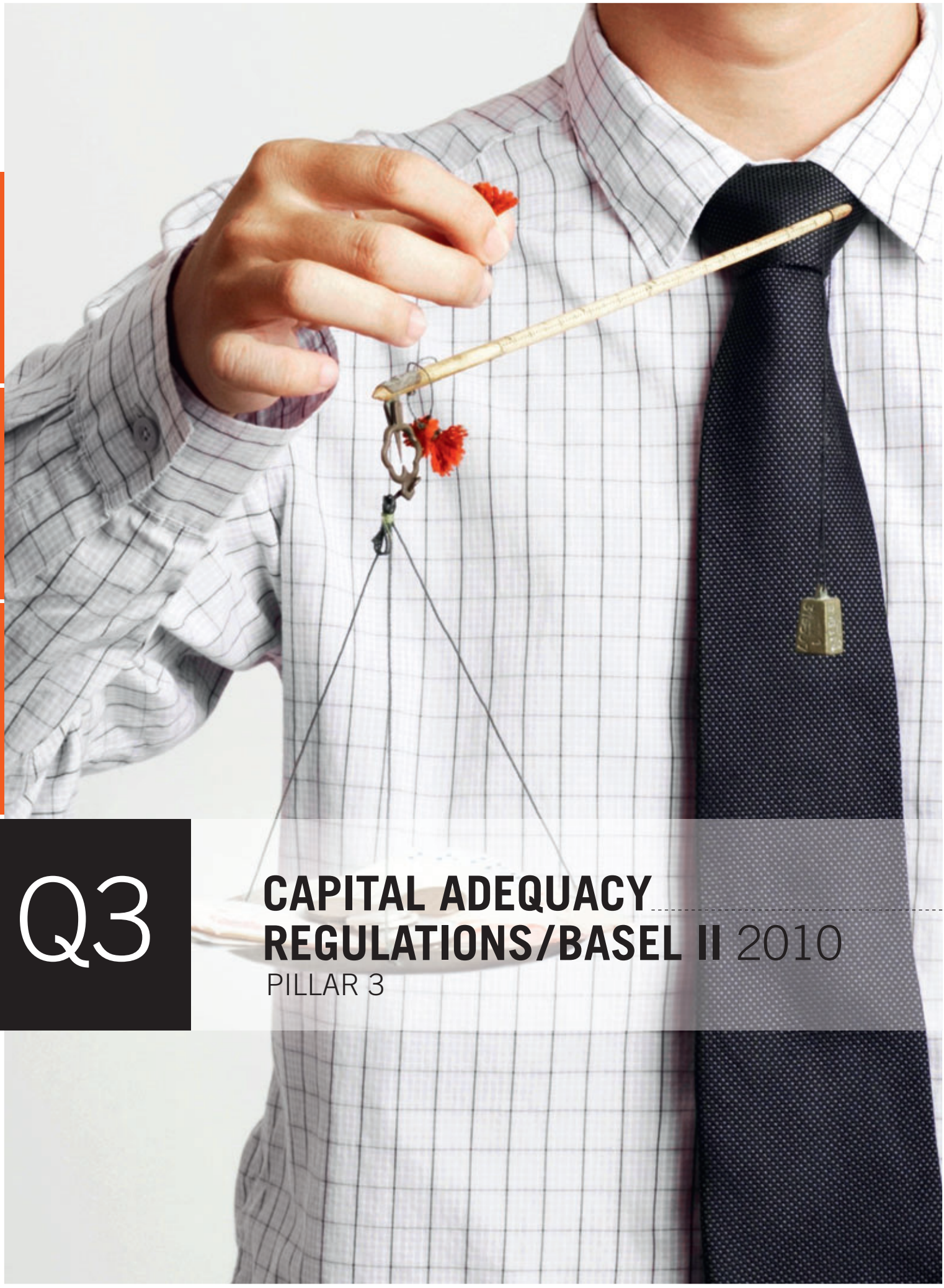


Q3

CAPITAL ADEQUACY REGULATIONS/BASEL II 2010

PILLAR 3

DnB NOR

Contents

1 Introduction

Monitoring and managing risk is an integral part of financial operations. In DnB NOR, sound risk management is a strategic tool to enhance value generation. The Basel II capital requirements entered into force on 1 January 2007. This document has been prepared on the basis of specific requirements in the capital adequacy regulations regarding the disclosure of financial information (Pillar 3) in order to contribute to the understanding of the institution's risk level, risk management and control as well as capitalisation.

This document is updated annually, except for information on primary capital and minimum capital requirements, which is updated quarterly.

2 Basel II and the IRB system

The new capital adequacy regulations ensue from an EU directive, with parallel introduction in Norway through the EEA agreement. The regulations will imply greater consistency between the authorities' capital adequacy requirements for financial institutions and the methods applied by the institutions themselves in calculating capital requirements.

The new capital adequacy requirements are divided into three so-called pillars: 1. minimum capital requirements, 2. banks' own assessment of their risk profile, and capital requirements and 3. demand for disclosure of financial information.

The IRB system in DnB NOR

In 2007, DnB NOR was granted permission to use the Group's own classification systems as a basis for capital adequacy reporting for parts of the credit portfolio. This has subsequently been extended to include use of the Group's own models for severity and credit exposure, and an increasing share of the portfolio is included.

Use of the Group's own calculations of risk parameters in capital adequacy reporting is part of the IRB system, defined as the models, work processes, decision-making processes, control mechanisms, IT systems and internal guidelines and routines used to classify and quantify credit risk. The IRB system thus affects a major part of the Group's operations, also across business areas and support and staff units. Extensive efforts have been made over a number of years to establish the IRB system. In addition, the bank has long and extensive experience from the use of risk models and systems and maintains sound credit control. The introduction of the IRB system has contributed to better credit risk management through improved follow-up systems.

Pillar 1: minimum capital requirements

Pillar 1 is about minimum capital adequacy requirements for credit risk, market risk and operational risk.

DnB NOR has been granted permission to use the IRB approach for credit risk to calculate capital adequacy for that part of the portfolio for which use of the IRB approach has been approved. The table shows which portfolios this applies to and the Group's implementation plan for new portfolios.

	Reporting methods for credit risk in capital adequacy calculations		
Portfolios	31 Dec. 2009	31 Dec. 2010	31 Dec. 2011
Retail:			
- mortgage loans, DnB NOR Bank and DnB NOR Boligkreditt	IRB [1)]	IRB [1)]	IRB [1)]
- qualifying revolving retail exposure, DnB NOR Kort [2)]	Standardised	IRB [1)]	IRB [1)]
- mortgage loans, Nordlandsbanken	Standardised	IRB [1)]	IRB [1)]
- loans in Norway, DnB NOR Finans	Standardised	IRB [1)]	IRB [1)]
Corporates:			
- small and medium-sized corporates, DnB NOR Bank	Advanced IRB	Advanced IRB	Advanced IRB
- large corporate clients, DnB NOR Bank	Standardised	Advanced IRB	Advanced IRB
- corporate clients, Nordlandsbanken	Standardised	Advanced IRB	Advanced IRB
- leasing and loans in Norway, DnB NOR Finans	Standardised	Advanced IRB	Advanced IRB
- corporate clients, DnB NOR Næringskreditt	Standardised	Advanced IRB	Advanced IRB
Institutions:			
- banks and financial institutions	Standardised	Standardised	Advanced IRB
Exceptions:			
- approved exceptions: government and municipalities, equity positions	Standardised	Standardised	Standardised
- temporary exceptions: DnB NORD, DnB NOR Luxembourg, Monchebank and various other portfolios	Standardised	Standardised	Standardised

Approximately 47 per cent of DnB NOR's portfolio is reported according to the IRB approach, measured by lending volume.

Practically all of the Group's mortgages secured by real property are reported according to the IRB approach. When applying the IRB approach to mortgage loans, the bank's models for expected default frequency, loss given default and exposure are used for both internal management purposes and capital adequacy calculations. In the retail market, supervisory approval has been sought to apply the IRB approach in 2010 for capital adequacy reporting for DnB NOR Kort and mortgage loans in Nordlandsbanken.

A large part of the portfolio for small and medium-sized businesses is reported according to the advanced IRB approach. The use of this approach implies that the bank's models for expected default frequency, loss given

default, exposure and maturity are used for both internal management purposes and capital adequacy calculations. The Group has applied for approval to use the advanced IRB approach for large corporate customers in DnB NOR Bank and Nordlandsbanken.

The basic indicator approach, the standardised approach and the advanced approach can all be used to measure operational risk under Basel II. DnB NOR Bank ASA reports according to the standardised approach, while some subsidiaries use the basic indicator approach. A shift to the most advanced reporting standard, Advanced Measurement Approaches, AMA, will be considered at a later date. The use of the most advanced approach is subject to approval by Finanstilsynet.

Market risk can be reported according to the standardised approach or based on internal models, the Internal Model Method, IMM. DnB NOR reports according to the standardised approach. The shift from Basel I to Basel II has a more limited impact on the treatment of market risk.

Pillar 2: banks' own assessment of their risk profile, and capital requirements

Pillar 2 requires the Group to have a process to assess its overall capital requirements relative to its risk profile as well as a strategy for maintaining the level of capital. Pillar 2 also describes Finanstilsynet's (the Financial Supervisory Authority of Norway) review and evaluation process.

Pursuant to the Norwegian Public Limited Liability Companies Act, all companies must at all times have an equity which is sound, based on the extent of the company's activities and the risk they involve. The capital adequacy regulations set a minimum primary capital requirement, encompassing credit risk, market risk and operational risk. In addition, financial institutions are required to complete an Internal Capital Adequacy Assessment Process, ICAAP.

Finanstilsynet has established guidelines for what such a process should include. The capital adequacy assessment process should encompass risks which are not included in the calculation of the minimum requirement. In addition, it should reflect the fact that risk quantification and capital requirements are based on methods and data which entail uncertainty. Capital requirement assessments should be forward-looking and take account of business plans, growth and access to capital markets. The capital base should be adequate to get through a recession characterised by negative results and difficulties in obtaining new capital. The ICAAP should be reported to Finanstilsynet.

As part of its supervisory process, Finanstilsynet prepares an annual overall risk assessment for the Group, including feedback on the capitalisation of the Group.

Processes have been established in DnB NOR to assess capital requirements relative to the Group's risk profile and the quality of established risk management and control systems. The Group's risk and capital situation is assessed and summarised in a separate risk report to the Board of Directors of DnB NOR ASA each quarter in connection with the presentation of the accounts. The Group's capitalisation target is an important element in the budget and strategy process. The capitalisation policy is reviewed annually.

A process for assessing the risk profiles and capital requirements of the parent company DnB NOR ASA, Vital Forsikring ASA and other major subsidiaries is completed each year. Risk is quantified by calculating risk-adjusted capital. Qualitative assessments are also used. Stress tests for credit and market risk are other important references. The Boards of Directors of the subsidiaries make independent assessments of capital levels and future capital requirements based on guidelines in the Group's capitalisation policy. The results are verified with the specialist units in the respective subsidiaries and in DnB NOR ASA and considered by the Asset and Liability Committee, ALCO, before being presented to the respective Boards of Directors.

The process and the result thereof are documented in writing in an ICAAP report. DnB NOR's ICAAP report was sent to Finanstilsynet in April 2009.

The Group's CFO is responsible for ensuring that the ICAAP process is completed.

Pillar 3: demand for disclosure of financial information

As mentioned above, this document has been prepared on the basis of specific requirements in the capital adequacy regulations concerning the disclosure of financial information. Information is required to be made accessible on the Internet. The information must cover DnB NOR's adaptation to and compliance with the capital adequacy regulations and include specifications of risk-weighted assets and primary capital, methods for calculating risk-weighted assets and a description of guidelines and routines for the management and control of various risks. The process of assessing the overall capital requirement should also be described. Information for the 2009 accounting year is available on www.dnbnor.com in the form of this document.

Role of the Group Audit

Group Audit will regularly perform audits of the IRB system and monitor how it is used, including verifying compliance with the capital adequacy regulations. The IRB system will be audited at least once a year.

Group Audit will also assess the ICAAP process and consider whether there is adequate capital relative to the risk profile of the Group and major subsidiaries.

3 Capital adequacy calculations

The consolidated accounts for DnB NOR ASA ("DnB NOR") include DnB NOR Bank ASA, Vital Forsikring ASA, DnB NOR Kapitalforvaltning Holding AS and DnB NOR Skadeforsikring AS, all including subsidiaries and associated companies.

Valuation rules used in the statutory accounts form the basis for the consolidation. Norwegian regulations on the use of IFRS have been implemented in statutory accounts of the companies in the Group. When preparing consolidated accounts, intra-group transactions and balances along with unrealised gains or losses on these transactions between group units are eliminated.

Capital adequacy calculations are subject to special consolidation rules governed by the Consolidation Regulations. Primary capital and nominal amounts used in calculating risk-weighted volume will deviate from figures in the DnB NOR Group's accounts, as associated companies which are consolidated in the accounts according to the equity method are consolidated according to the gross method in capital adequacy calculations. An overview of all associated companies in the Group is shown in note 34 in the annual accounts for 2009.

In accordance with Norwegian financial legislation, the raising and premature redemption of subordinated loans and repayment of subordinated loans between parent companies and subsidiaries require approval from Finanstilsynet.

Primary capital and minimum capital requirement

The table below shows primary capital, including core capital, additions and deductions for the specified business units. Valuation rules used in the statutory accounts form the basis for the consolidation, which is subject to special consolidation rules governed by the Consolidation Regulations.

