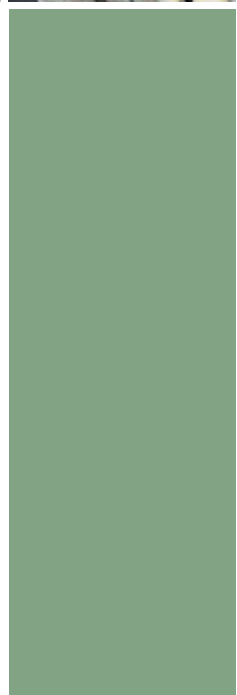


3



Capital adequacy  
regulations  
Basel II / Pillar 3  
**Third quarter  
2011**

# Contents

Introduction .....	2
Basel II and the IRB system .....	3
Capital adequacy calculations.....	5
Risk management and control, capitalisation .....	15
Information about risk categories .....	18
General information about credit risk .....	18
Credit risk – standardised approach .....	24
Credit risk – IRB approach.....	25
Cyclicality in the IRB method .....	29
Credit risk – collateral.....	32
Credit risk – counterparty risk for derivatives.....	33
Credit risk – investment in securitisation .....	34
Equity positions outside the trading portfolio .....	35
Interest rate risk outside the trading portfolio .....	36
Changes in the regulatory framework.....	37
Basel III.....	37
Important IFRS amendments.....	40
Regulation of remunerations in the financial services industry .....	41
Report from the Financial Crisis Commission.....	41

# 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.***

# Basel II and the IRB system

The capital adequacy regulations ensue from an EU directive, and 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. Approximately 68 per cent of DnB NOR's portfolio is reported according to the IRB approach, measured by EaD.

Portfolios	Reporting methods for credit risk in capital adequacy calculations	
	31 Dec. 2010	31 Dec. 2011
<b>Retail:</b>		
- mortgage loans, DnB NOR Bank and DnB NOR Boligkreditt	IRB <sup>1)</sup>	IRB <sup>1)</sup>
- qualifying revolving retail exposures, DnB NOR Bank <sup>2)</sup>	IRB <sup>1)</sup>	IRB <sup>1)</sup>
- mortgage loans, Nordlandsbanken	Standardised	IRB <sup>1)</sup>
- loans in Norway, DnB NOR Finans, DnB NOR Bank	IRB <sup>1)</sup>	IRB <sup>1)</sup>
<b>Corporates:</b>		
- small and medium-sized corporates, DnB NOR Bank	Advanced IRB	Advanced IRB
- large corporate clients (scorecard models), DnB NOR Bank	Advanced IRB	Advanced IRB
- large corporate clients (simulation models), DnB NOR Bank	Standardised	Advanced IRB
- corporate clients, Nordlandsbanken	Standardised	Advanced IRB
- leasing DnB NOR Bank	Advanced IRB	Advanced IRB
- corporate clients, DnB NOR Næringskreditt	Standardised	Advanced IRB
<b>Securitisation positions:</b>		
- DnB NOR Markets' liquidity portfolio	IRB <sup>1)</sup>	IRB <sup>1)</sup>
<b>Institutions:</b>		
- banks and financial institutions, DnB NOR Bank	Standardised	Advanced IRB
<b>Exceptions:</b>		
- approved exceptions: government and municipalities, equity positions	Standardised	Standardised
- temporary exceptions: DnB NOR, DnB NOR Luxembourg, Monchebank and various other portfolios	Standardised	Standardised

1) There is only one IRB approach for retail exposures and securitisation positions.

2) Reported according to the IRB category Other retail exposures.

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 at default are used for both internal management purposes and capital adequacy calculations. In the retail market, supervisory approval has been sought in order to apply the IRB approach in 2010 for capital adequacy reporting for 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, Nordlandsbanken and DnB NOR Næringskreditt.

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.

## **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 2010. 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.

## **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.

## 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 DnB NOR investments in associated companies, including risk-weighted volume is shown in the table below.

