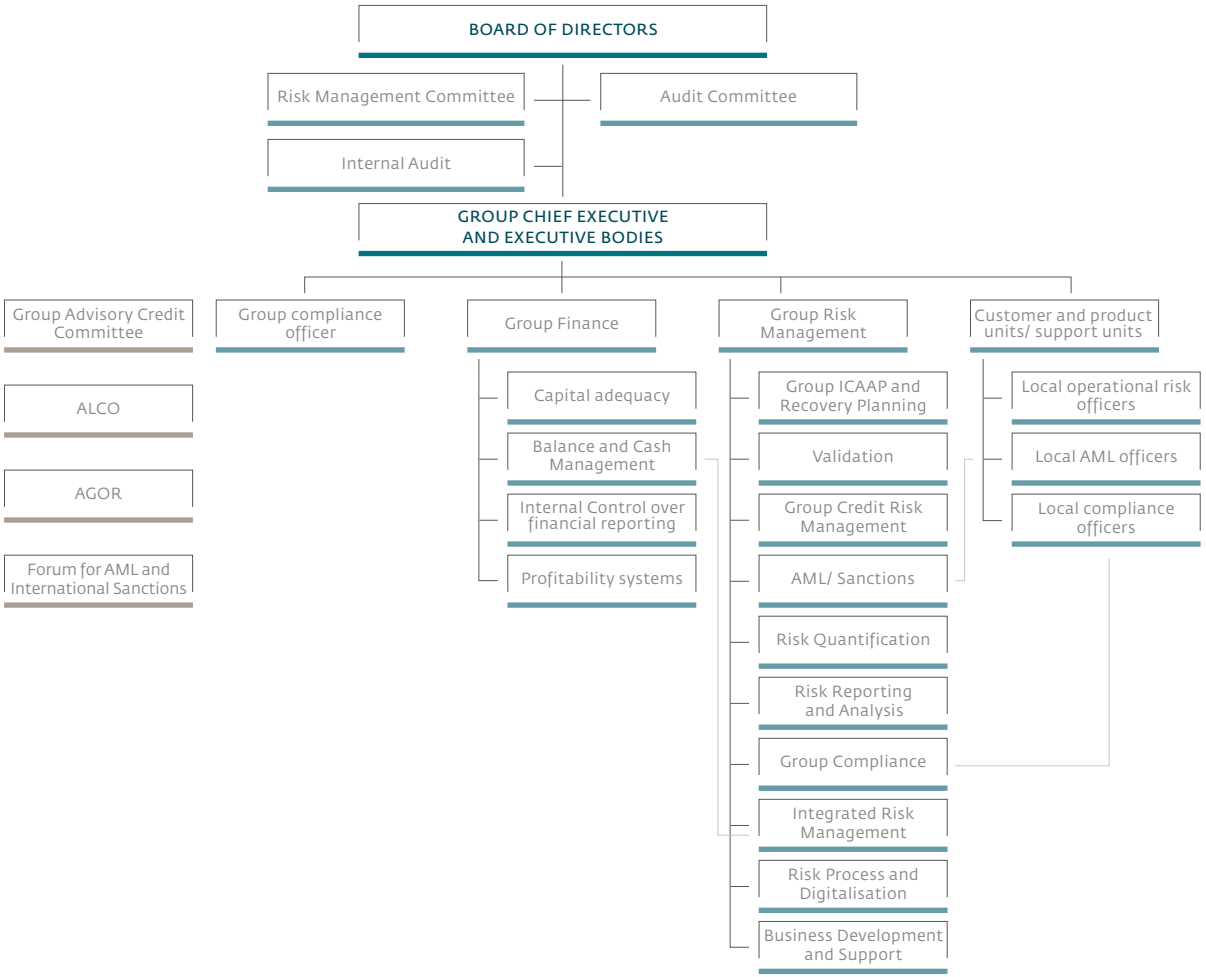
THE RISK MANAGEMENT COMMITTEE'S ANNUAL WORK



four members, of whom at least one must be independent and have qualifications in accounting and/or auditing.

The Compensation Committee consists of three members of the Board, and meets as often as necessary. The committee puts forth a recommendation for the Board of Directors' guidelines for remuneration to senior executives in accordance with Section 6-16a in the Public Limited Companies Act. The committees draws up proposals and issues recommendations to the Board of Directors regarding the remuneration awarded to the group chief executive and acts in an advisory capacity to the group chief executive with respect to the remuneration and other important personnel-related matters concerning members of the group management team and any others reporting to the group chief executive. The Compensation Committee has the authority to examine all activities and aspects of the Group's operations and may obtain information from any employee. See chapter on DNB's remuneration scheme for more information.

ORGANISATION OF RISK MANAGEMENT AND INTERNAL CONTROL IN DNB



GROUP CHIEF EXECUTIVE AND EXECUTIVE BODIES

The group chief executive is responsible for implementing risk management measures that help achieve targets for operations set by the Board of Directors of DNB ASA, including the development of effective management systems and internal control.

The group management meeting is the group chief executive's collegiate body for management at group level. All important decisions concerning risk and capital management will generally be made in consultation with the group management team. Authorisations must be in place for the extension of credit and for position and trading limits in all critical financial areas. All authorisations are personal. Authorisations are determined by the Board of Directors of DNB ASA, along with overall limits, and can be delegated in the organisation, though any further delegation must be approved and followed up by the relevant person's immediate superior. See also the chapter about credit risk for a description of the credit authorisation structure.

A number of advisory bodies have been established to assist in preparing documentation and implementing monitoring and control within various specialist areas:

- The Asset and Liability Committee, ALCO, is an advisory body for the chief financial officer and the chief risk officer and handles matters relating to the management of market and funding risk, risk modelling, capital structure and return targets.
- The Group Advisory Credit Committee approves large credits to selected borrowers that are customers of more than one business area and advises the group chief executive and the Board of Directors in connection with large individual credit proposals.
- Advisory Group Operational Risk, AGOR, is an advisory committee for the Group's chief risk officer and helps develop the Group's solutions within operational risk management to ensure effective and consistent monitoring and reporting throughout the Group.
- The Forum for AML and International Sanctions is an advisory body for the Group's chief risk officer and provides advice and guidance with respect to DNB's compliance with international sanctions and the Group's anti-money laundering and counter-terrorism financing work.

GROUP RISK MANAGEMENT

Group Risk Management is the central, independent risk management unit in DNB, and constitutes the main part of the second line of defence. The entity is headed by the Group's chief risk Officer, CRO, who reports directly to the group chief executive. The CRO sets the premises for risk taking and internal control, and assesses and reports the Group's risk situation. The majority of the Group's risk entities are organised in Group Risk Management.

Divisions have been established in Group Risk Management with group-wide responsibility for credit risk, market and liquidity risk, operational risk, model development and stress testing, validation, risk reporting and analysis, compliance and AML/sanctions.

There are requirements for impartiality and independence in risk management, and all units with special functions within risk management shall as a rule be independent and have high integrity. Good interaction between risk functions and business operations is nevertheless a prerequisite for the development of a good risk culture. Operative risk management is organised in the business areas.

The compliance function is an independent function which identifies, evaluates, gives advice on, monitors and reports on the Group's compliance risk. The function is headed by the Group compliance officer, GCO, who reports to the Board of Directors via the group chief executive. All business areas and support units, as well as large subsidiaries and international entities, have a compliance

function with responsibility for ensuring compliance with relevant regulations. The compliance functions in international entities and the Group's operations in the Baltics and Poland report directly to the GCO. The responsibility for ethics in the DNB Group is also organised under the compliance function.

Group Risk Management, represented by the group AML officer, is responsible for ensuring that the monitoring of money laundering in accordance with the laws and regulations. The AML/Sanctions division has been established under Group Risk Management, and reports to the CRO. The unit is responsible for management and control within this field, and for reporting on the risk situation. All business areas and support units, as well as large subsidiaries and international entities, report directly to AML/Sanctions and are responsible for ensuring that anti-money laundering procedures and sanctions are being followed up.

In 2015, operational risk, market risk, liquidity and insurance risk, and the responsibility for risk appetite were organised in a single division, Integrated Risk Management. The division is responsible for monitoring a number of the Group's processes related to the individual risk types. Within operational risk, the guidelines for operational risk describe how risk should be kept low through few events and low losses. There should be an operational risk officer, ORO, in all business areas and support units. The ORO function shall be independent of business operations. The OROs are responsible for registering events related to operational risk and for following up these events and establishing risk-mitigating measures. The OROs are also involved in preparing the annual internal status report regarding management and control of operational risk, which is part of a report to the Board on the entire Group.

At least once a year a validation of the IRB models and stress testing of the Group's IRB portfolios shall be carried out. The work is organised in units that are independent of the business areas. The validation is also independent of the entities responsible for model development and credit management. The Board establishes requirements for the content of the validation and stress testing activities.

GROUP AUDIT

Independent and effective audits will help ensure satisfactory risk management and internal control, as well as reliable financial reporting. Group Audit receives its instructions from the Board of Directors of DNB ASA, which also approves the department's annual plans and budgets.

Group Audit should verify that adequate and effective risk management and internal control are in place. Group audit should also assess whether risk identification, established management processes and control measures effectively contribute to strengthening the Group's ability to reach targets.

RISK REPORTING

All information concerning risk should be based on the fundamental principles of transparency and accessibility. Follow-up of risk targets, risk limits and indicators, determined at the respective organisational levels, are to be included in the risk reporting. Risk reporting should contribute to the development of a common culture for the entire Group, and will be as far as possible be based on common principles and terminology. External risk reporting shall be based on the same principles as the internal risk reporting.

GROUP POLICY FOR RISK MANAGEMENT

The Board of Directors of DNB ASA has approved the group policy for risk management, which should serve as a guide for DNB's overall risk management and describes the ambitions for attitudes to and work on risk in the DNB Group. The principles in the group policy for risk management are described in further detail in group guidelines. The Board of Directors has also approved group policies for compliance and ethics, which are also owned by the Group's CRO.

RISK REPORTING IN DNB

Management frequency	Management body	Reporting
Monthly	Group management meeting	Monthly status on all statements in the risk appetite framework
Quarterly	Audit Committee Risk Management Committee The Board of Directors DNB ASA The Board of Directors DNB Bank ASA The Board of Directors DNB Livsforsikring The Board of Directors DNB Forsikring	**Risk report** The report provides a status of the risk situation, measured in accordance with the framework for risk appetite. The report includes the utilisation of limits set by the boards of DNB ASA, DNB Bank ASA and DNB Livsforsikring. The Board of Directors of DNB Livsforsikring receives quarterly reports with an assessment of the company's risk situation.
	The Board of Directors of large international subsidiaries in DNB	Risk reports with a evaluation of the companies risk situation
Yearly	The Risk Management Committees and the Board of Directors of DNB ASA and DNB Bank ASA	**ICAAP report (Internal Capital Adequacy Assessment Process)** The report contains a self-assessment of the risk and capital situation in DNB. Group Audit performs a review of the ICAAP process in DNB, and a report with the audit summaries is treated in the same meeting.
	The Risk Management Committees and the Board of Directors of DNB ASA	**Compliance report** The report provides a review of the Group's overall compliance risk and the measures necessary to reduce this.
		Validation report Review of the validation results, i.e. verification of the robustness of the internal credit models.
		Status report on the management and control of operational risk Summary of the process carried out in all business and support areas, and cover two parts: ■ Self assessment of quality in management and operations. ■ Risk assessment of significant risk.

GROUP POLICY FOR RISK MANAGEMENT

Risk management is an integrated part of DNB's corporate governance and includes:

- Identification, assessment, reporting and monitoring the Group's risks.
- Proactive advise on the risk aspect of decisions.
- Methods, tools, limits, guidelines, training and processes for decision support and verification related to risk assessments.

Purpose

The risk management policy is a common framework for risk management in all units in the DNB Group.

Aim

All activity in the group involves risk. The ability to manage risk is the core of financial activity and a prerequisite for value creation over time.

The Group shall only assume risk which is understood and can be followed up and shall not be associated with activities that can harm its reputation. There is a clear separation between risk which is taken actively, where return should be maximized, and risk which should be held to an acceptably low level. The culture of the group shall be characterized by individual responsibility, transparent methods and processes that support good risk management. Risk management shall have good quality and high information value.

Management and measurement

1. The Board establishes the acceptable level of risk for DNB through risk appetite statements describing what risk level the group is prepared to accept.
2. Limits and / or strategies must be established for all significant risks.
3. Risk shall be included explicitly in management followup and compensation considerations in the form of boundary indicators that serve as the operationalization of the overall framework and strategies.
4. All authorizations are personal.

The process

5. The responsibility for risk management in DNB is role-dependent:

- Employee: Each employee has the responsibility to understand and act on the risks he or she sees in their own work.
- Leader: The individual leader must empower the employees' understanding of and active approach to risk.
- Chief Risk Officer: The CRO and the risk organization set the premises for the Group's risk management and sets the limits and follow up the Group's risk situation.
- CEO: The Chief Executive Officer is responsible for implementing a risk management system that helps to fulfill the objectives and scope set by the Board of DNB ASA
- The Board: The Board has the overall responsibility for all risk management within the Group, including implementation in accordance with laws, regulations and guidelines.

6. Risk management should be based on efficient, flexible and transparent processes adapted to the requirements of managing risk.
7. The risk management function has the second line responsibility for organizing and controlling these processes.

Follow-up

8. Consistent risk definitions, risk reporting and key figures shall form the basis for all measurement and reporting in a manner that ensures that there are neither gaps nor unnecessary overlaps in the Group's risk management.
9. All employees in DNB are responsible for reporting and dealing with material events or exceptions.
10. The Group's risk situation is to be reported monthly to the Group Management and quarterly to the Board of Directors and the market.

Evaluation

11. The Group's work on risk management shall be regularly checked and tested.
12. Group Audit, as the third line of defense, assists the Board in ensuring that there is quality in all essential elements of the Group's risk management framework.

RISK APPETITE

The risk appetite framework represents an operationalisation of the group policy and guidelines for risk management, and shall ensure that risk management is integrated in the Group's other governance processes. The risk appetite framework shall provide a comprehensive and balanced overview of the risks the Group is willing to accept in order to realise its goals. Measuring risks against the risk appetite framework will provide an overview of the risk situation in the DNB Group. In 2015, the work on anti-money laundering was included in the risk appetite framework.

In the risk appetite framework, risk is considered in a uniform manner across risk types and business areas. There is both qualitative and quantitative risk measurement and management. The risk appetite framework shall ensure that a holistic view of risk is included in the Group's strategy and planning. All planned and actual deviations from the determined risk appetite are presented to the Group's governing body for review and further decision. The framework will give management the opportunity to evaluate options, and implement measures so that a negative trend can be reversed before the defined risk appetite level is broken.

As part of the risk appetite framework, a set of governance principles and operational procedures

RISK TYPES AND CORRESPONDING MEASUREMENT IN THE RISK APPETITE FRAMEWORK

Risk type	Measurement
Profitability and earnings	Probability of not reaching the minimum capital target in 2016
	Risk-adjusted profit
Capital adequacy	Common equity Tier 1 in accordance with step-up plan
	Current level of Solvency II position with and without transitional rules
	DNB Bank ASA credit rating against target
Market risk	Market risk in per cent of total risk-adjusted capital
Credit risk	Industry concentration (EAD)
	Single customer concentration (risk-adjusted capital)
	Expected loss in per cent of Group EAD
	Annual EAD growth
Liquidity risk	LCR in accordance with minimum requirements
	NSFR in accordance with step-up plan
	Deposits to loans adjusted for volatile deposits
Operational risk	Operational losses and significant operational events
	Number of critical IT events
Reputational risk	RepTrak measure undertaken by Reputation Institute
Anti-money laundering	Progress of all activities defined in the AML action plan

and responsibilities within the DNB Group have been defined. These are vital to ensure that risk appetite contributes to risk management being integrated with other key steering processes in the organisation. This while still maintaining the required independence to function as a reference point for risk consequences of the organisation's strategic and financial planning.

- **Ownership:** Ownership of the framework rests with the Board of Directors. All changes to the framework and the governance principles are to be approved by the Board of Directors.
- **Accountability and responsibility:** Each risk appetite statement is to be assigned an owner within the administration, who will be responsible for follow-up if risk levels are exceeded.
- **Annual review:** The risk appetite framework is to be reviewed at least once a year in a process initiated by the Group's chief risk officer. The annual review is to take place independent of the strategic and financial planning process.
- **Reporting:** There will be monthly reporting of actual risk exposure within the DNB Group in the form of a "traffic light" representation. Based on this reporting structure there are pre-defined procedures for following up and handling risks that are approaching critical levels vis-à-vis the risk appetite statements, and for risk elements that may have exceeded such levels.

In addition to the measurement methods shown in the table, the owners of the respective risk appetite statements are responsible for making qualitative assessments of whether the measurement adequately reflects risk developments and whether the risk level is within acceptable limits.

The risk appetite framework is operationalised in the business areas and support units by establishing risk indicators and related targets in the governance system. The use of risk indicators tailored to the various units in the Group will help ensure that risk remains within the desired level. Risk indicators are in the form of either limits for quantifiable risk or qualitative assessments of the risk level. They do not need be based on the same measurement parameters as the ones used at group level, though they must support the same risk types and show the same trend. Continual monitoring of these target figures will ensure that the risks that are considered to be the most significant are also subject to monitoring and discussion in operative units in the organisation.

The yellow traffic light triggers a formal process, with clearly defined responsibilities at management level. A discussion at group management level must take place, and an explicit decision made as to whether or not the situation needs to be rectified. A red traffic light is to be reported to the Board of Directors in the first subsequent meeting, with a requirement to formulate an action plan to either bring the statement out of the 'red' zone or to accept a deviation.

RESOLUTION AND RECOVERY PLAN

For the risk appetite framework to function as an 'early warning system', focused management decisions at the right point in time are essential. DNB has put in place a hierarchy of contingency indicators and measures as illustrated in the chart below.

In 2013, Finanstilsynet (the Norwegian Financial Supervisory Authority) instructed DNB to prepare a recovery plan based on a recommendation from the European Banking Authority. The preparation of such plan a plan is required according to the EU draft The Bank "Recovery and Resolution Directive", BRRD, which came into force in the EU as of 1 January 2015. In 2015 the DNB College, which consists of Finanstilsynet and regulators in other countries where DNB operates, rated DNB's recovery plan against the BRRD requirements and the EBA's supplementary guidelines, in spite of the fact that the BRRD has not yet been incorporated in the EEA Agreement. The recovery plan is updated each year. DNB has delivered a Living Will, a resolution plan, to the US authorities concerning its operations in the US.

The recovery plan shall ensure restoration of the Group following situations of severe stress without

any involvement by or support from the authorities. The recovery plan will be an integrated part of the Group's risk and capital management framework and will be activated only if pre-defined indicators are breached. Indicator breaches will trigger a thorough assessment of the situation and the possible implementation of measures. If recovery is not feasible, the Group will enter the resolution phase. The authorities will then be responsible for developing a resolution plan for this phase.

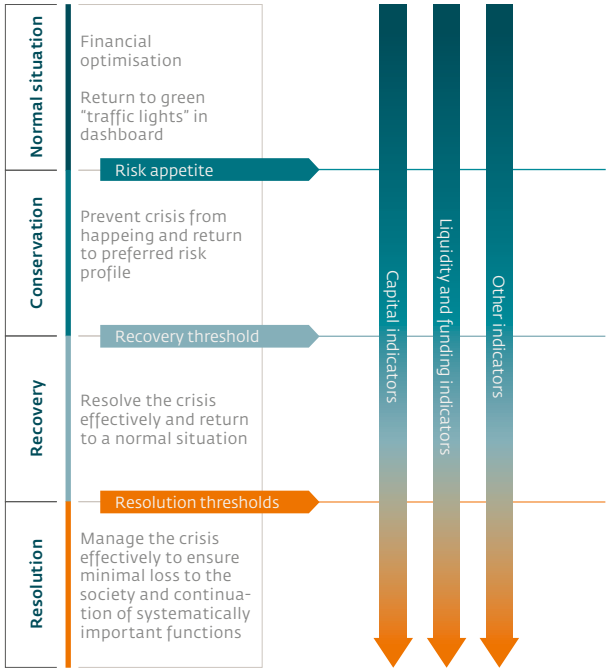
The recovery plan includes the following descriptions:

- Strategic analysis of the DNB Group and critical functions performed by DNB
- Operational and legal interconnectedness to external parties and within the Group
- Governance processes in recovery planning and recovery plan implementation
- Crisis scenarios that may trigger a recovery situation
- Recovery measures that may improve the Group's capital adequacy and liquidity situation
- Preparatory measures to ensure the effectiveness of the recovery measures
- Communication plan in crisis situations

RISK-ADJUSTED CAPITAL AND CAPITAL ALLOCATION

The DNB Group quantifies risk by measuring economic capital, called risk-adjusted capital, internally in DNB. The Group's total risk model is used to measure risk-adjusted capital in DNB. Risk-adjusted capital measures the risk of losses stemming from the different business activities, and allows for comparison across risk categories and business areas. The quantification is based on statistical probability calculations for the various risk categories on the basis of historical data. In cases where the historical data is of inadequate quality, expert assessments are applied. The model initially simulates the risk of losses stemming from each of the different risk categories before calculating the total risk. A significant diversification effect arises when the various risks are considered together, as it is unlikely that all losses will occur at the same time. The diversification effects between risk categories and business areas imply that the Group's risk-adjusted capital will be much lower than if the business areas had been independent companies.

CONNECTION BETWEEN RISK APPETITE, DIFFERENT PREPAREDNESS MEASURES WITHIN THE GROUP AND THE RECOVERY PLAN



DNB has stipulated that risk-adjusted capital should cover 99.97 per cent of potential unexpected losses within a one-year horizon. This level is in accordance with an AA level rating target for ordinary long-term debt.

The allocation of capital to the various business units is a key element in DNB's governance model and an operationalisation of the principle that the Group's capital requirement, represented by the common equity Tier 1 capital requirement, shall be allocated in full to all business areas. DNB uses risk-adjusted returns in management and the internal reporting of activities on different organisational levels. In the pricing and management systems, capital shall be allocated to ensure an adequate long-term return on capital. The allocation principles are adapted to the different types of risk.

- Capital for credit risk is allocated based on the Group's internal calculation of risk-adjusted capital for credit, multiplied by a factor to reflect that external requirements are higher.
- Capital for market risk in DNB Markets is based on the reported risk-weighted assets multiplied by the Group's common equity Tier 1 capital target
- Capital for operational risk is calculated as a factor of income. The same factor is used for all units, reflecting the Group's capital target.

RISK-ADJUSTED CAPITAL BY RISK CATEGORY, DESEMBER 2015
Per cent

5

CAPITAL MANAGEMENT AND ICAAP

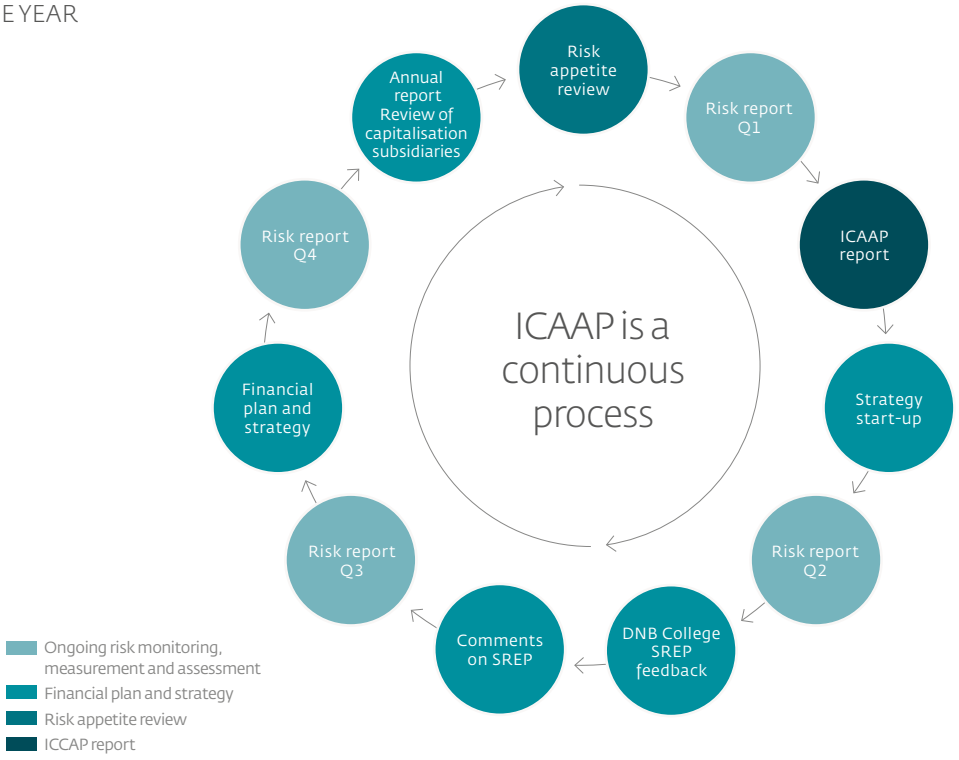
Capital management and ICAAP

Financial institutions are required to complete an Internal Capital Adequacy Assessment Process, ICAAP. Capital requirement assessments should be forward-looking and take account of business plans, growth, access to capital markets and economic developments. In DNB, risk and capital requirements are assessed on an ongoing basis during the year.

The capital adequacy assessment process should also encompass risks which are not included in the calculation of the minimum requirement. In addition, it should reflect the fact that risk quantification is based on methods and data which entail uncertainty. The liquidity and funding situation should be reviewed relative to the Group's capitalisation in the Internal Liquidity Adequacy Assessment Process (ILAAP).

The diagram shows ICAAP activities throughout the year. Key elements in the ICAAP are an annual update of the Group's risk appetite framework, updates on strategy and the financial plan and the stipulation of financial target figures.

ICAAP ACTIVITIES THROUGHOUT THE YEAR



The **risk appetite** statements and limits are reviewed and updated during the first quarter. ICAAP/ILAAP and SREP provide important input when the risk appetite statements are adjusted or changed and are reported and followed up through the risk appetite framework. Targets for capital adequacy, solvency margin and liquidity risk are operationalised in risk appetite. The risk appetite framework is subject to monthly monitoring.

The Group's **strategy and financial plan** for the coming three years are prepared in the second half of the year. In consequence of the stricter minimum capital requirements, the Group's capital situation and need to build up capital have been key factors in the strategy process and in financial planning over the past few years. In the budget and strategy process, the Group's return on equity target is converted to a required rate of return on allocated capital. The allocation of capital to the business units is a central element in DNB's governance model and an operationalisation of the principle that the Group's capital requirements shall be allocated in full to all business areas. Risk-adjusted capital is one of many principles used in the capital allocation. Risk-adjusted return on allocated capital is part of the risk appetite framework.

The **risk report** describes risk developments and the status of the Group's credit exposure relative to the limits in the risk appetite framework. The report includes a review of the Group's capitalisation based on macroeconomic developments, developments in risk exposure and expected future profitability. A key element of the capitalisation assessments is the calculation of risk-adjusted capital. DNB calculates risk-adjusted capital for all risk types and all of the Group's business areas. The Risk Management Committee and the Boards of Directors of DNB ASA and DNB Bank ASA receive the report parallel to the Group's quarterly reports, which enables the Boards to view the Group's financial performance relative to developments in the risk situation.

The Group's ICAAP is documented annually through a separate **ICAAP report**, which is sent to Finanstilsynet and form the basis for Finanstilsynet's assessment of the Group's risk and capital management. Each year, Finanstilsynet prepares a total risk assessment for the Group and provides feedback on the capitalisation of the Group (SREP, Supervisory Review and Evaluation). Subsidiaries carry out a capital adequacy assessment process at least once a year. Most of the subsidiaries prepare their own ICAAP documentation, which is included in the Group's ICAAP report. An international supervisory college has been established for DNB under the auspices of Finanstilsynet.

ASSESSMENT OF RISK PROFILE, CAPITAL REQUIREMENTS AND REGULATORY CAPITAL LEVELS

The capital adequacy regulations specify a minimum primary capital requirement based on risk-weighted assets, which includes credit risk, market risk and operational risk. In addition to meeting the minimum requirement, the Group must satisfy various buffer requirements. The difference between buffer requirements and minimum requirements lies in the consequences of non-compliance. Non-compliance with minimum requirements could result in the bank being restructured or wound up, while the consequence of non-compliance with buffer requirements is that measures must be implemented to strengthen capitalisation. Non-compliance with buffer requirements will result in restrictions on dividend payments, interest payments on hybrid securities and variable remuneration payments to employees.

Finanstilsynet will consider whether there are risk aspects in the individual institution that are not adequately covered through the risk-weighted assets underlying the minimum requirements and the general capital requirements (Pillar 1). This is referred to as the Pillar 2 requirements. In the event of non-compliance with the combined requirements, including the Pillar 2 requirements, the bank will have to explain the reason therefore

to Finanstilsynet and account for planned measures. In such a situation, Finanstilsynet will have the same intervention options as in the event of non-compliance with the buffer requirements, but a greater scope of action.

The main conclusions in Finanstilsynet's review of ICAAP the last few years was that, based on the prevailing risk level and external factors, DNB's sub-groups and subsidiaries were adequately capitalised as at 31 December 2014 in accordance with prevailing regulations. On the basis of future regulatory requirements and the Pillar 2 add-on of 1.5 per cent, Finanstilsynet required that the DNB Group, the DNB Bank Group and DNB Bank ASA have a common equity Tier 1 capital ratio of 15.0 per cent by year-end 2016, conditional on a counter-cyclical buffer rate of 1.5 per cent.

According to the Group's capital strategy and dividend policy, the Group aims to be among the best capitalised financial services groups in the Nordic region based on equal calculation principles. Dividends will be determined based on factors such as the need to maintain satisfactory financial strength and developments in external parameters. DNB's capitalisation guidelines specify a targeted capitalisation level, the frequency of reviews of DNB's capital situation and the measurement methods to be used, such as risk-adjusted capital and the use of stress tests. The capitalisation guidelines are reviewed each year based on ICAAP and feedback from the authorities through SREP.

On its Capital Markets Day in November 2015, DNB raised its common equity Tier 1 capital ratio target to minimum 15.0 per cent and the Group's capital adequacy ratio target to minimum 18.5 per cent by year-end 2016. The long-term target as from 2017 is a common equity Tier 1 capital ratio of 15.5 per cent. The capitalisation targets are based on the Group's prevailing risk-weighted assets.

COMPARISON OF CAPITAL REQUIREMENTS AND INTERNAL MODELS, DECEMBER 2015

NOK million	DNB models, 99.97% percentile (risk adjusted capital)	DNB models, 99.9% percentile	Regulatory requirement (8 % of RWA)
Credit risk	55 498	43 854	66 490
Market risk	7 107	6 244	1 693
Market risk in life insurance	8 282	6 537	6 463
Insurance risk	2 046	1 744	-
Operational risk	11 155	8 746	6 670
Business risk	7 120	5 785	-
Total capital requirement/RAC	91 208	72 910	81 317
Diversification effects	-15 513	-12 850	
Total capital/ RAC after diversification	75 695	60 060	81 317
Transition rule			9 033
Capital requirement with transiton rule		**60 060**	**90 350**

MORE ABOUT INTERNAL ASSESSMENTS AND REGULATORY REQUIREMENTS

The key element in assessments of financial strength and capitalisation is to compare risk with available loss-absorbing capital. In this connection, risk must be quantified. According to the regulatory framework, quantification takes place by calculating risk-weighted assets. In addition, various stress tests will be important references.