Primary capital	**DnB NOR Bank ASA**		**DnB NOR Bank Group**		**DnB NOR Group**	
Amounts in NOK million	30 Sept. 2010	31 Dec. 2009	30 Sept. 2010	31 Dec. 2009	30 Sept. 2010	31 Dec. 2009
Share capital	17.514	17.514	17.514	17.514	16.233	16.231
Other equity	55.295	54.948	61.967	65.800	82.246	85.172
Total equity	72.809	72.462	79.482	83.314	98.479	101.403
Deductions						
Pension funds above pension commitments	0	0	(4)	(3)	(155)	(119)
Goodwill	(2.419)	(1.650)	(3.666)	(3.853)	(5.572)	(5.653)
Deferred tax assets	(299)	(1.153)	(280)	(295)	(280)	(300)
Other intangible assets	(1.049)	(912)	(1.405)	(1.980)	(1.667)	(2.270)
Dividends payable etc.	0	0	0	(3.750)	0	(2.850)
Unrealised gains on fixed assets	0	0	(30)	(30)	(30)	(30)
50 per cent of investments in other financial institutions	(1.022)	(1.033)	(1.022)	(1.033)	0	(2)
50 per cent of expected losses exceeding actual losses, IRB portfolios	(325)	(101)	(480)	(222)	(480)	(222)
Adjustments for urealised losses/(gains) on liabilities recorded at fair value	109	182	(313)	(404)	(313)	(404)
Equity Tier 1 capital	67.803	67.796	72.283	71.745	89.983	89.553
Perpetual subordinated loan capital securities [1) 2)]	8.361	8.468	8.546	8.655	8.546	8.655
Tier 1 capital	76.164	76.264	80.830	80.400	98.529	98.208
Perpetual subordinated loan capital	7.014	6.830	7.014	6.830	7.014	6.830
Term subordinated loan capital [2)]	17.339	21.111	19.221	23.003	19.221	23.003
Deductions						
50 per cent of investments in other financial institutions	(1.022)	(1.033)	(1.022)	(1.033)	0	(2)
50 per cent of expected losses exceeding actual losses, IRB portfolios	(325)	(101)	(480)	(222)	(480)	(222)
Additions						
45 per cent of unrealised gains on fixed assets	0	0	18	18	18	18
Tier 2 capital	23.005	26.807	24.752	28.597	25.774	29.628
Total eligible primary capital [3)]	99.169	103.071	105.581	108.997	124.303	127.836
Risk-weighted volume	867.871	831.885	960.375	960.208	1.066.639	1.052.566
Minimum capital requirement	69.430	66.551	76.830	76.817	85.331	84.205
Equity Tier 1 capital ratio (%)	7.8	8.1	7.5	7.5	8.4	8.5
Tier 1 capital ratio (%)	8.8	9.2	8.4	8.4	9.2	9.3
Capital ratio (%)	11.4	12.4	11.0	11.4	11.7	12.1
Equity Tier 1 capital ratio including 50 per cent of profit for the period (%)	8.3	-	8.0	-	8.9	-
Tier 1 capital ratio including 50 per cent of profit for the period (%)	9.3	-	8.9	-	9.7	-
Capital ratio including 50 per cent of profit for the period (%)	11.9	-	11.4	-	12.1	-
Risk-weighted volume, basis for transitional rules (Basel I)	*892.454*	*831.577*	*1.137.721*	*1.089.635*	*1.126.988*	*1.085.033*

1) Perpetual subordinated loan capital securities can represent up to 15 per cent of core capital. The excess will qualify as perpetual supplementary capital.

2) As at 30 September 2010, calculations of capital adequacy included a total of NOK 781 million in subordinated loan capital in associated companies, in addition to subordinated loan capital in the balance sheets of the banking group and the DnB NOR Group.

3) Primary capital and nominal amounts used in calculating risk-weighted volume deviate from figures in the consolidated accounts since a different consolidation method is used. Associated companies are consolidated gross in the capital adequacy calculations while the equity method is used in the accounts.

Due to transitional rules, the minimum capital adequacy requirements for 2009 and 2010 cannot be reduced below 80 per cent relative to the Basel I requirements. Risk-weighted volume, excluding insurance, for the Group at the end of September 2010 represented 85 per cent of the corresponding volume based on the Basel I rules.

Specification of risk-weighted volume and capital requirements for DnB NOR Bank ASA, the DnB NOR Bank-Group and the DnB NOR Group as at 30 September 2010

DnB NOR Bank ASA

Amounts in NOK million	Original Exposure	EAD	Average risk weight	Risk-weighted volume	Capital requirements
IRB approach					
Corporate	146.174	140.230	46,5 %	65.253	5.220
Retail - residential property	94.336	94.335	19,1 %	18.002	1.440
Other retail	86.912	70.317	30,9 %	21.757	1.741
Securitisation*	114.866	114.866	8,2 %	937012,2 %	74961,0 %
Total credit risk, IRB approach	442.288	419.748	27,3 %	114.382	9.151
Standardised approach					
Central and regional government	129.546	126.447	1,4 %	1.816	145
Institutions	456.657	389.663	18,3 %	71.221	5.698
Corporate	746.366	561.203	97,3 %	546.198	43.696
Specialised lending (SL)	8.612	8.445	100,0 %	8.445	676
Retail - residential property	8.641	8.312	39,9 %	3.314	265
Retail - credit card exposures (QRRE)	0	0	0,0 %	0	0
Other retail	42.055	25.609	72,3 %	18.511	1.481
Equity positions	26.420	26.420	100,7 %	26.600	2.128
Total credit risk, standardised approach	1.418.297	1.146.099	59,0 %	676.104	54.088
Other assets	1.111	1.111	100,0 %	1.111	89
Total credit risk	1.861.696	1.566.958	50,5 %	791.597	63.328
Market risk, standardised approach				30.401	2.432
Of which:					
Position risk				29.947	2.396
Currency risk				453	36
Operational risk				48.849	3.908
Deductions				(2.977)	(238)
Total risk-weighted volume and capital requirements before transitional rule				867.871	69.430
Additional capital requirements according to transitional rules					0
Capital requirements					69.430

DnB NOR Bank Group

Amounts in NOK million	Original Exposure	EAD	Average risk weight	Risk-weighted volume	Capital requirements
IRB approach					
Corporate	158.726	152.781	47,3 %	72.333	5.787
Retail - residential property	492.274	492.273	11,2 %	55.020	4.402
Other retail	86.912	70.317	30,9 %	21.757	1.741
Securitisation*	114.866	114.866	8,2 %	9.370	750
Total credit risk, IRB approach	852.777	830.237	19,1 %	158.480	12.678
Standardised approach					
Central and regional government	149.298	155.354	2,7 %	4.186	335
Institutions	142.653	133.357	21,9 %	29.251	2.340
Corporate	855.434	625.578	97,5 %	609.673	48.774
Specialised lending (SL)	8.612	8.445	100,0 %	8.445	676
Retail - residential property	37.762	35.894	39,3 %	14.095	1.128
Retail - credit card exposures (QRRE)	0	0	74,9 %	0	0
Other retail	71.524	49.800	73,6 %	36.654	2.932
Equity positions	3.705	3.706	104,9 %	3.885	311
Securitisation	9.601	9.601	19,4 %	1.865	149
Total credit risk, standardised approach	1.278.590	1.021.735	69,3 %	708.055	56.644
Other assets	7.207	7.207	100,0 %	7.207	577
Total credit risk	2.138.574	1.859.179	47,0 %	873.742	69.899
Market risk, standardised approach				32.860	2.629
Of which:					
Position risk				32.407	2.593
Currency risk				453	36
Operational risk				57.282	4.583
Deductions				(3.510)	(281)
Total risk-weighted volume and capital requirements before transitional rule				960.375	76.830
Additional capital requirements according to transitional rules					0
Capital requirements					76.830

DnB NOR Group

Amounts in NOK million	Original Exposure	EAD	Average risk weight	Risk-weighted volume	Capital requirements
IRB approach					
Corporate	158.726	152.781	47,3 %	72.333	5.787
Retail - residential property	492.274	492.273	11,2 %	55.020	4.402
Other retail	86.912	70.317	30,9 %	21.757	1.741
Securitisation*	114.866	114.866	8,2 %	9.370	750
Total credit risk, IRB approach	852.777	830.237	19,1 %	158.480	12.678
Standardised approach	0	0	0,0 %	0	0
Central and regional government	149.298	155.354	2,7 %	4.186	335
Institutions	132.844	123.548	22,1 %	27.289	2.183
Corporate	851.645	621.789	97,4 %	605.884	48.471
Specialised Lending (SL)	8.612	8.445	100,0 %	8.445	676
Retail - residential property	37.762	35.894	39,3 %	14.095	1.128
Retail - credit card exposures (QRRE)	0	0	74,9 %	0	0
Other retail	71.524	49.800	73,6 %	36.654	2.932
Equity positions	3.947	3.947	104,6 %	4.127	330
Securitisation	9.601	9.601	19,4 %	1.865	149
Total credit risk, standardised approach	1.265.233	1.008.378	69,7 %	702.546	56.204
Other assets	6.309	6.309	100,0 %	6.309	505
Total credit risk	2.124.319	1.844.924	47,0 %	867.335	69.387
Market risk, standardised approach				32.860	2.629
Of which:				0	0
Position risk				32.407	2.593
Currency risk				453	36
Operational risk				58.776	4.702
Net insurance, after eliminations				109.133	8.731
Deductions				(1.465)	(117)
Total risk-weighted volume and capital requirements before transitional rule				1.066.639	85.331
Additional capital requirements according to transitional rules				0	0
Capital requirements				0	85.331

* With effect from the third quarter of 2010, investments in securitisation in DnB NOR Bank ASA are treated by applying IRB risk weights.

Subsidiaries approved for reporting according to the IRB approach, Internal Ratings Based

DnB NOR Boligkreditt AS has been approved for reporting according to the IRB approach, Internal Ratings Based.

The table below shows primary capital, capital requirements and capital adequacy for DnB NOR Boligkreditt AS.

Primary capital	**DnB NOR Boligkreditt AS**	
Amounts in NOK million	30 Sept. 2010	31 Dec. 2009
Share capital	1.577	1.577
Other equity	10.073	10.073
Total equity	11.650	11.650
Deductions		
50 per cent of expected losses exceeding actual losses, IRB portfolios	(154)	(120)
Adjustments for urealised losses/(gains) on liabilities recorded at fair value	(22)	(83)
Tier 1 capital	11.474	11.448
Term subordinated loan capital	3.080	3.080
50 per cent of expected losses exceeding actual losses, IRB portfolios	(154)	(120)
Supplementary capital	2.926	2.960
Total eligible primary capital	14.400	14.407
Risk-weighted volume	153.583	145.569
Minimum capital requirement	12.287	11.645
Tier 1 capital ratio (%)	7.5	7.9
Capital ratio (%)	9.4	9.9

Minimum capital requirement

	DnB NOR Boligkreditt AS			
Amounts in NOK million	Exposure	EAD	Risk-weighted volume	Capital requirements
IRB approach				
Corporate	12.551	12.551	7.080	566
Retail - residential property	397.937	397.937	37.018	2.961
Total credit risk, IRB approach	410.489	410.489	44.098	3.528
Standardised approach				
Institutions	1.749	1.749	349	28
Corporate	4.403	4.386	1.535	123
Retail - residential property	1.726	1.726	604	48
Total credit risk, standardised approach	7.878	7.862	2.488	199
Other assets	655	655	655	52
Total credit risk	419.022	419.005	47.241	3.779
Operational risk			2.105	168
Deductions			0	0
Total risk-weighted volume and capital requirements before additional requirements			49.346	3.948
Additional capital requirements due to transitional rules [1)]			104.237	8.339
Capital requirements			153.583	12.287

1) Due to transitional rules, the minimum capital adequacy requirements for 2009 and 2010 cannot be reduced below 80 per cent relative to the Basel I requirements. The transitional rules will apply until the end of 2011.

Subsidiaries using the standardised approach

Other subsidiaries in the DnB NOR-Group calculate capital adequacy according to the standardised approach.

The tables below show primary capital, capital requirements and capital adequacy ratios for Nordlandsbanken ASA, DnB NOR Næringskreditt and DnB NORD.

Primary capital	**Nordlandsbanken**		**DnB NOR Næringskreditt**		**DnB NORD**	
Amounts in NOK million	30 Sept. 2010	31 Dec. 2008	30 Sept. 2010	31 Dec. 2008	30 Sept. 2010	31 Dec. 2008
Share capital	625	625	550	550	8.631	8.985
Other equity	1.107	922	4.816	4.816	(2.980)	(2.976)
Total equity	1.732	1.547	5.366	5.366	5.651	6.008
Deductions						
Goodwill	0	0	0	0	(433)	(437)
Deferred tax assets	(13)	(8)	0	0	(195)	(336)
Other intangible assets	(49)	(30)	0	0	(322)	(581)
Additions	0	0	0	0	0	0
Tier 1 capital	1.670	1.509	5.366	5.366	3.477	4.654
Perpetual subordinated loan capital	200	200	0	0	0	0
Term subordinated loan capital	500	500	0	0	4.346	3.587
Additions	0	0	0	0	0	0
Supplementary capital	700	700	0	0	4.346	3.587
Total eligible primary capital	2.370	2.209	5.366	5.366	9.019	8.241
Risk-weighted volume	27.000	25.707	16.337	12.756	62.526	72.429
Minimum capital requirement	2.160	2.057	1.307	1.020	5.002	5.794
Tier 1 capital ratio (%)	6.2	5.9	32.8	42.1	7.5	6.4
Capital ratio (%)	8.8	8.6	32.8	42.1	14.4	11.4

Specification of risk-weighted volume and capital requirements as at September 30th 2010[1)]

	Nordlandsbanken		**DnB NOR Næringskreditt [2)]**		**DnB NORD**	
Amounts in NOK million	Risk-weighted volume	Capital requirements	Risk-weighted volume	Capital requirements	Risk-weighted volume	Capital requirements
Central and regional government	59	5	0	0	2.115	169
Institutions	318	25	1.109	89	1.425	114
Corporate	14.315	1.145	15.157	1.213	33.876	2.710
Retail - residential property	8.164	653	0	0	3.014	241
Other retail	2.540	203	0	0	14.804	1.184
Other assets	542	43	0	0	1.440	115
Total credit risk	25.938	2.075	16.266	1.301	56.674	4.534
Market risk, standardised approach	0	0	0	0	2.253	180
Of which:						
Position risk	0	0	0	0	1.883	151
Currency risk	0	0	0	0	370	30
Operational risk	1.118	89	78	6	4.045	324
Deductions	(56)	(4)	(7)	(1)	(446)	(36)
Total	27.000	2.160	16.337	1.307	62.526	5.002

1) These figures are consolidated in capital adequacy calculations for the DnB NOR banking group and the DnB NOR Group and may deviate from official figures presented by the companies.