<i>Amounts in NOK million</i>	Ownership share (%) 31 Dec. 2010	<b>DnB NOR Group</b>	
		Assets	Risk-weighted <sup>1)</sup> volume
		31 Dec. 2010	31 Dec. 2010
Eksportfinans AS	40	215.549	12.771
Faktor Eiendom ASA	31	2.329	649
Amports Inc.	29	903	212
Nordito Property AS	40	137	38
Doorstep AS	50	9	1

<sup>1)</sup> DnB NOR's share

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	
	30 Sept. 2011	31 Dec. 2010	30 Sept. 2011	31 Dec. 2010	30 Sept. 2011	31 Dec. 2010
<i>Amounts in NOK million</i>						
Share capital	17.514	17.514	17.514	17.514	16.273	16.232
Other equity	65.340	61.582	70.656	72.344	88.613	94.964
Total equity	82.854	79.096	88.170	89.859	104.885	111.196
Deductions						
Pension funds above pension commitments	0	0	(25)	(16)	(181)	(119)
Goodwill	(2.409)	(2.419)	(3.879)	(3.472)	(5.751)	(5.378)
Deferred tax assets	(529)	(481)	(476)	(324)	(573)	(977)
Other intangible assets	(1.064)	(1.159)	(2.061)	(1.963)	(2.309)	(2.219)
Dividends payable etc.	0	0	0	(6.000)	0	(6.515)
Unrealised gains on fixed assets	0	0	(30)	(30)	(30)	(30)
50 per cent of investments in other financial institutions	(1.018)	(1.024)	(1.018)	(1.024)	0	0
50 per cent of expected losses exceeding actual losses, IRB portfolios	(903)	(515)	(869)	(666)	(869)	(666)
Adjustments for unrealised losses/(gains) on liabilities recorded at fair value	14	94	(473)	(346)	(473)	(346)
Equity Tier 1 capital	76.946	73.592	79.339	76.018	94.699	94.946
Perpetual subordinated loan capital securities <sup>1)2)</sup>	5.958	8.241	6.140	8.423	6.140	8.423
Tier 1 capital	82.903	81.833	85.478	84.441	100.839	103.368
Perpetual subordinated loan capital	4.845	7.004	4.845	7.004	4.845	7.004
Term subordinated loan capital <sup>2)</sup>	14.279	17.085	14.821	17.775	14.821	17.775
Deductions						
50 per cent of investments in other financial institutions	(1.018)	(1.024)	(1.018)	(1.024)	0	0
50 per cent of expected losses exceeding actual losses, IRB portfolios	(903)	(515)	(869)	(666)	(869)	(666)
Additions						
45 per cent of unrealised gains on fixed assets	0	0	18	18	18	18
Tier 2 capital	17.202	22.549	17.797	23.108	18.815	24.132
Total eligible primary capital <sup>3)</sup>	100.106	104.382	103.276	107.548	119.654	127.500
Risk-weighted volume	843.984	738.194	1.010.928	918.659	1.126.388	1.028.404
Minimum capital requirement	67.519	59.056	80.874	73.493	90.111	82.272
Equity Tier 1 capital ratio (%)	9.1	10.0	7.8	8.3	8.4	9.2
Tier 1 capital ratio (%)	9.8	11.1	8.5	9.2	9.0	10.1
Capital ratio (%)	11.9	14.1	10.2	11.7	10.6	12.4
Equity Tier 1 capital ratio including 50 per cent of profit for the period (%)	9.1	-	7.8	-	8.8	-
Tier 1 capital ratio including 50 per cent of profit for the period (%)	9.8	-	8.5	-	9.3	-
Capital ratio including 50 per cent of profit for the period (%)	11.9	-	10.2	-	11.0	-
<i>Risk-weighted volume, basis for transitional rules (Basel I)</i>	<i>1.010.636</i>	<i>899.340</i>	<i>1.263.660</i>	<i>1.148.324</i>	<i>1.259.577</i>	<i>1.144.757</i>