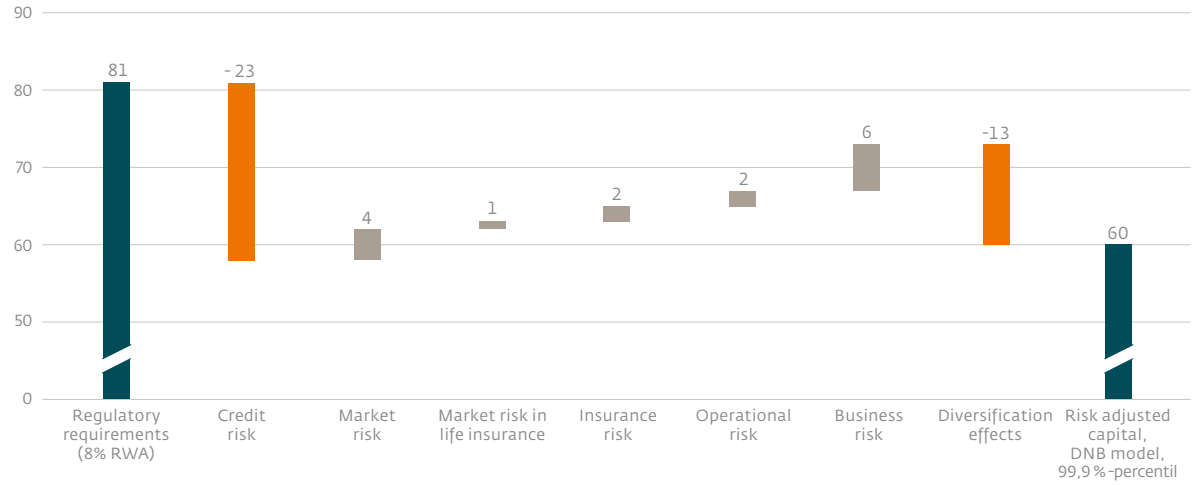
The table shows a comparison of risk-adjusted capital calculated using internal models and the regulatory capital requirement. To ensure compa-

rable figures, the same confidence level, the 99.9 per cent percentile, is used. A corresponding measure of unexpected losses in the regulatory framework is 8 per cent of risk-weighted assets. Below the table, there is a description of the main differences in risk measurement between the internal total risk model and the capital adequacy regulations. DNB quantifies insurance and business risk in addition to the risks for which capital requirements are calculated. The internal calculation of the Group's total risk was lower than the regulatory minimum requirement at year-end 2014. The difference mainly reflects credit risk measurements.

For credit risk, there is a large difference between the minimum capital adequacy requirement and the internal model. This is due to the fact that risk-weighted assets for 20 per cent of the Group's credit exposure are measured based on the standardised approach, which gives far higher risk weights. In the total risk model, classification models are used for all portfolios, regardless of the IRB approval process. It is not calculated a supplement in risk-adjusted capital for concentration risk towards industries. DNB considers the Group's total portfolio to be well diversified. Thus, sector concentrations need not result in additional capital requirements. Capital requirements for large individual exposures are also modest and were estimated at 0.4 billion by year-end 2015.

COMPARISON OF CAPITAL REQUIREMENTS AND INTERNAL MODELS

NOK billion



For market risk, underlying risk measurements are more conservative according to the internal models than based on the regulatory requirements. The main reason for this difference is that equity investments in the banking portfolio under Basel II are treated as ordinary credits and assigned a 100 per cent risk weight, corresponding to a minimum capital requirement of 8 per cent. The risk-adjusted capital is around 55 per cent for the same type of investment. The internal market risk measurement includes elements not covered by the regulatory requirements. It applies to interest rate risk in the banking portfolio, pension risk, credit spread risk on international bonds and basis risk in the trading portfolio.

In the total risk model, market risk in life insurance is treated separately, taking account of asset volumes, asset mix, the size of buffer capital and the guaranteed rate of return. The model

also calculates the risk of accounting loss resulting from liability adequacy test. On the other hand, the capital requirement for life insurance only reflects the company's asset volumes and asset mix on the measurement date. Risk measurements based on these two methods are fundamentally different. DNB's model generally measures the risk as higher than the capital requirement.

DNB has a not insignificant profit risk related to basis swaps. This is due to the fact that derivative contracts that are used to convert funding in foreign currency to lending in Norwegian kroner are measured at fair value on an ongoing basis. In practice, the contracts are held till maturity, whereby fluctuations in value are neutralised over the term of the contract. The basis swaps entered into by DNB will in most cases generate a profit in times of market volatility. It is not calculated risk-adjusted capital for basis swap risk.

SYSTEMIC RISK

In accordance with Norwegian regulations, banks' ICAAP should include an assessment of systemic risk. In the EU's capital adequacy regulation, systemic risk is defined as the risk of disruptions to the financial system with potential serious consequences for the financial system and the real economy. The drivers of systemic risk will often be risk factors which must also be taken into consideration in the ordinary credit risk measurement, such as developments in housing prices. In order to assess whether the systemic risk entails an increase in capital requirements, other measures that have been implemented to cover such risk must be reviewed.

A high household debt-to-income ratio, high housing prices and the Norwegian economy's dependence on oil prices give a higher systemic risk in Norway. However, this is counteracted by other characteristic features of the Norwegian economy, such as a separate currency, an independent monetary policy, great fiscal flexibility and a strong social security network. Higher risk weights for retail mortgages have been introduced to address risk in the housing market, along with guidelines for prudent lending practices for retail mortgages. In addition, a 1.0 per cent counter-cyclical buffer requirement has been introduced, which will be increased to 1.5 per cent as of 30 June 2016.

The analyses of the international rating agency Standard and Poor's are partly based on an analysis called Banking Industry Country Risk Assessment (BICRA), which includes key systemic risk elements. Like Sweden and a few other countries, Norway has a very good S&P score, Moreover, the Norwegian financial sector is relatively small compared with most other comparable European countries. DNB thus considers the level of systemic risk in Norway to be relatively low.

STRESS TESTING

Stress testing is an important tool in assessing the capitalisation of the Group and is also used in financial planning. Stress tests are used in the capital planning process in order to determine how changes in the macroeconomic environment will affect the need for capital. The group management team is involved in developing stress tests and considers actions and strategies based on the results.

In addition to the Group's ICAAP stress test, annual stress tests are also performed for DNB Boligkreditt and DNB Næringskreditt. Crisis scenarios are also part of the recovery plan (see chapter 4). DNB performs stress tests of specific credit portfolios on an ad-hoc basis. In 2015, the Offshore rig and Offshore service vessels (OSV) segments were subject to stress testing.

In the spring of 2015, the International Monetary Fund (IMF) coordinated a stress test as part of its Financial Sector Assessment Program (FSAP). The assessment included stress tests for Finanstilsynet, Norges Bank and the IMF, using different methods, but based on the same macroeconomic

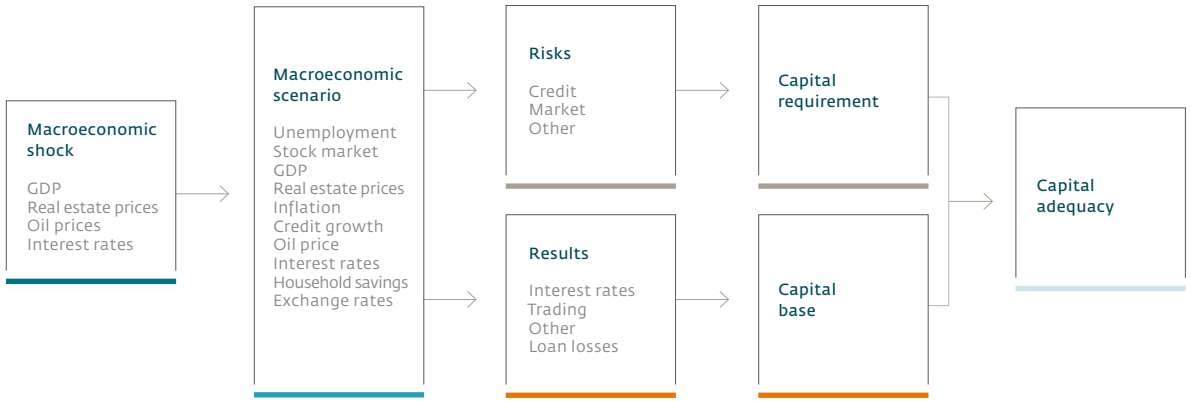
scenarios. These were supplemented by bottom-up stress tests performed by the individual banks and based on the same scenarios. The conclusion in the IMF publication was that "the stress test results show that while the banking sector is highly resilient, it could experience challenges in case of severe macroeconomic shocks, as assumed in the adverse scenarios".

DNB took part in the stress tests of European banks in 2011 and 2014, coordinated by the European Banking Authority (EBA). The stress tests assess European banks' resilience to severe shocks and losses, such as loan losses, market risk and reductions in net interest income, and the resulting effects on the banks' common equity Tier 1 capital ratios. DNB will also participate in the EU stress test in 2016.

ICAAP STRESS TEST

The ICAAP stress test assumes a significant deterioration of the macroeconomic situation, and shows how the changed conditions could affect the Group's total risk situation, profit performance and capitalisation. A stress scenario based on relevant risk factors is worked out every year. The scenario is reviewed by ALCO and approved by the CRO. The stress test uses DNB's model for risk-adjusted capital, the Total risk model, to estimate losses.

IMPLEMENTATION OF STRESS TESTS IN DNB



The diagram illustrates the process for implementing stress tests in DNB. First, a qualitative description of the risk factors and the scenario to be used, is worked out. Based on this, a macro shock or developments in selected macroeconomic variables are determined. The next step is to design a complete and consistent macroeconomic scenario, which involves the use of macro models. The scenario is then translated into stressed parameters such as losses connected to different risk types, balance sheet developments and interest rate spreads. Finally, the results of the stress test are used in the calculation of capital requirements, the stressed capital base and the effect on capital adequacy.

In the ICAAP stress test for 2016, emphasis was placed on the following macroeconomic trends, which were believed to potentially cause a stressed situation for DNB:

- The risk of reduced global growth, partly due to a more sluggish economic trend in China. Commodity prices, including oil prices, could deteriorate in response to reduced global demand

- Slower economic growth in Norway. The declining oil prices would result in a pronounced reduction in oil investments, but a far lower growth impetus to the mainland economy.
- Unemployment in a number of countries. Low interest rate levels and high government debt levels provide limited scope for monetary and fiscal policy measures.
- Greater risk aversion and higher risk premiums in the global financial markets.

Trends are converted into specific development paths for key macro variables. Some of the most important are described below. The shocks are expected to occur from the start of 2016.

- A decline in mainland GDP growth from 1.4 per cent to a negative growth rate of 0.5 per cent the first year. A 1.7 per cent slowdown in the mainland economy over the next two years. The GDP growth used in the scenario for the worst three-year period corresponds to a 50-year crisis based on figures for the 1830-2014 period.
- A decline in the oil price to USD 30-35 per barrel. A significant decline in oil investments.
- A rise in unemployment to just below 7 per cent, which is higher than the level in the 1990s
- Lower household expectations and a fall in housing prices of more than 30 per cent. The household savings rate increases in response to the declining housing prices, reduced wage inflation and the uncertain labour market. This gives a further reduction in economic growth.
- The key policy rate is expected to be close to zero at year-end 2016. However, higher money market premiums will keep the 3-month NIBOR at around 1-2 per cent throughout the stress period.

6

LIQUIDITY RISK AND ASSET AND LIABILITY MANAGEMENT

Liquidity risk and asset and liability management

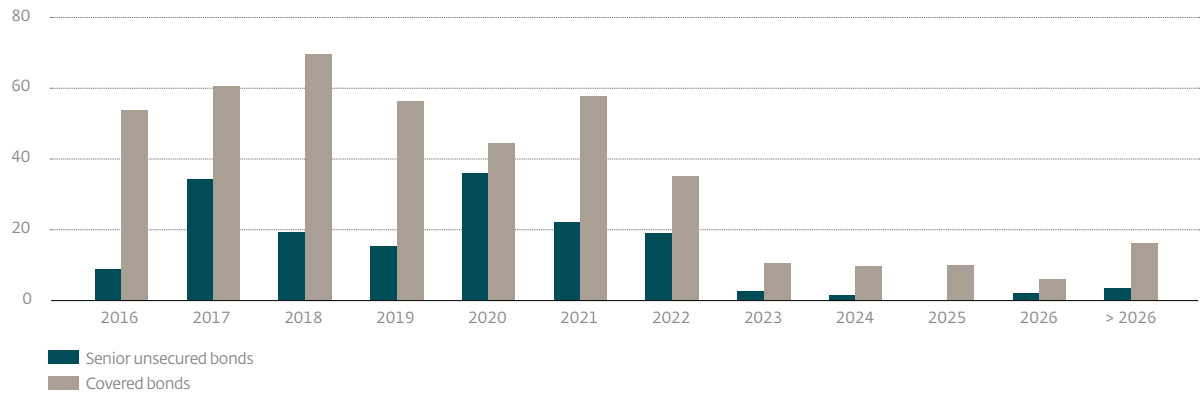
GENERAL INFORMATION ABOUT LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due, and the risk that the Group will be unable to meet its liquidity obligations without a substantial rise in associated costs. Liquidity is vital to financial operations, though this risk category will often be conditional as it will not materialise until other events give rise to concern regarding the Group's ability to meet its obligations.

Liquidity risk in DNB should be low and promote the bank's financial strength and ability to withstand various events and development trends. This implies that the bank should seek to have a balance sheet structure that reflects the liquidity risk profile of an international bank with an AA level long-term credit rating. In 2015, DNB's rating from Moody's was upgraded from A1 to Aa3, with a stable outlook. Standard & Poor's kept its rating unchanged at A+, but changed its outlook from stable to negative. In addition, DBRS rates DNB AA (low) with a stable outlook. DNB gives priority to maintaining sound business relations with a large number of international investors and banks, and to promoting the Group in international capital markets.

LONG-TERM FUNDING, MATURITY PROFILE

NOK billion



DEVELOPMENTS IN LIQUIDITY RISK IN 2015

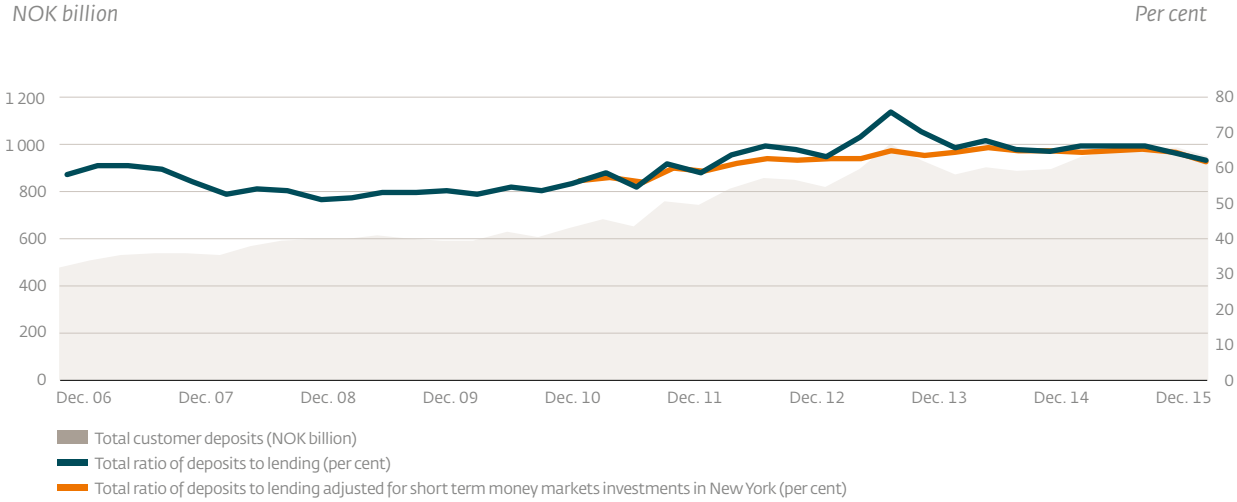
DNB enjoyed a healthy liquidity position throughout 2015. The short-term funding markets were generally sound for banks with high credit ratings

and DNB had good access to short-term funding. As US money market funds need to adapt to upcoming regulations, long-term maturities were not as attractive as they used to be. Combined with increasing demand for long-term investments among borrowers, this resulted in an increase in prices for maturities of more than six months in the second half of the year. DNB has a liquidity reserve that serves as a buffer against potential financial market volatility. At year-end 2015, the portfolio of liquid assets amounted to NOK 456 billion or 17.5 per cent of total assets.

In the long-term funding markets, there was a strong supply of capital during the first half of 2015. As the turmoil in Greece accelerated in June, the level of activity dropped, and risk premiums on new bond issues rose. The start of the second half of the year was characterised by low activity, and margins for both covered bonds and senior bonds increased in the June through December period. DNB had ample access to long-term funding during the year, but the cost of new funding is expected to remain high in 2016.

Long-term funding raised by DNB totalled NOK 78.2 billion in 2015, of which NOK 48.2 billion represented covered bonds, while NOK 30 billion represented ordinary senior bonds. DNB aims to maintain a stable maturity profile for long-term funding for senior bonds over the next five years. Average loans increased by NOK 104 billion, while average deposits rose by NOK 3 billion compared with 2014. This contributed to a decrease in the ratio of deposits to net loans from 65.4 per cent at year-end 2014 to 61.2 per cent at year-end 2015. The diagram shown on the previous page shows the maturity profile at year-end 2015. The developments in the ratio of deposits to net loans are shown in the diagram above.

CUSTOMER DEPOSITS AND RATIOS OF DEPOSITS TO LENDING



DNB increased its activity in various repo markets in 2015 both as a tool to generate sufficient collateral for CSA purposes and as an element in contingency planning.

The short-term liquidity risk requirement, Liquidity Coverage Ratio (LCR), was stable at more than 100 per cent in 2015. At year-end 2015, the total LCR was 133 per cent, with 331 and 118 per cent, respectively, for euro and USD, based on the CRD IV/CRR definition. The LCR in NOK was 48 per cent at year-end 2015.

At year-end 2015, the long-term liquidity risk requirement, the Net Stable Funding Ratio (NSFR), was 100 per cent.

LIQUIDITY RISK MANAGEMENT AND MEASUREMENT

Liquidity risk is managed and measured by several techniques, as no single technique can fully quantify this type of risk. The techniques include the monitoring of balance sheet key ratios, average residual maturity on term funding and future funding requirements, including refinancing needs.

The bank's liquidity management is organised based on a clear authorisation and reporting structure, and is in accordance with the regulations on prudent liquidity management. The Board of Directors regularly reviews the bank's liquidity risk and determines limits and guidelines. The Board reviews the limits each year or more frequently if required.

The limit structure for liquidity risk is in compliance with the structure in the Basel III framework. The limits for LCR and NSFR are part of the Group's risk appetite framework, along with the ratio of deposits to net loans. See the chapter about risk management and control in DNB for more details about the risk appetite framework.

Principles and limits for liquidity management are proposed by the Group Treasury and approved by Group Risk Management before being approved by the Board of Directors. The Group Treasury is responsible for making sure that the Group at all times keeps within the liquidity limits set by the Board of Directors. The unit is also responsible for managing the bank's liquidity portfolio and providing funding to international subsidiaries and branches.

Liquidity risk is managed through short and long-term limits. The limits reduce the bank's dependence on short-term funding from the domestic and international money and capital markets. The short-term limits restrict the net refinancing requirement within one week, one month and three months. The long-term limits set requirements for the share of lending and other illiquid assets which is to be financed by stable sources such as customer deposits or funding with a residual maturity of minimum 12 months.

In addition to maintaining a broad deposit and funding base from both retail and corporate customers, liquidity management in DNB aims to ensure diversified funding of other business activities. In many small countries like Norway, with small domestic financial markets, the banks rely on international funding in various currencies for part of their lending in the domestic market. The international funding will contribute to volatility in the Group's results, in the form of basis swap risk. This is also commented in the chapter about market risk.

As part of the diversification of funding sources, the bank focuses on having good relationships with a large number of international investors. Senior debt is mainly issued through a European Medium Term Note programme of EUR 45 billion. In addition, senior programmes have been established in US dollars and Japanese yen. Covered bond programmes have also been established in Europe, the US and in Australia.

DNB has a well-established short-term commercial paper programme in the US, through a USD 18 billion USCP programme with maturities of up to 13 months. US short-term funding sources are further diversified through a so-called Yankee CD programme, totalling USD 12 billion, with maturities of up to 18 months. The certificates of deposits are issued by the DNB branch in New York, which also operates the programme. This has helped ensure stable short-term funding in the US market during periods of turbulence in other markets. In Europe, the bank has a multi-currency ECP programme of EUR 15 billion with maturities of up to 12 months which is operated at the head office in Oslo and provides funding from other market players than in the US programmes. Overall, these programmes give DNB good access to short-term funding and a high level of flexibility to meet investors' interests and the bank's liquidity requirements.

As a bank with a high credit rating in a strong economy, DNB attract substantial funds from other banks, central banks and money market funds. These include both operating deposits and excess liquidity from both domestic and international banks. A major share of these funds represents short-term deposits from money market funds which also have short-term deposits in central banks. Together with commercial paper funding, this creates a liquidity buffer in the short end. In addition, parts of the bank's liquid assets are supported by long-term or stable funding sources.

Even though DNB is a well-established international borrower that has enjoyed ample access to international markets during periods of market turbulence, is also uses the domestic market for diversification purposes. In general, domestic funding markets tend to be more stable over time. Domestic funding also helps limit the market risk related to price movements in the basis-swap market, causing volatility in profits and losses.

The Norwegian domestic covered bond market has outgrown the Norwegian government bond market in terms of outstanding volumes, and is regarded by market participants as just as liquid as the government bond market.

Covered bonds are an important instrument for long-term funding. The bonds are issued by the bank's subsidiaries DNB Boligkreditt AS and DNB Næringskreditt AS, and are secured by the companies' residential mortgage and commercial mortgage portfolios, respectively. During periods of turmoil, covered bonds have proved to be a more robust and considerably lower priced funding instrument than ordinary senior bonds. Over the next few years, DNB will thus seek to cover a large share of its long-term funding requirement through the issuance of covered bonds.

ASSET ENCUMBRANCE

While the use of covered bonds has contributed significantly to financial stability in turbulent times in recent years, it has also raised the awareness of asset encumbrance. As Norway has no securitisation market, almost all loans are kept on the banks' balance sheets, and asset encumbrance thus tends to be higher. Another factor explaining the level of asset encumbrance in Norway is that the home ownership rate is generally high, which contributes to high household debt levels.

For unsecured depositors and investors, it is relevant to see that the remaining unencumbered assets would cover the unsecured liabilities. As unsecured creditors include depositors, structural subordination of deposits can be less of a concern if deposit guarantee funds are ex ante financed by premiums paid by covered institutions, as is the case in Norway.

AVERAGE TERM TO MATURITY FOR THE BOND PORTFOLIO; SENIOR DEBT AND COVERED BONDS

Years

Considering the diversification, capitalisation and liquidity situation of the Group, DNB is comfortable with the current level of asset encumbrance. Each quarter, DNBs discloses relevant information that ensures alignment between the level of encumbrance and market expectations.

STRESS TESTING OF LIQUIDITY RISK

DNB simulates the liquidity effect of a downgrading of the bank's credit rating following one or more negative events. The results of such stress testing are included in the bank's contingency plan for liquidity management during a financial

crisis. Liquidity developments during a financial crisis lasting for up to 12 months are simulated. The stress tests differentiate between a financial crisis which affects only the bank, a so-called bank-specific crisis, and a crisis which affects the banking industry in general, a so-called systemic crisis, and a combination thereof. Applied stress testing factors are derived from historically observed data, augmented by subjective assessments where only limited data are available, or where market developments are considered to make historical data a poor indicator of possible future market scenarios. Stress factors are regularly reviewed.

In order to quantify the need to strengthen the Boligkreditt cover pool in a stress situation, an extended stress test has been developed. The stress test includes a severe fall in housing prices as well as fluctuations in the market value of the derivative contracts between the parent bank and DNB Boligkreditt. Adverse changes in the NOK rate have the largest effect on counterparty risk. This counterparty risk effect is reported weekly and Is closely monitored and managed by Group Treasury.

In addition, a reverse liquidity stress test, RLST, has been included in order to assess circumstances that could empty the bank's liquidity reserves in the longer term. The starting point is the combined stress scenario described above. In addition, it is assumed that there will no longer be a market for the issuance and refinancing of covered bonds, that an increasing number of large corporates will withdraw their deposits (40 per cent), whereafter DNB will estimate how large stress on deposits the bank can withstand in the retail sector before the bank's liquidity reserves will be negative in a 30-day perspective.

The stress tests are prepared each quarter, and the results of the stress tests are reported to the Board of Directors. They provide information on potential challenges in the funding situation and form the basis for the Group's contingency funding plans.

LIQUID ASSETS

At year-end 2015, deposits with central banks amounted to NOK 19.2 billion and receivables from other banks in terms of repo transactions, adjusted for encumbered assets, represented NOK 212.7 billion.

As an element in ongoing liquidity management, DNB needs to have a holding of securities that can be used to regulate the Group's liquidity requirements and serve as collateral for operations in the currencies in which the bank is active. The securities are used, among other things, as collateral for short-term loans in central banks and serve as liquidity buffers to fulfil regulatory liquidity requirements. Market risk in the liquidity portfolio is measured on an ongoing basis, as described in chapter Market risk. In addition, developments in the credit rating of the underlying securities are followed up andreported on an ongoing basis.

LIQUIDITY PORTFOLIO

The Bank's liquidity portfolio consists of an international portfolio and a Norwegian portfolio. At year-end 2015 the liquidity portfolio totalled NOK 187 billon.

The Norwegian liquidity portfolio totalled NOK 73 billion at year-end 2015, of which NOK 40 billion represented Norwegian government and other level 1 public sector bonds. Other level 1 assets in the form of covered bonds totalled NOK 23 billion, while the remainder represented level 2A assets. Level 1 and level 2A refer to the categorisation of liquid assets in the LCR framework, where level 1 represents the most liquid assets.

The international liquidity portfolio totalled NOK 114 billion at year-end 2015, comprising a trading portfolio and a multi-currency bond portfolio held to maturity (HTM).

The trading portfolio totalled NOK 94 billion. 59 per cent of the securities in this portfolio had an AAA rating. The average maturity of the trading portfolio was 2.4 years, and the change in value

resulting from a one percentage point change in spreads was NOK 23 million at year-end 2015. The international trading portfolio consisted of 48 per cent covered bonds and 52 per cent public bonds at year-end 2015.

As at 31 December 2015, the hold-to-maturity portfolio totalled NOK 19.7 billion. 32.5 per cent of the securities in the portfolio had an AAA rating, while 22.3 per cent were rated AA. The bank's securitisation positions are placed in this portfolio, and no new investments are added to the portfolio. There are no synthetic securities in the portfolio and no investments in US subprime bonds or Collateralised Debt Obligations, CDOs. The average maturity of the hold-to-maturity portfolio is 4.7 years, and the change in value resulting from an interest rate adjustment of one basis point was NOK 9.2 million at year-end 2015.

CAPITAL REQUIREMENTS

In capital adequacy calculations, the international hold-to-maturity portfolio is reported as an investment in securitisation, calculated according to the IRB approach. The Group has no other portfolios or commitments which have been hedged against risk through securitisation. There have been no significant changes in the portfolio and no new securitisation activities since the previous reporting.

INTERNATIONAL BOND PORTFOLIO HELD TO MATURITY, PER GRADE

NOK million Rating	EAD 31 Dec. 15	RWA 31 Dec. 15	EAD 31 Dec. 14	RWA 31 Dec. 14
AAA	5 935	470	17 380	1 237
AA	4 438	366	2 740	223
A+	2 357	244	2 466	251
A	525	65	2 920	356
A-	998	203	803	163
BBB+	2 080	746	776	276
BBB	687	424	1 484	906
BBB-	409	420	1 079	1 097
BB+	670	1 710	537	1 364
BB	294	1 296	253	1 093
BB-	0	0	386	2 549
Below BB-	768	9 062	1 104	13 232
Total	**19 162**	**15 007**	**31 927**	**22 747**

DNB Bank ASA has a 40 per cent ownership interest in Eksportfinans. Eksportfinans' bond portfolio is reported according to the standardised approach. DNB's share of the portfolio in terms of RWA was NOK 748 million in 2015, compared with NOK 827 million in 2014.

Capital requirements for the trading portfolio are reported under market risk.

A survey of restricted and unrestricted assets can be found in the attachment.

7

CREDIT RISK

Credit risk

GENERAL INFORMATION ABOUT CREDIT RISK

Credit risk (or counterparty risk) is the risk of financial losses due to failure on the part of the Group's customers (counterparties) to meet their payment obligations towards DNB. Credit risk refers to all claims against customers/counterparties, primarily loans, but also liabilities in the form of other extended credits, guarantees, interest-bearing securities, approved, undrawn credits and interbank deposits, as well as counterparty risk arising through derivative trading. In addition, there are significant elements of counterparty risk in the settlement risk which arises in connection with payment transfers and settlement of contracts entered into.

Credit risk also includes residual risk and concentration risk. Concentration risk includes risk associated with large exposures to single customer and clusters of commitments in geographical areas or industries, or with homogeneous customer groups. Residual risk is the risk that the collateral provided for a commitment is less effective than expected.

In describing credit risk several risk terms are used, the most important being:

- Probability of default, PD, is the probability that a given customer will go into default. PD is used to measure credit quality, and customers are classified according to risk, based on their PD.
- Exposure at default, EAD, is the share of the approved credit that is expected to be drawn at the time of any future default.
- Loss given default, LGD, indicates how much the Group expects to lose if the customer fails to meet his obligations, taking the collateral provided by the customer and other relevant factors into consideration.
- Defaulted exposures.

The definition of defaulted exposures is in accordance with IRB definitions (Section 10-1 of the Norwegian capital adequacy regulations):
A loan should be defined as defaulted if a claim is more than 90 days overdue, the overdue amount is substantial and the event of default is not due to delays or incidental factors on the part of the counterparty. A loan should also be classified as defaulted if the bank:

- Due to a weakening of the counterparty 's creditworthiness records impairment losses representing a not insignificant amount.
- Due to a weakening of the counterparty's creditworthiness sells a claim at a reduced price and the reduction represents a not insignificant amount.
- Agrees on changes in terms, due to the counterparty's payment problems, and this must be considered to reduce the value of the cash flow by a not insignificant amount.
- Expects that debt settlement or bankruptcy proceedings will be opened against the counterparty, expects that the counterparty will be placed under public administration or does not expect the obligations to be met for other reasons.
- Restructures the loan due to the counterparty's financial problems to avoid that the obligations are not fulfilled.

The above definitions apply in both the retail and corporate markets. The 90-day rule applies for segments where no individual assessments are made. In DNB, a "substantial amount overdue" is defined as an amount in excess of NOK 2 000, with the exception of credit card loans, where the limit is NOK 200.

The IFRS definition of defaulted commitments is almost identical to the IRB definition except for restructuring of an exposure due to financial problems.

In the text below, reference is made to four risk categories which are defined as follows:

- Low risk: PD 0.01 – 0.75 per cent.
- Moderate risk: PD 0.75 – 3.0 per cent.
- High risk: PD over 3.0 per cent, defaulted portfolio not included.
- Defaulted exposures.

The Group's guidelines for credit activity have been approved by the Board of Directors. The principal objective for credit activity is that the loan portfolio should have a quality and a composition which secure the Group's profitability in the short and long term. The quality of the credit portfolio should be consistent with DNB's low risk profile target.

DEVELOPMENTS IN CREDIT RISK IN 2015

There was stable, sound quality in the credit portfolios in most areas, though some industries had a declining credit quality during 2015. The oil service and offshore sectors were particularly exposed, as well as energy production and some shipping segments. In addition to the industries that are directly exposed to the oil price, a persistent low oil price could have negative ripple effects on other business sectors and particularly exposed geographical areas in Norway.

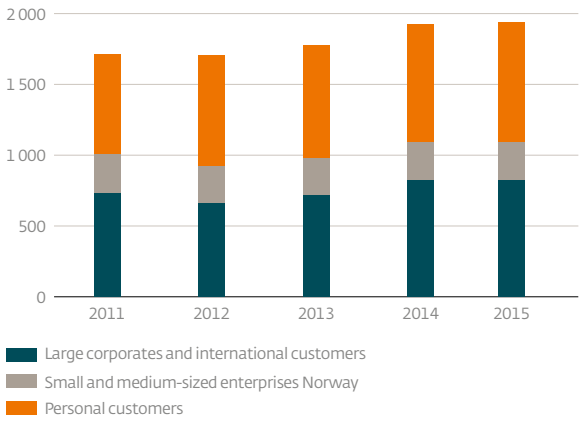
The diagrams show developments in the portfolios in terms of EAD, and changes in EAD in 2015 have been broken down into customer segments and exchange rate effects. The portfolio does not include bonds held to maturity and banks.