2) DnB NOR Næringskreditt's corporate commitments represent commitments in commercial real-estate

More about the minimum requirement concerning operational risk

Operational risk is the risk of losses due to deficiencies or errors in pro cesses and systems, errors made by employees or external events. Operational risk is a consequence of DnB NOR's operations.

The Board of Directors has laid down a policy for the management of operational risk in the Group. Operational risk should be low, and risk management should ensure that the risk of unwanted losses is reduced.

DnB NOR Bank ASA reported operational risk according to the standardised approach in 2009, while some subsidiaries used the basic indicator approach. A shift to the most advanced reporting standard, Advanced Measurement Approaches, AMA, will be considered at a later date.120

Operational risk on business area[1)] - standardised approach

DnB NOR Bank ASA

Amounts in NOK million	Risk-weighted volumes 31 Dec. 2009	Risk weights 31 Dec. 2009	Capital requirements 31 Dec. 2009
Corporate finance	1.173	18 %	211
Trading and sales	4.148	18 %	747
Retail brokerage	584	12 %	70
Commercial banking	11.790	15 %	1.769
Retail banking	8.095	12 %	971
Payment end settelments	446	18 %	80
Agency services	222	15 %	33
Asset management	221	12 %	27
Total operational risk	**26.680**		**3.908**

DnB NOR Bank Group

Amounts in NOK million	Risk-weighted volumes 31 Dec. 2009	Risk weights 31 Dec. 2009	Capital requirements 31 Dec. 2009
Corporate finance	1.232	18 %	222
Trading and sales	4.125	18 %	742
Retail brokerage	592	12 %	71
Commercial banking	11.782	15 %	1.767
Retail banking	10.556	12 %	1.267
Payment end settelments	454	18 %	82
Agency services	220	15 %	33
Asset management	248	12 %	30
Total standardised approach	29.208		4.214
Total basic indicator approach	2.459	15 %	369
Total operational risk	**31.667**		**4.583**

DnB NOR Group

Amounts in NOK million	Risk-weighted volumes 31 Dec. 2009	Risk weights 31 Dec. 2009	Capital requirements 31 Dec. 2009
Corporate finance	1.224	18 %	220
Trading and sales	4.100	18 %	738
Retail brokerage	586	12 %	70
Commercial banking	11.675	15 %	1.751
Retail banking	10.556	12 %	1.267
Payment end settelments	450	18 %	81
Agency services	220	15 %	33
Asset management	248	12 %	30
Total standardised approach	29.060		4.190
Total basic indicator approach	3.411	15 %	512
Total operational risk	**32.471**		**4.702**

1) Business areas according to Kredittilsynet's definition

Operational risk subsidiaries - standardised approach

	Nordlandsbanken ASA		
	Risk-weighted volumes	Risk weights	Capital requirements
Amounts in NOK million	31 Dec. 2009	31 Dec. 2009	31 Dec. 2009
Trading and sales	(21)	18 %	(4)
Commercial banking	375	15 %	56
Retail banking	309	12 %	37
Agency services	(0)	15 %	(0)
Total operational risk	**662**		**89**

	DnB NOR Boligkreditt AS		
	Risk-weighted volume	Risk weight	Capital requirement
Amounts in NOK million	31 Dec. 2009	31 Dec. 2009	31 Dec. 2009
Retail banking	1.403	12 %	168

Operational risk subsidiaries – basic indicator approach

	Risk-weighted volumes	Risk weights	Capital requirements
Amounts in NOK million	31 Dec. 2009	31 Dec. 2009	31 Dec. 2009
DnB NORD	2.254	15 %	338
DnB NOR Asset Management	951	15 %	143
Eksportfinans (40%)	191	15 %	29
DnB NOR Næringskreditt	14	15 %	2
Total operational risk	**3.411**		**512**

Subordinated loan capital and perpetual subordinated loan capital securities

The table below shows key terms and conditions for subordinated loan capital and perpetual subordinated loan capital securities included in subordinated loan capital as at 31 December 2009. Ordinary subordinated loan capital and perpetual subordinated loan capital securities in associated companies are also included in capital adequacy calculations by NOK 549 million and NOK 186 million respectively.

Subordinated loan capital and perpetual subordinated loan capital securities **DnB NOR Group**

Amounts in NOK million	Balance sheet 31 Dec. 2009	Issued 2009	Matured/ redeemed 2009	Exchange rate movements 2009	Other adjustments 2009	Balance sheet 31 Dec. 2008
Term subordinated loan capital, nominal amount	22 455			(2 978)		25 432
Perpetual subordinated loan capital, nominal amount	6 830			(1 177)		8 007
Perpetual subordinated loan capital securities, nominal amount [2]	8 468			(1 274)		9 742
Adjustments	1 297				(747)	2 044
Total subordinated loan capital and perpetual subordinated loan capital securities	**39 051**	**0**	**0**	**(5 428)**	**(747)**	**45 225**

DnB NOR Group

Year raised	Recorded value in foreign currency		Interest rate	Maturity	Call date	Recorded value in NOK
Term subordinated loan capital						
2003	GBP	200	5.125% p.a.	2015	2010	1 861
2003	EUR	15	6-month EURIBOR + 0.61%	2013		125
2004	EUR	200	3-month EURIBOR + 0.30%	2016	2011	1 661
2004	EUR	11	6-month EURIBOR + 1.40%	2014	2009	91
2004	EUR	14	6-month EURIBOR + 0.61%	2014		116
2005	EUR	200	3-month EURIBOR + 0.20%	2015	2010	1 661
2005	EUR	3	4.39% p.a.	2015		21
2005	EUR	15	6-month EURIBOR + 0.60%	2015		125
2005	EUR	13	6-month EURIBOR + 0.60%	2015		108
2006	USD	500	3-month LIBOR + 0.23%	2016	2011	2 881
2006	EUR	500	3-month EURIBOR + 0.20%	2017	2012	4 152
2007	GBP	150	6.52% p.a.	2017	2012	1 396
2007	EUR	19	6-month EURIBOR + 0.90%	2017		154
2008	GBP	250	6.17% p.a.	2018	2013	2 327
2008	NOK	1 200	3-month NIBOR +1.60%	2018	2013	1 200
2008	NOK	250	7.60% p.a.	2018	2013	250
2008	GBP	400	7.25% p.a.	2020	2015	3 723
2008	EUR	49	6-month EURIBOR + 2.40%	2013		407
2008	EUR	25	6-month EURIBOR + 2.40%	2013		203
Recorded costs						(5)
Total, nominal amount						22 455
Perpetual subordinated loan capital						
1985	USD	215	3-month LIBOR + 0.25%			1 239
1986	USD	150	6-month LIBOR + 0.15%			864
1986	USD	200	6-month LIBOR + 0.125%			1 152
1996	JPY	3 000	4.00% p.a.		2011	187
1996	JPY	7 000	4.00% p.a.		2011	437
1999	JPY	10 000	4.51% p.a.		2029	624
2006	GBP	250	4.875% p.a.		2011	2 327
Total, nominal amount						6 830
Perpetual subordinated loan capital securities [1]						
2001	USD	400	7.729% p.a.		2011	2 305
2002	EUR	350	7.07% p.a.		2012	2 906
2007	GBP	350	6.0116% p.a.		2017	3 257
Recorded costs						0
Total, nominal amount						8 468

1) *Perpetual subordinated loan capital securities are eligible for inclusion in core capital by an amount not exceeding 15 per cent of total core capital. Finanstilsynet may require that the securities be written down proportionally to equity if the bank's core capital ratio falls below 5 per cent or the capital adequacy ratio falls below 6 per cent. Amounts written down on the securities must be revalued before the distribution of dividends to shareholders or revaluation of equity.*

4 Risk management and control, capitalisation

Organisation and responsibilities

A general description of the organisation and distribution of responsibilities with respect to risk management and internal control in DnB NOR is given in DnB NOR's annual report for 2009, pages 56-57.

Capital management

Risk categories

For risk management purposes, DnB NOR distinguishes between the following risk categories:

- Credit risk is the risk of losses due to failure on the part of the Group's counterparties or customers to meet their payment obligations towards the DnB NOR Group. Credit risk refers to all claims against counterparties or customers, including credit risk in trading operations, country risk and settlement risk.
- Market risk is the risk of losses or reduced future income due to fluctuations in market prices or exchange rates. The risk arises as a consequence of the bank's unhedged positions and exposure in the foreign exchange, interest rate, commodity and equity markets. The risk level reflects market price volatility and the positions taken.
- Liquidity risk is the risk that the Group will be unable to meet its obligations as they fall due, and risk that the Group will be unable to meet its liquidity obligations without a substantial rise in appurtenant costs. In a broader perspective, liquidity risk also includes the risk that the Group will be unable to finance increases in assets as its funding requirements rise.
- Risk measurement in Vital Forsikring ASA, Vital, includes market, insurance, credit, operational and business risk. Market and insurance risk in life insurance comprises the risk that the return on financial assets will not be sufficient to meet the obligations specified in insurance policies and the risk related to changes in future insurance payments due to changes in life expectancy and disability rates.
- Risk in DnB NOR Skadeforsikring includes insurance, market, credit, operational and business risk. Insurance risk is the risk of losses if insurance premiums fail to cover future claims payments. The company is exposed to market and credit risk in investment operations, and reassurance agreements encompass credit risk.
- Operational risk is the risk of losses due to deficiencies or errors in processes and systems, errors made by employees or external events.
- Business risk is the risk of losses due to external factors such as the market situation or government regulations. Such risk includes loss of income due to a weakened reputation.

Risk measurement and risk-adjusted capital

Calculations of profitability and internal capital requirements are based on internal calculations of economic capital – risk-adjusted capital. Average losses over a normal business cycle represent expected costs which should primarily be covered through correct pricing of the Group's products. Risk-adjusted capital should cover unexpected losses. The quantification is based on statistical probability calculations for the various risk categories on the basis of historical data. As it is impossible to guard against all potential losses, DnB NOR has stipulated that risk-adjusted capital should cover 99.97 per cent of potential losses within a one-year horizon. This level is in accordance with an Aa level rating for ordinary long-term debt.

Risk-adjusted capital and average losses over a normal business cycle are elements in calculations of risk-adjusted return, which is a key financial management parameter in the internal management of the DnB NOR Group. The calculations are included in the financial planning for the business areas and is reported quarterly. Risk-adjusted return is a measurement parameter in the pricing model and is reported monthly in automated management systems which include large parts of the credit portfolio. Risk-adjusted capital is also used as decision support for risk management.

Risk-adjusted capital is a measure of the risk of losses generated by various business operations. Risk-adjusted capital makes it possible to compare risk across risk categories and business areas. Calculations of risk-adjusted capital are based on statistical methods. Nevertheless, calculations require a certain level of discretion and estimation.

The similarities between the framework for risk-adjusted capital and the capital adequacy regulations increase as a greater part of the Group's portfolios are reported according to the IRB approach. The underlying risk drivers for credit, and in part operational risk, are largely the same. Nevertheless, the confidence levels differ, and risk-adjusted capital provides a more conservative calculation.

DnB NOR quantifies risk-adjusted capital for the following risk categories: credit risk, market risk, market and insurance risk in life insurance, non-life insurance risk, operational risk and business risk. The risk-adjusted capital for the various risk categories is calculated separately. In addition, risk-adjusted capital is calculated for each business area. A significant diversification or portfolio effect arises when the various risks are considered together, as it is unlikely that all losses will occur at the same time. An economic downturn will normally have a negative

effect on most areas, but there will be a diversification effect, as not all areas will be hit equally hard. The diversification effect between risk categories and business areas implies that the Group's risk-adjusted capital will be much lower than if the business areas had been independent companies.

Risk measurement is a field in constant development, and measurement methods and tools are subject to continual improvement. There were no particular changes in the models for calculating risk-adjusted capital in 2009. As part of the IRB introduction process, new models have been implemented for caculating expected default frequency, loss given default and exposure at default for mortgage loans and the corporate portfolios.

Risk and capital adequacy

DnB NOR quantifies risk by measuring risk-adjusted capital, which is a guiding factor for the Group's capital requirement. Net risk-adjusted capital declined by NOK 6 billion to NOK 62.1 billion from year-end 2008 to end-December 2009. The figures were somewhat affected by the upgrading and improvement of internal risk models, but nevertheless reflected the general trend. Due to a marked strengthening of the Norwegian krone, there was a reduction in credit volumes in the corporate market in 2009, which explains the decline in risk-adjusted capital for credit. A higher equity exposure in Vital's investment portfolio gave an increase in life insurance risk, especially towards the end of 2009.