- 1) Perpetual subordinated loan capital securities can represent up to 15 per cent of Tier 1 capital. The excess will qualify as Tier 2 capital.
- 2) As at 30 September 2011, calculations of capital adequacy for the banking group and DnB NOR Group included a total of NOK 638 million in subordinated loan capital in associated companies.
- 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 2010 and 2011 cannot be reduced below 80 per cent relative to the Basel I requirements. Risk-weighted volume, for the Group, excluding insurance, at the end of the third quarter of 2011 represented 75 per cent of the corresponding volume based on the Basel I rules. The transitional minimum rule then came into effect. Without this limit the risk-weighted volume would have been NOK 1063 billion.

## 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 2011

<i>Amounts in NOK million</i>	<b>DnB NOR Bank ASA</b>					
	Nominal exposure	EAD <sup>1)</sup>	Average risk-weight	Risk-weighted volume	Capital requirements	Capital requirements
	30 Sept. 2011	30 Sept. 2011		30 Sept. 2011	30 Sept. 2011	31 Dec. 2010
<b>IRB approach</b>						
Corporate	785.385	676.455	52.7 %	356.626	28.530	24.567
Specialised Lending (SL)	4.153	4.089	50.7 %	2.071	166	117
Retail - mortgage loans	77.752	77.752	24.8 %	19.299	1.544	1.444
Retail - other exposures	88.076	72.672	32.1 %	23.361	1.869	1.778
Securitisation	97.871	97.871	10.6 %	10.337	827	735
<b>Total credit risk, IRB approach</b>	<b>1053.237</b>	<b>928.839</b>	<b>44.3 %</b>	<b>411.695</b>	<b>32.936</b>	<b>28.641</b>
<b>Standardised approach</b>						
Central government	71.781	69.633	0.0 %	22	2	143
Institutions	454.861	408.081	18.5 %	75.463	6.037	5.323
Corporate	262.641	213.076	96.3 %	205.179	16.444	14.235
Specialised Lending (SL)	0	0		0	0	476
Retail - mortgage loans	3.132	2.817	75.2 %	2.120	170	293
Retail - credit card exposures (QRRE)	1	1	75.0 %	0	0	0
Retail - other exposures	58.506	23.106	73.6 %	17.009	1.361	1.078
Equity positions	37.900	37.900	100.5 %	38.091	3.047	2.267
Other assets	3.847	3.847	100.0 %	3.847	308	196
<b>Total credit risk, standardised approach</b>	<b>892.669</b>	<b>758.460</b>	<b>45.1 %</b>	<b>341.732</b>	<b>27.339</b>	<b>24.010</b>
<b>Total credit risk</b>	<b>1945.905</b>	<b>1687.299</b>	<b>44.7 %</b>	<b>753.427</b>	<b>60.274</b>	<b>52.651</b>
<b>Market risk, standardised approach</b>				40.537	3.243	2.404
Of which: Position risk, equity-and debt instruments				40.537	3.243	2.404
Currency risk				0	0	0
<b>Operational risk</b>				52.117	4.169	4.169
<b>Deductions</b>				(2.097)	(168)	(168)
<b>Total risk-weighted volume and capital requirements before transitional rule</b>				<b>843.984</b>	<b>67.519</b>	<b>59.056</b>
<b>Additional capital requirements according to transitional rules <sup>2)</sup></b>				<b>0</b>	<b>0</b>	<b>0</b>
<b>Total risk-weighted volume and capital requirements</b>				<b>843.984</b>	<b>67.519</b>	<b>59.056</b>