After a few years of steady increases in credit exposure, the growth rate slowed in 2015. In terms of EAD, credit volumes increased by 1.5 per cent during 2015. Adjusted for the exchange rate effects on the portfolio, EAD was down 2.1 per cent. There was a certain rise in exposure in the personal customer segment, while credit volumes in the large corporate portfolio were reduced, especially towards the end of 2015.

Key industries in DNB's portfolios are shipping, energy (oil and gas, power and renewables) and commercial property. In addition, DNB has a large residential mortgage portfolio, which represents 37 per cent of DNB's total credit portfolio (EAD).

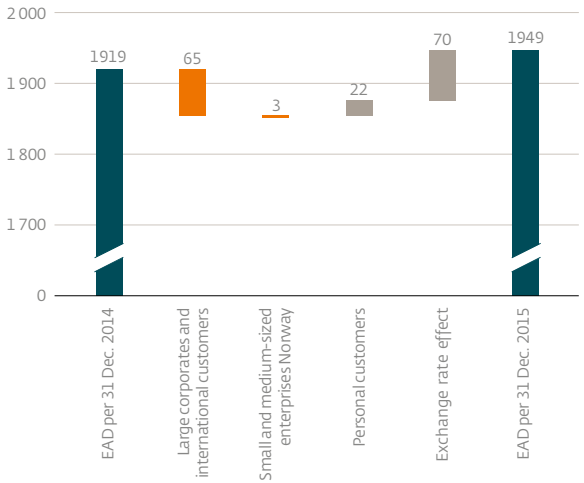
DEVELOPMENT IN TOTAL CREDIT PORTFOLIO, EAD

NOK billion



CHANGES IN TOTAL CREDIT PORTFOLIO, EAD

NOK billion



Oil, offshore and power production

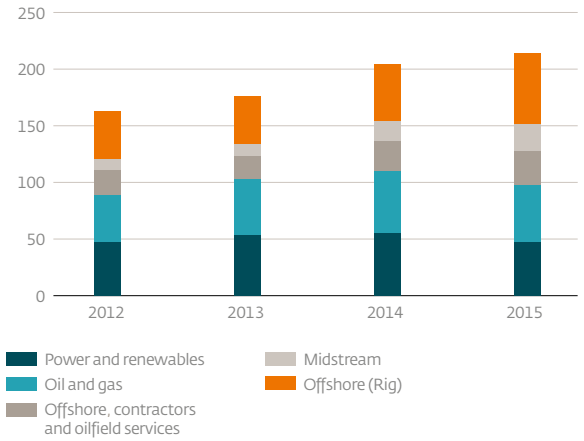
DNB has been a bank for the oil-related industry sector ever since oil was discovered on the Norwegian Continental Shelf more than 40 years ago. The Group's strategy and exposure are based on experience gained throughout this period. The portfolio is well-diversified with respect to both sub-sectors and geography. The aim is to have an on average low-risk portfolio, primarily with a large share of investment grade level companies with strong cash flows in various market segments. In addition, earnings have been robust and impairment losses low over the past two decades, in spite of highly volatile commodity prices.

Given the sharp fall in oil prices, exploration and production (E&P) companies' earnings have been negatively affected. The subsequent reduction in investments and cost focus by the E&P companies have put pressure on the entire supplier sector. Consequently, there has been negative migration and increased impairment losses in the oil-related portfolio, in particular for oil service companies and sub-suppliers that are exposed to exploration activities.

Oil prices could remain relatively low due to oversupply and a global unwillingness to implement coordinated production cuts. In the short run demand seems to increase even further due to the abolition of the sanctions against Iran. 8.5 per cent of DNB's total credit portfolio is oil-related exposures in terms of EAD, is exposed to the oil price.

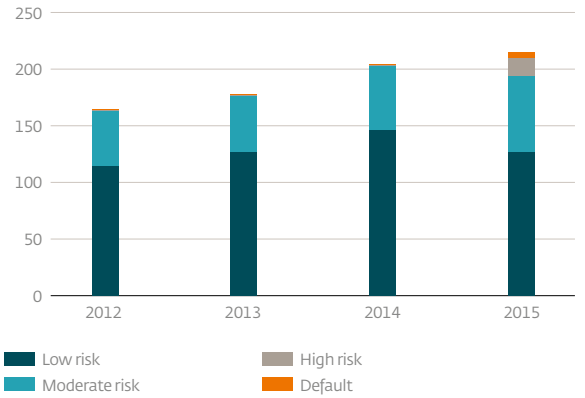
DEVELOPMENT IN OIL, OFFSHORE AND POWER PRODUCTION, EAD

NOK billion



DEVELOPMENT IN CREDIT QUALITY, OIL, OFFSHORE AND POWER PRODUCTION, EAD

NOK billion



In the course of 2015, the offshore markets, especially offshore supply and drilling, were hit by a severe downturn. Reduced activity and greater requirements for cost reductions characterise the industry, which over the past few years has built up capacity that no longer is in demand. The number of service vessels and rigs laid up has increased, and the earnings of the vessels in service are low and declining.

In the power and renewables sector, the Nordic market is facing historically low prices. This puts pressure on the companies' profitability. The sector will face challenging times if prices do not recover. The cost of producing power from renewable sources continues to fall internationally, and many producers are no longer so reliant on subsidies.

Political and financial support will still be an important prerequisite in the development of renewable energy in several markets. Massive investments are expected in the renewable sector over the next 10-20 years. DNB's portfolio within the power and renewables sector represents 2.4 per cent of the total credit portfolio (EAD).

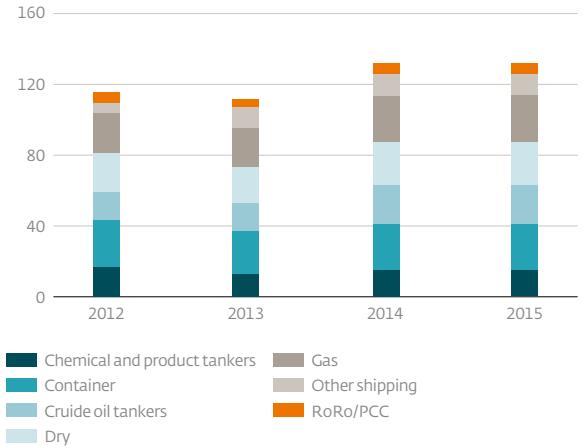
The growth in the energy portfolio slowed in 2015. The portfolio increased by 3.8 per cent, but adjusted for exchange rate effects, there was negative underlying growth. 90 per cent of the credit portfolio is in the low and moderate risk segments. The share of defaulted loans has increased significantly during this period, from 0.6 to 2.2 per cent, but is still low. The same trend is shown in the high-risk portfolio, which increased from 0.7 to 7.7 per cent at year-end 2015. The weighted PD increased by 0.53 percentage points to 1.12 per cent during 2015. Given a continuing low oil price, a further decrease in credit quality and an increase in impairment losses are to be expected in 2016.

Shipping

In terms of volume, DNB is one of the world's largest ship financing banks. The shipping industry is cyclical and highly capital-intensive. Thus, it is particularly important to analyse customers' strategy, corporate social responsibility, operations and financial position. The portfolio is well-diversified. In spite of the financial crisis and the challenges facing the shipping markets over the past few years, DNB's losses have been low.

DEVELOPMENT IN THE SHIPPING PORTFOLIO, EAD

NOK billion



DEVELOPMENT IN CREDIT QUALITY IN THE SHIPPING PORTFOLIO, EAD

NOK billion

Dry bulk freight rates reached historically low levels at year-end 2015 and the outlook is weak. Developments in China are especially important for the dry bulk segment. Some customers will probably have to renegotiate their financing agreements. However, several customers operating in the dry bulk segment have diversified operations to tankers and other segments that have shown a positive development. The container segment also deteriorated in 2015. Towards the end of the year, for the first time since 2009, a reduction was seen in the number of containers in several major harbours. In the tanker market, rate levels are still high, and a good balance between supply and demand is expected throughout 2016. In general, other shipping segments generate earnings that cover total costs.

The share of defaulted loans was reduced by 2.1 percentage points during 2015, and amounted to 2.6 per cent of the portfolio. At year-end 2015,

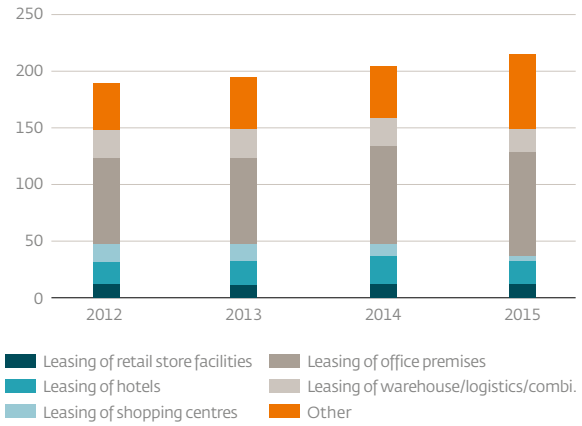
90 per cent of the portfolio was classified as low and moderate risk. A recalibration of the models for risk classification of large corporates resulted in a migration of the portfolio and a transfer of loans from low risk to moderate risk. The negative development in some of the shipping segments increased the share of high-risk loans by 0.7 percentage points to 7.8 per cent. The weighted PD increased from 1.57 per cent to 1.76 per cent during the same period.

Commercial real estate portfolio (CRE)
Commercial real estate accounts for roughly 11 per cent of DNB's total credit portfolio (EAD). Approximately 50 per cent of the portfolio represents leasing of offices and warehouses/logistics facilities. Priority is given to Norwegian customers with an industrial focus. DNB's commercial property exposure in Sweden, Denmark and Finland is being downscaled. This industry is followed closely by a large number of specialists and through a local presence.

DNB is committed to financing good projects and properties with stable and predictable cash flows that are owned by companies with a sound debt servicing capacity. Emphasis is placed on assessing the liquidity of the property, the term of the leases, the lessees and residual value. The bank is willing to finance construction projects if a sufficient proportion of the area is pre-sold or pre-let.

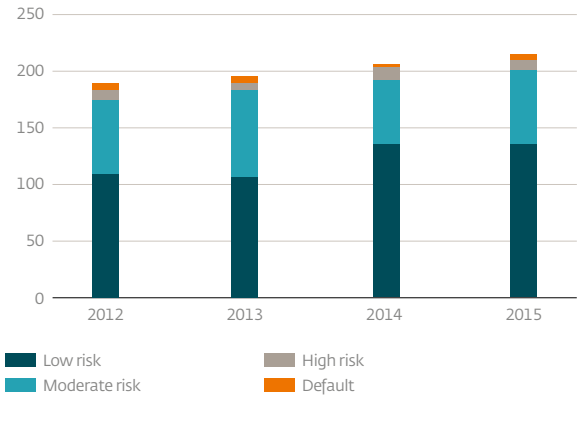
DEVELOPMENT IN CRE PORTFOLIO, EAD

NOK billion



DEVELOPMENT IN CREDIT QUALITY CRE PORTFOLIO, EAD

NOK billion



Rent levels for commercial real estate in prime locations in Oslo declined somewhat during 2015. At the same time, price levels remain record-high, driven by low interest rates and great interest from foreign property investors. The difference between prime and second-best locations has continued to increase. Reduced activity in oil-related industries has led to a higher vacancy rate and declining rental prices in the oil-related regions in the western part of Norway and in the Oslo area. The fact that many of the least attractive office buildings are converted into other uses, like housing or hotels, helps sustain the market. Some properties are also rented for education purposes, and towards the end of the year, some large properties were let as asylum centres. The lessees still have the upper hand, but the lessors are moving fast to adapt to the new market demands, and it is expected that the decrease in the rent levels will level off during 2016.

At year-end 2015, 93 per cent of the portfolio was classified as low and moderate risk. The volume of defaulted loans in terms of EAD decreased, and

it was at year-end 2015 2.0 per cent, compared to 2.3 per cent at year-end 2014. The weighted PD improved during 2015 and was 0.96 per cent at year-end, down 0.05 percentage points from 2014.

Residential mortgage portfolio

DNB's residential mortgage portfolio mainly represents residential mortgages in Norway. DNB has a market share of approximately 25 per cent, though there has been a slight downward trend over the past few years. Residential mortgages are a very important product for the banks, not least because customers tend to use their mortgage provider as their primary bank. By offering real estate broking, insurance and financing, the bank aspires to make the process of buying or selling residential property safe and straightforward.

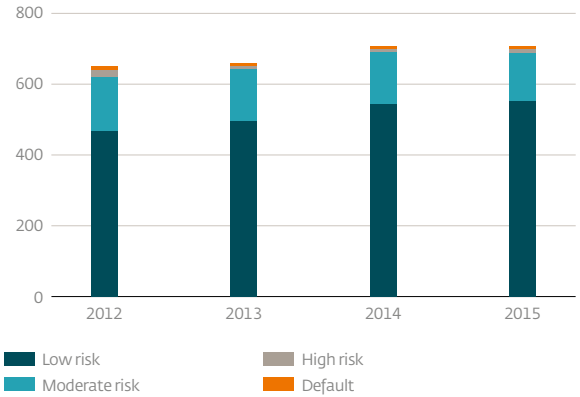
Credit assessments are based on the customer's debt servicing capacity and assumed willingness to service the loan, and on the collateral securing the loan. All important information from customers verifying their debt servicing capacity must be documented. The residential mortgage portfolio is closely monitored.

Approximately 82 per cent of the residential mortgages in the bank's portfolio have been transferred to DNB Boligkreditt and represent the basis for the issue of covered bonds. DNB Boligkreditt's portfolio is of high quality, and approximately 80 per cent of the loans are classified as low risk.

The twelve-month growth in credit to Norwegian households was stable and represented just over 6 per cent towards the end of the year. Housing prices were up 7.2 per cent on a national basis, though there were significant regional differences. According to forecasts for 2016 and 2017, housing prices will level off.

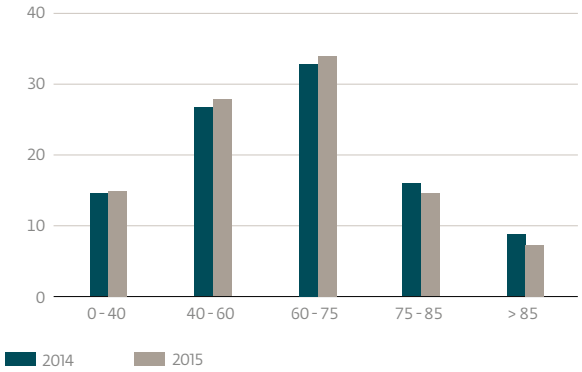
DEVELOPMENT IN CREDIT QUALITY RESIDENTIAL MORTGAGE PORTFOLIO, EAD

NOK billion



LOAN TO VALUE, RESIDENTIAL MORTGAGES, EAD

Per cent



A new regulation from Finanstilsynet came into effect on 1 July 2015. The regulation further governs requirements regarding collateral, debt servicing capacity and the size of instalments for residential mortgages in Norway. At year-end 2015, DNB fulfilled the requirements in the regulation by a wide margin.

The diagram shows that the mortgage portfolio, in terms for EAD including loan offers, has not changed much compared to year-end 2014. In November, a NOK 20 billion portfolio of fixed-rate mortgage loans was sold to DNB Livsforsik-

ring. Disregarding this sale, the underlying growth was positive at 3.4 per cent, the quality sound, and the risk low. At year-end 2015, almost the entire portfolio was characterised as low and moderate risk. The share of high-risk loans is 1.2 per cent, and has been low and stable over a number of years. Defaulted loans in the residential mortgage portfolio is still at a low level. At year-end 2015, the share of defaulted loans was 0.2 per cent, down 0.1 percentage point compared to a year earlier. This is significantly lower than the expected loss.

The second diagram on the previous page shows a distribution of loan-to-value ratios. There has been a positive development in the portfolio in spite of the sale of the portfolio mentioned above. The change from 2014 to 2015 is partly due to the implementation of the new regulation from Finanstilsynet and increased housing prices. Loan-to- value ratios are calculated on an object basis. Thus, all loans secured by the same collateral (real estate) are taken into account. Short-term bridge loans and loan offers are not included. The market value of each property is re-estimated each quarter. At year-end 2015, 93 per cent of the residential mortgages were within 85 per cent of the property's appraised value. The EAD-weighted average loan-to-value ratio for residential mortgages was 61.3 per cent at year-end 2015, compared to 62.9 per cent a year earlier.

CREDIT RISK MANAGEMENT AND MEASUREMENT

The risk appetite framework defines maximum limits for credit exposure. Limits have been set for increases in EAD, both in total and for individual industry segments. Large concentrations of risk shall be avoided. A limit for total credit risk has also been set, measured as expected loss (EL). The limit for expected losses should identify all types of credit risk and is measured by using the Group's internal credit models.

The risk appetite framework is operationalised through credit strategies for each customer segment. In addition, risk indicators are established in the Group's governance model and in the dashboards of the Group's senior executives. As a further measure to regulate credit activity, maximum limits have been established for exposure to individual segments, thus aiming to reduce concentration risk.

Decision-making process and authorisations
Group Risk Management is responsible for preparing the framework for the credit process and credit management in all business areas. Additional responsibilities include controlling and monitoring the quality of the credit portfolios and loss processes and the effectiveness of the credit process.

Each division is responsible for managing its own credit activities and credit portfolios within the confines of the risk appetite limits and credit strategies. In order to ensure that decisions are of high quality, various levels of credit approval authorisations have been introduced based on the following factors: the total exposure to the customer, the complexity of the credit or customer structure and the risk associated with the customer.

The "two pairs of eyes" principle shall be followed in connection with all credit approval. This means that a credit is approved by one person based on a recommendation from another person. For the smallest credits in the corporate segment, however, automated risk classification can replace one of the "pairs of eyes". In order for decisions to be valid at level III and above, it must be recommended by an account officer, approved by an authorisation holder in the relevant business area and thereafter endorsed by a credit officer who is organisationally independent of the business unit. All credit approval and endorsement authorisations are personal. Exceptions are credits requiring approval by the Board of Directors, where the directors approve the credit as a group. The Board of Directors approves credits of an extraordinary nature that, for example, could affect the Group's corporate reputation and credits that tie up large amounts of risk-adjusted capital. In addition to the size, complexity and risk of the credit exposu-

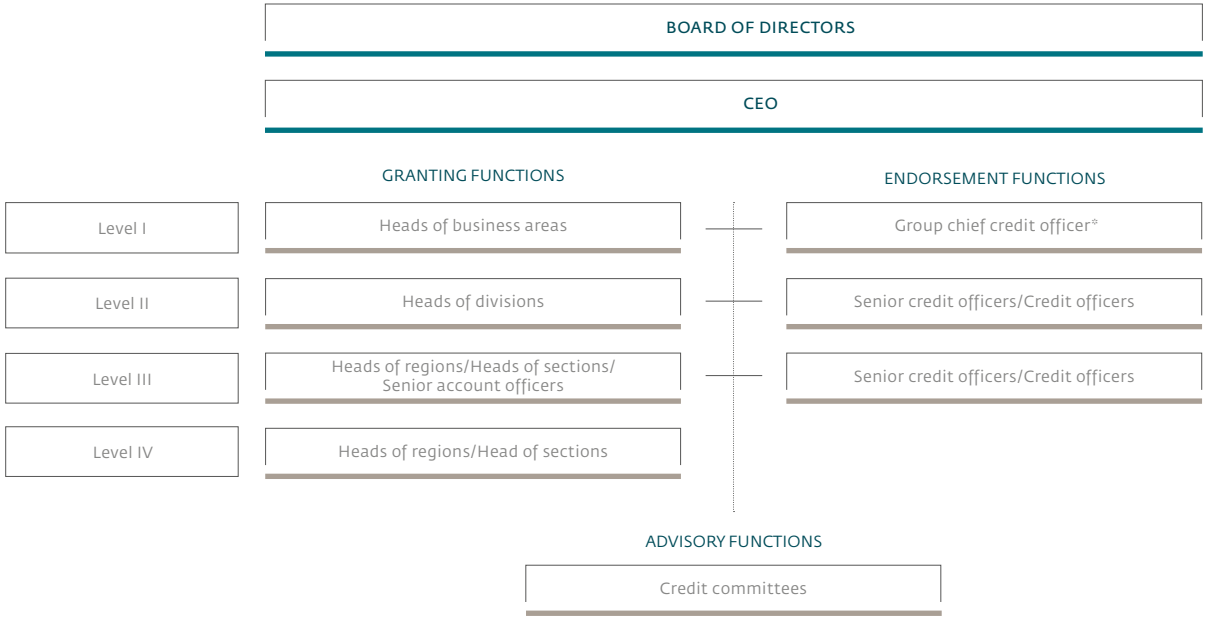
re, the personal authorisations are based on the authorisation holder's expertise in the relevant segment and industry. If the decision-maker is not sure whether the credit is within the limit of his or her authorisation or the credit application is of an extraordinary nature or raises ethical or reputational questions, the matter should be elevated to a designated decision-making body.

The credit committees are advisory bodies for employees in the business area who approve credits and employees in the independent risk organisation who endorse the credits. The Group Advisory Credit Committee handles credits to borrowers that are customers of more than one business area.

Credit regulations

If the customer has not proven a satisfactory debt servicing capacity, credit should normally not be extended even if the collateral is adequate. The customer's debt servicing capacity is assessed based on ongoing future cash flows. The main sources of the cash flow included in such assessments are earned income and income from the business operations which are being financed. In addition, the extent to which the bank's exposure will be covered through the realisation of collateral in connection with a possible future default or reduction in future cash flows is taken into account.

STRUCTURE OF CREDIT DECISIONS IN DNB



* The endorsment autorisation is given from CEO to CRO who further delegates it to the Group Chief Credit Officer

All corporate customers granted credit must be classified according to risk in connection with every significant credit approval and, unless otherwise decided, at least once a year. In the personal banking market, where there are a large number of customers, the majority of credit decisions should be made on the basis of automated scoring and decision support systems. Risk classification should reflect long-term risk associated with each customer and the customer's credit commitment.

The unit responsible for the risk classification models is organisationally independent of the operative units. A number of classification models have been developed to cover specific loan portfolios. Any overrides of the classification stemming from the statistical models must be well founded and be made only in exceptional cases based on a thorough assessment made by a unit outside the business unit. The effect of overrides is tested by an independent unit once a year. See description of the classification system later this chapter.

Credits showing a negative development are identified and followed up separately. If financial covenants have been breached, or if a loss event has occurred in cases where no impairment losses have been made, the credit will be put on a watchlist for special monitoring. Loss events include serious financial problems on the part of the debtor, the approval of grace periods due to the debtor's financial problems or serious breaches of contract. In addition customers classified as high risk shall also be considered as a wathchlist candidate. When a customer is placed on a watchlist, a new risk classification should be made, the collateral reviewed and an action plan prepared for the customer relationship. Each time the commitment is reviewed, an assessment should be made of whether a loss event has occurred. If a loss event has occurred, a loan loss equation should be prepared, which in turn could result in impairment losses.

Credit risk reporting

Exposure to the limits set in the risk appetite framework is reported to group management each month. If the limits are exceeded, it will be immediately reported to the Board of Directors, accompanied by an action plan explaining how the risk will be handled. A quarterly risk report for the Group is distributed to the Board of Directors, giving an extensive description of the risk appetite status and other developments in the risk situation.

Developments in credit risk are monitored closely. Each month, the credit portfolios are analysed and reported along several dimensions, such as industry segment, customer segment and geography. This reporting is undertaken by a unit that is independent of the business units. In the internal monitoring of credit risk, all portfolios are measured and reported according to IRB models, independent of whether the portfolio is scored in models approved for use in capital adequacy calculations.

Risk-adjusted capital for credit risk is calculated for all facilities and forms the basis for assessing the profitability of the individual facilities. Calculations of risk adjusted capital are based on risk parameters in the IRB models and include the effect of industry concentrations, geographic concentrations, particularly volatile segments and large exposures.

Collateral and other risk-mitigating measures

In addition to assessments of debt servicing capacity, the Group uses collateral to reduce risk, depending on the market and type of transaction. Collateral can be in the form of physical assets (mortgages), guarantees, cash deposits or netting agreements. As a rule, physical assets shall be insured. In addition, so-called negative pledges are used, where the customer is required to keep all assets free from encumbrances vis-à-vis all lenders. When assessing mortgages backed by residential property, the property's market value, external appraisals or internal value estimates are used.

The majority of guarantors are private individuals, enterprises, the government/municipalities, guarantee institutes and banks. The value of a guarantee depends on the guarantor's debt-servi-

cing 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 credit worthiness. A guarantee given by a limited company could be subject to Sections 8-7 through 8-11 of the Limited Liability Companies Acts, which stipulate restrictions on pledges of collateral by a limited company.

If a credit is backed by a guarantee, it could reduce the debtor's LGD. This is on condition that the guarantor is classified as risk grade 6, or better, and that the guarantor has sufficient financial strength to ensure that any demand for payment under that the guarantor is considered to have the required financial strength to ensure that the guarantee will be honoured. In addition, the guarantee must remain in effect for the entire term of the loan. Special caution will be shown if there appears to be a high degree of correlation between the financial situations of the debtor and the guarantor. Guarantees represent a small percentage of the collateral pledged to the bank.

Evaluations of the value of collateral in the corporate market are based on a going concern assumption, with the exception of situations where impairment has been made. In addition, factors which may affect the value of collateral, such as concession terms or easements and sales costs, are taken into account. The main principle for valuing collateral is to use the expected realisation value at the time the bank may need to realise the collateral. Valuations of collateral should be made when approving new loans and in connection with the annual renewal and are considered to be part of credit decisions.

In addition to an assessment of the customer's debt servicing capacity, the future realisation value of collateral, received guarantees and netting rights, financial clauses are included in most credit agreements. These clauses are a supplement to reduce risk and ensure adequate follow-up and management of the commitments. Such clauses may include minimum cash flow and equity ratio requirements.

Stress testing

DNB's credit portfolios are stress tested annually in order to identify how vulnerable a business area, or a specific portfolio, is to losses, including loss of income and default by the customers. Stress tests are also used to identify critical drivers for developments in credit risk and capital adequacy. Overall stress testing of the credit portfolio is carried out through ICAAP and externally ordered stress tests. Stress tests of single portfolios or sectors is performed either at the request of Group Risk Management or a business area. These stress tests are normally performed by the business area and assumption and methodology are controlled by Group Risk Management. The results are considered by the Group Advisory Credit Committee and approved by the CRO. The CRO considers the need for any further actions.

Stress testing of specific risk elements in individual sub-portfolios is performed in connection with analyses of specific industries. In 2015, the bank performed stress tests of the portfolios within offshore rig (drilling) and offshore service vessels.

Various methods are used to estimate credit losses. If there is a need to show detailed results, risk models to implement bottom-up calculation is used. This is the case for stress testing of specific portfolios. In these models PD for each customer is stressed. Furthermore, the LGD and EAD models are subject to the same macroeconomic shock. The PD models are not fully cyclical, which means that the PD values will not be fully consistent with the observed default frequency over a business cycle. In addition, risk-weighted volume will be less cyclical than the PD value included in the calculation. Therefore, the transition from IRB figures to projections of actual levels of new defaults and losses must take into consideration the IRB system's calibration level and cyclicality, in addition to the current position in the economic cycle.

DNB also uses custom-made scenarios when stress testing different subsidiaries and portfolios. These might consist of fewer macroeconomic variables and/or more direct changes in the different risk parameters in the model, depending on the needs of the different portfolios and business areas.

OVERVIEW OF CREDIT EXPOSURES

The table shows total credit commitment split by maturity at year-end 2015. There has not been any significant change from a year earlier.

The diagrams on the next page show the Group's total credit exposure according to customer segment and sector. Total exposure includes loans and claims, guarantees and undrawn credit facilities. In this connection, total exposure includes banks and the portfolio of bonds held to maturity. The breakdown into principal sectors is based on the Statistical Classification of Economic Activities in the European Community, NACE Rev 2.

DNB's credit portfolio is roughly equally distributed between personal and corporate customers, 43 per cent and 57 per cent respectively. The large majority of credits are related to Norwegian customers in or outside Norway. The diagram shows credit exposure according to geographical location based on the customer's address. The largest industry sector in the corporate portfolio is real estate. Real estate includes residential properties in this diagram.

More detailed information can be found in the attachment.

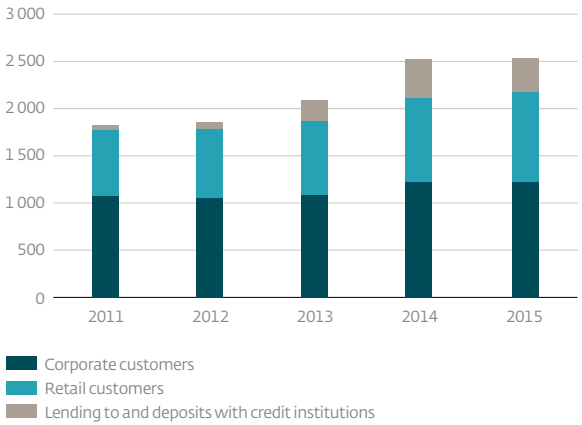
TOTAL CREDIT COMMITMENTS SPLIT BY MATURITY, DNB GROUP

31 Dec. 2015 NOK million	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	No fixed maturity	**Total**
Lending to and deposits with credit institutions	188 273	102 957	4 244	2 046	3 713		**301 233**
Net lending to customers	165 981	104 561	100 937	335 519	837 693	(2 527)	**1 542 165**
Unutilised credit lines under 1 year							**357 737**
Unutilised credit lines over 1 year							**244 267**
Guarantees							**98 366**

31 Dec. 2014 NOK million	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	No fixed maturity	**Total**
Lending to and deposits with credit institutions	282 050	62 797	6 091	22 376	13		**373 325**
Net lending to customers	159 915	86 886	78 234	292 100	822 348	(2 139)	**1 437 344**
Unutilised credit lines under 1 year							**259 687**
Unutilised credit lines over 1 year							**351 903**
Guarantees							**103 017**

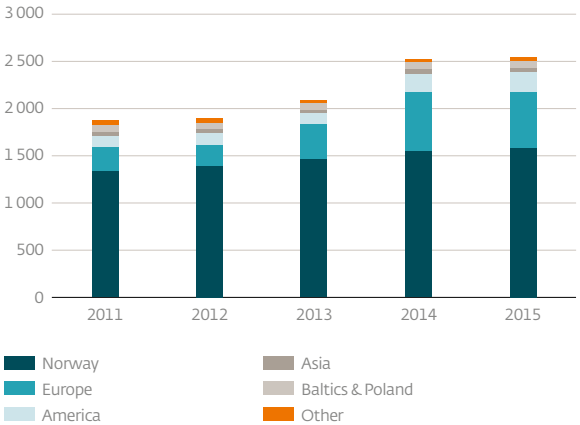
DEVELOPMENT IN TOTAL COMMITMENTS* SPLIT BY PRINCIPAL SECTORS

NOK billion



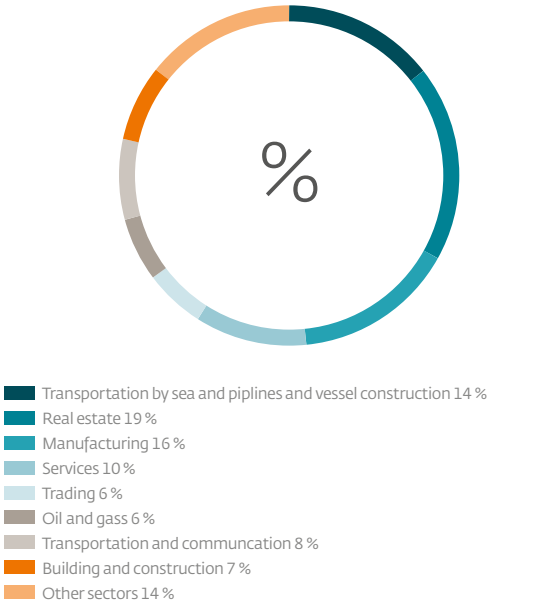
TOTAL COMMITMENTS* SPLIT BY GEOGRAPHY

NOK billion



COMMITMENTS TO CORPORATE CUSTOMERS SPLIT BY INDUSTRIES**, 31 DEC. 2015

Per cent



*Total commitments = loans to and receivables from credit institutions, loans to customers, guarantees and unutilised limits and offers.