Amounts in NOK billion	31 Dec. 2009	31 Dec. 2008
Credit risk	50.9	59.2
Market risk	3.7	4.2
Market and insurance risk in life insurance	10.5	7.1
Non-life insurance risk	0.5	
Operational risk	7.2	6.7
Business risk	4.1	3.7
Gross risk-adjusted capital requirement	76.9	81.0
Diversification effect [1)]	(14.8)	(12.9)
Net risk-adjusted capital requirement	62.1	68.1
Diversification effect in per cent of gross risk-adjusted capital requirement [1)]	19.3	15.9

1) The diversification effect refers to the effect achieved by the Group in reducing risk by operating within several risk categories where unexpected losses are unlikely to occur at the same time.

Credit growth in the corporate market in 2009 reflected weak demand and a decline in lending volumes. In the retail market, lending volumes expanded due to the improved situation in the housing market, with an estimated increase in housing prices in Norway of 2.9 per cent from 2008 to 2009 and brisk sales activity.

There was stable credit quality and a relatively low level of non-performing loans in the part of the portfolio which depends on developments in the Norwegian economy, primarily loans to private individuals and small and medium-sized businesses in Norway.

There was a negative trend within shipping in 2009, though freight rates remained at a higher level than expected within key segments such as dry bulk and oil tankers. The container segment showed the poorest performance. In spite of a large number of cancellations of newbuilding orders, the fleet is still expected to increase within most segments, which will contribute to keeping rates low for a long period in the future. On the positive side, the large, leading shipping companies strengthened their equity through capital market issues.

The Baltic States experienced a stronger recession than most other countries in 2009. Consequently, extensive write-downs on loans were recorded, and future developments remain highly uncertain. This is reinforced by the countries' short history of market economy, newly established institutions and legislative framework. Towards the end of the year, however, there were indications that the situation was stabilising somewhat, and the increase in non-performing loans abated.

In the Nordic portfolio, credit risk increased primarily within acquisition finance in 2009. There are mixed experiences with private equity funds, though the funds generally seem to follow up their investments in a responsible manner.

Market risk varied during the year due to changes in the Group's equity positions. The exposure to Eksportfinans changed after the Group issued a guarantee for parts of the company's bond investments in 2008. The unutilised part of the guarantee is included in the calculation of market risk. DnB NOR Boligkreditt increased its business volume considerably in 2009, which required an increase in interest risk limits. Due to large fluctuations in money

market rates and in the relative margins between various currencies, there have been significant changes in the value of derivative positions relative to the Group's funding when one currency is used to fund another currency. However, these changes in value are generally of a temporary nature and will be reversed over time.

There was a rise in market risk in Vital during the year due to a rise in the share of equities in the company's investment portfolio from 3.8 per cent to 13.5 per cent from year-end 2008 to end-December 2009. The equity exposure grew more rapidly than the corresponding increase in solvency capital, which is used to meet the guaranteed rate of return on policyholders' funds, which resulted in higher risk-adjusted capital. At year-end 2009, the securities adjustment reserve totalled NOK 1.3 billion, up from nil in 2008. Total additional allocations rose by NOK 0.2 billion to NOK 5.6 billion. There was a positive risk result due to lower disability insurance payments, though developments through 2009 indicate that life expectancy will increase more rapidly than the assumptions which have thus far been used in Vital's tariff rates. Vital has applied to Finanstilsynet for permission to use a ten-year escalation period to strengthen allocations for higher life expectancy in the individual portfolio. Finanstilsynet has indicated a swifter escalation plan, however, the process has not been completed.

A total of 456 operational loss events were registered during 2009, causing an overall net loss of NOK 200 million. In addition, there were operational errors in connection with credit losses. The operational stability of the Group's Internet banks and other IT systems improved in 2009. The average operational time in the Group's Internet banks was 99.7 per cent.

In the autumn of 2008, an investigation was initiated against DnB NOR following allegations that the bank had traded Treasury bills after receiving insider information in connection with the Norwegian government's stimulus package. The investigation was closed on 17 February 2010 and resulted in a fine of NOK 12 million against DnB NOR ASA and the forfeiture of estimated gains of NOK 14 million. At the same time, the case against two employees was dropped. DnB NOR accepted the fine without a judicial review, but maintains that no unlawful insider information was given in the case. Thus, DnB NOR is also of the opinion that no employees broke the law on behalf of the bank. In its assessment, DnB NOR emphasised that a judicial review would be very resource-intensive for management and other employees over a long period and also involve significant costs.

Liquidity risk is not quantified when calculating risk-adjusted capital. The Group tightened its liquidity risk limits at the beginning of 2009 and was well within these limits through the year. The exchange scheme in Norges Bank continued to function well in 2009. The scheme gave DnB NOR access to Norwegian Treasury bills in exchange for covered bonds issued by DnB NOR Boligkreditt and backed by well-secured housing loans. At year-end 2009, a total of NOK 118 billion had been used in this scheme. The Treasury bills were used primarily as liquidity reserves and enabled the Group to make use of ample short-term funding from private sources without increasing overall liquidity risk. Low lending growth, combined with a significant increase in customer deposits, gave a rise in the Group's ratio of deposits to lending from 50.1 per cent at year-end 2008 to 53.0 per cent at end-December 2009. At the end of 2009, long-term stable funding of the Group's lending volume represented 102 per cent, compared with 93 per cent the previous year.

Risk-weighted volume included in the calculation of the formal capital adequacy requirement was NOK 1 052.8 billion at end-December 2009, down 12.3 per cent from 2008. The reduction mainly reflected lower lending volumes in consequence of the stronger Norwegian krone, whereby currency loans had a lower value measured in Norwegian kroner. Calculations of risk-weighted volume according to Basel II gave a reduction in the capital requirement relative to Basel I of 10.9 per cent at year-end 2009. The transitional rules which apply until year-end 2011 allow a maximum reduction in risk-weighted volume of 20 per cent. In 2009, the Group applied to Finanstilsynet (the Financial Supervisory Authority of Norway) for permission to use the IRB approach to measure credit portfolios for large corporate clients, which could give a significant reduction in risk-weighted volume in 2010. The transitional floor is then expected to apply. The Tier 1 capital ratio was 9.3 per cent at end-December 2009 and 6.7 per cent at year-end 2008, while the capital adequacy ratio was 12.1 per cent at year-end 2009.

In December 2009, the Basel Committee and the EU presented a number of proposals to tighten capital adequacy regulations, along with new requirements for liquidity buffers and the funding structure of financial institutions. The measures are scheduled to be implemented once the ongoing financial crisis is over and will make the financial sector more robust. The most important proposals have yet to be approved, and changes must be expected following the 2010 consultation round. Following the net NOK 13.9 billion increase in the Group's equity in December 2009, DnB NOR is well positioned to meet the anticipated new capitalisation requirements. Due to the ample access to Treasury bills through the exchange scheme with Norges Bank, the Group also has more than adequate liquidity reserves. The main challenge lies in the funding structure requirements, as the Basel Committee's proposal requires a considerably higher share of long-term funding than the share held by DnB NOR at year-end 2009.

Management and control of risk categories

Cf. DnB NOR's 2009 annual report pages 58-69 for more detailed description of management and control of the various risk categories: credit risk, market risk, liquidity risk, risk in Vital Forsikring ASA, non-life insurance risk operational risk and business risk.

5 Information about risk categories

General information about credit risk

Non-performing commitments and write-downs

On each balance sheet date, the Group will consider whether there are objective indications that the financial assets have decreased in value. 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 probability that the debtor will enter into debt negotiations or other special circumstances that have occurred. The renegotiation of loan terms to ease the borrower's position is regarded as objective indications of a decrease in value.

Impairment of other financial assets is recognised in the income statement according to the nature of the asset.

If objective indications of a decrease in value can be found, write-downs on loans are 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 effective interest rate.

In accordance with IAS 39, the best estimate is used to assess future cash flows. Estimates of future cash flows are based on empirical data and discretionary assessments of future macroeconomic developments and developments in problem commitments, based on the situation on the balance sheet date. The estimates are the result of a process, which involves the business areas and central credit units and represents management's best estimate. When considering write-downs on loans, there will be an element of uncertainty with respect to the identification of impaired loans, the estimation of amounts and the timing of future cash flows, including collateral assessments.

The effective interest rate used for discounting is not adjusted to reflect changes in the credit risk and terms of the loan due to objective indications of impairment being identified.

Individual write-downs on loans reduce the value of the commitments in the balance sheet. Changes in the assessed value of loans during the period are recorded under "Write-downs on loans and guarantees".

Loans and other commitments where payment terms are not complied with are classified as non-performing, unless the situation is considered temporary. Commitments are classified as non-performing no later than 90 days past the formal due date. Guarantees are considered to be defaulted once a claim has been made against the bank. Loans, guarantees etc. classified as high risk, without being in default, are subject to special monitoring and loss risk assessment.

Loans, which have not been individually evaluated for impairment, are evaluated collectively in groups. Loans, which have been individually evaluated, but not written down, are also evaluated in groups.

The evaluation is based on objective evidence of a decrease in value that has occurred on the balance sheet date and can be related to the group.

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. The need for write-downs is estimated per customer group based on estimates of the general economic situation and loss experience for the respective customer groups. The economic situation is assessed by means of economic indicators for each customer group based on external information about the markets. Various parameters are used depending on the customer group in question. Key parameters are production gaps, which give an indication of capacity utilisation in the economy, and developments in housing prices and in shipping freight rates. The economic indicators that are used show a high level of correlation with past write-downs.
Group write-downs reduce the value of the commitments in the balance sheet, and changes during the period are recorded under "Write-downs on loans and guarantees". Like individual write-downs, group write-downs are based on discounted cach flows. Cash flows are discounted on the basis of statistics derived from individual write-downs. Interest is calculated on commitments subject to group write-downs according to the same principles and experience base as for commitments evaluated on an individual basis.

The tables below show the Group's commitment categories on and off the balance sheet and according to sector and geographical location. The tables also show total commitments including decreases in value and write-downs and average figures during the period. In addition, the commitment categories are broken down into residual maturities.

Commitments for principal sectors [1)]

DnB NOR Group

	Loans and receivables		Guarantees		Unutilised credit lines		Total commitments	
Amounts in NOK million	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008
Retail customers	531 761	498 853	281	339	84 550	71 375	616 592	570 567
International shipping	122 500	137 848	7 510	6 964	28 063	57 564	158 073	202 376
Real estate	156 771	180 272	1 539	4 238	10 898	20 487	169 208	204 998
Manufacturing	46 097	90 020	10 345	15 305	34 127	40 914	90 569	146 239
Services	95 108	87 993	5 583	12 752	27 491	26 757	128 182	127 502
Trade	36 335	47 683	3 326	4 513	21 486	22 314	61 147	74 510
Oil and gas	17 063	33 315	6 261	4 880	18 490	23 970	41 814	62 165
Transportation and communication	26 105	29 847	4 899	6 719	28 380	20 676	59 384	57 242
Building and construction	29 843	15 758	7 342	6 596	14 358	8 373	51 543	30 727
Power and water supply	14 111	14 615	8 792	10 428	15 077	15 358	37 980	40 402
Seafood	14 438	15 335	395	118	3 234	2 278	18 067	17 732
Hotels and restaurants	5 706	5 232	119	256	1 179	1 663	7 004	7 151
Agriculture and forestry	7 664	8 155	58	33	889	992	8 611	9 180
Central and local government	5 142	5 839	2 958	3 345	4 510	3 675	12 610	12 859
Other sectors	7 044	16 964	2 135	3 984	5 642	9 827	14 821	30 775
Total customers, nominal amount after individual write-downs	1 115 690	1 187 730	61 543	80 470	298 374	326 224	1 475 605	1 594 424
– Collective write-downs, customers	2 969	1 625	-	-	-	-	2 969	1 625
+ Other adjustments	2 165	5 530	207	(76)	0	0	2 372	5 454
Lending to customers	**1 114 886**	**1 191 635**	**61 750**	**80 394**	**298 374**	**326 224**	**1 475 008**	**1 598 254**
**) Average*	*67 574*	*66 896*	*4 858*	*4 129*	*11 264*	*12 296*	*76 940*	*95 451*
Credit institutions, nominal amount after individual write-downs	62 228	59 408	4 891	4 825	10 933	11 594	78 052	75 827
+ Other adjustments	89	310	0	0	-	-	89	310
Lending to and deposits with credit institutions	**62 317**	**59 717**	**4 891**	**4 825**	**10 933**	**11 594**	**78 141**	**76 137**
**) Average*	*67 574*	*66 896*	*4 858*	*4 129*	*11 264*	*12 296*	*76 940*	*95 451*

1) The breakdown into sectors is based on standardised sector and industry categories set up by Statistics Norway. Customers are classified according to their main line of business.

Non-performing and impaired commitments for principal sectors

Net non-performing and impaired commitments totalled NOK 19.1 billion at year-end 2009, compared with NOK 11.9 billion a year earlier. Commitments which are subject to individual write-downs, net impaired commitments, totalled NOK 12.1 billion in 2009, up NOK 3.3 billion from 2008. Net impaired commitments represented 1.08 per cent of lending volume as at 31 December 2009, an increase from 0.73 per cent at year-end 2008. Non-performing commitments not subject to write-downs represented NOK 7.0 billion as at 31 December 2009, up NOK 3.9 billion from a year earlier. Non-performing commitments not subject to write-downs represented 0.63 per cent of lending volume at year-end 2009, compared with 0.26 per cent a year earlier.