<i>Amounts in NOK million</i>	<b>DnB NOR Bank Group</b>					
	Nominal exposure	EAD <sup>1)</sup>	Average risk-weight	Risk-weighted volume	Capital requirements	Capital requirements
	30 Sept. 2011	30 Sept. 2011		30 Sept. 2011	30 Sept. 2011	31 Dec. 2010
<b>IRB approach</b>						
Corporate	794.917	686.095	53.0 %	363.912	29.113	25.103
Specialised Lending (SL)	4.153	4.089	50.7 %	2.071	166	117
Retail - mortgage loans	527.896	527.896	12.8 %	67.593	5.407	4.533
Retail - other exposures	88.076	72.672	32.1 %	23.361	1.869	1.778
Securitisation	97.871	97.871	10.6 %	10.337	827	735
<b>Total credit risk, IRB approach</b>	<b>1512.912</b>	<b>1388.623</b>	<b>33.7 %</b>	<b>467.275</b>	<b>37.382</b>	<b>32.266</b>
<b>Standardised approach</b>						
Central government	86.629	102.367	0.1 %	54	4	146
Institutions	149.183	125.115	22.0 %	27.581	2.206	1.940
Corporate	398.359	296.012	95.4 %	282.468	22.597	19.912
Specialised Lending (SL)	0	0	0.0 %	0	0	476
Retail - mortgage loans	45.887	41.159	49.0 %	20.165	1.613	1.294
Retail - credit card exposures (QRRE)	1	1	75.0 %	0	0	0
Retail - other exposures	82.160	43.847	74.3 %	32.563	2.605	2.474
Equity positions	3.691	3.691	105.2 %	3.883	311	361
Securitisation	5.300	5.300	19.1 %	1.013	81	117
Other assets	12.672	12.672	100.0 %	12.672	1.014	684
<b>Total credit risk, standardised approach</b>	<b>783.882</b>	<b>630.163</b>	<b>60.4 %</b>	<b>380.398</b>	<b>30.432</b>	<b>27.404</b>
<b>Total credit risk</b>	<b>2.296.794</b>	<b>2.018.786</b>	<b>42.0 %</b>	<b>847.673</b>	<b>67.814</b>	<b>59.670</b>
<b>Market risk, standardised approach</b>				38.775	3.102	2.466
Of which: Position risk, equity-and debt instruments				38.775	3.102	2.466
Currency risk				0	0	0
<b>Operational risk</b>				61.080	4.886	4.886
<b>Deductions</b>				(2.736)	(219)	(203)
<b>Total risk-weighted volume and capital requirements before transitional rule</b>				<b>944.791</b>	<b>75.583</b>	<b>66.819</b>
<b>Additional capital requirements according to transitional rules <sup>2)</sup></b>				<b>66.137</b>	<b>5.291</b>	<b>6.673</b>
<b>Total risk-weighted volume and capital requirements</b>				<b>1010.928</b>	<b>80.874</b>	<b>73.493</b>

1) EAD, exposure at default.

2) Due to transitional rules, the minimum capital adequacy requirements for 2010 and 2011 cannot be reduced below 80 per cent relative to the Basel I requirements.