** The breakdown into principal customer groups corresponds to the EU's standard industrial classification, NACE Rev 2 and is different from the industy classification used in EAD measurement.

IMPAIRMENT AND DEFAULTED LOANS

On each balance sheet date, the Group will consider whether there are objective indications that the financial assets have decreased in value. If objective evidence of a decrease in value of a loan or group of loans can be found, impairment losses are recorded.

Objective indications of a decrease in value of loans include:

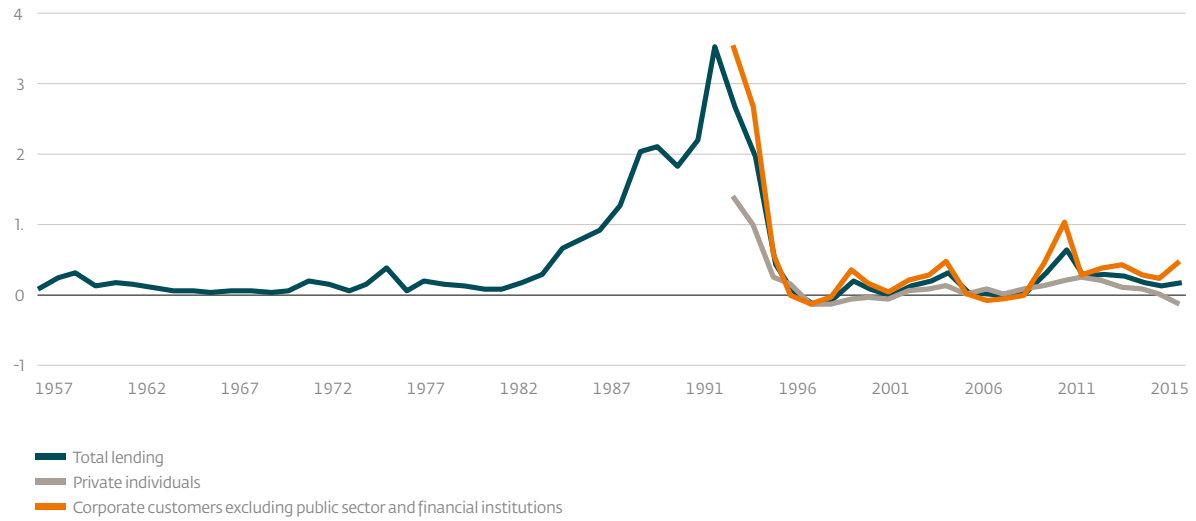
- Serious financial problems on the part of the debtor.
- Non-payment or other serious breaches of contract.
- The approval of grace periods or new credit for instalment payments.
- The renegotiation of interest rates or other loan terms due to financial problems or the probability that the debtor will enter into debt negotiations.
- Other financial restructuring or the borrower being declared bankrupt.

Development in annual net impairment losses

The diagram shows the development in net annual impairment lossesfor the period 1957-2015. Due to lack of data, only total net impairment losses are shown for the period 1957–1991. From 1992, net impairment losses are also broken down on personal customers and corporate customers, excluding public sector and financial institutions.

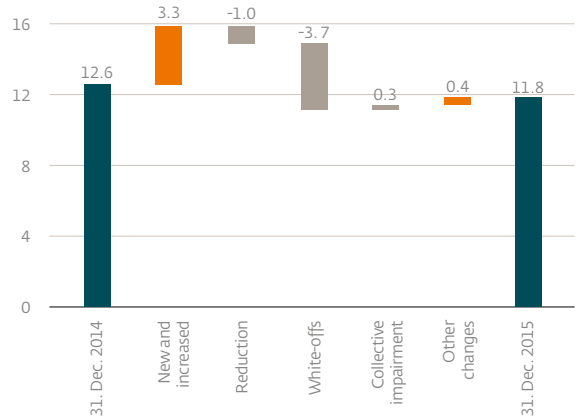
NET IMPAIRMENT LOSSES PER YEAR, 1957 - 2015

Per cent



DEVELOPMENT IN ACCUMULATED IMPAIRMENT

NOK billion

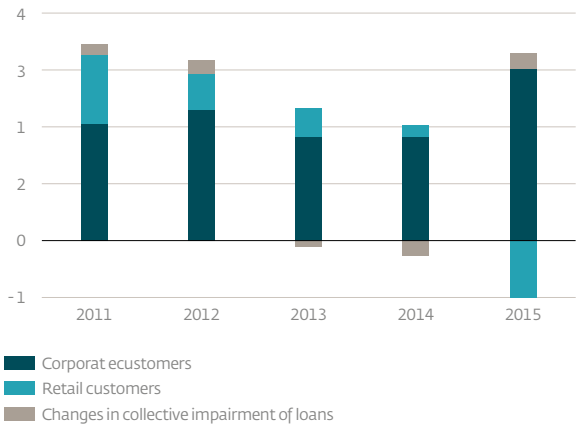


Impairment is calculated as the difference between the value of the loan in the balance sheet and the net present value of estimated future cash flows discounted by the internal rate of return on the loan, which is the bank's funding cost plus the original margin and amortised fees.

The diagram shows the development in accumulated impairment in 2015. Accumulated impairment was reduced by NOK 0.8 billion in 2015, totalling NOK 11.8 billion. The reduction was mainly due to write-offs of NOK 3.7 billion. New individual impairment losses of NOK 3.3 billion were recorded, which is NOK 0.2 billion higher than in 2014. There was an increase in impairment losses within shipping and offshore. Collective impairment losses increased by NOK 0.3 billion during 2015. There was a reduction in impairment losses recorded in previous years of approximately NOK 1 billion, which is NOK 0.3 billion less than in the previous year.

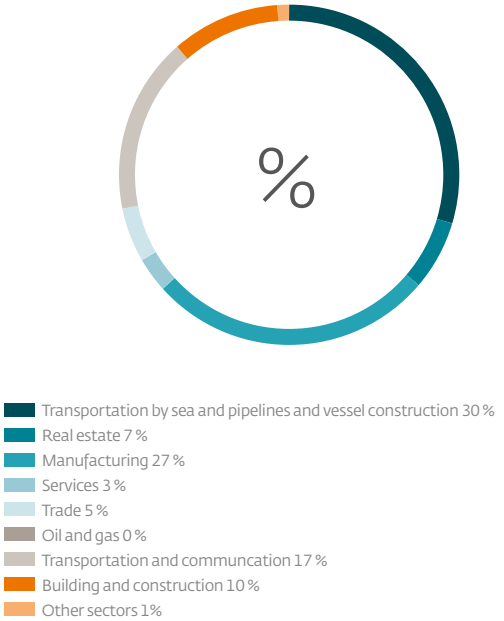
ANNUAL NET IMPAIRMENT SPLIT BY INDIVIDUAL AND COLLECTIVE IMPAIRMENTS

NOK billion



ANNUAL NET IMPAIRMENT OF CORPORATE CUSTOMERS SPLIT BY INDUSTRIES*, DECEMBER 2015

Per cent



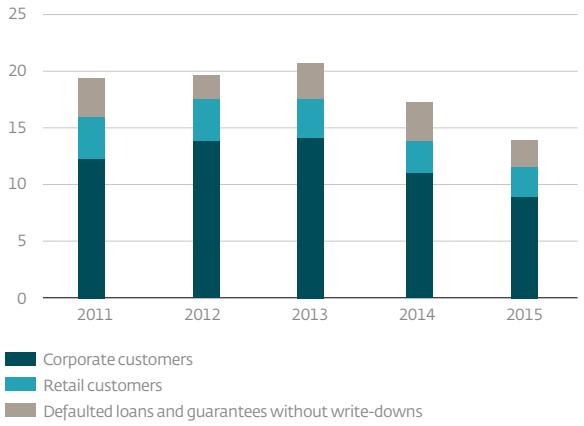
*The breakdown into principal customer groups corresponds to the EU's standard industrial classification, NACE Rev 2 and is different from the industy classification used in EAD measurement.

Loans which have not been individually evaluated for impairment are evaluated collectively in groups. Loans are grouped on the basis of similar risk and value characteristics in accordance with the division of customers into main sectors or industries and risk categories. DNB has developed a model that estimates the need for impairment per industry based on changes in portfolio quality and the macroeconomic situation. Just like individual impairment, collective impairment is based on discounted cash flows. The discount factor is based on statistics derived from individual impairment. DNB uses economic developments in selected industries based on indices for rent, oil prices, salmon prices, production gaps, the ClarkSea index and housing price developments as objective evidence for collective impairment. Collective impairment reduces the value of loans and guarantees in the balance sheet, and changes during the period are recorded under Impairment of loans and guarantees.

Impairment losses on loans and guarantees increased by NOK 0.6 billion from 2014 to 2015. There was an increase in individual impairment losses in the shipping and offshore segment, while there were reversals on impairment losses in the personal customer segment in 2015. A sale of a defaulted portfolio to Lindorff had a positive effect on the results of NOK 1.1 billion. This was mainly a consequence of the sale of defaulted portfolios in the third

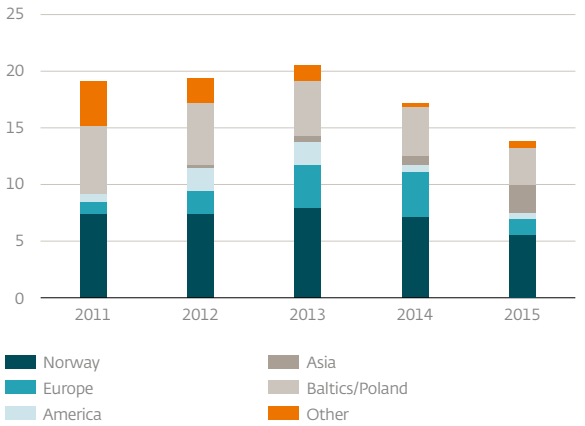
DEFAULTED EXPOSURES SPLIT BY CUSTOMER SEGMENTS

NOK billion



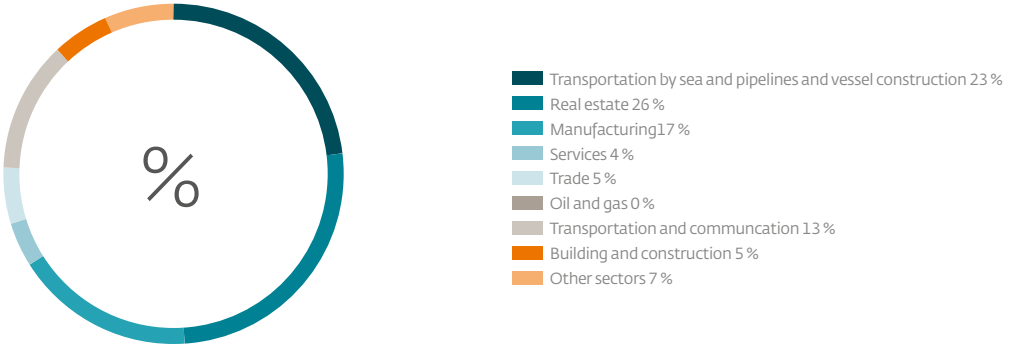
DEFAULTED EXPOSURES SPLIT BY GEOGRAPHY

NOK billion



DEFAULTED EXPOSURES, TO CORPORATE CUSTOMERS SPLIT BY INDUSTRIES, 31 DECEMBER 2015

Per cent



quarter of 2015. Collective impairment losses rose by NOK 0.6 billion, to NOK 0.3 billion in 2015, from net reversals of NOK 0.3 billion in 2014. The rise in collective impairment reflected a higher risk level in the large customer portfolio and less favourable economic conditions in some industries.

In this chapter, defaulted commitments are defined in accordance with IFRS commitments that are restructured due to financial problems to avoid default, are not included. For an exact definition of defaulted commitments, see text box at the start of the chapter.

The diagrams on the previous page shows the Group's net defaulted commitments according to customer segments. The breakdown into principal sectors is based on standardised sector and industry categories. More detailed information can be found in the attachment to the report.

Net defaulted loans and guarantees amounted to NOK 14 billion at year-end 2015, down from NOK 17.3 billion at year-end 2014. Net defaulted loans and guarantees represented 0.8 per cent of the loan portfolio, a reduction of 0.2 percentage points from year-end 2014.

The table shows past due amounts on loans and overdrafts on credits/deposits broken down on the number of days after the due date. Past due loans and overdrafts on credits are subject to continual monitoring. Loans and guarantees where a probable deterioration of customer solvency is identified, are reviewed for impairment. Such reviews have also been carried out for the loans and guarantees included in the table for which no need for impairment has been identified. Past due loans subject to impairment are not included in the table, but are included in tables showing impaired loans and guarantees. Developments over the past year reflect the challenging period the Norwegian economy has been through. There was a substantial increase in past due loans and credits which were overdrawn by more than 90 days during 2015. For volumes between 10 and 90 days, there was a marked decline compared with the previous year.

PAST DUE LOANS NOT SUBJECT TO IMPAIRMENT

	31 Dec. 2015		31 Dec. 2014	
NOK million	Past due/ overdrawn	Outstanding balance on past due loans	Past due/ overdrawn	Outstanding balance on past due loans
10-29 days	129	8 277	697	12 458
30-59 days	272	2 743	526	3 347
60-89 days	32	758	149	608
> 90 days	1 706	5 076	203	960
Total	**2 139**	**16 855**	**1 575**	**17 373**

CAPITAL REQUIREMENTS FOR CREDIT RISK

The total capital requirement for credit risk was NOK 66.5 billion at year-end 2015, down NOK 0.2 billion from a year earlier. The capital requirement for credit risk reported according to the standardised approach decreased by NOK 7.1 billion, which was mainly due to the fact that IRB reporting has been approved for that part of the corporate portfolio which is scored using the simulation models. The capital requirement for the IRB portfolio increased by NOK 6.9 million in 2015. The capital requirements for the corporate portfolio and for residential mortgages increased significantly by NOK 3.7 billion and NOK 3.5 billion respectively, due to new requirements from Finanstilsynet. For more details see the paragraph about developments in risk-weighted assets.

SPECIFICATION OF RISK-WEIGHTED ASSETS AND CAPITAL REQUIREMENTS

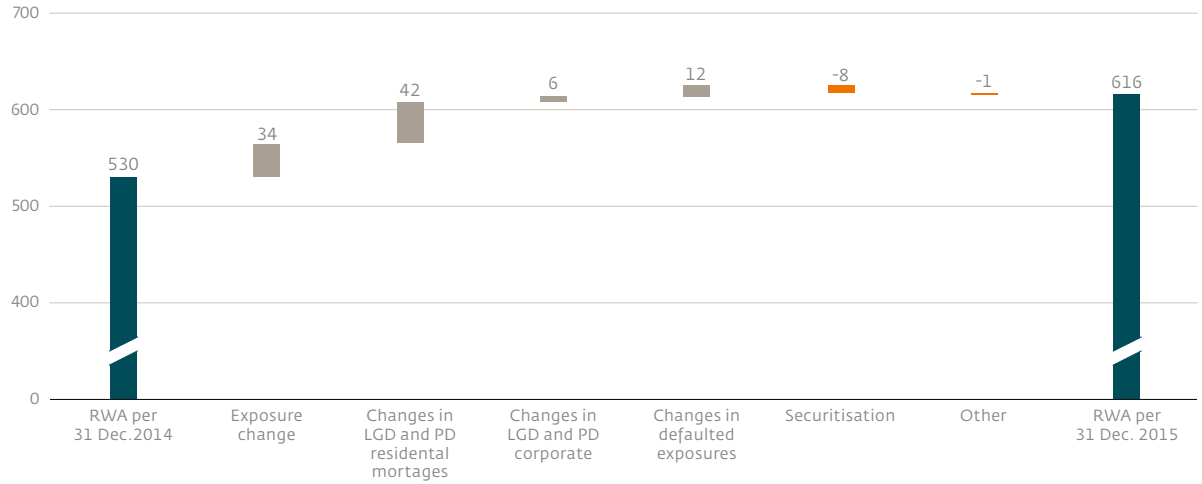
NOK million	Nominal exposure	EAD	Average risk weights in per cent	Risk-weighted assets	Capital requirement 31 Dec. 2015	Capital requirement 31 Dec. 2014
IRB approach						
Corporate	1 108 681	903 210	46 %	417 760	33 421	29 699
- of which corporate SME	199 168	172 365	47 %	80 919	6 474	6 680
Specialised Lending (SL)	10 813	10 042	58 %	5 844	468	179
Retail - mortgage loans	667 612	667 612	23 %	153 008	12 241	8 705
Retail - other exposures	111 886	92 132	27 %	24 568	1 965	2 016
Securitisation	19 162	19 162	78 %	15 007	1 201	1 820
Total credit risk, IRB approach	**1 918 154**	**1 692 158**	**36 %**	**616 187**	**49 295**	**42 419**
Standardised approach						
Central government	60 174	74 103	1 %	411	33	18
Institutions	345 489	109 775	25 %	27 873	2 230	2 730
Corporate	176 199	138 347	87 %	120 710	9 657	16 153
Retail - mortgage loans	48 498	46 475	47 %	22 046	1 764	1 657
Retail - other exposures	93 085	43 513	76 %	33 024	2 642	2 757
Equity positions	3 193	3 193	108 %	3 444	276	241
Securitisation	2 474	2 474	30 %	748	60	66
Other assets	5 912	5 912	114 %	6 684	535	674
Total credit risk, standardised approach	**735 025**	**423 792**	**51 %**	**214 939**	**17 195**	**24 297**
Total credit risk	**2 653 178**	**2 115 950**	**39 %**	**831 127**	**66 490**	**66 715**

Developments in risk-weighted assets for the IRB portfolio

The diagram shows the factors which had effects on changes in RWA during 2015. Risk-weighted assets (RWA) increased by NOK 86 billion in 2015. This can be explained by new requirements from Finanstilsynet related to residential mortgages and the large corporate portfolio, as well as the fact that the simulation models for corporates were adopted for reporting as from the fourth quarter of 2015. Portfolios which were classified using the simulation models totalled NOK 92 billion in terms of EAD. Increased exposure led to an increase in RWA of NOK 34 billion. EAD for the defaulted portfolio increased by NOK 2.4 billion during 2015. Risk-weighted assets for this portfolio increased by NOK 12 billion.

DEVELOPMENT IN RISK-WEIGHTED ASSETS FOR CREDIT RISK, IRB PORTFOLIO

NOK billion



IRB SYSTEM

The purpose of the IRB regime is to ensure sound risk management and make sure that the capital adequacy requirements are fulfilled. To succeed, quality and transparency must be secured throughout the value chain. The Board of Directors assesses the capital adequacy requirement on the basis of risk measurements and an overall evaluation of external parameters and business and strategic targets. All elements in the value chain must be validated with respect to whether the authorities' requirements and internal quality requirements have been met. The validation will thus both verify the adequacy of the system and reveal improvement needs.

DNB started using internal risk models in 1995. The bank received its first formal permission to use the IRB approach in early 2007. Most risk models used in the bank's IRB system have now been approved by Finanstilsynet. The calculations from the IRB system are fully integrated in the bank's internal management tools.

DNB uses the advanced IRB (AIRB) approach only for its corporate portfolios. The foundation IRB (FIRB) is not used by DNB. After a long application process, the bank received permission to use the IRB approach for simulation models used for large corporates in the fourth quarter of 2015.

REPORTING METHODS FOR CREDIT PORTFOLIOS IN DNB

Asset class	Reporting method	Comments
Corporate	AIRB, mainly	Retail SME is reported as asset class corporate. DNB is not allowed to report those as Retail SME. Standardised approach includes housing cooperatives and newly formed corporates.
Retail	IRB	The credit card portfolio are reported as Retail other exposures. DNB is not allowed to classify those as Retail qualifying revolving exposures (QRRE).
Securitisation positions	IRB	International bond portfolio held to maturity, DNB Markets. In accordance to the table in Kapitalkravsforskriften (CRD IV) §29-2.
Institutions	Standardised approach	Banks and financical institutions are reported using the standardised approach. DNDs ambition is the AIRB.

Exceptions	Reporting method	Comments
Approved exceptions	Standardised approach	Governments, municipalities and equity positions .
Temporary exceptions	Standardised approach	Subsidiaris in the Baltic countries, Polen and Luxembourg. In adittion to some minor portfolios.

When DNB received permission to use the AIRB approach using simulation models, Finanstilsynet emphasised that the risk weights in the total large corporate portfolio should not vary too much. In practice, the requirements set for PD and LGD mean that the capital requirement will be virtually unchanged and not sensitive to cyclical fluctuations. The LGD levels in the simulation models are adjusted to the floor levels specified in Finanstilsynet's conditions for capital adequacy calculations.

Finanstilsynet has set requirements for the PD level in the residential mortgage portfolio by defining the level during a downturn as well as the weighting of good and bad times. In addition, there is a minimum PD requirement of 0.2 per cent for each loan. At portfolio level, the average LGD cannot be lower than 20.0 per cent.

The risk models are also used in internal processes, and DNB would like the models' ability to intercept changes in the risk picture to be retained. DNB

was therefore given permission to use two sets of risk parameters for the large corporate portfolio, and in the residential mortgage portfolio from the first quarter of 2015. At year-end 2015, the internally calculated risk is lower than the key figures that are applied in the capital adequacy reporting.

In this report both the key figures that is used in the capital adequacy calculation and those key figures that is used in internal reporting is presented.

The IRB models have various areas of application. The most important are:

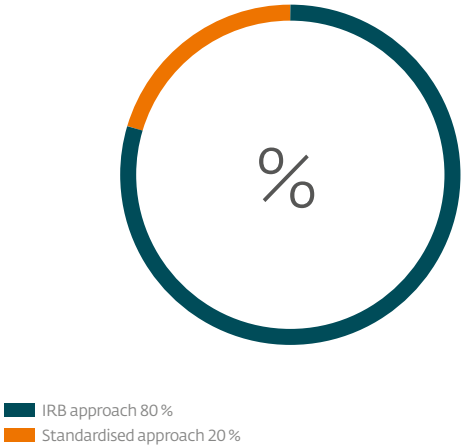
- Capital adequacy calculations
- Decision-support in the credit process
- Credit rules and credit strategies
- Risk measurement and ongoing reporting
- Pricing of risk and measurement of portfolio profitability

80 per cent of the portfolio, in terms of EAD, was reported according to IRB models at year-end 2015.

Credit risk models and risk classification
DNB's models for risk classification of customers are adapted to different industries and segments and are upgraded where subsequent verification shows that the explanatory power has declined over time.

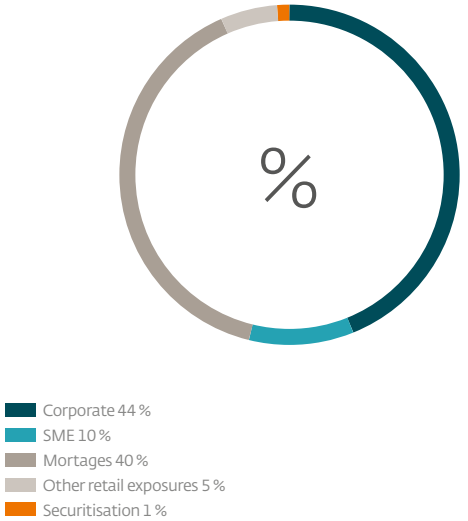
REPORTING METHODS FOR CREDIT RISK, EAD, DECEMBER 2015

Per cent



ASSET CLASSES IN THE IRB PORTFOLIO, EAD, DECEMBER 2015

Per cent



DNB divides its portfolio into ten risk grades based on the PD for each commitment. Commitments in default, categorised as defaulted, are assigned a PD of 100 per cent.

DNB's models reflect that different variables give the best explanations for risk in the various portfolios. As far as possible, DNB's IRB models are developed on the basis of historical data using statistical methods. This is the case for the models used for residential mortgages and small and medium-sized enterprises. Normally, access to data will be more limited the further we go back in time. Thus, a distinction is often made between the underlying documentation for model development and for model calibration. In the large corporate portfolio, there are far fewer customers and few events of default. The models are therefore developed as expert models, whereby the static adaptation of the models is based on developing models that best reproduce expert ratings.

While PD models should reflect the expected average default frequency over a business cycle, the EAD and LGD models should reflect exposure at default and loss given default during an economic recession to the extent this represents a more conservative approach. DNB is required to include the Norwegian banking crisis during the 1988-1993 period in the calibration of the IRB models.

DNB'S CREDIT RISK CLASSIFICATION

	Probability of default (per cent)		External rating	
Risk grade	From PD	To PD	Moody's	Standard & Poor's
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	40.00	B3, Caa/C	B÷, CCC/C

DNB's PD models are a cross between completely stable and unbiased estimates. This reflects the fact that many of the factors used to identify good and less good customers vary over time. In risk reporting and internal processes it is favourable that the PD models intercept changes in risk reflecting the economic situation. At the same time, capital requirement should be determined based on estimates that are relatively stable over the entire economic cycle. To cover both needs, DNB has PD models with estimates which are just partly correlated with the economic cycle. According to the requirements for use, risk models used to calculate capital requirements are also to be used in granting and following up individual exposures.

Models used in the IRB reporting at end-year 2015
The tables show an overview over the most important models used in DNB and include a short description of each model. When the models are limited by requirements from Finanstilsynet, this is specified.

The models shown include the major part of total EAD in the IRB portfolio. The PD models are used for 93.8 per cent, and the LGD and EAD models are used for 94.5 per cent of the total IRB portfolio in terms of EAD. The reason why the PD models show a lower share of total EAD is that the defaulted portfolio is not scored in the PD models.

PD MODELS

Asset class	Portfolio	RWA NOK billion	Model description and method	Number of years of loss data	Limit from the Norwegian FSA
Corporate	Large corporates Scorecard	260	Scorecard models based on expert evaluations combined with a statistical approach. The models include both quantitative and qualitative risk drivers. The Norwegian banking crisis during the early 90s is taken into account when calculating the long-term calibration level.	>10 years	Level determined based on a formula from the Norwegian FSA (Finanstilsynet)
Corporate	Large corporates Simulation	48	Simulation models are used for companies like SPVs (Single Purpose Vehicle) where the main source of debt servicing is income generated by the entity's assets. Possible future scenarios are randomly generated based on a set of risk drivers. The simulated PD is then adjusted by qualitative factors based on a scorecard approach. The models are based on industry segments. The Norwegian banking crisis during the early 90s is taken into account when calculating the long-term calibration level.	6-10 years	Level determined based on a formula from the Norwegian FSA (Finanstilsynet)
Corporate	SME	94	Statistical scorcard models based on industry segment and size. Accounting data are included, as is some behavioural indicators. The Norwegian bank crisis during the early 90s is taken into account when calculating the long-term calibration level.	>10 years	
Retail	Retail, residential mortgages	153	Statical regression models using information regarding the customer's financial position, demography, and payment record. The calibration level is set by the Norwegian FSA (Finanstilsynet), with minimum requirements for to AIRB parameters for retail mortgage portfolios.	>10 years	Limit (floor) determined based on a formula from the Norwegian FSA (Finanstilsynet)

LGD MODELS

Asset class	Portfolio	RWA NOK billion	Model description and method	Number of years of loss data	Limit from the Norwegian FSA
Corporate	Large corporates General	272	Scorecard model based on expert evaluations combined with a statistical approach. The input includes seniority, covenants and collateral. The Norwegian banking crisis during the early 90s is taken into account. The downturn period is set by the Norwegian FSA (Finanstilsynet).	6-10 years	
Corporate	Large corporates SPV (Single Purpose Vehicle)	55	Simulation models are used on companies like SPVs where the main source of debt servicing is the income that is generated by the entity's assets. Possible future scenarios is randomly generated based on a set of risk drivers. The model identifies under which scenarios the cash flow are not sufficient to cover the entity's debt obligations. These scenarios are used to calculate the LGD. The downturn calibration level is set in light of the Norwegian banking crisis during the early 90s.	6-10 years	Limit (floor) determined based on a formula from the Norwegian FSA (Finanstilsynet)
Corporate	SME	96	Statical scorecard models where collateralisationis a key explanatory variable. In the model, the downturn calibration is set in light of the Norwegian banking crisis during the early 90s.	6-10 years	
Retail	Retail, residential mortgages	153	Classification model based on demographic information and collateral values. The calibration level is set by the Norwegian FSA (Finanstilsynet) with minimum requirements for to AIRB parameters for retail mortgage portfolios.	> 10 years	Limit (floor) determined based on a formula from the Norwegian FSA (Finanstilsynet)

EAD MODELS

Asset class	Portfolio	RWA NOK billion	Model description and method	Number of years of loss data	Limit from the Norwegian FSA
Corporate	Corporate	424	Model combining expert evaluations and a statistical approach to determine credit conversion factors.	6-10 years	
Retail	Retail, residential mortgages	153	Credit conversion factors estimated using statistical methods.	6-10 years	

VALIDATION

Validation is a key element in the quality assurance of DNB's IRB system. In accordance with the capital adequacy regulations and DNB's validation guidelines, a validation report should be presented to the Board of Directors at least once a year as a basis for assessing whether the Group's credit risk is adequately classified and quantified.

The quantitative validation includes tests of the models' ranking power/discriminatory power, ability to determine the correct level (calibration) of risk parameters and the stability of the risk parameters.With respect to ranking power, the PD model's ability to differentiate between "bad" customers (customers with a high probability of default) and "good" customers (customers with a low probability of default) is tested, along with its ability to make the correct ranking. With respect to LGD, DNB has implemented methods to test the models' ability to distinguish between defaulted customers with a high LGD and defaulted customers with a low or no LGD in order to give them the correct ranking.

With respect to calibration, tests are implemented to assess whether PD, EAD and LGD are at the right levels. The criterion is that predicted values are consistent with observed outcomes or that the deviations are anticipated and/or acceptable based on the relevant stage of the business cycle.

In order to assess the calibration of the PD models, a binomial test is used. This test is carried out for each risk grade and compares the observed default frequency with the probability expected under a binominal distribution for a given PD. The test answers the following question: "If our predicted PD for the risk grade is correct, what is the probability that the number of observed cases of default will materialise?" Since the predicted default frequency should express observations during a full economic cycle, the tests are based on all available observation periods for the individual model or portfolio.

Four different methods are used to assess the calibration of the LGD models. One of the methods is to make a comparison between the predicted and the observed LGD (both number-weighted and volume-weighted) in intervals to assess the difference between the average predicted and the average observed LGD. Based on validation results for a number of years, the average observed LGD should ideally be well below the upper limit for the intervals and not exceed this limit during an economic downturn, as LGD should reflect the loss ratio during a downturn. The same applies to the predicted EAD. In order to identify systematic variations in the observed default frequency and the observed loss given default, a macroeconomic model has been developed to be used as support when assessing the level of observed default in light of the economic situation.

In the qualitative validation, both the design of the IRB system and the IRB process are tested. When validating the design of the IRB system, the assumptions underlying the IRB models are reviewed, including the development of the classification method, data quality and the stability of the classification system. Furthermore, checks are carried out to make sure that the IRB system is used as intended. Testing of how the risk models are used in decision-making processes and external reporting is thus an important part of the qualitative validation.

The most recent validation report shows that most of the models have good predictive ability. This especially applies to the models classifying existing personal customers. Two of the models used for risk classification of asset financing will be reviewed in 2016 because they do not distinguish satisfactorily between good and less good customers. A new model for risk classification of credit card customers was implemented in 2015, and another is being developed. A new model for small companies has been developed and will be implemented as soon as it is approved.

The validation results for 2015 are currently being processed and will be considered by the Board of Directors in July 2016. Until then, the results from the report for 2014 will be shown.

Risk parameters versus actual outcome

Updated values from the validation report for 2015 can be found in the attachment. The comments below refer to the validation report for 2014.

The diagrams below show the predicted PD at the beginning of the year compared with the observed PD in the course of 2014. The PD is weighted by number of loans in these diagrams, as opposed to PD weighted by volume (EAD) in other parts of this report.