DnB NOR Group

	Gross impaired commitments		Total individual write-downs		Net impaired commitments	
Amounts in NOK million	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008
Retail customers	4 659	3 970	1 589	1 077	3 070	2 893
International shipping	1 608	52	513	15	1 095	37
Real estate	3 300	3 005	1 205	1 067	2 095	1 938
Manufacturing	4 339	2 563	1 151	598	3 188	1 965
Services and management	1 606	1 313	913	636	693	677
Trade	1 309	471	764	315	545	156
Oil and gas	0	328	0	156	0	172
Transportation and communication	912	265	515	134	397	131
Building and construction	1 314	316	778	142	536	174
Power and water supply	10	27	5	1	5	26
Seafood	57	446	47	79	10	367
Hotels and restaurants	340	112	135	47	205	65
Agriculture and forestry	245	194	108	53	137	141
Central and local government	0	0	0	0	0	0
Other sectors	145	103	24	40	122	63
Total customers	19 846	13 167	7 748	4 360	12 098	8 807
Credit institutions	1	10	1	10	0	0
Total impaired loans and guarantees	19 847	13 177	7 749	4 370	12 098	8 807
Non-performing loans and guarantees not subject to write-downs	7 029	3 115	0	0	7 029	3 115
Total non-performing and impaired commitments	26 876	16 292	7 749	4 370	19 127	11 922

Commitments according to geographical location [1)]

The table below shows the Group's exposure in different geographical areas.

	Loans		Guarantees		Unutilised credit lines		Total commitments	
	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.
Amounts in NOK million	2009	2008	2009	2008	2009	2008	2009	2008
Oslo	195 613	209 963	16 326	17 823	65 517	57 694	277 455	285 480
Eastern and southern Norway	376 933	368 721	18 681	23 937	86 646	80 294	482 260	472 953
Western Norway	137 234	134 703	8 708	10 620	35 458	39 314	181 400	184 637
Northern and central Norway	144 002	141 225	7 108	7 250	26 947	25 906	178 058	174 382
Total Norway	853 782	854 613	50 823	59 631	214 568	203 209	1 119 173	1 117 452
Sweden	65 607	62 937	1 907	4 066	14 690	21 947	82 204	88 950
United Kingdom	33 990	38 925	4 765	3 344	3 062	7 422	41 817	49 690
Other Western European countries	66 379	83 035	3 976	12 503	21 916	31 684	92 271	127 222
Russia	1 690	2 435	21	131	79	130	1 790	2 695
Estonia	2 327	4 125	8	19	172	362	2 507	4 507
Latvia	20 531	27 096	829	842	638	1 200	21 999	29 138
Lithuania	26 948	34 877	452	675	1 666	3 677	29 066	39 229
Poland	12 840	12 535	736	722	2 231	4 585	15 807	17 842
Other Eastern European countries	143	257	15	34	1	44	159	336
Total Europe outside Norway	230 454	266 222	12 710	22 335	44 456	71 052	287 620	359 609
USA and Canada	27 223	41 559	166	530	28 381	29 575	55 770	71 663
Bermuda and Panama [2)]	16 222	21 117	527	799	5 258	9 279	22 007	31 195
South and Central American countries	3 492	4 291	620	183	5 473	1 989	9 585	6 463
Total America	46 937	66 967	1 313	1 511	39 111	40 843	87 361	109 321
Singapore [2)]	13 707	16 160	770	1 194	2 426	6 610	16 903	23 965
Hong Kong	3 365	1 784	22	17	844	1 695	4 231	3 496
Asian countries	9 025	12 684	491	367	1 201	4 207	10 718	17 259
Total Asia	26 098	30 628	1 283	1 579	4 471	12 513	31 852	44 720
Liberia [2)]	8 170	11 080	101	1	2 176	4 734	10 448	15 816
African countries	1 874	1 683	248	292	10	253	2 131	2 228
Australia, New Zealand and Marshall Islands [2)]	18 277	20 211	32	50	4 515	5 215	22 824	25 476
Lending and guarantees [3)]	1 185 592	1 251 404	66 510	85 399	309 307	337 818	1 561 409	1 674 621
- Individual write-downs	7 674	4 266	76	104	0	0	7 749	4 370
- Collective write-downs	2 969	1 625	0	0	0	0	2 969	1 625
+ Other adjustments	2 254	5 840	(207)	(76)	0	0	2 047	5 764
Lending and guarantees	**1 177 203**	**1 251 352**	**66 227**	**85 218**	**309 307**	**337 818**	**1 552 737**	**1 674 390**

1) Based on the customer's address.

2) Representing shipping commitments.

3) All amounts represent gross lending and guarantees respectively before individual write-downs.

Non-performing and impaired commitments according to geographical location [1)]

The table below shows gross and net non-performing and impaired commitments according to geographical location. In consequence of the difficult situation in the Baltic region, there was an increase in the volume of non-performing and impaired commitments in DnB NORD through 2009, though the volume of such commitments was reduced in the Group's other operations. Nevertheless, it is too early to say whether the improvement represents a lasting trend.

DnB NOR Group

	Gross non-performing and impaired commitments		Total individual write-downs		Net non-performing and impaired commitments	
Amounts in NOK million	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008
Oslo	1 571	1 172	456	363	1 115	810
Eastern and southern Norway	6 703	3 597	1 541	884	5 163	2 713
Western Norway	1 226	1 127	418	344	808	783
Northern and central Norway	2 278	2 125	730	519	1 548	1 606
Total Norway	11 778	8 021	3 144	2 109	8 633	5 912
Sweden	1 331	1 427	110	59	1 221	1 369
United Kingdom	70	362	14	27	56	335
Other Western European countries	1 013	1 502	486	881	527	621
M	88	49	25	18	63	30
Estonia	513	142	171	16	342	126
Latvia	3 969	1 506	1 125	302	2 844	1 204
Lithuania	5 827	1 679	1 726	356	4 101	1 323
Poland	745	932	477	284	268	649
Other Eastern European countries	0	0	0	0	0	0
Total Europe outside Norway	13 556	7 599	4 135	1 943	9 421	5 656
USA and Canada	918	657	383	313	535	344
Bermuda and Panama [2)]	1	1	1	1	0	0
Other South and Central American countries	0	0	0	0	0	0
Total America	919	658	383	314	536	344
Singapore [2)]	0	0	0	0	0	0
Hong Kong	18	0	3	0	15	0
Other Asian countries	195	6	18	1	176	5
Total Asia	213	6	21	1	192	6
Liberia [2)]	212	0	27	0	185	0
Other African countries	6	7	2	3	4	4
Australia, New Zealand and Marshall Islands [2)]	192	0	37	0	156	0
Lending and guarantees	26 876	16 292	7 749	4 370	19 127	11 922
Of which: Credit institutions	*1*	*10*	*1*	*10*	*0*	*0*

1) Based on the customer's address.

2) Representing shipping commitments.

Total commitments according to residual maturity

DnB NOR Group
31 Dec. 2009

Amounts in 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	38 275	7 511	7 056	4 781	4 641	24	62 288
Net lending to customers	141 711	55 707	51 756	177 251	685 176	3 869	1 115 469
Unutilised credit lines under 1 year							222 557
Unutilised credit lines over 1 year							168 564
Guarantees							66 510

DnB NOR Group
31 Dec. 2008

Amounts in 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	51 445	4 704	1 985	945	493	6	59 578
Net lending to customers	111 520	51 731	56 173	249 846	723 287	(540)	1 192 017
Unutilised credit lines under 1 year							210 478
Unutilised credit lines over 1 year							175 677
Guarantees							85 399

Past due loans not subject to write-downs

The table below shows overdue amounts on commitments. Past due loans, subject to impairment are not included in the table.

DnB NOR Group

Amounts in NOK million	31 Dec. 2008	31 Dec. 2007
No. of days past due/overdrawn		
1 - 29	1 210	2 295
30 - 59	451	854
60 - 89	140	333
> 90	441	326
Past due loans not subject to write-downs	2 242	3 808

Developments in write-downs on loans and guarantees

The table below shows write-downs on loans and guarantees in the balance sheet and income statement of the DnB NOR Group and write-downs in the income statement for principal sectors.

Balance sheet

DnB NOR Group

	2009				2008			
Amounts in NOK million	Lending to credit institutions	Lending to customers	Guarantees	Total	Lending to credit institutions	Lending to customers	Guarantees	Total
Write-downs as at 1 January	11	6 358	104	6 473	3	3 053	95	3 151
New write-downs	1	4 816	19	4 835	7	2 640	19	2 666
Increase in write-downs	0	1 679	6	1 685	0	241	18	259
Reassessed write-downs	11	664	18	693	0	213	33	246
Write-offs covered by previous write-downs	0	1 610	17	1 627	0	678	0	678
Changes in individual write-downs of accrued interest and amortisation	0	129	-	129	1	89	-	90
Changes in collective write-downs	0	1 645	-	1 645	0	830	-	830
Changes in group structure	0	(371)	(13)	(384)	0	12	0	12
Changes due to exchange rate movement	0	(733)	(5)	(738)	0	384	5	389
Write-downs as at 31 December	1	11 249	76	11 325	11	6 358	104	6 473
Of which: Individual write-downs	*1*	*7 673*	*76*	*7 749*	*10*	*4 256*	*104*	*4 370*
Individual write-downs of accrued interest and amortisation	*0*	*607*	*-*	*607*	*1*	*477*	*-*	*478*
Collective write-downs	*0*	*2 969*	*-*	*2 969*	*0*	*1 625*	*-*	*1 625*

Income statement

DnB NOR Group

	2009			2008		
Amounts in NOK million	Lending [1)]	Guaran-tees	Total	Lending [1)]	Guaran-tees	Total
Write-offs	547	7	554	334	1	335
New individual write-downs	6 496	25	6 521	2 888	37	2 925
Total new individual write-downs	7 043	32	7 075	3 222	38	3 260
Reassessed individual write-downs	675	18	693	213	33	246
Total individual write-downs	6 368	14	6 382	3 009	5	3 014
Recoveries on commitments previously written off	317	0	317	335	0	335
Changes in collective write-downs on loans	1 645	-	1 645	830	-	830
Write-downs on loans and guarantees	**7 696**	**14**	**7 710**	**3 504**	**5**	**3 509**
Write-offs covered by individual write-downs made in previous years	1 610	0	1 627	678	0	678

Write-downs on loans and guarantees for principal sectors [1)]

DnB NOR Group

	2009				2008			
Amounts in NOK million	New individual write-downs	Reassessed individual write-downs	Recoveries on commitments previously written off	Net write-downs	New individual write-downs	Reassessed individual write-downs	Recoveries on commitments previously written off	Net write-downs
Retail customers	1 444	129	253	1 062	931	23	274	635
International shipping	544	1	23	520	4	1	0	3
Real estate	1 076	105	1	970	973	39	8	926
Manufacturing	945	180	0	765	349	64	2	283
Services and management	617	39	5	574	408	29	11	368
Trade	959	79	2	878	173	59	2	113
Oil and gas	0	0	0	(0)	126	0	0	126
Transportation and communication	396	42	17	337	74	1	16	56
Building and construction	678	41	1	637	68	16	1	52
Power and water supply	1	0	0	1	1	0	0	1
Seafood	11	21	0	(10)	37	4	8	25
Hotels and restaurants	104	13	0	92	34	7	0	26
Agriculture and forestry	81	16	1	62	35	4	1	31
Other sectors	218	19	14	184	39	0	13	27
Total customers	7 075	686	317	6 072	3 253	247	335	2 672
Credit institutions	0	7	0	(7)	7	0	0	7
Changes in collective write-downs on loans	-	-	-	1 645	-	-	-	830
Write-downs on loans and guarantees	**7 075**	**693**	**317**	**7 710**	**3 260**	**247**	**335**	**3 509**
Of which individual write-downs on guarantees	*32*	*18*	*0*	*14*	*38*	*33*	*0*	*5*

1) The breakdown into principal sectors is based on standardised sector and industry categories set up by Statistics Norway. Customers are classified according to their main line of business.

Credit risk – standardised approach

Estimated risk-weighted volume and capital requirements for the portfolios reported according to the standardised approach are shown in tables on page 8 and 9.

As an IRB bank, DnB NOR reports all portfolios which are not qualified to be reported according to the IRB approach according to the standardised approach, though the portfolios aregrouped in IRB categories. The following categories and risk weights are used in reporting according to the standardised approach as at 31 December 2008.

- Governments and central banks – including exposure to regional governments and local authorities Long-term ratings from approved rating agencies are used for assigning risk categories and applicable risk weights.

Risk Class	Standard & Poor's	Moody's	Fitch	Risk weights for different exposure classes (main rule) ie. the Capital Adequacy Regulations	
	0 %	20 %	50 %	Stater og sentralbanker	Institusjoner
1	AAA to AA-	Aaa to Aa3	AAA to AA-	0 %	20 %
2	A+ to A-	A1 to A3	A+ to A-	20 %	50 %
3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	50 %	100 %
4	BB+ to BB-	Ba1 til Ba3	BB+ to BB-	100 %	100 %
5	B+ to B-	Bi til B3	B+ to B-	100 %	100 %
6	CCC+ and below	Caa1 and below	CCC+ and below	150 %	150 %

- Institutions – banks, mortgage institutions and financial institutions
  Country ratings are used. The institutions are assigned a risk category which is higher than the risk category for the country rating.

- Corporates – 100 per cent risk weight

- Corporates, Specialised Lending – 100 per cent risk weight

- Retail exposures, residential property
  As a main rule, commitments secured by mortgages on residential property within 80 per cent of appraised value will be assigned a risk weight of 35 per cent, while commitments backed by collateral exceeding 80 per cent of appraised value will be assigned a 75 per cent weight

- Qualifying revolving retail exposure - 75 per cent risk weight

- Other retail exposures – 75 per cent risk weight

- Equity positions – risk weight according to counterparty, as above. In addition, a 150 per cent risk weight is applied to high-risk commitments, e.g. investments in Private Equity and venture capital

- Securitisation – DnB NOR is involved in securitisation as an investor. The portfolio comprises only rated positions.

Rated positions under the standardised approach should be assigned the following risk weights:

Risk Class	Standard & Poor's	Moody's	Fitch	Risk-weight
1	AAA til AA-	Aaa til Aa3	AAA til AA-	20 %
2	A+ til A-	A1 til A3	A+ til A-	50 %
3	BBB+ til BBB-	Baa1 til Baa3	BBB+ til BBB-	100 %
4	BB+ til BB-	Ba1 til Ba3	BB+ til BB-	350 %
5-6	B+ and below	B1 and below	B+ and below	1250 %

Other assets – fixed assets and receivables are assigned a risk weight of 100 per cent. Cash holdings and corresponding assets are assigned a risk weight of 0 per cent.

Covered bonds are reported under the institutions category and assigned a 10 per cent risk weight.

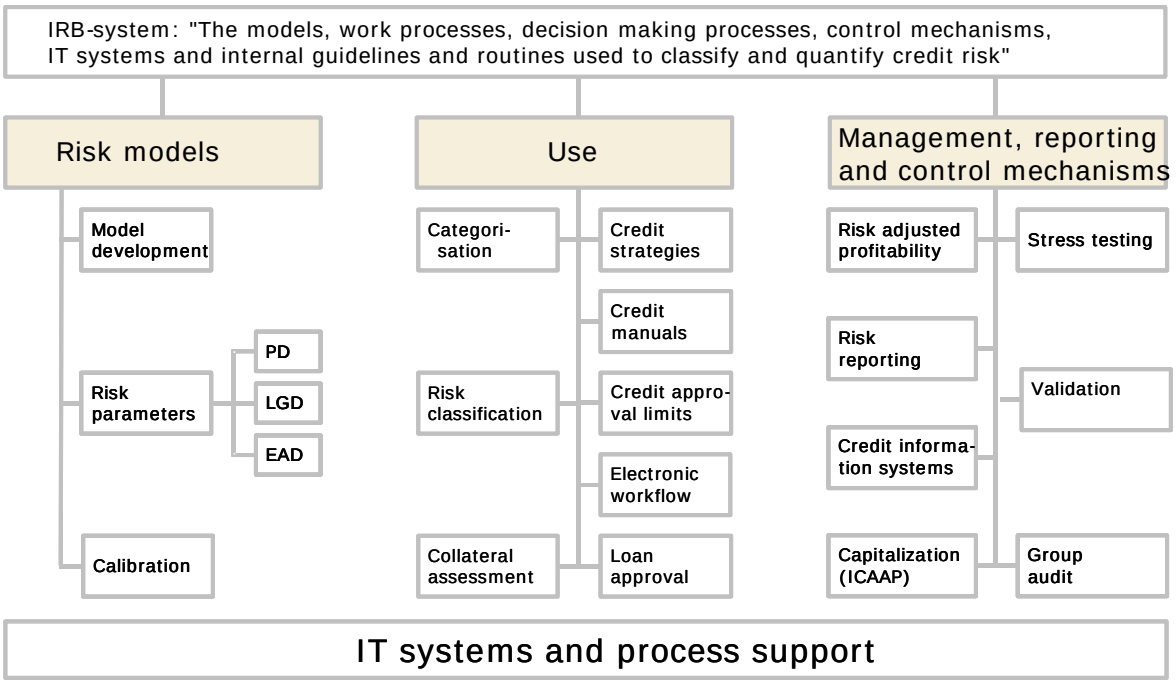
Past due commitments are not reported in a separate category, but under the categories specified above. The applicable risk weights are 100 per cent and 150 per cent depending on whether write-downs represent more or less than 20 per cent of the unsecured part of the assets before write-downs.

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

Credit risk – IRB approach

The estimated capital requirements for the portfolios reported according to the IRB approach are shown in tables on page 9 and 10.

The principle diagram below shows the extensive nature of the IRB regime. The aim is to ensure that the capital adequacy requirements for banks are adequately fulfilled. To succeed, quality and transparency must be secured throughout the value chain up until the Board of Directors' stipulation of a satisfactory level of capitalisation for operations. This value chain comprises both quantitative risk measurement systems, high-quality administrative processes generating data for the quantitative risk estimates and requirements to ensure that the organisation integrates and uses this data at all relevant organisational levels. The Group's 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.



Classification, quantification, validation

Classification and quantification

The bank divides its portfolio into 10 risk categories based on the probability of default for each commitment. Commitments placed in categories 11 and 12 are considered to be non-performing in line with the bank's definition.

Relationship between risk categories and probability of default

	Probability of default (per cent)	
Risk class	As from	Up to
1	0.01 [1)]	0.10
2	0.10	0.25
3	0.25	0.50
4	0.50	0.75
5	0.75	1.25
6	1.25	2.00
7	2.00	3.00
8	3.00	5.00
9	5.00	8.00
10	8.00	40.00
For reporting		
11		Impaired
12		Non-performing 90 days

1) For the Basel II capital calculation, the lowest permissible PD is 0.03 per cent for each risk class, excluding commitments with states.

All credit customers must be assigned a risk category in connection with all credit decisions. In addition, all credit commitments must be classified at least once a year.

- In the bank's corporate customer portfolio in the Regional Division East and the Regional Division Coast, limited companies with a turnover below NOK 500 million and property companies with a total balance below NOK 100 million are classified by using a classification model for limited companies in the SME segment. Furthermore, special classification models have been prepared for one-man businesses and general partnerships.
- The housing loan portfolio is classified by using application scores and a behavioral score model. Application scores are used for new housing loan customers or when customers apply for a loan of more than NOK 200 000. Behavioural scores for current accounts are used when existing customers apply for an increase in their credit commitment of NOK 200 000 or less. In addition, behavioral scores are used to update risk classifications for all customers who have an application score dating back more than 12 months.
- When developing new classification models, available data is used to ensure that the predictive power of the models is as strong as possible. The calibration of the models should reflect an average expected level of default during a business cycle. The models have thus been calibrated using data dating back to the early 1990s. In connection with the annual validation, the general rule is to use data from the past twelve months at the time of validation.
- Both the development of models and the validation are based on consistent use of the bank's definition of non-performing commitments.

Models used for portfolios with IRB approval as at 31 December 2009

<table>
<tr><th>Customer segment</th><th>Commitment category</th><th>PD model</th><th>EAD model</th><th>LGD model</th></tr>
<tr><td>Limited companies with turnover < NOK 1000 million
Property companies with a balance sheet < NOK 200 million</td><td rowspan="2">Corporates</td><td>Classification model for limited companies in the SME segment</td><td rowspan="2">Model for exposure at default</td><td rowspan="2">Model for loss given default</td></tr>
<tr><td>General partnership with commitments < NOK 20 million</td><td>Classification model for general partnerships</td></tr>
<tr><td rowspan="2">Retail mortgage loans</td><td rowspan="3">Mortgage loans</td><td>Classification model - Behavioural score</td><td rowspan="2">Model for expected acceptance rate for offers. (For installment loans and home equity credit lines, CF =1)</td><td rowspan="2">Model for loss given default</td></tr>
<tr><td>Classification model - Application score</td></tr>
<tr><td>Mortgage loans - one-man businesses</td><td>Classification model for one-man businesses</td><td>Model for exposure at default</td><td>Model for loss given default</td></tr>
</table>

Validation

The IRB system is subject to regular testing, at least once a year, through both quantitative and qualitative validation.

- Quantitative validation includes both testing of model development, testing of the models' prediction ability and an assessment of whether principal requirements for the models, as stipulated in the regulations, have been fulfilled. In the quantitative validation, statistical methods are used to compare estimates for expected default frequency, loss given default and exposure at default with realised values for events of default, losses and exposure.
- 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.

Definition of non-performing commitments

A commitment should be defined as non-performing if a claim is more than 90 days overdue, the overdue amount exceeds NOK 2 000 and the event of default is not due to delays or incidental factors on the part of the counterparty. A commitment should also be classified as non-performing if the bank:

1. due to a weakening of the counterparty's creditworthiness makes write-downs1 representing a not insignificant amount,
2. due to a weakening of the counterparty's creditworthiness sells a claim at a reduced price and the reduction represents a not insignificant amount,
3. 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,
4. expects that debt settlement or bankruptcy proceedings will be opened against the counterparty or that the counterparty will be placed under administration,
5. does not expect the obligations to be met for other reasons.

The above definitions apply in both the retail and corporate markets. However, the 90-day rule applies for segments where no individual assessments are made.

Guarantees are considered to be defaulted once a claim has been made against the bank.

Risk parameters versus actual outcome

The table below shows the predicted default frequency at the beginning of the year and the observed default frequency during the year for 2007, 2008 and 2009.

	2007		2008		2009	
Credit risk model	Predicted	Observed	Predicted	Observed	Predicted	Observed
Small and medium-sized limited companies	1.91 %	1.83 %	1,83 %	2.12 %	1.84 %	2.91 %
One-man businesses	2.92 %	2.38 %	2,33 %	2,33 %	2.21 %	2.13 %
General partnerships	3.59 %	2.21 %	2,60 %	2,81 %	1.84 %	2.59 %
Application score - mortgages	1.02 %	0.46 %	1,04 %	0,48 %	0.99 %	0.55 %
Behavioral score - mortgages	0.69 %	0.14 %	0,87 %	0,30 %	0.64 %	0.38 %

In order to validate the model for loss given default for real property, an observation period is required. During 2008, DnB NOR developed a new LGD model for housing loans. The model was implemented in the first quarter of 2009. No validation has been made of the former LGD model.

The conversion factor for exposure at default for mortgages on property has been set at 1, both for installment loans and home equity credit lines. For home equity credit lines, this means that the exposure at default should equal the credit limit, irrespective of the amounts drawn. Based on observations, a conversion factor of 0.92 has been used for loans offered, but not accepted. In comparison, the validation in autumn 2008 showed an acceptance rate of 0.93.

Total exposure for approved IRB portfolios [1)]

The table below shows exposure at default (EAD) for the retail market and corporate portfolios according to risk category. In addition, loss ratios and conversion factors are shown, calculated according to internal models. The LGD ratio is a calculation of expected losses at default. The conversion factor (CF) indicates how much of the credit risk represents unpaid amounts on, for example, undrawn credit lines, loan commitments and guarantees. This factor is used to estimate the expected utilisation of a given limit at the time of default.

	31 Dec. 2009									
	Retail, private property					Corporate				
Amounts in NOK million	*Unutilized credit lines*	EAD	LGD [1)]	CF [1)]	RW	*Unutilized credit lines*	EAD	LGD [1)]	CF [1)]	RW
Risk class 1	0	0	0,00 %	0 %	0 %	210	240	39 %	64 %	14 %
Risk class 2	16 353	168 297	12,25 %	100 %	5 %	3 590	10 051	33 %	88 %	21 %
Risk class 3	9 906	129 880	12,82 %	100 %	9 %	2 425	14 147	26 %	94 %	32 %
Risk class 4	3 532	55 806	13,61 %	100 %	13 %	1 820	11 713	28 %	95 %	42 %
Risk class 5	3 490	66 169	14,08 %	100 %	19 %	2 283	15 240	29 %	95 %	52 %
Risk class 6	1 389	33 284	14,58 %	100 %	26 %	1 486	15 194	28 %	97 %	59 %
Risk class 7	556	16 369	15,93 %	100 %	38 %	619	6 130	27 %	97 %	64 %
Risk class 8	176	7 936	17,08 %	100 %	53 %	774	6 278	28 %	98 %	70 %
Risk class 9	60	2 849	17,40 %	100 %	69 %	174	2 801	26 %	98 %	75 %
Risk class 10	32	1 698	20,09 %	100 %	107 %	181	4 382	27 %	98 %	110 %
Risk class 11	2	38	19,18 %	100 %	102 %	5	218	35 %	98 %	157 %
Risk class 12	21	3 255	18,84 %	100 %	32 %	67	1 848	39 %	99 %	65 %

1) Average values.

1 Write-downs made on the basis of portfolio analysis should not be classified as events of default.

Actual changes in value in the previous period for individual commitment categories [1)]

Amounts in NOK million	31.12.2009	31.12.2008
Retail market, private property	463	563
Corporate exposures	871	737
Total	1 334	1 300

Actual value adjustments according to risk parameters

Expected lossstimated value adjustments compared with actual value adjustments[1)].

Amounts in NOK million	Retail market private property	Corporate exposures
2009		
Actual value adjustment	463	871
Expected loss	427	801
2008		
Actual value adjustment	563	737
Expected loss	317	655

[1)] *Estimated value adjustments are based on risk parameters at the beginning of the period.*

Probability of default[1)].

In %	Retail market private property	Corporate exposures
2009		
Outcome	1.00 %	5.00 %
Estimate	0.72 %	2.13 %
2008		
Outcome	1.00 %	5.00 %
Estimate	0.81 %	1.62 %

[1)] *"Outcome" and "estimate" are not directly comparable. "Outcome" for retail market private property and corporate exposures are based on average number of agreements and customers, respectively. "Estimate" is based on risk parameters at the beginning of the year.*

Loss given default[1)]:

In %	Retail market private property	Corporate exposures
2009		
Outcome	14	33
Estimate	13	28
2008		
Outcome	18	30
Estimate	13	31

[1)] *"Outcome" is based on actual changes in value compared with gross non-performing and impaired commitments. "Estimate" is based on risk parameters at the beginning of the year.*

Cyclicality in the IRB method

Concepts used in the modelling of PD, LGD and EAD:

Probability of default (PD)
Probability of default calculations are a very important parameter for measuring credit risk in an IRB system. For small credits, PD classifications are primarily based on statistical models which have been developed and thoroughly tested based on several years of empirical data2. For larger customers, the classification will also nclude a qualitative evaluation of the customer, either as part of a risk classification system or as a separate qualitative analysis of the individual customer. In addition to quantifying the risk, the aim is to achieve a common understanding of credit risk throughout the organisation which is consistent for all of the bank's portfolios, but also over time.