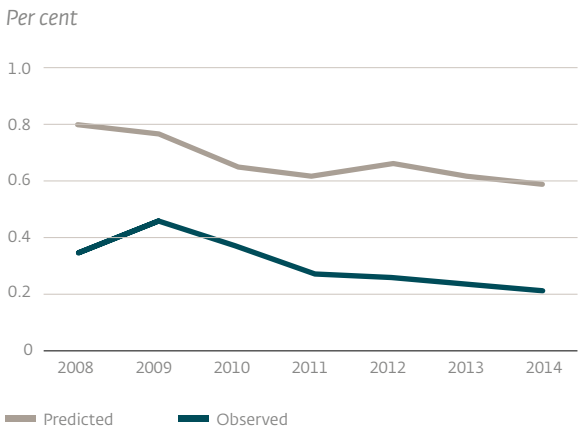
As shown in the diagrams, the actual (observed) PD is well below the predicted PD throughout this period for the residential mortgage portfolio. The predicted PD values stated here are from the bank's internal models and do not reflect the level specified by Finanstilsynet, which is used in capital adequacy calculations. The latter had an average prediction level of 0.92 per cent at year-end 2015.

As stated above, DNB was given permission by Finanstilsynet to report the simulation models in the large corporate portfolio as IRB as from the fourth quarter of 2015. Past figures are now included in the diagram. The observed default frequency is highly volatile due to very few defaults in the portfolio where one single default may have a significant impact.

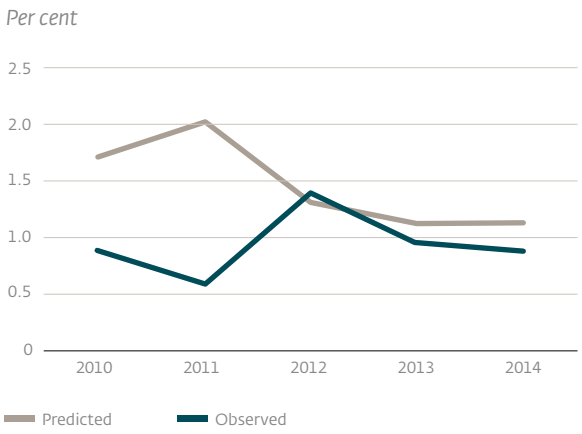
The increase in the predicted PD for small and medium-sized limited companies from 2.0 to 3.1 per cent between 2011 and 2012 is due to a recalibration of the model in 2012. The recalibration took place after the validation report for 2011 identified deficiencies in underlying data for the calibration of the regional model.

There are different conversion factors for the various types of products included in calculations of

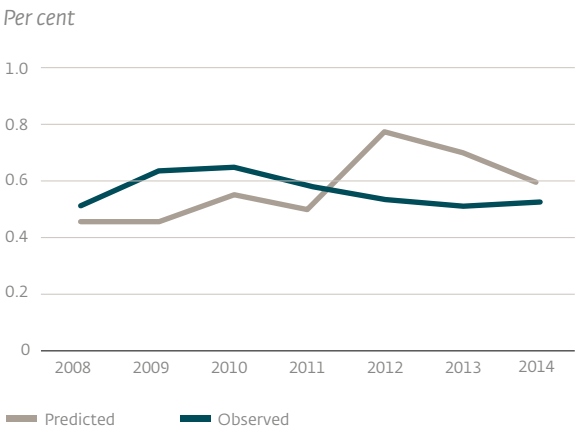
COMPARISON OF PREDICTED AND OBSERVED PD, RESIDENTIAL MORTGAGE PORTFOLIO



COMPARISON OF PREDICTED AND OBSERVED PD, LARGE CORPORATE



COMPARISION OF PREDICTED AND OBSERVED PD, SMALL AND MEDIUM-SIZED COMPANIES



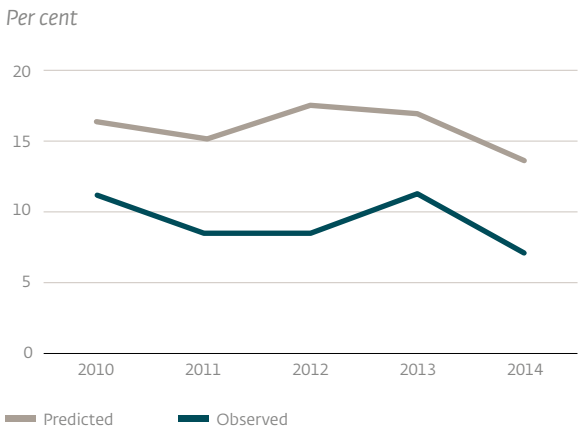
the predicted EAD. With respect to binding offers, the EAD is calculated based on a set acceptance ratio calculated on the basis of the previously registered customer acceptance ratio.

Assessments of the conversion factors for EAD are based on observed defaulted loans relative to the related predicted EAD 12 months prior to the time of default. For large corporates, there is not enough underlying documentation to make a statistically robust assessment of the predicted EAD. Both the acceptance ratio and ratios of relevance to the various portfolios are shown in the attachment.

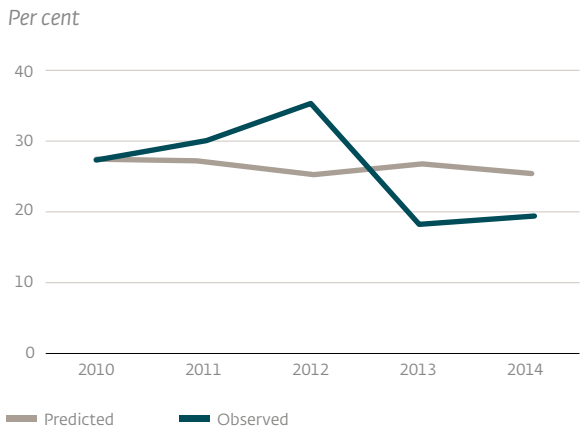
The table for LGD shows the predicted LGD at the start of the year compared with the actual LGD for events of default that occurred in the course of the year. The predicted values are based on the defaulted portfolio, which normally gives somewhat higher average figures than if the entire portfolio is used.

The diagrams with the results from the validation of some of the LGD models show that the observed LGD is lower than the predicted LGD in the models for both real property and small and medium-sized enterprises. The high observed LGD in 2012 and 2013 for the large corporate model is still an uncertain estimate, as a large number of the customers are still in default. In addition, due to few events of default, the default of individual customers has a significant impact.

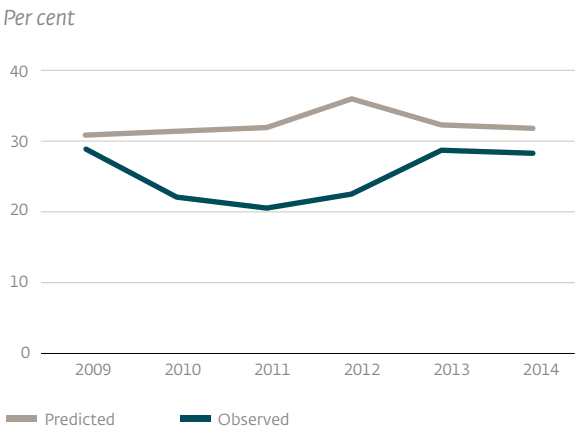
COMPARISON OF PREDICTED AND OBSERVED LGD, RESIDENTIAL MORTGAGE PORTFOLIO



COMPARISON OF PREDICTED AND OBSERVED LGD, LARGE CORPORATE



COMPARISON OF PREDICTED AND OBSERVED LGD, SMALL AND MEDIUM-SIZED COMPANIES



ACTUAL VALUE ADJUSTMENTS

The two figures shows a comparison between expected losses at the beginning of the year and new impairment losses recorded during the year for approved IRB portfolios.

The expected loss (EL) for the residential mortgage portfolio increased during 2015, while actual value adjustments were reduced. The increased EL is due to the requirement of a LGD floor, which was implemented in 2014. The actual value adjustments are at a significantly lower level than the estimated EL.

In the corporate portfolio, both the expected loss and the actual value adjustments increased. This is due to the above-mentioned declining quality in the oil-related portfolio during 2015. There were higher impairment losses, especially in the specified portfolios. EL is calculated based on the key figures used in the calculation of the capital requirement. For more information see attachment.

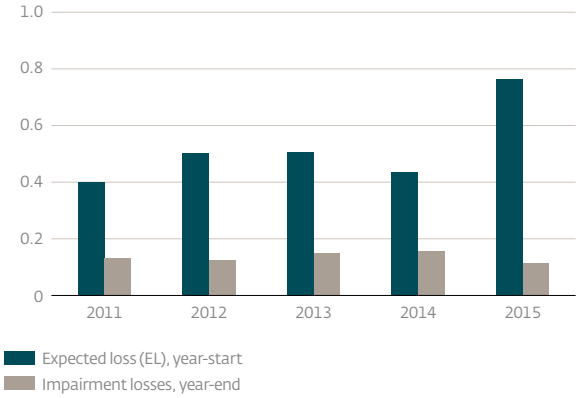
EXPOSURES FOR APPROVED IRB PORTFOLIOS

DNB has been given permission by Finanstilsynet to use two sets of risk parameters in the large corporate portfolio and the residential mortgage portfolio from 2015. At year-end 2015, the internal calculated risk was lower than the key figures that are applied in the capital adequacy calculation. In the tables on the following pages, key figures used in calculating capital requirements will be presented under the heading "Used in the calculation of capital adequacy". The key figures used in the internal management of credit risk are shown under the heading "Used in internal reporting".

The tables show EAD for the residential mortgages and corporate portfolios. EAD is the total of the amount drawn and the unutilised credit line multiplied by a credit conversion factor (CCF).

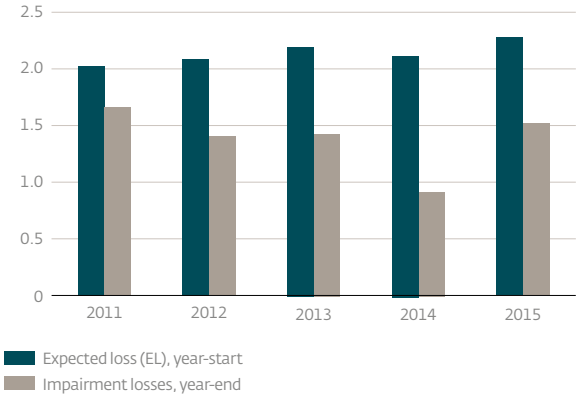
COMPARISON BY EXPECTED AND ACTUAL VALUE ADJUSTMENTS ACCORDING TO RISK PARAMETERS FOR RESIDENTIAL MORTGAGE LOANS

NOK billion



COMPARISON BY EXPECTED AND ACTUAL VALUE ADJUSTMENTS ACCORDING TO RISK PARAMETERS FOR CORPORATES

NOK billion



For the corporate portfolio, the average maturity is also shown. The PD for the total portfolio is weighted by EAD and includes only risk grades 1–10.

RETAIL, RESIDENTIAL MORTGAGES

	2015 Used in calculation of capital adequacy						2014 Used in calculation of capital adecuacy					
Risk grade	Unutilised credit lines, NOK million	CCF %	EAD, NOK million	PD %	LGD %	Risk weight %	Unutilised credit lines, NOK million	CCF %	EAD, NOK million	PD %	LGD %	Risk weight %
1	-	-	-	-	-	-	-	-	-	-	-	-
2	7 634	100	65 103	0.20	19	8	25 769	100	260 173	0.16	20	7
3	21 792	100	214 805	0.30	20	12	14 039	100	184 874	0.37	20	13
4	14 931	100	173 993	0.62	20	20	3 426	100	65 741	0.62	20	20
5	3 929	100	75 091	1.01	21	28	4 412	100	83 879	0.99	20	27
6	4 859	100	82 166	1.63	21	38	1 579	100	37 033	1.61	20	37
7	1 690	100	34 786	2.61	21	51	384	100	11 973	2.47	21	50
8	398	100	12 360	3.94	22	68	147	100	5 596	3.90	22	66
9	137	100	4 767	6.41	22	88	31	100	2 249	6.35	22	85
10	54	100	2 856	13.21	22	114	9	100	1 106	12.09	21	106
Defaulted	5	100	1 684	100.0	26	197	9	100	2 064	100.0	24	180
Sum total [1]	**55 429**	**100**	**667 612**	**0.91**	**20**	**23**	**49 804**	**100**	**654 688**	**0.57**	**20**	**17**

	2015 Used in internal reporting				
Risk grade	Unutilised credit lines, NOK million	CCF %	EAD, NOK million	PD %	LGD %
1	-	-	-	-	-
2	28 836	100	267 356	0.16	10
3	15 704	100	191 835	0.37	10
4	3 714	100	68 606	0.62	11
5	4 899	100	84 316	0.99	11
6	1 696	100	35 206	1.61	11
7	383	100	10 938	2.46	12
8	139	100	4 957	3.91	12
9	29	100	1 817	6.37	12
10	24	100	897	11.97	12
Defaulted	5	100	1 684	100.0	15
Sum total [1]	**55 429**	**100**	**667 612**	**0.55**	**10**

1) PD to total portfolio is EAD weighted, and includes risk grades 1-10.

For residential mortgages, a minimum level for PD was introduced in the first quarter of 2015, and the LGD floor, which was first introduced in the first quarter of 2014 was adjusted at the same time. The key figures calculated without these floors show that credit quality did not change much during 2015.

CORPORATES, EXCLUDING SMALL AND MEDIUM-SIZED ENTERPRISES

	2015 Used in calculation of capital adequacy							2014 Used in calculation of capital adecuacy						
Risk grade	Unutilised credit lines, NOK million	CCF %	EAD, NOK million	PD %	LGD %	Risk weight %	Maturity, years	Unutilised credit lines, NOK million	CCF %	EAD, NOK million	PD %	LGD %	Risk weight %	Maturity, years
1	70 018	50	58 083	0.06	29	15	2.7	69 664	55	61 915	0.05	28	13	2.4
2	95 656	55	102 840	0.18	26	27	2.8	104 618	56	106 517	0.17	28	26	2.7
3	72 184	57	135 473	0.37	22	33	2.7	92 724	60	125 512	0.38	23	35	2.8
4	44 289	58	91 134	0.62	22	41	2.7	43 571	63	90 819	0.60	21	38	2.6
5	36 029	62	111 380	0.96	22	48	2.7	40 452	62	106 752	0.96	23	50	2.8
6	24 885	64	90 997	1.58	21	52	2.8	28 900	70	98 592	1.62	22	56	2.6
7	18 763	63	60 072	2.38	20	55	2.6	9 630	69	39 143	2.44	23	64	2.6
8	9 724	63	41 876	3.72	22	73	2.7	1 980	50	11 518	3.68	28	79	2.1
9	2 487	55	14 319	6.15	25	95	2.9	484	76	3 669	6.50	27	109	3.4
10	1 624	70	11 501	13.14	23	109	2.7	1 416	45	9 103	13.92	24	108	2.1
Defaulted	2 412	49	13 171	100.0	27	219	2.2	556	41	10 176	100.0	33	163	1.9
Sum total [1]	**378 071**	**57**	**730 846**	**1.28**	**23**	**46**	**2.7**	**393 996**	**59**	**663 715**	**1.03**	**24**	**43**	**2.6**

	2015 Used in internal reporting					
Risk grade	Unutilised credit lines, NOK million	CCF %	EAD, NOK million	PD %	LGD %	Maturity, years
1	95 307	51	81 885	0.06	29	2.7
2	106 362	56	136 314	0.17	23	2.8
3	62 646	53	123 074	0.37	21	2.7
4	37 969	61	90 812	0.61	22	2.7
5	26 949	61	80 766	1.00	23	2.7
6	22 985	67	93 500	1.64	18	2.8
7	14 483	68	60 051	2.44	20	2.6
8	6 650	69	32 583	3.94	23	2.7
9	1 017	62	8 396	6.30	20	2.9
10	1 294	74	10 296	12.61	23	2.7
Defaulted	2 412	49	13 168	100.0	35	2.2
Sum total [1]	**378 071**	**57**	**730 846**	**1.14**	**23**	**2.7**

1) PD to total portfolio is EAD weighted, and includes risk grade 1-10.

For large corporates, the increased PD is due to changes in credit quality, especially for oil-related exposures. In addition, the recalibration of all the large corporate models in connection with Finanstilsynet's IRB-approval of the simulation models, led to changes in PD levels in serveral models. Some portfolios had a positive change in the PD level, but for others the change was negative. Overall, there was an increase in the weighted PD of the portfolio. The recalibration also affects the internally reported PDs. In capital adequacy calculations, LGD levels for the simulation models are adjusted to the floor given by Finanstilsynet. The

increase in the defaulted portfolio is related to the negative development in oil-related industries.

The key figures for the portfolio of small and medium-sized enterprises are stable or have improved slightly. This is mainly due to improvements in the accounts that are important input factors to the credit models for this portfolio.

An overview of the portfolios of other retail and specialised lending can be found in the attachment. The Other retail portfolio includes portfolios from DNB Finans. The major part of this portfolio, 84 per cent, represents unsecured consumer loans in DNB Kort. Amounts drawn in this portfolio totalled NOK 19.3 billion. The weighted PD improved somewhat during 2015. Overall, the other key figures are virtually unchanged. The volume of specialised lending represented 0.6 per cent of the total IRB portfolio; NOK 10 billion.

CORPORATES, SMALL AND MEDIUM-SIZED ENTERPRISES (SME)

	2015 Used in calculation of capital adequacy							2014 Used in calculation of capital adequacy						
Risk grade	Unutilised credit lines, NOK million	CCF %	EAD, NOK million	PD %	LGD %	Risk weight %	Maturity, years	Unutilised credit lines, NOK million	CCF %	EAD, NOK million	PD %	LGD %	Risk weight %	Maturity, years
1	646	46	3 192	0.05	26	13	3.0	451	49	2 194	0.04	27	12	2.7
2	896	34	2 430	0.19	23	23	3.0	1 129	35	2 795	0.17	25	25	3.0
3	9 735	49	45 607	0.39	22	31	3.2	8 585	69	39 029	0.39	23	31	3.2
4	9 925	43	30 923	0.61	24	37	2.8	10 162	67	33 524	0.61	27	41	2.8
5	10 721	48	32 810	0.97	26	47	2.6	9 802	63	28 492	0.96	26	47	2.7
6	6 588	42	20 540	1.60	24	55	3.0	7 055	61	22 642	1.60	27	58	2.8
7	3 520	49	14 683	2.47	24	58	2.9	3 125	65	15 373	2.53	26	62	2.9
8	2 250	46	10 086	3.84	26	68	2.9	2 259	63	9 938	3.79	26	67	2.7
9	1 020	39	4 169	6.35	26	83	2.8	722	69	3 992	6.22	28	81	2.8
10	988	41	4 195	15.85	27	111	2.5	973	67	4 446	14.95	29	113	2.5
Defaulted	431	47	3 731	100.0	43	116	2.1	379	89	4 017	100.0	39	144	2.6
Sum total [1]	**46 720**	**45**	**172 365**	**1.60**	**25**	**47**	**2.9**	**44 640**	**64**	**166 442**	**1.65**	**26**	**50**	**2.9**

1) PD to total portfolio is EAD weighted, and includes risk grade 1-10.

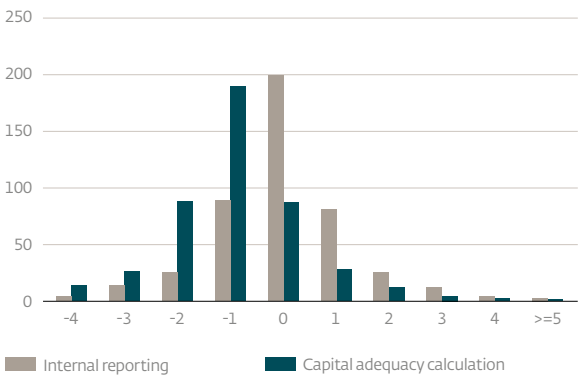
ANNUAL MIGRATION IRB PORTFOLIO

All customers granted credit must be classified according to risk at least once a year. The diagrams on the next page show how volumes, in terms of EAD, in the IRB portfolios corporate and residential mortgages migrated between risk grades during 2015. Positive figures indicate migration to better risk grades. Migration is measured for customers with an exposure to the bank throughout the year. New customers that entered the portfolio in the course of the year, are not included.

The diagrams for IRB residential mortgages and IRB corporates, exclusive SME, show the migration in the internal reporting and in the capital adequacy calculation. The migration in the corporate portfolio is affected both by changes in credit quality and the before mentioned calibration. See also the comment under the key figures for the IRB portfolio Corporate exclusive SME. The migration in the residential mortgage portfolio in the capital adequacy calculation is due to the new requirements, as the underlying portfolio quality was unchanged from the previous year.

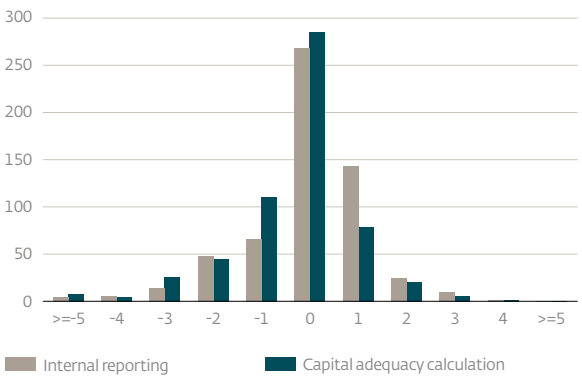
YEAR-ON-YEAR MIGRATION, IRB RETAIL, RESIDENTIAL MORTGAGES, 2015

NOK billion



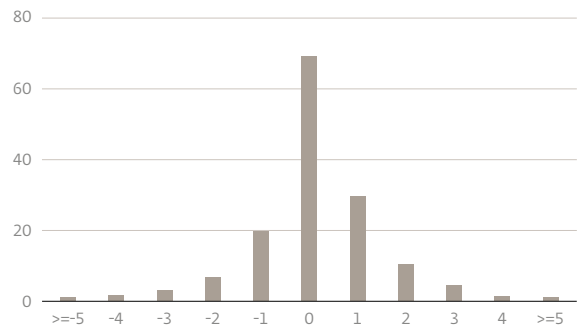
YEAR-ON-YEAR MIGRATION, IRB CORPORATE, EXCL. SME, 2015

NOK billion



YEAR-ON-YEAR MIGRATION, IRB CORPORATE, SME, 2015

NOK billion



IRB PORTFOLIO BY INDUSTRY GROUPS

The tables on the next page show the performing IRB portfolios by industry segment.

The increased PD in most corporate segments is as mentioned due to a combination of new requirements from Finanstilsynet and a negative development in credit quality in the oil-related sectors. In the residential mortgage portfolio, the increase is entirely due to the new requirements from Finanstilsynet.

An overview of the defaulted portfolio by industry segment can be found in the attachment. The volume in this portfolio has increased by 13 per cent, mainly due to an increase in the shipping and service sectors. Nevertheless, the defaulted portfolio constitutes only 1.2 per cent of the total IRB portfolio. The share of impairment losses was slightly reduced during 2015. This is because the defaulted loans are backed by collateral that is estimated to cover the whole exposure.

IRB PORTFOLIO BY INDUSTRY, PERFORMING PORTFOLIO

	2015 Used in calculation of capital adequacy					2014 Used in calculation of capital adequacy				
	EAD, NOK billion	Risk weight %	PD %	LGD %	Maturity, years	EAD, NOK billion	Risk weight %	PD %	LGD %	Maturity, years
Mortgages	666	22	0.91	20	-	653	16	0.57	20	-
Other retail	91	25	1.44	34	-	88	26	1.52	34	-
Transportation by sea and pipelines and vessel construction	152	52	1.50	23	2.7	142	52	1.36	23	2.8
Real estate	166	40	1.18	21	3.1	135	37	1.09	21	3.3
Manufacturing	107	40	1.41	23	2.4	98	42	1.46	24	2.3
Services	75	47	1.63	23	2.8	84	48	1.26	25	2.6
Trade	45	48	1.54	26	2.5	48	53	1.67	29	2.1
Oil, gas and offshore	160	44	1.29	24	2.9	136	36	0.66	25	2.8
Transportation and communication	53	41	1.15	26	2.7	47	40	0.93	25	2.8
Building and construction	55	43	1.39	24	2.2	54	48	1.47	27	2.0
Power and water supply	50	29	0.65	25	2.8	44	25	0.34	28	2.2
Seafooda	20	39	1.51	20	2.7	21	44	1.25	23	3.1
Hotels and restaurants	7	42	0.91	21	3.6	6	49	1.72	24	2.4
Agriculture and Forestry	5	45	1.83	24	3.5	7	44	1.57	24	3.3
Other corporates	0	29	1.00	16	1.8	0	48	1.59	28	2.0
Total Portfolio	**1 653**	**34**	**1.16**	**23**	**-**	**1 563**	**31**	**0.93**	**23**	**-**
Total Corporate Portfolio	896	43	1.33	23	2.8	822	43	1.15	24	2.7
Total Retail Portfolio	757	23	0.97	22	-	741	17	0.69	22	-

IRB PORTFOLIO BY COUNTRY

Approximately 55 per cent of the portfolio is in Norway. Growth in countries other than Norway during 2015 was mainly due to exchange rate movements. DNB has no exposure to the Ukraine and very limited exposure to Russia.

An overview of the defaulted portfolio by geography can be found in the attachment. A significant part of this portfolio, 51 per cent, is in Norway. LGD, share of impairment losses and risk weights were reduced during the year. This is due to the same factors as commented on for the defaulted portfolio for the industry segments above.

CORPORATE IRB PORTFOLIO BY GEOGRAPHY, PERFORMING PORTFOLIO

	2015 Used in calculation of capital adequacy					2014 Used in calculation of capital adequacy				
Risk grade 1 to 10	**EAD, NOK billion**	**Risk weight %**	**PD %**	**LGD %**	**Maturity, years**	**EAD, NOK billion**	**Risk weight %**	**PD %**	**LGD %**	**Maturity, years**
Norway	488	44	1.56	23	2.8	490	44	1.33	25	2.7
Sweden	62	41	1.26	22	2.6	58	41	0.81	23	2.6
United Kingdom	33	48	1.42	23	3.2	31	42	0.66	25	3.0
Rest of Europe	105	44	1.17	23	2.8	89	42	0.93	25	2.8
North America	132	34	0.69	23	2.7	117	35	0.86	24	2.7
Asia & Pacific	43	56	1.42	27	2.7	19	48	1.22	26	2.8
Arab States	4	44	0.27	33	3.8	2	33	0.80	32	2.0
South/Latin America	24	48	0.93	25	3.1	13	56	1.13	26	3.1
Africa	5	46	1.11	23	2.1	3	56	1.21	23	3.3
Total Corporate Portfolio	**896**	**43**	**1.33**	**23**	**2.8**	**822**	**43**	**1.15**	**24**	**2.7**

STANDARDISED APPROACH FOR CREDIT RISK

As an IRB bank, DNB reports all portfolios which are not qualified to be reported according to the IRB approach according to the standardised approach, though the portfolios are grouped in IRB categories. In addition, loans which qualify for being reported according to the IRB approach, but where there is not adequate available data, are reported according to this approach.

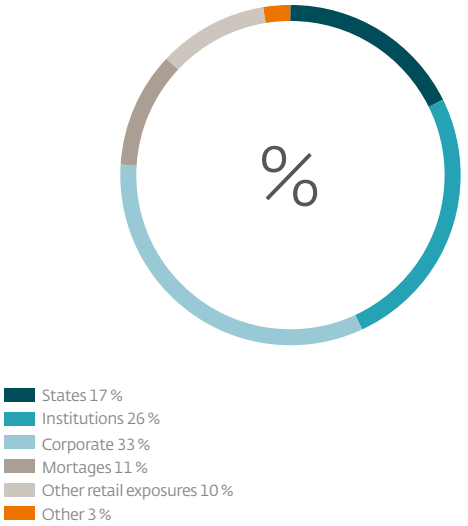
Finanstilsynet has granted a permanent exception from the IRB approach for governments, central banks and equity positions. Other portfolios reported according to the standardised approach are regarded as temporary exceptions, like corporate and residential mortgage portfolios in DNB's subsidiaries in the Baltic countries and Poland. DNB's securitisation investments are reported according to the IRB approach, while Eksportfinans' portfolio is reported according to the standardised approach. 20.0 per cent of the credit portfolio, in terms of EAD, is reported according to the standardised approach.

Estimated risk-weighted assets and capital requirements for the portfolios reported according to the standardised approach are shown in the paragraph on capital requirements.

External ratings are used for foreign government risk and public administration outside Norway as well as international banks and credit institutions included in the segments governments and institutions. As a main principle, a country's rating is used, based on the average ratings from Moody's, Standard & Poor's and Fitch. If there is no rating from one of the rating agencies, the average rating from the two other agencies should be used. If there is no rating from two of the rating agencies, the rating from the third agency should be used. If none of the rating agencies mentioned above have issued a rating for the country in question, a rating from The Economist Intelligence Unit, or alternatively Euromoney or Institutional Investor, is to be used.

ASSET CLASSES IN STANDARD PORTFOLIO, EAD, DECEMBER 2015

Per cent



COUNTERPARTY RISK FOR DERIVATIVES

DNB enters into derivative transactions on the basis of customer demand, and to hedge positions resulting from such activity. In addition, derivatives are used to hedge positions in the trading portfolio and take positions in the interest rate, currency, commodity and equity markets. Derivatives are traded in portfolios where balance sheet products are also traded. Derivatives are generally traded "over the counter", which means that individual contracts are agreed upon by the parties. The market risk of the derivatives is handled, reviewed and controlled as an integral part of market risk in these portfolios.

Derivatives are traded with a number of different counterparties, and most of these are also engaged in other types of business. The credit risk that arises in connection with derivative trading is included in the DNB Group's overall credit risk measurement. Such measurement and follow-ups take place on a daily basis. In order to minimise counterparty risk for individual counterparties, netting agreements and bilateral guarantee agreements have been entered into. In addition, various interest rate products are cleared via so-called clearing houses, such as the LCH.Clearnet. The counterparty risk for an individual party is thus transferred to the clearing house.

COUNTERPARTY RISK, FINANCIAL DERIVATIVES

NOK million	Gross nominal amount before netting	Net nominal amount after netting	Replacement cost, MTM before netting	Replacement cost, MTM after netting	Credit equivalent / EAD	Risk-weighted assets RWA
31 Dec. 2015	3 966 802	167 884	157 943	79 626	115 400	49 617
31 Dec. 2014	6 636 044	243 897	216 355	133 873	149 262	57 716

CREDIT DERIVATIVES USED FOR HEDGING

NOK million	Bought 31. Dec 2015	Sold 31. Dec 2015	Bought 31. Dec 2014	Sold 31. Dec 2014
CDS - credit default swaps	0	88	0	74
CLN - credit linked notes	88	0	74	0
Sum Kredittderivater	**88**	**88**	**74**	**74**

CSA agreements (Credit Support Annex) have been entered into with most major bank counterparties and a large number of other counterparties. This means that the market value of all derivatives entered into between DNB and the counterparty is settled either daily or weekly, whereby counterparty risk is largely eliminated. These transactions are generally backed by cash collateral, though Treasury bills and covered bonds are also used. The collateral agreements are normally not based on rating triggers, but for a few agreements, the minimum exposure level will be reduced if DNB is downgraded. The effects of a possible downgrade are very limited. Equity forward contracts, securities issues and currency trading for private individuals are monitored and margined on a daily basis. By entering into CSA agreements, capital requirements are reduced. When calculating capital requirements, the market value method is used.

When measuring and monitoring counterparty risk for internal purposes, DNB uses an internal model based on simulation of future scenarios. The interest rate model is a mean reversion model, while the FX model is a GBM-model (Geometrical Brownian Motion model). Counterparty risk in Markets may fluctuate extensively from one month to the next. However, much of the risk exposure can be netted though netting and collateral agreements with main counterparties. This could give a significant reduction in net values compared with gross values.

The table below shows exposure and risk-weighted volume for counterparty risk for financial derivatives. The nominal amount represents the principal or the underlying contract size, while MTM represents the market value (net and gross) of all derivative contracts with a positive market value. EAD is the total of MTM and future risk. The weighted amount is calculated by multiplying EAD with the relevant risk weight for the various counterparties.

The table shows exposure and risk-weighted assets for counterparty risk. The nominal amount represents the principal or the underlying contract size, while MTM represents the market value (net and gross) of all derivative contracts with a positive market value. EAD is the total of MTM and future risk. The weighted amount is calculated by multiplying EAD with the relevant risk weight for the various counterparties. The capital requirement is 8 per cent of risk weighted assets.There has not been any buying or selling of credit derivatives throughout 2014. Due date is 2017. The changes in nominal amount, is due to thedepreciation of the Norwegian krone towards the end of the year. The actual amount is USD 10 million.