The development of PD models is a two-stage process. First, customers are *ranked* based on credit risk, thus aiming to identify risk drivers, such as the most appropriate key financial figures, the ability to adapt to market changes etc. Initially, all risk drivers for the customer group are identified, followed by an assessment of which risk drivers are the most important and of how they correlate. This first modelling stage is important for the quality of the credit process. The quality of the ranking stage is thus vital to understanding and thus managing risk in the Group's portfolio, especially with respect to building a sound credit portfolio which can also withstand more difficult times.

In the second modelling stage, the portfolio is *calibrated*. The overall PD level of the portfolio is thus determined, mainly through an analysis at portfolio level. The data used to determine this level will primarily be the observed default frequency in the portfolio over the past years3. A check relative to external ratings, e.g. from Standard & Poor's and Moody's, is also made to determine whether the internal models are consistent with the external ratings for the bank's customers who have such ratings.

The PD level used in IRB reporting will largely reflect the bank's past history, and indicates the level underlying the bank's capitalisation target. The level will also depend on approval from the supervisory authorities in the various countries, which often have little opportunity to present an accurate comparison between actual risk levels in the portfolios across banks. Based on these factors, the PD level reported by the banks is not necessarily representative for the risk between banks, even though it represents very important management information for the individual bank. Actually, as banks which use portfolios based on conservative, long-term estimates in the PD calibration will also have a prudent approach to risk in good times, the situation might be quite the opposite. If there is sound rating of risk, the bank will have the best portfolio and thus be better prepared for an economic downturn.

It is therefore essential to assess whether a bank's reported PD levels reflect *prudence* or an assessment of high risk in the portfolio.

LGD
The models will estimate how much of the outstanding amount will be lost in the event of default. Important drivers behind LGD rates are collateral values, customer category (retail/corporate) and the structure of the loan and the company.

When assessing collateral values, it is important to use highly conservative estimates, as the value of the collateral and the level of default are frequently correlated. This is particularly relevant if the collateral generates the income used to pay interest and loan instalments. Relevant examples are shipping and property, where a decline in freight rates and property rental rates is practically synonymous with falling prices on ships and properties. These correlations are well known and have been part of the DnB NOR Group's models and classifications for more than ten years. Loan agreements also often include risk-mitigating measures, such as special clauses in loan terms which require equity injections in the event of major reductions in underlying values.

EAD
Comparable EAD figures across all banks are not calculated, as individual banks reporting according to the advanced IRB approach are required to prepare special EAD estimates. The differences primarily affect products which include drawing facilities and guarantees for customers. In the calculations, a percentage share of the undrawn amount is included in EAD in addition to the drawn amount. This percentage is called the credit conversion factor (CCF). Thus, the following formula is used:

EAD = drawn amount + CCF (approved commitment – drawn amount)

2 The models used in the bank's IRB classification are primarily based on empirical data for the years dating back to and including the previous banking crisis in the 1990s.

3 The statutory requirement is data for the past five years, but in some cases, the supervisory authorities require that the banks also include data for previous years. PD level figures for DnB NOR also reflect the banking crisis in the 1990s.

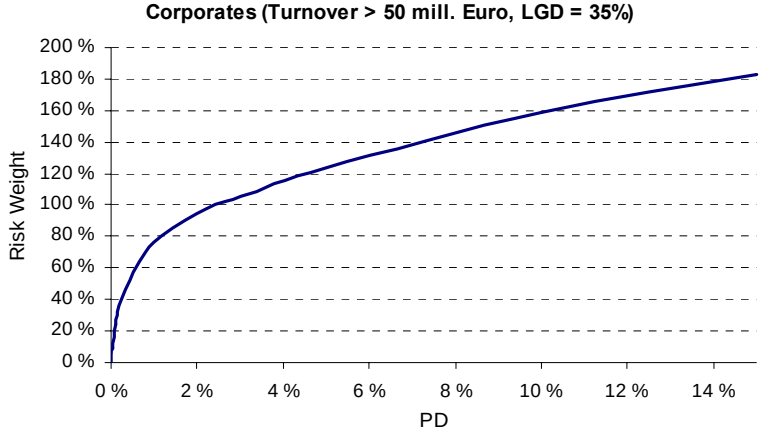
A low CCF reflects the bank's chances of discovering problems in the company and withdrawing the credit/guarantee in the event of default/bankruptcy. In consequence, banks may report different EAD levels, even for customers with an identical underlying product mix.

Cyclicality

To ensure stable, predictable capitalisation, it is important that the parameters PD, LGD and EAD ensure long-term predictability for the estimated capital level. This corresponds to the rationale behind the rating from, for example, Moody's & Standard and Poor's. The ideal situation is to find models which, independent of the economic cycle, estimate customers' long-term credit risk, as credits practically always have a long-term perspective on the part of the customer as well as the bank. In practice, however, all risk classification systems, just like ratings from Standard and Poor's & Moody's, always follow the economic cycle to some extent. The extent to which this cyclicality influences PD and LGD will depend on the model structure and the choice of risk drivers. A PD model which emphasises short-term liquidity and cash holdings will typically be cyclical, while models which are based on profitability and long-term debt servicing capacity will be less cyclical.

In consequence, PD, LGD and to some extent EAD will increase during a recession. In addition, risk-weighted volume will increase accordingly. In theory, the Tier 1 capital ratio could decline, even if no new credits are approved and no losses are generated in the portfolio. On the other hand, some elements dampen this effect, which is particularly relevant for DnB NOR over the next year.

The systematic effects that reduce this impact are mainly the calculation of capital based on PD, LGD and EAD. Based on a fixed LGD at 35 per cent, the correlation between the risk weight and PD can be illustrated in the graph below[4]:

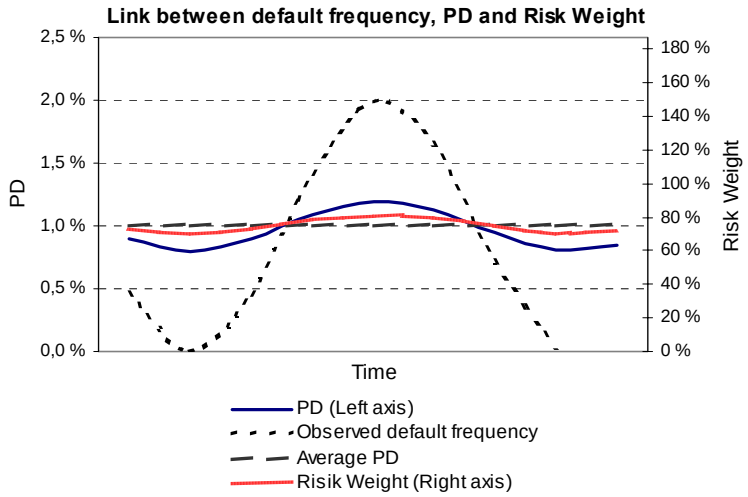


Thus, even in a scenario where PD is doubled from 1 to 2 per cent, the risk-weighted volume will not rise by more than 24 per cent, as the risk weight will increase from 76 to 95 per cent. Indeed, the increase is larger when the risk is low, whereby, for example, a doubling in PD from 1 to 2 per cent will give an increase in risk-weighted volume of approximately 48 per cent, as the risk weight will increase from 24 to 36 per cent. On the other hand, a doubling of PD on a portfolio basis is an extreme scenario, even though it can often occur for individual customers.

The actual effect of an economic cycle on risk-weighted volume thus also depends on how the portfolio is structured with respect to high-risk and low-risk commitments, and on whether high-risk or low-risk customers are affected the most. If the effect is most pronounced for high-risk customers, there could be a relatively strong increase in PD, even if there is a limited effect on risk-weighted volume.

In general, PD values will be considerably less cyclical than the actual default rate (as the bank uses so-called 'through the cycle models'). In addition, the calculation formula for risk weights, as described above, has a stabilising effect on capital. This is illustrated in the graph below, where the risk weight is calculated for a customer with an average PD of 1 per cent through the cycle.

4 The graph applies to all corporate customers with a turnover exceeding EUR 50 million. Smaller corporate customers will have a lower risk weight for all PD values.



During the cyclical upturn, PD values will be somewhat lower than the average PD throughout the cycle, but much higher than zero in spite of virtually no observed default during this stage of the cycle. This is important in order to ensure stable, sound capitalisation. On the other hand, the corresponding risk weight during this good part of the cycle is only marginally lower than the average risk weight through the cycle. Similarly, PD will be higher during the cyclical downturn even if the observed default frequency is considerably higher than PD. During this stage of the cycle, the risk weight will also increase, though the increase will be considerably lower than the rise in PD and naturally marginal relative to the increase in the observed default frequency.

Cyclicality during the various stages of the implementation

Cyclicality estimates naturally only apply to portfolios implemented under the IRB system. There is no cyclicality in the risk weight[5] under the Standardised approach. Consequently, DnB NOR will be less exposed to cyclicality until the IRB system is fully implemented. For large corporate customers, the planned implementation date is 31. December 2010.

Up until the transition to IRB, this portfolio will be reported according to the standardised approach and be assigned a 100 per cent risk weight. During this period, cyclicality will *not* result in a rise in the reported risk weight, nor will the cyclicality for this part of the portfolio affect the Tier 1 capital ratio. The estimated risk weight volume under IRB is uncertain for several reasons. Economic developments are naturally an important driver, as are the bank's future portfolio structure and customer follow-ups. Approval from the authorities will also affect the final level.

Cyclicality in the total credit portfolio

There is currently low cyclicality in the portfolio. The table below calculates the effect of a 10 per cent, 20 per cent and 30 per cent increase in risk-weighted volume for relevant portfolios and the effect on the total (eligible) risk weight, which is used in Tier 1 capital calculations. Portfolios reported according to the Standardised approach are thus not affected by cyclicality. Even if a high level of cyclicality is expected, there will be small changes.

Overall effect of cyclicality 31.12.2009:

Portfolio	Risk-weighted volume	Risk-weighted volume (10 % stress)	Risk-weighted volume (20 % stress)	Risk-weighted volume (30 % stress)
Total credit risk, IRB	108 173	118 990	129 807	140 625
Total credit risk, standardised approach	763 547	763 547	763 547	763 547
Total credit risk	871 719	882 537	893 354	904 171
Percentage increase in credit risk		1.20 %	2.50 %	3.70 %

Even based on a 30 per cent increase in risk-weighted volume in the models, the effect on DnB NOR's risk-weighted volume will be 3.7 per cent. The cyclicality will have no significant impact until all major portfolios have been implemented, i.e. on 31 December 2010.

5 Other than the cyclicality resulting from rising volumes in the portfolio.

Credit risk – collateral

As a key principle, the bank requires security for all loans in the form of either mortgages or so-called negative pledges, where the customer is required to keep all assets free from encumbrances vis-à-vis all lenders. During the credit process, the bank will consider whether adequate collateral is provided.

The main principle for valuing collateral is that the expected realisation value at the time the bank may need to realise the collateral, should be used. The practical implementation is described in extensive rules, including maximum rates for all types of collateral and valuation guidelines. Valuations should be made when approving new loans and in connection with the annual renewal and are considered to be part of credit decisions. A procedure has been established for the periodic control of collateral.

For the asset category "Mortgage loans", the bank uses LGD models developed on the basis of knowledge of collateral values and other characteristics features of the commitment. For the asset category "Corporates", the bank uses, for the time being, standard LGD rates determined by the authorities. Other commitment categories are reported according to the standardised approach.

The main types of collateral used are mortgages on property, registrable movables, accounts receivable (factor's liens), inventories, plant and equipment, agricultural chattel and fish-farming concessions. The main categories of guarantors are private individuals (consumer guarantees), corporates (professionals), guarantee institutes and banks. Guarantors are classified according to risk based on the bank's rating models. Debtors can only be assigned the guarantor's PD provided that the guarantor is placed in risk category 6 or higher and the guarantee applies to the entire commitment. Guarantees can only serve as collateral (affect LGD) if they are placed in risk category 6 or higher. When using the foundation IRB approach, guarantees are assigned no value as collateral in capital calculations. Credit derivatives are not used for portfolios for which use of the IRB approach has been approved. Guarantees represent a limited part of such portfolios. EDA (excluding the portfolio of non-performing loans) under "Retail market mortgages" are fully secured and represented NOK 482 billion as at 31 December 2009. EDA (excluding the portfolio of non-performing loans) in the commitment category "Corporates" represented NOK 86 billion and is generally secured by mortgages.

The bank's netting rights are in compliance with general rules in Norwegian legislation. Netting clauses have been included in all standard loan agreements in DnB NOR Bank ASA and product agreements in DnB NOR Markets. Netting rights have no value in risk and capital calculations, except for Markets products, where stipulations in the framework agreement (ISDA) open up for far more extensive netting.

The bank has a well-diversified portfolio. Risk concentrations are taken into account in the bank's ICAAP process.

Credit risk – counterparty risk for derivatives

Derivatives are traded in portfolios where balance sheet products are also traded. 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 NOR Group's overall credit risk. For a number of counterparties, netting agreements or bilateral guarantee agreements have been entered into, thus reducing credit risk. The authorities' capital adequacy requirements take such agreements into account by reducing the capital requirement.

CSA agreements (Credit Support Annex) have been entered into with most major banks. This implies that the market value of all derivatives entered into between DnB NOR and the counterparty is settled either daily or weekly, which implies that counterparty risk is largely eliminated. If the collateral is impaired (i.e. weaker rating) the minimum amount for the exchange of money will be reduced.

Moreover, products such as equity forward contracts, securities issues and currency trading for private individuals are monitored and margined on a daily basis.

Counterparty risk – financial derivatives

Counterparty risk, financial derivatives	Nominal amount		Credit equivalent		Weighted amount	
Amounts in NOK million	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008	31 Dec. 2009	31 Dec. 2008
Gross amount before netting	5 165 371	7 180 266	141 241	241 694	53 388	103 144
Net amount after netting	295 266	952 467	70 486	135 505	36 494	80 078

Credit derivatives used for hedging

	Bought	Sold	Bought	Sold
Amounts in NOK million	31 Dec. 2009		31 Dec. 2008	
CDS - Credit Default Swaps	78	297	1 568	940
CLN - Credit Linked Notes	163	0	1 639	300
Total credit derivatives	241	297	3 207	1 240

Credit risk - investments in securitised loans

As part of ongoing liquidity management, DnB NOR Bank has invested in a portfolio of securities. The portfolio can be used in different ways to regulate the liquidity requirement and as a basis for furnishing collateral for operations in various countries. Among other things, the securities serve as collateral for short and long-term borrowing in a number of central banks and as a basis for liquidity buffers to meet regulatory requirements. With effect from 1 July 2008, the liquidity portfolio in DnB NOR Markets was reclassified from the category "fair value through profit or loss" to " held-to-maturity investments".

Measurement

The reclassification in accordance with the amendments to IAS 39 Financial Instruments: Recognition and Measurements requires that the value of the liquidity portfolio based on the principles applied before the reclassification must be reported. In a normal market situation, the liquidity portfolio would have been recorded at external observable prices before the reclassification. Due to the financial turmoil, there were no such observable prices in the market. The markets normalised during 2009, though there are still no observable prices for large parts of the portfolio. In order to meet the disclosure requirement at end-December 2009, the liquidity portfolio has been measured at fair value according to models used for financial instruments not traded in an active market. The model applied is based on a regression analysis whereby historical market data (explanatory variables) which have been observable even during the financial turmoil are used to explain historical changes in value in the liquidity portfolio. During the period from the fourth quarter of 2006 up to and including the second quarter of 2008, the model shows a high level of correlation between changes in given market data and changes in value in the liquidity portfolio, which at the time was priced in an active market or through broker quotes which were believed to be fairly reliable.

DnB NOR Markets' liquidity portfolio

After the reclassification date, DnB NOR Markets has chosen to increase its investments in held-to-maturity securities. As at 31 December 2009, DnB NOR Markets' portfolio represented NOK 113 billion. 97.2 per cent of the securities in the portfolio had an AAA rating, while 2.5 per cent were rated AA. There were no synthetic securities in the portfolio and no investments in US sub-prime bonds or Collateralised Debt Obligations, CDOs.

In the capital adequacy calculations this portfolio is reported as investments in securitised loans. Risk-weights are given according to the table shown under the chapter "Credit risk – Standardised approach".

Accounting principles

The liquidity portfolio is classified as held-to-maturity investments. The portfolio is recorded at amortised cost and written down if there is objective evidence of a decrease in value.

DnB NOR Group

	Rating	Per cent 31 Dec. 2009	NOK million 31 Dec. 2009	Per cent 31 Dec. 2008	NOK million 31 Dec. 2008
Asset class					
Consumer credit	AAA	3	3 316	5	4 753
Residential mortgages	AAA	53	66 872	75	76 243
Corporate loans	AAA/AA	6	7 221	10	10 415
Government-related	AAA	30	37 823	9	9 101
Banks and credit institutions	AA/A	9	11 830	0	
Insurance	AAA/AA/A	0	66	1	607
Total, liquidity portfolio DnB NOR Markets		100	127 127	100	101 118
Accrued interest			(2 101)		(2 012)
Total, liquidity portfolio DnB NOR Markets		100	125 026	100	99 106

The liquidity portfolio in Eksportfinans is included in the cosolidated capital adequacy by 40 per cent ownership.

Equity positions outside the trading portfolio

Accounting principles
Shareholdings are classified as shareholdings in the trading portfolio or as shareholdings and mutual funds designated as at fair value. As at 31 December 2009 and 2008, none of the Group's shareholdings were classified as available for sale.

Investments in shares are measured at fair value. Changes in value of shareholdings are recorded under "Net gains on financial instruments at fair value". Changes in value of shareholdings within life insurance are recorded under "Net gains on assets in Vital".

Measurement
Financial instruments measured at fair value are according to IFRS 7 required to be classified in a three level hierarchy by reference to the inputs used in the valuation: quoted prices from active markets, observable market data and inputs not based on observable market data.

Valuation based on prices in an active market – level 1
Classified as level 1 are financial instruments valued by using quoted prices in active markets for identical assets or liabilities. Instruments in this category include listed shares.

Valuation based on observable market data – level 2
Classified as level 2 are financial instruments which are valued by using inputs other than quoted prices, but where prices are directly or indirectly observable for the assets or liabilities, including quoted prices in non-active markets for identical assets or liabilities.

Equities classified as level 2 comprise equity derivatives used in DnB NOR Markets' market-making activities. Most of these derivatives are related to the most traded equities on Oslo Børs, and the valuation is based on the price development of the relevant/underlying equity and observable or estimated volatility.

Valuation based on other than observable market data – level 3
Equities which are classified as level 3 essentially comprise property funds, limited partnership units, private equity investments, as well as hedge fund units and investments in unquoted equities.

Of the total invested amount of NOK 5 623 million, NOK 2 573 million was invested in private equity funds, NOK 1 020 million in property funds, NOK 17 million in limited partnerships, NOK 1 083 million in unquoted hedge funds and NOK 930 million in unquoted equities. A common denominator for these investments is that there is a lag in the access to information from the units. In times of financial market turmoil, there may be considerable uncertainty related to the valuation of these investments.

The table below specifies the equity positions reported in the Group's capital adequacy calculations.

Equity positions outside the trading portfolio - realised gains and losses

	DnB NOR Group	
Amounts in NOK million	31 Dec. 2009	31 Dec. 2008
Norwegian companies, listed	357	678
Norwegian companies, unlisted	338	267
Companies based abroad	395	248
Mutual funds	1 408	1 414
Shareholdings, designated as at fair value	2 499	2 607
Net gains on shareholdings, designated as at fair value	149	(1 230)
**) Of which investments in private equity funds*	*381*	*463*

Interest rate risk outside the trading portfolio

Interest rate risk outside the trading portfolio 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 Treasury's investment portfolio of interest-bearing securities is used in liquidity risk management and risk hedging and serves as collateral for borrowing in Norges Bank. The Treasury's portfolio also includes the bank's securities in Norwegian kroner issued based on funding needs and/or for interest rate risk management. Derivatives and interest rate swaps, future rate agreements (FRAer) and futures are used to hedge interest rate risk.

Interest rate and currency risk in the banking group is centralised, whereby all units in the banking group, with the exception of Bank DnB NORD and DnB NOR Monchebank, must hedge their positions through the Treasury function. Bank DnB NORD and DnB NOR Monchebank have their own risk limits. The limits for interest rate risk represent changes in value resulting from an interest rate adjustment of one basis point. Interest rate risk is measured and reported to the Treasury every day, to the head of DnB NOR Markets once a week and to the group chief executive/ALCO once a month. Limits for interest rate risk are review by the bank's Board of Directors every year.

The table shows changes in income during the year resulting from interest rate risk outside the trading portfolio as well as unrealised gains or losses as at year-end.

	Change in income		**Unrealised gains/loss**	
Amounts in NOK milllion	2009	2008	2009	2008
NOK	522	21	691	55
Total	522	21	691	55

6 New external parameters

Stricter capital requirements

The Basel Committee[2] has proposed stricter requirements for the level and quality of the capital base intended to protect depositors and others funding the banks against losses. The quality of the capital base is determined on the basis of whether it absorbs losses on a going concern basis or whether the bank will be required to be placed under public administration before material losses are absorbed by the capital base. This distinction has generally reflected the difference between Tier 1 capital, which will typically be equity, and Tier 2 capital, which will typically be subordinated loans.

However, the financial crisis revealed that in a number of countries, capital approved as Tier 1 capital did not function as a proper buffer against losses on a going concern basis. Thus, a major tightening has been proposed in the criteria for what can qualify as such capital, whereby the major part of Tier 1 capital must be in the form of common equity. DnB NOR's current hybrid Tier 1 securities do not meet the proposed criteria for such capital.

Revised minimum requirements will be presented for the size of common equity, total core capital and total capital base. The minimum requirements will be enforced by capital adequacy calculations. Capital adequacy is calculated by measuring the capital base as a percentage of the risk-weighted assets which reflect the bank's risk. The Basel Committee proposes to tighten risk-weighted asset measurements in a number of ways. A proposal has also been presented whereby systemically critical institutions will be subject to higher capital requirements in the form of individual supplementary requirements based on assessments made by the national supervisory authorities.

If banks are to withstand an extended period of extensive losses and still be able to meet the minimum requirements, a buffer must be built up in good times which can be drawn upon in periods of stress. The Basel Committee proposes the establishment of a buffer zone in capital adequacy calculations, whereby the banks' opportunities for distributing dividends and discretionary bonuses will be gradually reduced the closer they are to the minimum requirements. The buffer zone may be increased if credit growth becomes too strong and may thus function as a macroeconomic management tool. The banks will have to retain more capital during periods of brisk lending growth, which could dampen credit growth. There is reason to believe that DnB NOR, based on its current capital base and risk profile, will satisfy the new minimum requirements with a good margin.

Minimum leverage ratio requirement

In addition to the capital adequacy requirements, which are based on risk-weighting of assets and positions, a minimum requirement for equity or core capital relative to total assets, but with no form of risk-weighting, has been proposed. The purpose of this requirement is to place an absolute ceiling on banks' leverage. In addition, it will contribute to reducing the significance of model errors and other indeficiencies in systems for risk-weighting and capital adequacy calculations. The details on how the actual ratio will be designed and calibrated are not yet finalised. Independent of the chosen model, however, it seems clear that compared with most other banks, DnB NOR will be well positioned in relation to this requirement.

Stricter liquidity coverage ratio requirements

The Basel Committee has proposed the introduction of a requirement whereby banks must maintain stocks of high quality liquid assets in excess of net cash outflows from the bank over a 30-day period of stress. High quality liquid assets are defined as deposits in central banks and government securities. Net cash outflows during the stress period are calculated based on, among other things, an assumed decline in deposits. The scope of the decline depends on the type of deposits. Other underlying assumptions are greater utilisation of undrawn credit lines and no renewal of short-term capital market funding falling due during the period of stress. These stress factors come in addition to ordinary cash inflows and outflows, including planned lending growth. At year-end 2009, DnB NOR would have satisfied this requirement with a good margin.

$$\text{Liquidity coverage ratio:} \quad \frac{\text{Stock of high quality liquid assets}}{\text{Net cash outflows over a 30-day period}} \geq 100\ \%$$

2 The Basel Committee on Banking Supervision is a cooperative body organised under the Bank for International Settlements which develops global regulations for international banking.

Stricter requirements to banks' funding structure

New quantitative regulations have been proposed, presenting requirements relating to banks' funding structure relative to lending, investments and other assets. The purpose of the regulations is to prevent that banks excessively finance illiquid and long-term assets through short-term funding.

The requirement is based on a comparison between the bank's available amount of long-term funding and an estimated required amount of such funding. Calculations of the bank's available amount of long-term funding include all contractual funding obligations with residual maturities of 12 months or greater and non-maturity deposits. However, deposits will be subject to a run-off factor of between 15 and 50 per cent, depending on how stable they are considered to be.

Calculations of the required amount of long-term funding implies that all assets with maturities greater than one year that are not particularly liquid, must be backed by long-term funding. Loans with maturities shorter than one year must be backed by 50-85 per cent long-term funding. In addition, 10 per cent of the undrawn portion of credit lines must be covered. Just like a number of other banks, DnB NOR will need to increase long-term funding to be able to meet the proposed ratios.

$$\text{Stable funding ratio:} \quad \frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} \geq 100\ \%$$

Implementation

The Basel Committee's various proposals regarding stricter capital, liquidity and funding requirements will, to the extent they are approved, be included in EU regulations and also become effective for Norwegian financial institutions through the EEA agreement. The EU regulations are expected to enter into force no earlier than 31 December 2012. However, the Norwegian regulatory authorities have the opportunity to enforce the implementation of the changes.

New accounting rules for write-downs on loans

According to prevailing rules for the valuation of loans, write-downs should be made when there are objective indications of impairment. This model for write-downs on loans has been criticised for giving belated write-downs and for resulting in excessive interest income.

The International Accounting Standards Board has thus proposed a new solution based on recording expected losses. Interest income will thus be reduced by an element covering such losses. Expected losses will be an estimate for the portfolio on the valuation date, taking account of the prevailing economic situation. The losses are thus spread over the expected term of the commitments. The effects of changes in expected losses which, for example, are due to unexpected economic developments, will be shown on a separate line in the income statement as a change in estimates. The proposal has been endorsed by the Basel Committee, though the implementation of the system is expected to be mandatory no earlier than for the 2013 accounting year.

Solvency II

Solvency II is the name of the new solvency capital regulations for insurance companies. The framework directive was approved by the European Parliament in 2009. Final implementation in national regulations is scheduled to take place by end-October 2012 and to become effective on 1 January 2013. There is reason to believe that Solvency II will require insurance companies to hold somewhat more equity than today. This will also be the case for Vital. However, the system has not been finally calibrated.