INVESTMENT IN SECURITISATION

The topic is discussed in chapter Liquidity risk.

8

MARKET RISK

Market risk

GENERAL INFORMATION ABOUT MARKET RISK

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 includes both risk which arises through ordinary trading activities, and risk which arises as part of banking activities and other business operations. In addition, market risk arises in DNB Livsforsikring ASA through the risk that the return on financial assets will not be sufficient to meet the obligations specified in agreements with customers. Market risk in life insurance is described in a separate chapter about DNB Livsforsikring.

DEVELOPMENTS IN MARKET RISK IN 2015

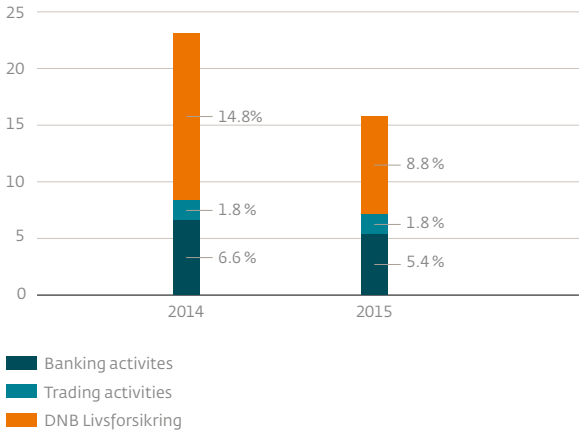
The high level of volatility in the Norwegian financial markets persisted through 2015. The oil price continued to decline, which had a profound impact on these markets. The Norwegian krone depreciated by 16 per cent against the US dollar. Parallel to this, the Norwegian exchange rate became more volatile. Norwegian interest rates fell to record-low levels, with a ten-year swap rate below 1.7 per cent.

At the beginning of the year, DNB's market risk exposure exceeded the limit in the Group's risk appetite framework. The main reason was the low Norwegian interest rate level and the resulting risks for life insurance operations. As a result of the high level of market risk, the Group made an overall assessment of its market risk exposure, prepared an action plan and implemented several risk mitigation measures in 2015. At the same time, market risk was more closely monitored.

Risk-adjusted capital for market risk decreased by 8 percentage point during 2015, which was mainly due to the sale of real estate investments and reduced equity exposure in DNB Livsforsikring. The freed-up capital was reinvested in mortgages and bonds, which entail lower market risk. In addition, substantial provisions for higher life expec-

MARKET RISK AS SHARE OF TOTAL RISK-ADJUSTED CAPITAL

Per cent



tancy were made. The DNB Bank Group also sold property investments, and the transition from a defined-benefit to a defined-contribution pension scheme for employees helped bring down market risk. A further reduction in market risk exposure through the sale of equity and real estate investments is planned for 2016.The level of market risk in trading activities was virtually unchanged from year-end 2014. Exposures and limits for trading activities were reduced in 2015, but this was offset by an increase in market volatility.

MANAGEMENT AND MEASUREMENT OF MARKET RISK

Total market risk in DNB must be within the risk appetite limit determined annually by the Board of Directors. Market risk in the risk appetite framework is measured as a share of the Group's total risk-adjusted capital. The limit covers market risk within both banking and life insurance.

The Group guidelines for market risk contain principles that ensure that all market risk is managed and monitored in a consistent and holistic manner. Market risk is managed and followed up by special units in the respective business areas and governed and supervised by Group Risk Management. The CRO is the owner of the group guidelines for market risk.

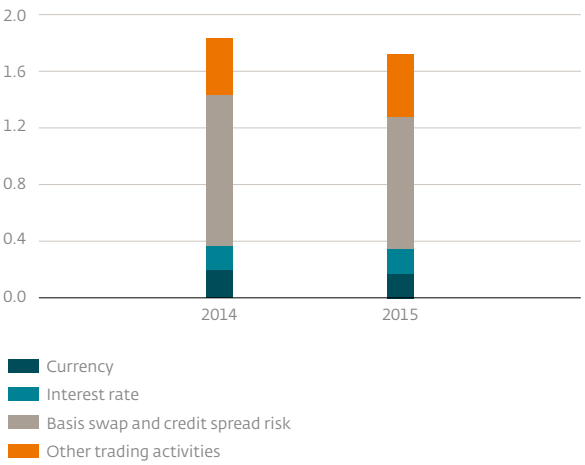
MARKET RISK IN BANKING ACTIVITIES AS SHARE OF TOTAL RISK-ADJUSTED CAPITAL

Per cent

The total market risk limit is operationalised in the form of sensitivity limits for each risk type. The sensitivity limits are determined each year by the Board of Directors. Limits that are not renewed will automatically expire. The limits are delegated in a hierarchy from the Board of Directors to the CEO and further to the units responsible for investment or trading decisions. If limits are exceeded, it must be reported immediately to the person who has delegated the limit and to Group Risk Management.

MARKET RISK IN TRADING ACTIVITIES AS SHARE OF TOTAL RISK-ADJUSTED CAPITAL

Per cent



DNB uses various risk measures to manage and monitor market risk. The measurement methods have different risk identification properties. Risk-adjusted capital is used to limit overall market risk in DNB, and in the internal risk assessments used in connection with ICAAP. Value at Risk (VaR) is used to compare risk across asset classes, and to follow up the risk level of each risk type. VaR is calculated for interest rate, equity and currency risk in both banking activities and trading activities. Sensitivity targets used in measuring market

risk reflect how much the bank risks to lose based on a given change in the underlying type of risk. Sensitivity measures are used to report and follow up exposures against specific limits, e.g. limits on yield curve intervals. The sensitivity measures are important elements in qualitative risk assessments and as input to quantitative risk modelling.

Market risk exposures are reported in the Group's quarterly risk report to the Board of Directors. In addition, risk exposures and limit utilisation are reported to the group management team on a monthly basis. The follow-up of group market risk limits is the responsibility of the Group's CRO. Units which are responsible for monitoring market risk, report to Group Risk Management independently of the respective business area's management teams.

Stress testing is used to identify exposures and losses which could arise under extreme, but probable, market conditions. The calculation of losses under various future economic scenarios makes it possible to uncover potential losses that are not identified by the statistical models.

MARKET RISK IN TRADING ACTIVITIES

Trading activities in DNB mainly include market making, facilitation of corporate financing and proprietary trading. The risk associated with trading activities constitutes a small share of the Group's total market risk. DNB Markets is responsible for all trading activities. The market value principle is used as the accounting principle for trading activities, which are subject to capital adequacy requirements for market risk.

In connection with the renewal of market risk limits in December 2015, the limits for currency risk and interest rate risk were reduced. The reason was reduced exposures and the to reduce the extent of unutilised limits. The table shows the market risk limits for trading activities at year-end 2015.

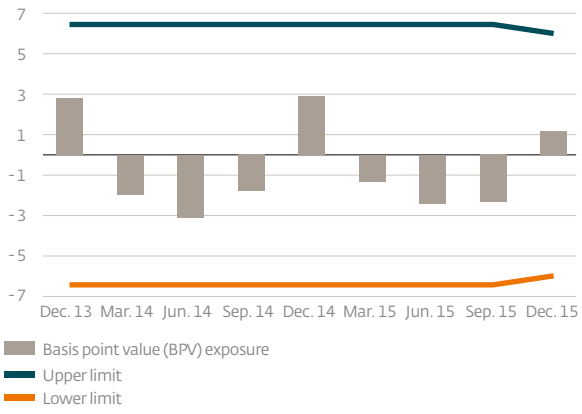
MARKET RISK LIMITS FOR TRADING ACTIVITIES, 31 DECEMBER 2015

NOK million	Limit	Description
Currency risk	3 000	Market value limit
Interes rate risk*	6	Sensitivity limit
Equity risk	2 500	Market value limit
Commodities risk	300	Market value limit

* per basis point value

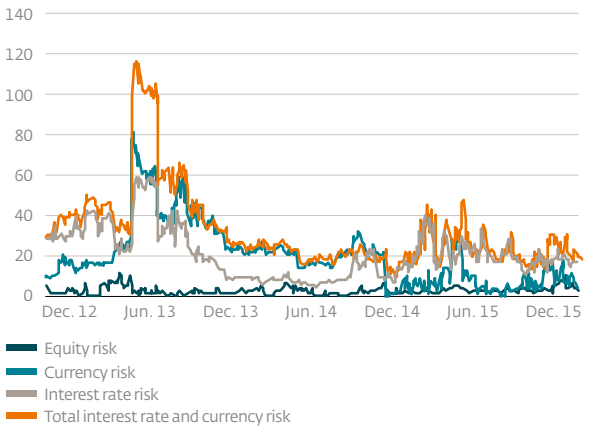
INTEREST RATE EXPOSURE IN TRADING ACTIVITIES, BASIS POINT VALUE

NOK million



VALUE-AT-RISK TRADING ACTIVITIES, ONE DAY HOLDING PERIOD, CONFIDENCE LEVEL 99 PER CENT

NOK million



Interest rate exposure in trading activities is largely a function of customer trading and varied significantly in 2015. During the year, the risk level for currency and interest rate risk in trading activities in terms of VaR ranged between NOK 14 million and NOK 48 million. The annual average was NOK 25 million, which is somewhat higher than in 2014 due to the increased market volatility. The largest exposure at year-end 2015 was to Norwegian fixed-income instruments.

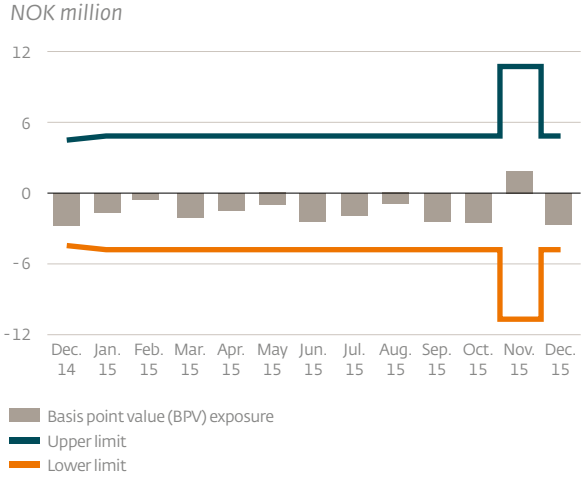
MARKET RISK IN BANKING ACTIVITIES

Market risk in banking activities can be broadly divided into risk related to the management of equity investments and risks stemming from the Group Treasury function.

The Group Treasury is responsible for market risk stemming from funding activities, liquidity management, as well as asset and liability management. The most significant market risk factors are interest rate risk, credit spread risk arising in the bond portfolios and basis swap spread risk from the hedging of currency risk in connection with funding in foreign currencies.

The Group's CFO is responsible for equity and real estate investments in banking activities. These investments comprise repossessed equities and real estate stemming from customer defaults, the banking group's strategic investments and financial equity investments.

INTEREST RATE EXPOSURE IN BANKING ACTIVITIES, BASIS POINT VALUE



VALUE-AT-RISK FOR INTEREST RATE RISK IN BANKING ACTIVITIES, ONE DAY HOLDING PERIOD, CONFIDENCE LEVEL 99 PER CENT

Interest rate risk in banking activities arises through traditional banking activities such as customer lending and deposits, stemming from differences in fixed-rate periods for assets and liabilities, including fixed-rate loans and fixed-rate deposits. The banking group's securities holdings are included in the calculation of interest rate risk. Derivatives are used to reduce interest rate risk.

The total limit for interest rate risk in banking activities for 2015 was NOK 4.6 million for each basis point change in interest rate levels. The limit was temporary raised to NOK 11.6 million in November due to the sale of a residential mortgage portfolio from the DNB Bank Group to DNB Livsforsikring. Separate limits are set for each currency and for intervals on the yield curve. Interest rate risk in banking activities is measured and reported on a daily basis.

The total interest rate exposure in banking activities, in terms of basis point value, was stable throughout 2015. The residential mortgage transaction in November led to a temporary change in the interest rate exposures from net lending to net borrowing.

Increased interest rate volatility in the Norwegian market explains the great variations in VaR for banking activities in 2015, which ranged between NOK 5 million and NOK 40 million. The annual average VaR was NOK 17 million, which is somewhat higher than in the previous year.

The first table shows the term structure for the interest rate exposure in banking activities. The exposure is regarded as positive if the bank would suffer losses in the event of falling interest rates. The net interest rate exposure at the end of 2015 was positioned for falling interest rates.

The second table shows the impact on profits for banking activities based on various interest rate changes. An interest rate increase of 200 basis points will result in a loss of about NOK 500 million, while a similar increase in interest rates will result in a gain of about NOK 500 million. Interest rate risk in banking activities is generally linear, so that changes in the interest rate multiplied by the interest rate sensitivity provide a realistic and fair picture of the interest rate risk in the Group Treasury.

TERM STRUCTURE OF THE IN THE INTEREST RATE EXPOSURE IN BANKING ACTIVITIES AS AT 31 DEC. 2015

NOK thousand	< 3 months	3-6 months	6-12 months	1-3 years	3-6 years	6-10 years	10-15 years	> 15 years
NOK	-3 244	-387	1 861	743	-286	-939	-185	-48
EUR	0	-1	9	67	-8	-73	-9	-9

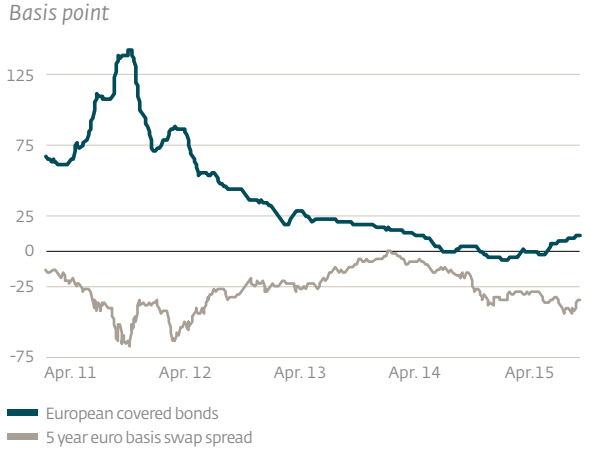
THE EFFECT OF INTEREST RATE SHOCKS ON THE INTEREST RATE EXPOSURE IN BANKING ACTIVITIES AS AT 31 DEC. 2015

NOK thousand	+ 200 bpv	+150 bpv	+ 100 bpv	+50 bpv	- 50 bpv	-100 bpv	-150 bpv	-200 bpv
NOK	-497	-373	-248	-124	124	248	373	497
EUR	-5	-4	-2	-1	1	2	4	5
Total	**-502**	**-376**	**-251**	**-125**	**125**	**251**	**376**	**502**

Basis risk is the risk that changes in the value of a hedge is not correlated with the changes in value of the underlying position being hedged. Basis risk that is of significance to DNB is monitored by establishing separate market risk limits. The most pronounced basis risk in DNB arises in connection with currency hedging of future cash flows in foreign currency, so-called basis swap risk. Future cash flows in various currencies are priced differently in the basis swap market. The price differential is the basis for basis swap risk.

DNB's profits from the basis swaps are sensitive to, and negatively correlated with, the euro basis swap spread. The diagram shows historical developments in the European covered bond spread and

DEVELOPMENT OF EUROPEAN COVERED BONDS AND 5 YEAR EURO BASIS SWAP SPREAD



the 5-year euro basis swap spread. The volatility of the euro basis swaps spread was reduced after the financial crisis, but increased again in 2015.

Basis swaps are used by the Group Treasury and DNB Boligkreditt to hedge funding in foreign currency . Basis swaps are carried at fair value, while the loans are recognised at carrying value. The use of different valuation principles for funding and for hedging instruments results in volatility in group profits. There is no limit for basis swap exposure in the banking portfolio as such swaps are used only for hedging purposes.

Credit spread risk in banking activities is a consequence of the bank's liquidity risk management and management of bonds in the liquidity portfolio. The liquidity portfolio represents the main credit spread risk in banking activities. The credit spread sensitivity of this portfolio was NOK 21.4 million basis point value (BPV) as at 31 December 2015, while the credit spread risk limit was 25 million BPV.

Basis swap spread risk and credit spread risk in banking activities are not included in calculations of risk-adjusted capital and are managed and monitored using other risk measures.

Equity risk in banking activities is divided into three categories: strategic investments, financial investments, consisting of direct and private equity fund investments, and the credit portfolio, which comprises holdings in companies which have defaulted on their obligations to the bank.

The purpose of the financial investments, apart from generating financial returns, is to create new business opportunities for DNB. The limit for financial investments is determined each year and was NOK 1.05 billion at year-end 2015. There are no limits for the other two categories. The purpose of the credit portfolio is to secure or recover the value of credit exposures through ownership and subsequent sale. The most important strategic investment is the investment in Eksportfinans.

When measuring exposure relative to market risk limits, the investments' market value plus any future committed amounts are used as a basis. Guarantees for share issues and secondary investments in the equity markets are included in the limit utilisation. Shares in subsidiaries and associated companies are not included, as they are fully or partially consolidated in the financial statement. In accordance with IFRS 7, equities are carried at fair value in the financial statement.

Real estate exposure in banking activities is either strategic property investments or repossessed real estate assets acquired through customer defaults. Strategic real estate exposure consists mainly of office buildings. The measure of real

EQUITY POSITIONS, SHAREHOLDINGS NOT IN THE TRADING PORTFOLIO

NOK million	31 Dec. 2014	31 Dec. 2015
Financial Institutions	313	113
Norwegian companies [1)]	1353	397
Companies based abroad	156	195
Mutual funds [2)]	773	610
Investments in non-financial subsidiaries and associated companies	1 183	1 878
Shareholdings DNB Bank and investments (designated as at fair value)	2 595	3 193
Net gains on shareholdings, designated as at fair value DNB Bank and DNB asset management	135	(90)
1) Of which listed on a stock exchange	-	-
2) Of which investments in Private Equity Funds	503	337
Shareholdings in DNB Livsforsikring	16 992	10 552

estate exposure is based on the market values of the underlying property investment, independent of financing structure. The exposure at year-end 2015 was NOK 3.1 billion.

CAPITAL REQUIREMENTS FOR MARKET RISK

DNB reports market risk according to the standardised approach.

The capital requirement for market risk declined by approximately NOK 350 million from 2014 to 2015. The main reason was optimisation of the bond portfolio structure relative to risk-weighted assets. The allocate capital to CVA (Credit Value Adjustment) was reduced due to a decline in counterparty exposure.

CAPITAL REQUIREMENTS FOR MARKET RISK

NOK million	31 Dec. 2014	31 Dec. 2015
Position risk, debt instruments	1 380	1 132
Position risk, equity instruments	39	36
Currency risk	0	0
Commodity risk	9	3
Credit value adjustment risk (CVA)	601	513
Total market risk	**2 029**	**1 684**

9 OPERATIONAL RISK

Operational risk

GENERAL INFORMATION ABOUT OPERATIONAL RISK

Operational risk is the risk of losses due to deficiencies or errors in processes and systems, human errors or external events. Operational risk also includes compliance risk, which is the risk of losses caused by breaches of laws and regulations or similar obligations, and legal risk, which is often related to the documentation and interpretation of contracts and different legal practices in countries where the bank is operating. See further description in the chapter on compliance risk.

Unlike most other types of risk, operational risk normally does not give higher expected returns the higher the risk. The Group's quality assurance process shall help DNB reach its low operational risk target.

DEVELOPMENTS IN OPERATIONAL RISK IN 2015

Operational losses remain at a stable and low level and the total risk level is considered to be within acceptable established threshold limits, including the Group's risk appetite framework. A total of 790 events were registered in 2015. Net losses totalled NOK 105 million. In 2015, only one event resulted in a loss of more than NOK 10 million, where 55 hours of downtime in DNBs card systems resulted in a loss of NOK 15 million. The majority of events are in the "execution, delivery and process management" category relating to the Group's products and services, and the "external fraud" category. In monetary terms, the largest losses are related to events in the "execution, delivery and process management" category, and the "business disruption and system failures" category.

There is a strong focus on information security within the Group, and DNB has established a series of measures to meet the increasing threats related to cyber-attacks and cybercrime. Over the last year DNB has completed moveIT, the largest IT relocation project ever carried out in Norway. The project involved upgrading the IT infrastructure, and moving all data processing centres to a single location. The purpose is to ensure more robust and stable IT operations. A new disaster recovery plan for the mainframe has also been established to ensure that it satisfies regulatory and business requirements in any disaster situation. At the same time a process is carried out to ensure that critical IT services, which are not operated on the mainframe in Stavanger, also have adequate disaster recovery solutions.

Conduct risk is an aspect of operational risk that has received increasing attention. Conduct risk is the risk of claims and/or negative publicity as a result of improper marketing and error in sales, for example when products appear to be something they are not. Conduct risk also includes unethical behaviour in the financial markets. To reduce conduct risk, DNB has improved control of how suitable certain products are for sale, and customised process for product approval in accordance with the requirements in MiFId II. Customer communication is strengthened through clearer and better product information.

MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISK

The risk appetite framework specifies certain maximum limits for operational risk. Operational risk in DNB shall be characterised by few and small operational loss events. Total annual losses resulting from operational events shall have no pronounced effect on the Group's return on equity. Critical IT events are reported as a separate risk appetite statement, focusing on identifying and following up risk-mitigating measures.

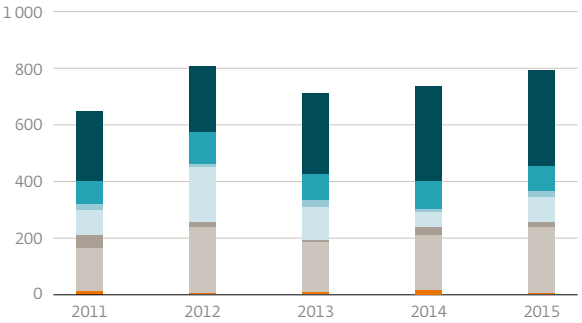
DNB has laid down group guidelines for the management of operational risk in the Group. There shall be sound operational risk management in the Group, which will be reflected in higher-quality operations and customer service and lower risk, and thereby stronger financial performance and increased shareholder values.

Special groups have been established in all of the Group's business areas and support units to support management in managing operational risk. Responsibilities include assessing and reporting identified risks and helping to prevent operational losses. To ensure independence relative to business operations, these persons are organised in the business areas' respective staff units. Their work also includes making sure that operations are in compliance with relevant laws and regulations. All reporting is a two-way process, both through the line organisation and through the Group's central risk unit. The international units have strengthened their risk functions by having a separate operational risk unit, and strengthening its role through direct representation in the respective management teams.

All managers are responsible for knowing and managing operational risk within their own area of responsibility. This is to be ensured through risk assessments of everyday operations, of all major changes in operations as well as of particularly critical functions. When a need for improvement measures is identified, special follow-ups are initiated. In order to limit the consequences of serious events, operational disruptions etc. comprehensive contingency and business continuity plans have been drawn up. Plans are updated on anon-going basis, and regular drills are carried out.

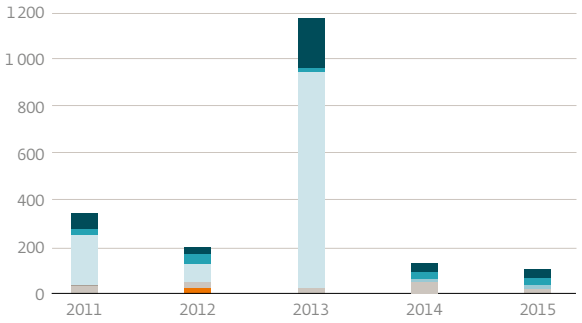
OPERATIONAL EVENTS

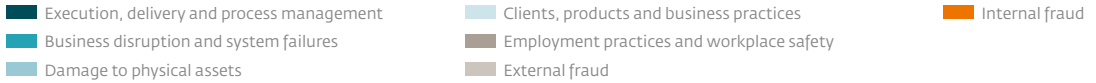
Number



OPERATIONAL LOSSES

NOK million





For a long time, DNB has quantified the number of events and net losses for the individual business areas. Operational loss events in the Group which result in losses of more than NOK 50 000 and near-events with a loss potential of more than NOK 100 000 are registered, reported and followed up on an ongoing basis in the Group's event database. Compliance breaches are registered in the database irrespective of the resulting financial loss.

The annual status report is a key element in the Group's operational risk management. All of the Group's business areas and staff and support units carry out an extensive self-assessment of their current status in this field, combined with a process to identify areas of risk that more units may have in common. Thereafter, concrete risk-mitigating measures are identified. These processes are part of the Group's internal control reporting. In addition, developments in operational risk are reported each quarter to group management and the Board of Directors as an element in the Group's risk reporting.

The Group's insurance coverage is an element in operational risk management. Insurance contracts are entered into to limit the financial consequences of undesirable events which occur in spite of established security routines and other risk-mitigating measures. The insurance programme also covers legal liabilities the Group may face related to its operations. The insurance programme is cost-effective and primarily aims to cover serious loss events in line with the Group's insurance policy.

CAPITAL REQUIREMENTS FOR OPERATIONAL RISK

The DNB Group reports operational risk mainly according to the standardised approach and uses the foundation approach for some smaller units.

CAPITAL REQUIREMENTS FOR OPERATIONAL RISK

NOK million	Risk weights	31 Dec. 3014	31 Dec. 2015
Corporate finance	18 %	90	107
Trading and sales	18 %	965	735
Retail brokerage	12 %	79	65
Commercial banking	15 %	2 678	3 144
Retail banking	12 %	2 114	2 068
Payment end settelments	18 %	160	191
Agency services	15 %	17	65
Asset management	12 %	44	44
Total standardised approach		6 146	6 420
Total basic indicator approach	15 %	400	250
Total operational risk		**6 546**	**6 670**

10

COMPLIANCE RISK

Compliance risk

GENERAL INFORMATION ABOUT COMPLIANCE RISK

Compliance risk is the risk that a company may be subject to legal or regulatory sanctions, financial or reputational losses in consequence of the violation of external laws and regulations. There shall be low compliance risk in DNB.

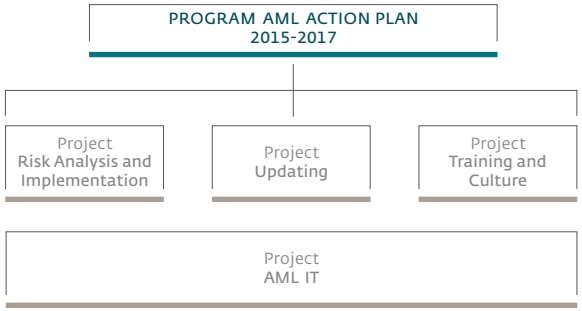
The compliance function is an independent function which identifies, evaluates, gives advice on, monitors and reports on the Group's compliance risk.

DNB is localised in a number of countries and must comply with anti-money laundering regulations in accordance with local legislation, as well as sanctions regulations approved by the EU and the UN. As the bank has a subsidiary in the US and trades in US dollars, it is also required to comply with the US sanctions programme.

DEVELOPMENTS IN COMPLIANCE RISK IN 2015

Over the past few years, the banking and financial services sector has been subject to ever stricter regulatory management. Rapid technological developments are giving rise to new products, increased digitalisation and new and more competitors entering banks' core areas of operation. This is also resulting in more extensive rules from the regulatory authorities.

In early 2015, DNB established an action plan to define key initiatives over the next few years. The Risk Analysis and Implementation, Updating and Training and Culture projects are key elements in the action plan. The projects aim to establish a joint compliance programme to meet current developments and undertake relevant tasks in this field. In addition, the **AML IT** project will further develop, facilitate and maintain good system solutions and IT support on an ongoing basis.



The **Risk Analysis and Implementation** project aims to improve the quality of risk analyses. A structure will be established for the implementation and completion of analyses during the customer due diligence process. The **Updating** project comprises ID verification and updating of information about the bank's existing customers. Correct and updated information helps DNB provide better and more efficient banking services. The two projects complement each other as they ensure that both new and existing customers are well taken care of, while complying with the Group's practices and procedures. In turn, DNB will achieve higher-quality customer due diligence and a better overview of the transactions that are carried out. The risk of non-compliance with the anti-money laundering and sanctions regulations will be further reduced, while DNB will be better able to prevent that customers, or the bank, are exploited in connection with money laundering, terrorist financing or other economic crime. The **Training and Culture** project aims to increase the competence of DNB's employees, including the understanding of the money-laundering and sanctions risk which may be inherent in the bank's products and services. The bank's employees need to have an insight into how new trends, such as digitalisation, may affect money-laundering and sanctions risk. Group Risk Management is responsible for establishing training measures according to roles, functionality and responsibilities to ensure that DNB employees have the required knowledge to enable the bank to identify unusual transactions.

MANAGEMENT AND MEASUREMENT OF COMPLIANCE RISK

The compliance function shall ensure that amendments to laws and regulations can be swiftly implemented in the Group's everyday operations and has group-wide responsibility for systems and structures which are used to identify, follow up and report compliance risk. The unit is headed by the group compliance officer, GCO, who reports to the Board of Directors through the group chief executive. All business areas and support units, as well as large subsidiaries and international entities, have a compliance function.

All managers have an independent responsibility for ensuring that all activity within their management unit is carried out in accordance with applicable laws and rules and that this can be documented. Managers shall ensure that their employees have the necessary knowledge of external framework conditions. Group Compliance receives quarterly reports on compliance risk in addition to annual plans, risk assessments and an overall annual compliance report from all business areas and support units and international offices.

The group AML officer has responsibility for ensuring that the anti-money laundering regulations are monitored in accordance with statutory requirements. The AML Sanctions division has been established under Group Risk Management and reports to the CRO as part of the compliance function. The division has professional responsibility in this field and for developing analytical models and reporting the risk situation. All business areas and support units, as well as large subsidiaries and international entities, are responsible for following up the anti-money laundering regulations and sanctions and report directly to AML Sanctions.

According to the anti-money laundering and sanctions regulations, DNB is required to make risk analyses of customers, customer relationships, products, services and transactions. Risk analyses are used in connection with the establishment of new customer relationships, where relevant information is obtained and controlled. After the customer relationship has been established, ongoing customer due diligence is performed. A separate money-laundering reporting process to DNB's Board of Directors and group management has been established.

Protecting customer privacy is an important part of the work on compliance. The Group shall ensure that customers and employees are informed of the purpose and use of the personal data that is

collected and obtain the necessary consent from customers. Nine key customer privacy principles have been determined to ensure that basic privacy protection considerations are met. The principles apply to the companies, business areas, staff and support units, and the international operations of the DNB Group, and clarify roles and responsibilities in daily operations.

Increased digitalisaton challenges customer privacy, but also gives the bank greater insight into and better knowledge of customer needs and preferences. A risk-mitigating measure is to ensure that privacy protection is built into all digital solutions and web-based services, which means that it is taken into account during all the development stages of a system. After the new regulations are formally adopted, they must be implemented within two years.

DNB is an important player in the Norwegian society, and all employees are required to observe high ethical standards. The Group's code of ethics shall help combat corruption, extortion, bribery, money laundering, fraud, terrorist financing and the financing of criminal activity. DNB is committed to providing training and raising awareness within key ethical risk areas. Such training is mandatory for all of the Group's employees. In 2015, ethics training targeted the fight against economic crime and corruption. Ethics and anti-corruption are also key topics in the introduction programmes for new employees and new managers. In the further work to prevent corruption, additional training measures are planned with emphasis on difficult ethical choices and corruption. The measures will be more tailor-made and will represent relevant challenges.

The compliance organisation will be effective and adapted to the requirements and expectations of the surrounding world. In addition, it will be structured to ensure that it can quickly transform legislative and regulatory amendments for use in the Group's daily operations and ensure relevant risk-based monitoring. Current developments show that the banking and financial sector will be subject to stricter regulatory management. In addition, there are consistent strong indications that compliance will receive increasing attention over the coming years. This will affect requirements related to structure, overviews, thoroughly prepared documentation and emergency preparedness.

11

BUSINESS RISK

Business risk

GENERAL INFORMATION ABOUT BUSINESS RISK

Business risk is the risk of profit fluctuations due to changes in external factors such as the market situation, government regulations or the loss of income due to a weakened reputation. The Group's business risk is generally handled through the strategy process and through ongoing work to safeguard and improve the Group's reputation.

DEVELOPMENTS IN BUSINESS RISK IN 2015

Business risk, measured as risk-adjusted capital, was virtually unchanged in 2015, compared with 2014.

After the financial crisis, the regulatory requirements for financial institutions have become much stricter. Some banks have been forced to change their business models. This is, however, not the case for DNB. The banking operations of DNB remain rather "traditional", with emphasis on relationship banking, and loans have been retained on the balance sheet. The business model "originate and sell" has not been widely used, except for in the large corporate area, where syndication is a normal procedure.

Due to high capital requirements for banks, the capital markets will increasingly take over as a funding source for businesses. DNB has not used securitisation for financing or capital purposes. DNB Markets mainly focuses on customer business, and trading for own account is limited. Due to differences in the regulatory framework for Nordic banks, DNB is facing special challenges in parts of the market.

Defined-benefit pension schemes with high guaranteed rates of return are no longer considered to be viable. DNB has adapted its operations by phasing out public sector occupational pension schemes, and will not accept traditional paid-up policies transferred from other pension companies. DNB is focusing on new and more flexible pension products, including products giving customers the chance to choose investment combinations themselves.

Technological developments, with increased digitalisation, self-service options and information sharing, are a growing challenge for existing business models. This applies to all business areas and requires continuous adaptation of the organisation and its cost base. DNB will be proactive to capitalise on the possibilities offered by new technology.

At year-end 2015, the reputation survey "RepTrak" showed an average reputation score of 70 points, up from 68 points a year earlier. DNBs reputation was strengthened in the second half of the year, partly as a result of media coverage of the payment app Vipps, "A valuable lesson", a free digital learning program for use in schools, and the housing market.

BUSINESS RISK MANAGEMENT AND MEASUREMENT

The risk appetite framework states that DNB shall not be associated with operations which may harm its reputation. The level of reputational risk is mo-

nitored through several indicators, and a limit has been set for acceptable reputation scores.

Sound strategic planning is instrumental in reducing business risk. The Group's active commitment to corporate social responsibility and the code of ethics for employees also have a positive impact on business risk.

Reputational risk is managed through policies and business activities, including compliance. Reputational risk is followed up by monitoring media coverage, while the competitive situation is followed up by analysing market trends and developments in market shares.

Business risk is quantified in terms of risk-adjusted capital. The model is based on past fluctuations in income and costs and is structured so that if all other factors are kept constant, high income volatility raises the risk level and thus risk-adjusted capital. Vice versa, a highly flexible cost structure will reduce risk-adjusted capital.

12

DNB LIVSFORSIKRING

DNB Livsforsikring

GENERAL INFORMATION ABOUT DNB LIVSFORSIKRING

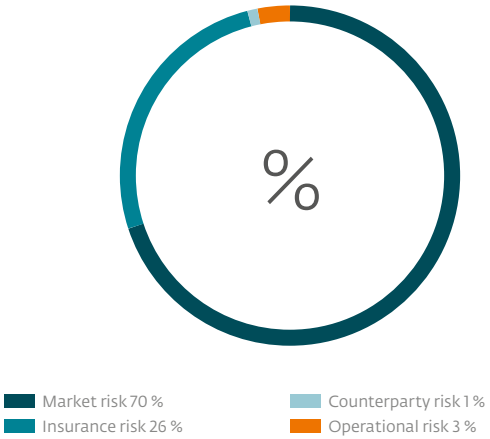
DNB Livsforsikring AS is a wholly-owned subsidiary of DNB ASA, and assets under management at year-end 2015 were NOK 289 billion. DNB Livsforsikring sells insurance and pension products to companies, associations and private individuals.

DEVELOPMENTS IN DNB LIVSFORSIKRING IN 2015

The level of risk in DNB Livsforsikring's was reduced through 2015. Market risk was brought down through the sale of properties and equities, which were replaced by residential mortgages and fixed-income securities. The annual return in excess of the guaranteed rate of return was used to strengthen policyholders' funds and the buffer capital. Unrealised gains on financial assets were reduced through 2015, and there was a fall in interest rates. The diagram shows the composition of risk for DNB Livsforsikring,

COMPOSITION OF RISK 31 DEC. 2015

Per cent

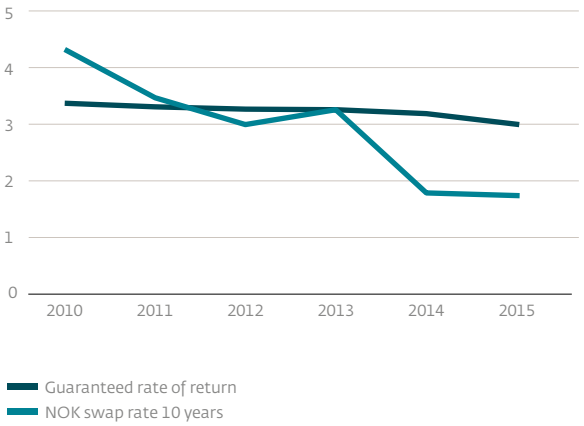


calculated using the standardised approach under the Solvency II regulations. Market risk represented 70 per cent at year-end 2015 and was thus the biggest risk category.

The diagram shows developments in the 10-year

GUARANTEED RATE OF RETURN AND INTEREST RATE

Per cent



swap rate in Norwegian kroner and the average guaranteed rate of return. The 10-year swap rate declined from 1.92 per cent at year-end 2014 to 1.87 per cent at year-end 2015. The annual average guaranteed rate of return on DNB Livsforsikring's guaranteed rate products is 3.14

per cent. Lower interest rates increase the risk relating to the company's ability to meet the guaranteed rate of return.

Life expectancy has increased in recent years, and Finanstilsynet has given the life insurance industry seven years to build up sufficient reserves, starting in 2014. Returns in excess of the guaranteed rate of return shall be used to build the mandatory reserves. In addition, the shareholder contribution must be minimum 20 per cent of the total required increase in reserves. At year-end 2015, the company had built up reserves of NOK 9.5 billion, and the remaining required increase in reserves is estimated at NOK 2.1 billion. The shareholder contribution is estimated at NOK 0.8 billion of this.

Profits for 2015 strengthened DNB Livsforsikring's solvency capital. As shown in the table, the company's solvency capital increased by a total of NOK 6.6 billion.

A significant portion of DNB Livsforsikring's financial investments represents assets that generate strong, stable and predictable returns. There has been a reduction in market risk in the common portfolios over the past few years as a response to the prolonged low interest rate levels and adaptations to the anticipated higher capital requirements under Solvency II.

The chart shows the composition of the common portfolio, which represents the funds managed for policyholders at year-end 2014 and year-end 2015. 48 per cent of the portfolio represented hold-to-maturity bonds. This portfolio is well-diversified and generated a recorded return of 4.7 per cent in 2015. Residential mortgages accounted for NOK 20 billion of the portfolio at year-end 2015.

Commercial real estate represented approximately 11 per cent, or NOK 20 billion, of the common portfolio and generated a return of 13.9 per cent in 2015. Sales were completed or sales contracts entered into for properties with a total sales value of NOK 15.9 billion in 2015. The gains realised on these transactions totalled NOK 1.2 billion. Short-term bonds and money market instruments represented 37 per cent of the portfolio and generated a return of 0.9 per cent. Equities represented 7.6 per cent of the portfolio and gave a total return of 2 per cent in 2015.

RISK MANAGEMENT AND MEASUREMENT IN DNB LIVSFORSIKRING

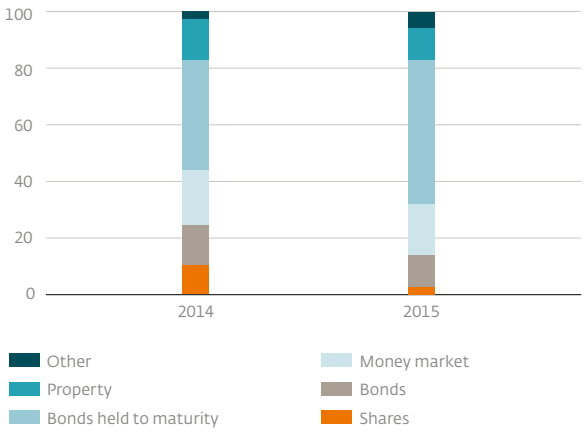
DNB Livsforsikring follows the Group's principles for risk management and control, and aims to maintain a low risk profile. Sound risk management shall contribute to increased risk-adjusted profitability.

CHANGE IN SOLVENCY CAPITAL IN DNB LIVSFORSIKRING

NOK billion	31.12.2015
Strenghtened longevity reserves	3.1
Increased additional statutory reserves	0.7
Unrealised gains financial assets	-2.8
Total increase in allocations to policyholders	1.0
Increased primary capital	4.1
Profit for the year	1.5
Total increase in solvency capital	**6.6**

DISTRIBUTION OF INVESTMENTS IN THE COMMON PORTFOLIO

Per cent



The DNB Group's risk appetite framework includes two statements concerning the risk level in DNB Livsforsikring: the solvency margin measured according to Solvency II and market risk as a share of total risk-adjusted capital in the DNB Group. In addition, DNB Livsforsikring has established a separate risk appetite framework to ensure that risk management is an integral part of the company's governance processes.

Solvency II presents requirements for governance and control in insurance companies. These requirements are taken into account in DNB Livsforsikring's risk management system. Statutory requirements must be met by the risk management, actuary, compliance and internal audit functions. The head of the risk management function in DNB Livsforsikring reports directly to the Group's CRO in addition to the CEO of DNB Livsforsikring. The risk management function is responsible for identifying, measuring, monitoring and reporting the company's total risk and is independent of the Group's financial management and business areas. The unit prepares a quarterly risk report to the company's management and Board of Directors. Compliance with the limits and guidelines is reported on a monthly basis.

Market risk

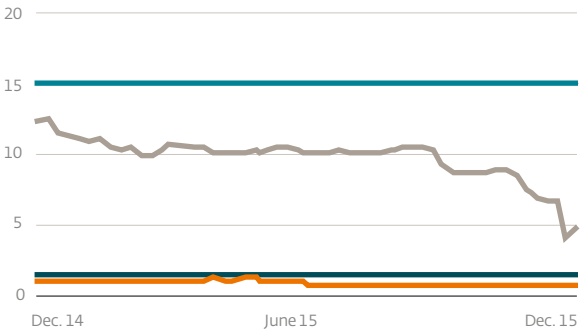
Market risk in DNB Livsforsikring primarily relates to the common portfolio, where there is a risk that the recorded return on financial assets will not be sufficient to meet the obligations specified in insurance policies. The return on financial assets must be sufficient to meet the guaranteed annual return on which the calculation of premiums is based. If this is not the case, additional statutory reserves will have to be used, or the shortfall could be charged to equity. The annual distribution of profits limits the company's opportunities to invest in assets with a long-term investment horizon. In addition, the Group is directly exposed to changes in the value of investments of the company's equity (the corporate portfolio). Limits have been established for market risk in the common portfolios and the corporate portfolios. Market risk in the common portfolio and the company portfolio is based on Finanstilsynet's stress test, and represents a profit loss over the next 12 months from an impairment in the portofolios at a confidence level at 99.5 per cent.

Insurance risk

Insurance risk in DNB Livsforsikring comprises mortality risk, pure endowment risk (higher life expectancy), disability risk, health risk and disaster risk. Pure endowment and disability risk amounts to 78 per cent. A limit has been established for insurance risk, calculated according to the measurement methods under Solvency II. Insurance risk is reduced through the establishment of reinsurance agreements.

DEVELOPMENTS IN MARKET RISK

NOK billion



The calculation is in accordance with Finanstilsynet's stress test, and represents a simplified Solvency II calculation. The confidence level is 99.5 per cent.

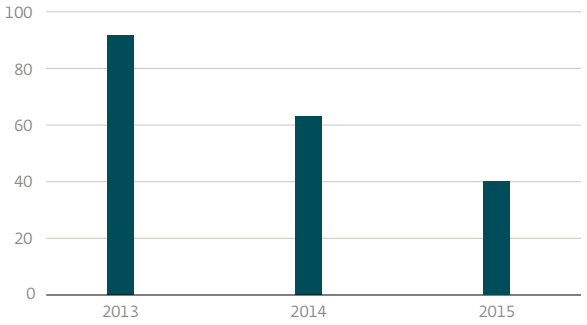
With respect to employer's liability insurance and risk cover for disability pensions, risk assessments of customers are used as a basis for risk classification and risk-differentiated pricing. Maximum sums insured have been set, and standards have been established for the processes to develop and launch new products. Risk results are regularly followed up, and long-term trends are reflected in prices, product design and market strategies.

Operational risk
In 2014, DNB made changes to the model for distribution and management of life insurance products. DNB Livsforsikring is responsible for risk management and internal control of outsourced operations. In order to avoid an unintended increase in operational risk resulting from the changes in work tasks, risk assessments have been carried out along with related measures.

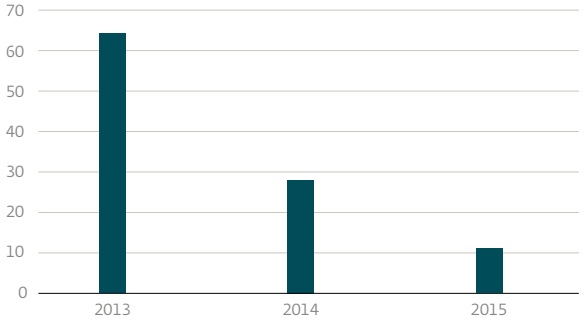
Developments in the number of events and operational losses are shown in the diagram to the right. Both the number of events and losses in Norwegian kroner showed a positive trend in 2015.

Stress testing
Stress tests and sensitivity analyses are a key part of risk measurement. Stress tests of market risk are carried out to test the effect on capitalisation and risk levels of a downturn in the stock market or property market or an increase in counterparty risk. In addition, tests are carried out of the impact a change in interest rates will have on assets and liabilities. With respect to insurance risk, stress tests are carried out of changes in the product mix, changes in life expectancy and changes in disability.

OPERATIONAL EVENTS
Number



OPERATIONAL LOSSES
NOK million



CAPITAL REQUIREMENTS FOR DNB LIVSFORSIKRING

At year-end 2015, the company's capital adequacy ratio was 31.3 per cent, while the minimum requirement is 8 per cent. The calculation of capital requirements for DNB Livsforsikring is found in the attachment. The solvency margin according to Solvency I was 306 per cent. Solvency capital totalled NOK 28.3 billion, while the solvency margin requirement was NOK 9.3 billion. Under the current Solvency I regulations the capital situation is considered satisfactory.

On 1 January 2016, the current requirements for capital adequacy and solvency were replaced with the Solvency II regulations, whereby capital requirements for insurance operations are tightened considerably. The approved transitional rules give a 16-year phase-in period for measuring liabilities at fair value and will have the most pronounced

effect in a low interest rate environment. In 2015, Finanstilsynet gave DNB Livsforsikring permission to use the transitional rules.

DNB Livsforsikring's solvency margin, calculated according to the new Solvency II regulations and based on the transitional rules, was 192 per cent at year-end 2015. Without the transitional rules, the solvency margin was 113 per cent. This is NOK 2.7 billion above the requirement. NOK 1.5 billion in profits for 2015 and a NOK 4.1 billion increase in subordinated loan capital strengthened the company's primary capital.

CALCULATION OF SOLVENCY MARGIN UNDER SOLVENCY II

NOK million	31 Dec. 2015
Share capital	7 766
Retained earnings	12 997
Subordinated loans	5 500
Risk equalisation fund	319
Recorded equity	26 582
Deferred tax tier 3	1 211
Effect transformation market value	- 5 251
Total capital	22 542
Solvency capital requirement	19 886
Solvency margin	**113 %**
Solvency margin including transitional rules	**192 %**

13

DNB FORSIKRING

DNB Forsikring

GENERAL INFORMATION ABOUT DNB FORSIKRING

DNB Forsikring AS is a non-life insurance company. The company's products are distributed mainly through the business area Personal Banking Norway. Main products are motor vehicle, home and travel insurance.

DEVELOPMENTS IN DNB FORSIKRING IN 2015

DNB Forsikring is exposed to insurance risk, market risk, counterparty risk and operational risk. Insurance risk represented 82 per cent at year-end 2015 and was thus the biggest risk category.

In recent years, there has been a positive profit trend in DNB Forsikring, though the claims ratio has increased slightly. The company is working to improve its pricing models to reverse the trend. 10 to 15 per cent of claims payments normally relate to individual insurance events where the amount of compensation exceeds NOK 1 million, so-called large claims. The chart on the next page shows that, on an annual basis, there has been a relatively stable trend for large claims.

Another important risk driver is natural damage. The company is a member of the Norwegian Natural Perils Pool and is thus liable for natural damage affecting buildings and movables covered by fire insurance in Norway. The company's liability corresponds to a proportion of its market share within fire insurance, irrespective of whether the natural damage actually affects DNB Forsikring's customers. However, the Natural Perils Pool is covered by reassurance that limits the members' joint liability for individual events to NOK 1 billion.

2015 was a year with many and large natural disasters in Norway. The most serious natural damage was caused by the storms in Western Norway in January and in Northern Norway in February. Finance Norway has estimated that claims payments came to NOK 550 million and NOK 180 million, respectively. The damage caused by flooding in Eastern Norway in September was also significant, and the claims are estimated at NOK 150 million. Overall, there was natural damage for almost NOK 1.5 billion in 2015. DNB Forsikring is required to cover 3 per cent of this through the Norwegian Natural Perils Pool. However, the negative impact on profits is significantly reduced through the company's reassurance programme , and the company is thus considered to be well covered for risk related to natural disasters.

The company's market risk is low, as financial assets are largely invested in a bond portfolio with sound Norwegian issuers. Even so, the company was still affected by the general challenges in the Norwegian economy in 2015. The company's financial result for 2015 was NOK 34 million, only half of the result in 2014.

RISK MANAGEMENT AND MEASUREMENT IN DNB FORSIKRING

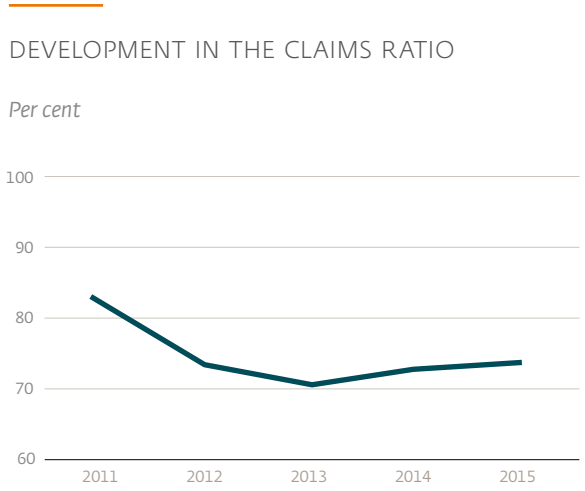
Based on the Group's risk appetite framework, DNB Forsikring has established a set of rules to ensure that risk management is an integral part

of the company's governance processes. DNB Forsikring's risk appetite framework is determined by the company's Board of Directors and stipulates absolute requirements for the company's key risks. The company's risks are managed and monitored in accordance with the Group's management and control structure. A distinction is made between executive, monitoring and controlling units. The company's risk trends, risk appetite and guidelines are monitored by means of the Group's governance model and in quarterly risk reports.

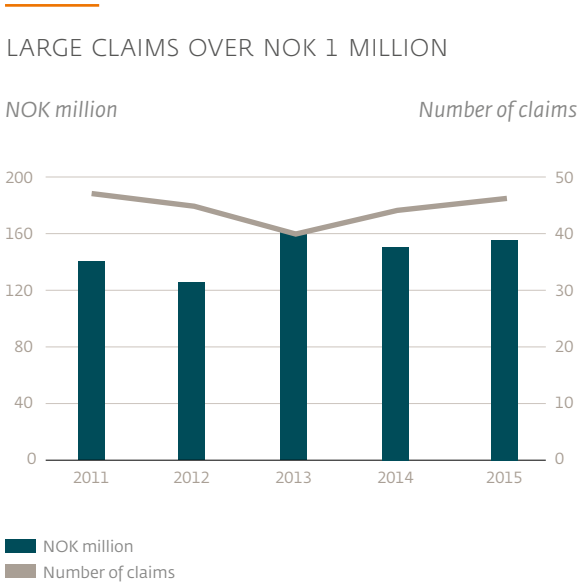
Risk related to individual entities/objects is controlled and limited by means of statistical pricing models and selection processes which ensure that insurance premiums are proportionate to the risk premiums. Large individual claims, typically in excess of NOK 1 million, are difficult to predict using statistical models. The company reduces its risk exposure to such claims through a reassurance programme that limits the company's liability for damages for individual events to maximum NOK 10 million.

In addition, reserve risk is an important driver which could have a significant impact on profits. Reserve risk reflects the uncertainty in estimated provisions for any future liability for damages. Recognised statistical models are used to estimate expected future claims.

DEVELOPMENT IN THE CLAIMS RATIO



LARGE CLAIMS OVER NOK 1 MILLION



Independent operational risk management and compliance units have been established in DNB Forsikring. These units monitor internal and operations and IT operations performed by the corporate functions

CAPITAL REQUIREMENTS FOR DNB FORSIKRING

As of 31 December 2015 DNB Forsikring satisfied the requirements under Solvency I regulations.

DNB Forsikring has estimated Solvency II capital requirement (SCR) after the standard model. The new capital requirement is lower than what Finanstilsynet simplified SCR model (Finanstilsynet's stress test) indicated.

The solvency capital requirement for DNB Forsikring came to NOK 437 million at the end of 2015. The table below shows the capital requirements at year-end 2014 and 2015, calculated according to the standardised approach under Solvency II, distributed over various risk categories.

According to the Solvency II calculation DNB Forsikring has a solvency capital of NOK 783 million at year-end 2015. This gives a capital adequacy ratio of 179 per cent, compared to 149 per cent the year before. The company's capital position has been strengthened considerably through 2015.

According to the Solvency II regulations, DNB Forsikring must at least once a year make a forward-looking assessment of the company's capitalisation, as well as the adjustment of the company's risk profile to the standard model. The company is about to complete the process to prepare an ORSA report (Own Risk and Solvency Assessment) for 2015. The process includeded mapping the company's risk profile, assessment of the conditions of the standard model and scenario analyses based on the financial plan. Summarised the ORSA process shows that DNB Forsikring AS is well capitalised. This means that the company is also expected to satisfy SCR, even if quarterly and annual results are significantly weaker than expected.

CAPITAL ADEQUACY, BASEL I AND SOLVENCY I AS AT 31 DECEMBER 2015

	Capital adequacy	Solvency
Capital	565.2	670.5
Capital requirement	43.9	301.8
Capital above (+)/below requirement (-)	521.3	368.7
Capital utilisation	7.8 %	45.0 %

CAPITAL REQUIREMENTS AFTER THE STANDARDISED APPROACH IN SOLVENCY II

NOK million	31 Dec. 2015	31 Dec. 2014
Market risk	51	59
Counterparty risk	13	518
Insurance risk	496	21
Health insurance risk	67	17
Operational risk	58	54
Total DNB Forsikring	**684**	**669**
Deferred taxes	(146)	-
Diversification	(102)	(100)
SCR	**437**	**553**
Own funds	**783**	**823**
Capital adequacy	179 %	149 %

14

NEW REGULATORY FRAMEWORK

New regulatory framework

NEW CAPITAL AND LIQUIDITY REQUIREMENTS

The EU capital requirements regulations, called the CRR/CRD IV regulations, entered into force on 1 January 2014. CRR is the regulation, while CRD IV is the directive. The regulations are based on the Basel Committee's recommendations from December 2010 on new and stricter capital and liquidity standards, Basel III. The CRR/CRD IV regulations entail significantly higher own funds requirements and new requirements for long-term funding and liquidity reserves. The regulations are intended to apply to all banks and investment firms within the EEA and will be implemented gradually up to 2019.

CAPITAL ADEQUACY REQUIREMENTS FOR BANKS

Authorities, the CRR/CRD IV regulations have not been included in the EEA agreement. Nevertheless, Norway introduced new capital requirements as of 1 July 2013 as the first step in the adaptation to CRR/CRD IV. The capital requirements in Norway imply a gradual increase in the formal capital requirements up till 1 July 2016. In addition, Finanstilsynet (the Financial Supervisory Authority of Norway) has communicated its expectations in the form of Pillar 2 requirements.

The capital adequacy requirements for banks consist of two pillars. Pillar 1 encompasses minimum requirements and buffer requirements determined by the political authorities. The minimum primary capital requirement is 8 per cent of risk-weighted assets, of which 4.5 per cent must represent common equity Tier 1 capital while 1.5 per cent may be hybrid capital and maximum 2 per cent may be Tier 2 capital. The banks will be required to hold significantly more capital than the minimum requirement in the form of various buffers. Under particularly unfavourable market conditions, the banks may draw on the buffers, while under normal market conditions, they will be required to maintain these additional buffers while meeting the minimum requirements. These buffers must consist of common equity Tier 1 capital.

The counter-cyclical capital buffer is part of the Pillar 1 buffer requirements. This buffer may range between 0 and 2.5 per cent, reflecting economic developments. Based on advice from Norges Bank, the Ministry of Finance has introduced a 1 per cent counter-cyclical buffer requirement as of 30 June 2015. This requirement will increase to 1.5 per cent as of 30 June 2016. The Ministry of Finance has asked Finanstilsynet to consider how an institution-specific counter-cyclical buffer rate can be implemented in Norway. According to the EU rules, the institution-specific counter-cyclical buffer rate shall be the weighted average of the counter-cyclical buffer requirements that apply in the countries where the relevant credit exposures of the institution are located. As DNB has large exposures outside Norway, the introduction of EU rules will entail a lower counter-cyclical buffer requirement than if the Norwegian requirement were to apply to all credit exposures.

If the maximum counter-cyclical buffer requirement is applied, the total capital requirement will represent 18 per cent of risk-weighted assets. Of

this, 8 percentage points represents the minimum primary capital requirement, while the buffer requirements that must be met exclusively by common equity Tier 1 capital constitute 10 percentage points. As of 1 July 2015, the minimum common equity Tier 1 capital requirement, including the buffer requirements, is 12 per cent for the three banks which the Norwegian authorities have defined as domestic systemically important, O-SIIs (DNB, Nordea Bank Norge and Kommunalbanken), and 11 per cent for other banks. As of 1 July 2016, this minimum requirement will increase to 13.5 per cent for the O-SIIs and to 11.5 per cent for the other banks.

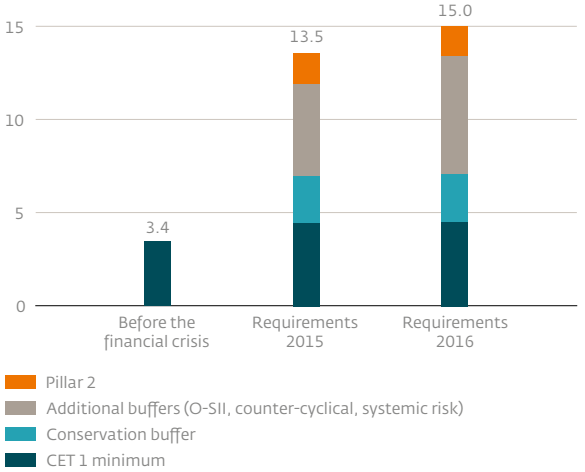
The Pillar 2 requirement comes in addition to the other requirements and is intended to reflect institution-specific capital requirements relating to risks which are not covered, or are only partly covered, by Pillar 1. This requirement may vary between banks, depending on the risk factors of the individual bank. In its Pillar 2 assessments, Finanstilsynet has, among other things, indicated the common equity Tier 1 targets the individual banks should have at year-end 2016. The Pillar 2 requirement for DNB is set at 1.5 per cent common equity Tier 1 capital. In consequence of stricter buffer requirements in 2016, the total common equity Tier 1 capital requirement for DNB will thus be 15 per cent at year-end 2016. DNB will fulfil this requirement through retained earnings and capital efficiency measures.

Finanstilsynet's Pillar 2 dialogue with the individual banks will be based on the capital adequacy requirement the banks are expected to observe at any time, though no orders will be issued. Binding orders are issued only in cases where a bank does not take Finanstilsynet's expectations into account or in cases where there are serious weaknesses in the bank's operations. Failure to comply with the expected Pillar 2 capital adequacy requirement will not automatically result in restrictions on the allocation of the bank's profits, including payments of dividends and interest on other Tier 1 capital. However, the bank is expected to explain the reason for the situation in writing and to present an action plan to increase capital adequacy or reduce the risk level. This is in line with the regulations in other countries.

On 15 January 2016, the Ministry of Finance sent a letter to Finanstilsynet regarding the practical implementation of Pillar 2. The Ministry asked Finanstilsynet to make the Pillar 2 requirements more predictable and transparent for the affected banks and for the market. In addition, the Ministry is of the opinion that the Pillar 2 requirements should be formulated as an order (individual decision) and as far as possible be made public. This entails that the requirements must be justified and that the institutions are given the opportunity to raise complaints. In the Ministry's view, this will not affect the rules for automatic restrictions

COMMON EQUITY TIER 1 CAPITAL REQUIREMENT FOR DNB

Per cent



when the combined capital requirements are not observed. Automatic restrictions will still enter into force only when the Pillar 1 requirements (the sum of the minimum capital requirement and the capital buffer requirement) are violated. The Ministry of Finance also emphasises that Pillar 2 requirements should not be set when the risk is already reflected in the Pillar 1 requirements.

Just like the EU, the Norwegian authorities have chosen to retain the so-called Basel I floor as a security mechanism to ensure that the banks' capi-

tal level does not become too low. In the capital adequacy regulations, the Ministry of Finance has specified that the Basel I floor in Norway is a floor for calculating risk-weighted assets. In the EU regulation, however, the Basel I floor is unambiguously defined as a minimum level of own funds, which is also reflected in the European Commission's common reporting standard for banks in the EU/EEA. This supervisory practice implies that Norwegian banks appear more weakly capitalised than if the EU's version of the Basel I floor definition had been used.

As a supplement to the risk-weighted capital requirements and as a measure to counter creative adjustments and gaps in the regulations, a non-risk based capital requirement, "leverage ratio", will also be introduced. The final requirement is still under consideration internationally, but the proposed minimum requirement implied is 3 per cent. By year-end 2016, the European Commission will propose a leverage ratio which will take effect in the EU as from 2018.

In order to be prepared for a possible implementation of future new EU regulation, the Ministry of Finance has asked Finanstilsynet to prepare a consultation paper and regulations on a non-risk based capital requirement in Norway, including definitions of the numerator and the denominator in the capital equation. Finanstilsynet has also been asked to consider the most appropriate capital level for Norwegian banks, mortgage institutions and parent companies in financial undertakings, including whether such levels should be differentiated, given that a non-risk based capital requirement will be introduced without replacing other capital requirements. Finanstilsynet's deadline is 31 March 2016.

Finanstilsynet has previously recommended that Norwegian banks' non-risk based capital requirement should be at a considerably higher level than 3 per cent. In addition, Finanstilsynet has emphasised that the numerator in the capital equation should consist of common equity Tier 1 capital, even though there are plans to include hybrid capital in the EU regulation.

Norges Bank recommends the introduction of a non-risk based capital requirement to replace the Basel I floor, stating that the Basel I floor has been retained for a greater number of years than originally planned, and that the rule is practised more strictly in Norway than in other European countries. It is also emphasised that without the Basel I floor, it will be easier to compare the capital adequacy levels of banks in different countries. According to Norges Bank's recommendation, the total requirement should be high enough to ensure that the banks, as a minimum, retain the current non-risk based capital ratio of approximately 6 per cent.

LENGTHY NEGOTIATIONS ON EUROPEAN SUPERVISORY AUTHORITIES

Due to a stipulation in the Norwegian Constitution on limited access to transfer powers to international organisations, it has not been possible to incorporate the EU regulations establishing the European supervisory authorities into the EEA agreement. As a result of this, more than 100 relevant EU legislative acts in the area of financial services, granting the supervisory authorities the competence to exercise direct supervisory powers over enterprises, have not been included in the EEA agreement. The situation has gradually caused great inconveniences in the form of lack of harmonisation and reduced competitive strength for Norwegian market players. In the autumn of 2014, Norway and the EU agreed on a solution. According to the agreement, the EFTA Surveillance Authority, ESA, will be granted competence to make legally binding decisions addressed to national supervisory authorities and individual institutions in Norway, Liechtenstein and Iceland. Decisions will be based on drafts prepared by the relevant EU supervisory authority. The agreement also entails that the EFTA Surveillance Authority and the national supervisory authorities in the three EEA/EFTA states shall participate, without voting rights, in the EU's three European supervisory authorities, EBA, ESMA and EIOPA. Also, the EU supervisory authorities shall participate, without voting

rights, in the work of the EFTA Surveillance Authority and its preparatory bodies in this field. The EU supervisory authorities will be competent to issue recommendations, that is non-binding decisions, vis-à-vis EEA-EFTA national authorities and enterprises.

According to the Norwegian government, is has proved time-consuming to get into place the specific technical adaptions to the EU legislation which are necessary in order to include the EU regulations establishing the European supervisory authorities into the EEA agreement, The government aims to submit a proposition to Stortinget, the Norwegian parliament, on the European supervisory authorities and some important related legislative acts for consideration in the spring of 2016. The required legislative amendments will probably enter into force on 1 July 2016. Since competence will be transferred to an EEA body, a three-quarter majority will be required in Stortinget. Parallel to this, the government is working to incorporate the remaining legislation on financial services in the course of 2016.

LIQUIDITY REQUIREMENTS FOR BANKS

The EU capital requirements regulations include stipulations on two quantitative liquidity requirements, the Liquidity Coverage Ratio, LCR, and the Net Stable Funding Ratio, NSFR.

The LCR requires that banks hold sufficient eligible liquid assets to cover, as a minimum, total net payments over a 30-day period under stressed conditions. Net payments thus reflect a possible loss of deposits from customers, public entities and central banks. This requirement was introduced on 1 October 2015, with a gradual increase to full effect as of 1 January 2018.

In Norway, the Ministry of Finance has decided to introduce the LCR ahead of the EU schedule. The SIBs are required to meet the 100 per cent LCR requirement as early as from 31 December 2015. For other banks, the requirement will be phased in by 70 per cent as of 31 December 2015, 80 per cent as of 31 December 2016 and 100 per cent as of 31 December 2017.

The LCR requirement in itself applies only at an aggregate level. In addition, the banks must report LCR for significant currencies if liabilities denominated in that currency amount to more than 5 per cent of the bank's total liabilities. For Norwegian banks, Norwegian kroner will be a significant currency. Due to generally limited access to funding in Norwegian kroner, a potential requirement to meet the LCR in Norwegian kroner may have unintended consequences for the market and the individual bank. The Ministry has nevertheless asked Finanstilsynet to consider whether an LCR requirement in significant currencies should be introduced, including Norwegian kroner, at a later date. Finanstilsynet will also follow up on this in Pillar 2 and possibly stipulate individual requirements.

The NSFR requires banks to have an amount of stable funding which, as a minimum, corresponds to the so-called "required amount of stable funding". Banks are thus required to use stable funding to finance their assets, such as loans and securities. Stable funding is defined as deposits and funding with residual maturities of minimum 12 months or longer. There are weighting rules for both assets and deposits which reflect the items' liquidity characteristics.

According to the proposal, the NSFR requirement must be met by 1 January 2018. It has not been decided how the Net Stable Funding ratio should be implemented in the EU, or whether a minimum NSFR requirement should be introduced. By year-end 2016, the European Commission is expected to submit a legislative proposal to the Parliament and the Council. In its recommendation to the Ministry of Finance, Finanstilsynet states that the NSFR should be introduced as a minimum requirement for the O-SIIs and other enterprises with total assets in excess of NOK 20 billion as soon as a final decision on the NSFR has been reached in the EU. Until the NSFR has been introduced in Norway, Finanstilsynet will continue to use

liquidity indicator 1 when monitoring the bank's long-term funding. Liquidity indicator 1 resembles the NSFR.

WINDING-UP AND CRISIS MANAGEMENT REGULATIONS FOR BANKS

The financial crisis demonstrated the need forbetter solutions for the winding-up and restructuring of banks. On 1 January 2015, the EU introduced extensive regulations in this field, the Bank Recovery and Resolution Directive, BRRD. The directive is also relevant to the EEA, but has not yet been included in the EEA agreement due to the agreement on European Supervisory Authorities.

The purpose of the directive is to establish a crisis management system which ensures financial stability by giving banks and the authorities the tools required to prevent and handle crises at an early stage. The crisis management system shall ensure that large banks can be wound up without threatening financial stability while deposits and public funds are protected.

Resolution fund and deposit guarantee fund

Under the BRRD, each country will establish a national resolution fund. In accordance with the revised Deposit Guarantee Directive, each country must also have a deposit guarantee fund. Norway already has one of the best capitalised deposit guarantee funds in Europe with total capital that is well above the combined EU requirements to the deposit guarantee fund and the resolution fund of 1.8 per cent of guaranteed deposits.

The Norwegian deposit guarantee scheme currently covers NOK 2 million. In consequence of the revised Deposit Guarantee Directive, Norway will have to lower its guarantee to EUR 100 000. There is a transitional period up until year-end 2018 for countries with a higher guaranteed coverage level.

Bail-in

A key element in the proposed directive is that any losses in connection with a bank failure shall be borne by the bank's investors and not by the taxpayers. Thus, the directive opens up for so-called "bail-in" of banks' liabilities, which means that unsecured creditors may experience, as part of a crisis solution, that their debt is written down and/or converted into equity. The bail-in rules became effective in the EU as of 1 January 2016. The purpose is to ensure the continued operation of the most important bank functions. In such a situation, investors cannot demand that a bank be wound up in accordance with general liquidation rules, and thus lose leverage with the authorities in cases where the continued operation of a bank is considered to be important to financial stability and the economy.

According to the BRRD, bail-in should be the final alternative, and such measures should not be initiated until the bank is close to insolvency. An underlying principle is that investors, as a minimum, should receive the same financial return as if the bank had been liquidated according to normal insolvency proceedings. It follows from the directive that banks are required to maintain a minimum level of equity and liabilities which can be written down or converted into equity when a bank is in distress. Deposits covered by the deposit guarantee shall normally be protected from losses. The EBA has prepared a proposal for a technical standard for determining minimum requirements for own funds and liabilities that can be converted into equity (Minimum Requirement for Own Funds and Eligible Liabilities, MREL). The Standard is under consideration by the European Commission.

Crisis plans

The Crisis Management Directive sets a number of other requirements to the institutions. Among other things, banks must prepare recovery plans describing how they will strengthen their capital adequacy and improve their liquidity and funding if their position is significantly impaired. The plans must be approved by the national supervisory authorities. The authorities, on the other hand, must prepare resolution plans for the banks. This will be resource-demanding for the finance industry and

entail new, extensive processes vis-à-vis the supervisory authorities.

Since Norway is a member of the EEA, the implementation of the BRRD and the revised deposit guarantee directive will require extensive changes in the Norwegian crisis solution system, including the rules on public administration and the role of the Norwegian Banks' Guarantee Fund. The Banking Law Commission is considering how the directives can be implemented in Norwegian law. This process and the work on draft legislation will probably be finalised in the course of the first half of 2016.

15

INFORMATION ABOUT DNB'S REMUNERATION SCHEME

Information about DNB's remuneration scheme

Pursuant to Section 6-16a of the Norwegian Public Limited Companies Act, the Board of Directors will present the following statement on remunerations to the Annual General Meeting for voting:

Pursuant to the regulations on remuneration schemes in financial institutions etc., issued by the Norwegian Ministry of Finance on 1 December 2010 and subsequent amendments, companies are required to publish information about the main principles for determining remunerations, criteria for the stipulation of any variable remunerations and quantitative information on remuneration to senior executives. The information in this note, including the Board of Directors' statement on the stipulation of salaries and other remunerations to senior executives below, represents such information, as stipulated in the remuneration regulations.

The group guidelines for remuneration in the DNB Group apply to the total remuneration to all permanent employees in the DNB Group and comprise monetary remuneration (fixed salary, short and long-term incentives), employee benefits (pensions, employer's liability insurance and other employee benefits) and employee development and career measures (courses and development programmes, career programmes and other non-monetary remuneration).

According to the guidelines, total remuneration is to be based on a total evaluation of the performance of the Group, as well as the unit's and each individual's contributions to value creation. Total remuneration should be structured to ensure that it does not expose the Group to unwanted risk. The remuneration should be competitive, but also cost-effective for the Group.

Furthermore, monetary remuneration should consist of a fixed and a variable part where this is appropriate. Fixed salary should be a compensation for the responsibilities and requirements assigned to each position, as well as its complexity, while variable salary should encourage strong performance and desired conduct.

GROUP GUIDELINES FOR VARIABLE REMUNERATION

To ensure compliance with the remuneration regulations and the circular from Finanstilsynet on remuneration schemes in financial institutions, investment firms and management companies for mutual funds, DNB has had separate group guidelines for variable remuneration since 2011, including special guidelines for variable remuneration to senior executives, employees with responsibilities which are of great importance to the company's risk exposure ("risk takers") and employees who are responsible for independent control functions.

The purpose of DNB's guidelines for variable remuneration is to reward conduct and develop a corporate culture which ensures long-term value generation. The guidelines for variable remuneration have been approved by the Board of Directors' Compensation Committee.

Variable remuneration is based on an overall assessment of the results achieved within defined

target areas for the Group, the unit and the individual, as well as compliance with the Group's vision, values, code of ethics and leadership principles. The variable remuneration should be performance-based without exposing the Group to unwanted risk. Furthermore, it should counteract excessive risk taking and promote sound and effective risk management in DNB. Variable remuneration (bonus) for senior executives cannot exceed 50 per cent of fixed salary.

DNB's variable remuneration scheme applies globally, though non-Norwegian branches and subsidiaries will also be required to comply with local legislation, regulations and guidelines. There may be challenges of a legal nature in cases where the Norwegian regulations do not corre¬spond to local legislation and local rules concerning remunerations in financial institutions. In such cases, the Group will seek advice from the relevant authorities and international experts to ensure that the Group's practices are in compliance with both Norwegian and local regulations.

THE BOARD OF DIRECTORS' STATEMENT ON THE STIPULATION OF SALARIES AND OTHER REMUNERATIONS TO SENIOR EXECUTIVES

DNB's guidelines for determining remunerations to the group chief executive and other members of the group management team should, at all times, support prevailing strategy and values, while contributing to the attainment of the Group's targets. The remuneration should inspire conduct to build the desired corporate culture with respect to performance and profit orientation. No changes have been made into the principles for the stipulation of variable remunerations compared with the statements presented for the previous yearly.

DECISION-MAKING PROCESS

The Board of Directors in DNB ASA has established a compensation committee consisting of three members: the chairman of the Board, the vice-chairman and one board member.

The Compensation Committee prepares matters for the Board of Directors and has the following main responsibilities:

- Annually evaluate and present its recommendations regarding the total remuneration awarded to the group chief executive
- Annually prepare recommended targets for the group chief executive
- Based on suggestions from the group chief executive, decide the remuneration and other key benefits awarded to the group executive vice president, Group Audit
- Act in an advisory capacity to the group chief executive regarding remunerations and other key benefits for members of the group management team and, when applicable, for others who report to the group chief executive
- Consider other matters as decided by the Board of Directors and/or the Compensation Committee
- Evaluate other personnel-related issues which can be assumed to entail great risk to the Group's reputation

A. A.Guidelines for the coming accounting year

Remuneration to the group chief executive

The total remuneration to the group chief executive consists of fixed salary (main element), benefits in kind, variable remuneration, and pension and insurance schemes. The total re-muneration is determined based on a total evalua-tion, and the variable part of the remuneration is primarily based on the Group's financial targets for return on equity, the common equity Tier 1 capital ratio and cost/income ratio.

In addition to the financial targets, the Group's customer satisfaction, corporate reputation scores and developments in key performance indicators relating to the Group's corporate culture will be taken into consideration. In addition, the total evaluation will reflect compliance with the Group's vision, values, code of ethics and leadership principles.

The fixed salary is subject to an annual evaluation and is determined based on salary levels in the la-

bour market in general and in the financial industry in particular, and on remuneration levels for comparable positions.

Variable salary to the group chief executive is determined based on an overall assessment of the results achieved within defined target areas. Variable salary cannot exceed 50 per cent of fixed salary. The group chief executive is not awarded performance-based payments other than the stated variable remuneration.

In addition to variable remuneration, the group chief executive can be granted benefits in kind such as company car, newspapers/periodicals and telephone/ other communication. Benefits in kind should be relevant to the group chief executive's function or in line with market practice, and should not be significant relative to the group chief executive's fixed salary.

The Board of Directors will respect the agreement entered into with the group chief executive, whereby his retirement age is 60 years with a pension representing 70 per cent of fixed salary. If employment is terminated prior to the age of 60, he will still be entitled to a pension from the age of 60 with the deduction of 1/14 of the pension amount for each full year remaining to his 60th birthday. According to the agreement, the group chief executive is entitled to a termination payment for two years if employment is terminated prior to the age of 60. If, during this period, the group chief executive receives income from other employment, the termination payment will be reduced by an amount corresponding to the salary received from this employment. Benefits in kind will be maintained for a period of three months.

Remuneration to other senior executives

The group chief executive determines the remunerations to senior executives in agreement with the chairman of the Board of Directors. The Board of Directors will honour existing binding agreements.

The total remuneration to senior executives consists of fixed salary (main element), benefits in kind, variable salary, and pension and insurance schemes. The total remuneration is determined based on the need to offer competitive terms in the various business areas. The remunerations should promote the Group's competitiveness in the relevant labour market, as well as the Group's profitability, including the desired trend in income and costs. The total remuneration should take DNB's reputation into consideration and ensure that DNB attracts and retains senior executives with the desired skills and experience.

The fixed salary is subject to an annual evaluation and is determined based on salary levels in the labour market in general and in the financial industry in particular.

Benefits in kind may be offered to senior executives to the extent the benefits have a relevant connection to the employee's function in the Group or are in line with market practice. The benefits should not be significant relative to the employee's fixed salary.

Target structure 2016

The Compensation Committee approves principal criteria, principles and limits for variable remuneration. The Compensation Committee has decided that the Group's return on equity, common equity Tier 1 capital ratio and cost/income ratio should constitute the financial target figures for 2016. In addition to the financial target figures, the Group's customer satisfaction, corporate reputation scores and developments in key performance indicators relating to the Group's corporate culture will be taken into consideration.

The Group's financial target figures have been broken down into relevant targets for the various business areas and staff and support units in order to offer optimal support for the implementation of new capital adequacy and liquidity regulations.

The above targets will be key elements when calculating and paying out the variable remuneration for 2016. All financial targets have been defined and communicated to the relevant business areas and staff and support units as part of the work with and follow-up of the targets for 2016.

Determination of variable remuneration for 2016

The variable remuneration for 2016 will be determined by means of an overall assessment of performance, based on a combination of quantitative attainment of pre-set performance targets and qualitative assessments of how the targets were achieved.

The Board of Directors will determine a maximum limit for total bonuses for the Group, excluding DNB Markets and DNB Eiendom, based on the attainment of group targets over the last two years, combined with a general assessment of other important parameters and the Group's financial capacity. The total limit will be allocated to the organisation based on the individual units' target attainment and contributions to the Group's performance. With respect to DNB Markets, a special limit will be determined for variable remuneration based on the risk-adjusted profits achieved by the unit and an overall assessment, which is in line with market practice for this type of operations. Correspondingly, the remuneration model in DNB Eiendom is consistent with market practice, with a high share of variable remuneration based on individual performance.

Special rules for senior executives, identified risk takers and employees responsible for independent control functions

DNB has prepared and implemented special rules for identified risk takers, employees responsible for independent control functions and senior executives, hereinafter called risk takers. The special rules supplement the general group guidelines for variable remuneration and have been formulated in compliance with the remuneration regulations and the related circular from Finanstilsynet.

In accordance with prevailing requirements, DNB has surveyed the entire organisation to identify risk takers based on the criteria resulting from the circular and the EU regulation.

For risk takers, the following main principles apply to variable remuneration:

- The remuneration is earned over a period of two years.
- Variable remuneration cannot exceed the agreed fixed remuneration.
- Deferred and conditional payment of minimum 50 per cent of the earned variable remuneration in the form of DNB shares. The remuneration paid in the form of shares will be divided into three, subject to minimum holding periods (deferred and conditional), with one-third payable each year over a period of three years. The deferred and conditional payments will be in compliance with the stipulations in the remuneration regulations.

Pensions etc.

Pension schemes and any agreements on termination payments etc. should be considered relative to other remuneration and should ensure competitive terms. The various components in pension schemes and severance pay, either alone or together, must not be such that they could pose a threat to DNB's reputation.

As a main rule, senior executives are entitled to a pension at the age of 65, though this can be deviated from. Pension entitlements should not exceed 70 per cent of fixed salary and should constitute maximum 12 times the National Insurance basic amount. However, the DNB Group will honour existing agreements. A defined contribution scheme was established for the Group with effect from 1 January 2011, whereby pensionable income will be limited to 12 times the National Insurance basic amount, G. On 31 December 2015, the Group terminated the defined-benefit pension scheme for employees in Norway with salaries below 12G. Employees in Norway with defined-benefit pensions were transferred to the defined-contribution pension scheme as from 1 January 2016.

As a main rule, no termination payment agreements will be signed. However, the Group will honour existing agreements.

When entering into new agreements, the guidelines generally apply and comprise all senior executives.

See table of remunerations for senior executives below.

B. Binding guidelines for shares, subscription rights, options etc. for the coming accounting year

An amount corresponding to 50 per cent of the earned variable remuneration of the group chief executive, senior executives and risk takers is invested in shares in DNB ASA. The minimum holding periods are one year for one-third of the shares, two years for one-third of the shares and three years for the final one-third of the shares.

No additional shares, subscription rights, options or other forms of remuneration only linked to shares or only to developments in the share price of the company or other companies within the Group, will be awarded to the group chief executive or senior executives. The group chief executive and senior executives are, however, given the opportunity to participate in a share subscription scheme on the same terms as other employees in the DNB Group.

C. Statement on the senior executive salary policy in the previous account year

The group guidelines determined for 2011, and later changes applicable from 2015, have been followed.

D. Statement on the effects for the company and the shareholders of remuneration agreements awarding shares, subscription rights, options etc.

An amount corresponding to 50 per cent of the gross variable remuneration earned by the group chief executive and senior executives in 2015 is invested in shares in DNB ASA. The Board of Directors believes that the awarding of shares to senior-executives, in view of the total number of shares in the company, will have no negative consequences for the company or the shareholders.

16

DEFINITIONS AND EXPLANATION OF TERMS

Definitions and explanation of terms

In DNB, risk is divided into six main categories which are subject to special measurement and monitoring: credit risk, market risk, operational risk, insurance risk, liquidity risk and business risk.

Credit risk is the risk of financial losses due to failure on the part of the Group's customers (counterparties) to meet their payment obligations towards DNB. Credit risk refers to all claims against customers/counterparties, primarily loans, but also liabilities in the form of other extended credits, guarantees, interest-bearing securities, approved, undrawn credits and interbank deposits, as well as counterparty risk arising through derivative trading. In addition, there are significant elements of counterparty risk in the settlement risk which arises in connection with payment transfers and settlement of contracts entered into.

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

Operational risk is the risk of losses due to due to deficiencies or errors in processes and systems, human errors or external events. Operational risk also includes compliance risk, which is the risk of losses caused by breaches of laws and regulations or similar obligations, and legal risk, which is often related to the documentation and interpretation of contracts and different legal practices in countries where the bank is operating.

Insurance risk is risk associated with operations in DNB Livsforsikring ASA and DNB Skadeforsikring AS and refers to changes in insurance obligations due, inter alia, to changes in life expectancy and disability rates within life insurance. Within non-life insurance, insurance risk relates to the frequency and size of claims payments the company is obliged to make.

Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due, and the risk that the Group will be unable to meet its liquidity obligations without a substantial rise in appurtenant costs. Sound liquidity is a prerequisite for financial operations, but this risk category will often be of a conditional nature, as it will not become obvious until other events give reason to worry about the Group's ability to meet its obligations.

Business risk is the risk of profit fluctuations due to changes in external factors such as the market situation, government regulations or the loss of income due to a weakened reputation. Reputational risk is often a consequence of other risk categories. The Group's business risk is generally handled through the strategy process and through ongoing work to safeguard and improve the Group's reputation. When determining and following up the Group's risk appetite, reputational risk is treated separately.

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

Other risks referred to in the Pillar 3 report:

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

Credit spread risk is the risk of changes in the market value of securities and derivatives as a result of changes in credit spreads. Credit spread is a type of risk factor that measures market sensitivity, in terms of basis point value, to credit and liquidity risk.

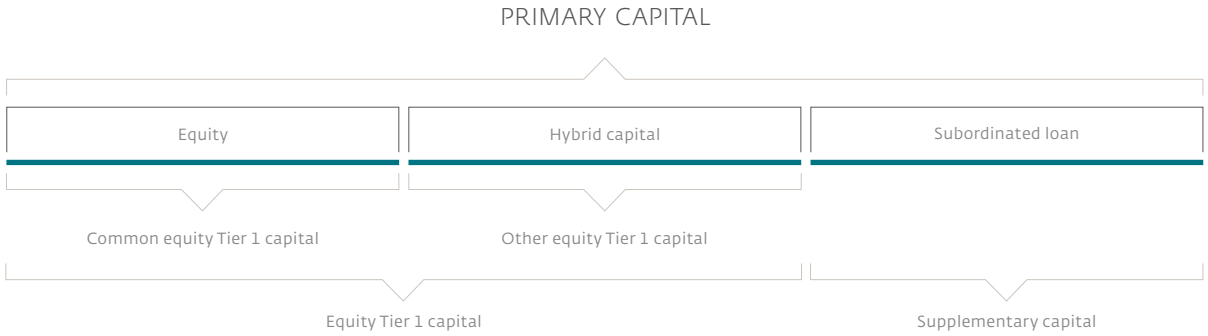
Systemic risk is the risk of disruptions in the financial system with potentially serious consequences for the financial system and the real economy.

EXPLANATION OF TERMS

Regulatory capital
Regulatory capital is capital that can be used to cover capital requirements. Regulatory capital includes Tier 1 capital and supplementary capital. Common equity Tier 1 capital consists of paid-in capital and retained earnings. Hybrid securities are also included in Tier 1 capital. Hybrid securities are borrowing instruments that in special cases may be converted into equity. Supplementary capital consists of subordinated debt.

- Hybrid capital (perpetual subordinated loan capital securities) has traits of both debt and equity, and is part of the Tier 1 capital. However, it cannot exceed 1.5 percentage points of the minimum Tier 1 capital requirement of 6 per cent. Hybrid capital is perpetual and can be written down or converted to equity when the common equity Tier 1 capital ratio falls below 5.125 per cent.

Basel III
Basel III is a global, voluntary regulatory standard on bank capital adequacy, stress testing and market liquidity risk issued by the Basel Committee for Banking Supervision, The regulations are implemented in Norway through the Financial Institutions Act and related regulations, including the capital adequacy regulations. Basel III is implemented through CRD IV and CRR in the EU and the EEA.



- CRD IV, the Capital Requirements Directive, is the legal framework for the supervision of credit institutions and investment firms in the EU. In accordance with the EEA agreement, Norway is required to transpose the directive into Norwegian legislation
- CRR is a regulation and applies throughout the EU independent of national legislation. Through the EEA agreement, Norway is required to comply with the regulation.

Basis swap is a type of swap in which two parties exchange variable interest and principal payments in different currencies. This is usually done to limit interest rate risk that a company faces as a result of having differing lending and borrowing rates.

LTV, Loan-to-Value
The ratio of the loan amount to the total appraised value of the property.

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

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

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

EAD, Exposure at Default
EAD is the share of the approved credit that is expected to be drawn at the time of any future default.

EL, Expected Loss
EL indicates the average annual expected losses over an economic cycle. EL = PD * LGD * EAD
ICAAP, Internal Capital Adequacy Assessment.

ICAAP, internal assessment of risk (internal Capital Adequacy Assessment Process)
Financial institutions are required to have an ongoing internal assessment of risk and capital needs. The process is outlined in Pillar 2 of the capital adequacy regulations. The bank must assess all risks inherent in operations. The process is documented annually through the ICAAP report to Finanstilsynet. Based on this report and other information that Finanstilsynet has about the bank, an overall assessment of the bank's risk and capital situation (SREP, Supervisory Review and Evaluation Process) is carried out. In connection with the assessment, a separate add-on to the other capital requirements, the Pillar 2 capial add-on, is also set.

Capital requirements

- **IRB approach, Internal Ratings-Based approach.**
  An approach to measure risk-weighted assets (RWA) for credit risk using internal risk models. The advanced IRB is a method of calculating credit risk using internal PD, LGD and EAD models. Finanstilsynet gives permission to use internal models.

- **Standardised approach, credit risk**
  Method for calculating risk-weighted assets using supervisory risk weights or rates. The rates are determined by the authorities.

- **Standardised approach, market risk**
  The risk is divided into four asset classes in the standardised approach for market risk (interest, equity, currency, and commodity positions) and various calculation methods are used, which are determined by the authorities for each of the asset classes. In addition, a specific risk for equities and debt instruments in the trading portfolio must be calculated.

- **Basic approach, operational risk**
  In the basic approach, the capital requirement is calculated as 15 per cent of average gross income over the last three years.

- **Standardised approach, operational risk**
  Income should be allocated to eight different business areas, where Finanstilsynet defines which service categories are included in each area. When calculating the minimum requirement, average gross income over the past three years is multiplied by fixed percentages ranging between 12 and 18 per cent, depending on which business area has generated the income.

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

LGD, Loss Given Default
LGD represents the percentage of the Exposure at Default (EAD) which the Group expects to lose if the customer fails to meet his obligations.

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

MiFID II (Markets in Financial Instrument Directive)
The directive regulates the market for financial instruments, and describes how institutions in the financial markets should be organised and behave.

Covered bonds
Give DNB coverage for their claims on an underlying cover pool if the issuer defaults on his obligations. Norwegian covered bonds can only be issued by mortgage institutions, while foreign covered bonds may be issued by both banks and mortgage institutions.

Pensions
- In a defined-benefit pension scheme, the employer commits to a specified monthly payment upon retirement. These are life-long payments and are calculated as a percentage of salary less expected payments from the National Insurance Scheme. The employee's salary at retirement age forms the basis for the calculation.
- In a defined-contribution pension scheme, the employer pays a specific contribution into the employee's pension account. The employer has no further obligations under the scheme and carries no risk.

PD, Probability of Default
The probability that a customer will go into default. PD is calculated based on financial and non-financial factors and forms the basis for risk classification of credit exposures.

Risk-adjusted capital (economic capital)
The internally calculated capital requirement which is deemed necessary for the Group to

support the risks to which it is exposed. Risk-adjusted capital in DNB is calculated using an internal model called the total risk model. DNB has stipulated that risk-adjusted capital should cover 99.97 per cent of potential unexpected losses within a one-year horizon.

RWA, Risk-Weighted Assets
The risk exposure calculated for credit risk, market risk and operational risk in accordance with Finanstilsynet's rules on capital adequacy.

Solvenvcy II
The Solvency II Directive is an EU Directive that describes capital requirements for insurance companies. Solvency II entered Into force on 1 January 2016 and is based on a three-pillar structure:

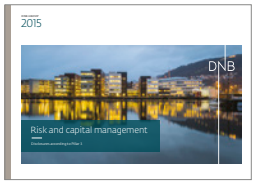
- Pillar 1 consists of the quantitative requirements MCR (minimum capital requirement) and SCR (solvency capital requirement).
- Pillar 2 sets out requirements for supervisory review and evaluation, including the ORSA (own risk and solvency assessment) process.
- Pillar 3 encompasses rules on market discipline, including public disclosure requirements.

Systemically Important financial institution (O-SII)
Characterised by having a size and operations that would make it difficult to replace them. Distress or disorderly failure in the institutions would cause significant disruption to the wider financial system and economic activity.

Leverage ratio
The leverage ratio is defined as Tier 1 capital as a percentage of total exposure calculated according to the CRR. The leverage ratio does not take into account that various activities on credit institutions' balance sheets may have differing degrees of risk.

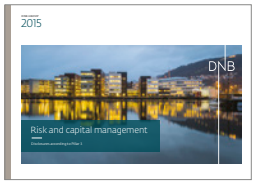
VaR, Value at Risk
For a given portfolio, the value-at-risk is an estimate of the potential future loss (in terms of market value) that, under normal market conditions, will not be exceeded in a defined period of time and with a defined confidence level.

Topics covered in more than one DNB report for 2015



TOPIC	RISK AND CAPITAL MANAGEMENT	ANNUAL REPORT
Ethics, including anticorruption and anti-money laundering	Compliance risk	Ethics and anti-corruption Anti-money laundering and sanctions Employees
Capital management and capital adequacy	Capital management and ICAAP Capital adequacy	Directors' report Note 3 to the accounts
Credit and credit risk	Credit risk	Responsible credit Directors' report Note 4 to the accounts
Macroeconomic development trends	Major developements Fundamentals of the Norwegian economy Credit risk Market risk The CRO's summary of the year	Group chief executive's statement Directors' report The new banking reality
Employees, managers and remunerations	Information about DNB's remuneration scheme	Employees Note 47 to the accounts
Key figures	Attachments	DNB in brief Key figures 5 years Employees
Operational risk / quality	Operational risk Risk management and control in DNB Credit risk Compliance risk	Responsible credit Responsible investments Responsible supplier management Climate-smart office operations Climate risk Data protection and security Safe and solid bank Customer dialogue and product quality Human rights Directors' report Note 4 to the accounts

Topics covered in more than one DNB report for 2015



TOPIC	RISK AND CAPITAL MANAGEMENT	ANNUAL REPORT
Summary of the year	The CRO's summary of the year Major developements Important events in 2015	Group chief executive's statement Important events in 2015 Directors' report The new banking reality Sustainable operations
Customer privacy, including IT security	Operational risk Compliance risk	Data protection and security Customer segments Directors' report
Regulatory framework	Business risk New regulatory framework Capital management and ICAAP DNB Livsforsikring DNB Forsikring	Anti-money laundering and sanctions Openess New regulatory framework Directors' report
Regulations and guidelines	Risk management and control in DNB Capital management and ICAAP Credit risk	Corporate governance Directors' report Accounting principles Sustainable operations
Risk management	Risk management and control in DNB Liquidity risk and asset and liability management Credit risk Market risk Operational risk Business risk DNB Livsforsikring DNB Forsikring	Responsible investments Responsible supplier management Primary credit Human rights Corporate governance Directors' report Notes 4-17 to the accounts
Strategy and targets	Capital management and ICAAP	Group chief executive's statement DNB in brief Directors' report Products and services Sustainable operations
Governance and organisation	Legal structure and consolidation rules Risk management and control in DNB	Presentation of the Board of Directors and group management Customer segments Corporate governance DNB's governance model Governing bodies

OVERVIEW OF CHARTS AND TABLES

Overview of charts and tables	Page

Overview of charts and tables	Page

Overview of charts and tables	Page
Chapter 10 - Complinace risk	
Program AML Action Plan	99
Chapter 12 - DNB Livsforsikring	
Composition of risk, December 2015	106
Guaranteed rate of return and interest rate	106
Change in solvency capital in DNB Livsforsikring	107
Investments in the common portfolio	107
Development in market risk	108
Operational events	109
Operational losses	109
Calculation of solvency margin under Solvency II	110
Chapter 13 - DNB Forsikring	
DNB Skadeforsikring - development in the claims ratio in per cent	113
DNB Forsikring - large losses over NOK 1 million	113
Capital adequacy, Basel I and Solvency II as at 31 December 2015	114
Capital requirements after the standardised approach in Solvency II	114
Chapter 14 - New regulatory framework	
Requirements to common equity Tier 1 capital for DNB	117
Chapter 16 - Definitions and explanations of terms	
Primary capital	130

Here for you. Every day.
When it matters the most.

DNB
Mailing address:
P.O.Box 1600 Sentrum
N-0021 Oslo

Visiting address:
Dronning Eufemias gate 30
Bjørvika, Oslo

dnb.no

Design: REDINK. Photo: Hans Fredrik Asbjørnsen and REDINK.