	<b>DnB NOR Group</b>					
	Nominal exposure	EAD <sup>1)</sup>		Risk-weighted volume	Capital requirements	Capital requirements
	30 Sept. 2011	30 Sept. 2011	Average risk-weight	30 Sept. 2011	30 Sept. 2011	31 Dec. 2010
<i>Amounts in NOK million</i>						
<b>IRB approach</b>						
Corporate	794.917	686.095	53.0 %	363.912	29.113	25.103
Specialised Lending (SL)	4.153	4.089	50.7 %	2.071	166	117
Retail - mortgage loans	527.896	527.896	12.8 %	67.593	5.407	4.533
Retail - other exposures	88.076	72.672	32.1 %	23.361	1.869	1.778
Securitisation	97.871	97.871	10.6 %	10.337	827	735
<b>Total credit risk, IRB approach</b>	<b>1512.912</b>	<b>1388.623</b>	<b>33.7 %</b>	<b>467.275</b>	<b>37.382</b>	<b>32.266</b>
<b>Standardised approach</b>						
Central government	86.629	102.367	0.1 %	54	4	146
Institutions	139.393	115.325	22.2 %	25.623	2.050	1.783
Corporate	394.708	292.362	95.4 %	278.817	22.305	19.607
Specialised Lending (SL)	0	0	0.0 %	0	0	476
Retail - mortgage loans	45.887	41.159	49.0 %	20.165	1.613	1.294
Retail - credit card exposures (QRRE)	1	1	75.0 %	0	0	0
Retail - other exposures	82.160	43.847	74.3 %	32.563	2.605	2.474
Equity positions	3.939	3.939	102.3 %	4.028	322	372
Securitisation	5.300	5.300	19.1 %	1.013	81	117
Other assets	12.494	12.494	100.0 %	12.494	999	688
<b>Total credit risk, standardised approach</b>	<b>770.511</b>	<b>616.793</b>	<b>60.8 %</b>	<b>374.757</b>	<b>29.981</b>	<b>26.957</b>
<b>Total credit risk</b>	<b>2.283.424</b>	<b>2.005.416</b>	<b>42.0 %</b>	<b>842.032</b>	<b>67.363</b>	<b>59.224</b>
<b>Market risk, standardised approach</b>				38.775	3.102	2.466
Of which: Position risk, equity and debt instruments				38.775	3.102	2.466
Currency risk				0	0	0
<b>Operational risk</b>				61.944	4.956	4.956
Net insurance, after eliminations				118.726	9.498	9.008
<b>Deductions</b>				(700)	(56)	(39)
Total risk-weighted volume and capital requirements before transitional rule				1.060.777	84.862	75.614
Additional capital requirements according to transitional rules <sup>2)</sup>				65.611	5.249	6.658
<b>Total risk-weighted volume and capital requirements</b>				<b>1.126.388</b>	<b>90.111</b>	<b>82.272</b>

1) EAD, exposure at default.

2) Due to transitional rules, the minimum capital adequacy requirements for 2010 and 2011 cannot be reduced below 80 per cent relative to the Basel I requirements.

## 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	
	30 Sept. 2011	31 Dec. 2010
<i>Amounts in NOK million</i>		
Share capital	1.577	1.577
Other equity	11.171	11.171
Total equity	12.748	12.748
Deductions		
50 per cent of expected losses exceeding actual losses, IRB portfolios	(187)	(152)
Adjustments for unrealised losses/(gains) on liabilities recorded at fair value	(753)	(753)
Tier 1 capital	11.808	11.843
Term subordinated loan capital	3.080	3.080
50 per cent of expected losses exceeding actual losses, IRB portfolios	(187)	(152)
Supplementary capital	2.823	2.928
Total eligible primary capital	14.631	14.772
Risk-weighted volume	182.333	159.126
Minimum capital requirement	14.587	12.730
Tier 1 capital ratio (%)	6.5	7.4
Capital ratio (%)	8.0	9.3

### Minimum capital requirement

Amounts in NOK million	DnB NOR Boligkreditt AS				
	Exposure	EAD	Average risk weight	Risk-weighted volume	Capital requirements
IRB approach					
Corporate	13.413	13.413	62.9 %	8.430	674
Retail - residential property	450.144	450.144	10.7 %	48.294	3.864
Total credit risk, IRB approach	463.557	463.557	12.2 %	56.724	4.538
Standardised approach					
Institutions	24.178	24.178	20.0 %	4.836	387
Corporate	8.115	8.113	35.0 %	2.840	227
Retail - residential property	13.652	13.652	33.7 %	4.602	368
Total credit risk, standardised approach	45.945	45.944	26.7 %	12.277	982
Other assets	727	727	100.0 %	727	58
Total credit risk	510.229	510.228	13.7 %	69.729	5.578
Operational risk				3.176	254
Deductions				0	0
Total risk-weighted volume and capital requirements before additional requirements				72.905	5.832
Additional capital requirements due to transitional rules <sup>1)</sup>				109.428	8.754
Capital requirements				182.333	14.587

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

## 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 NOR. From the third quarter 2011, the subsidiaries in Latvia and Lithuania are transferred from DnB NOR to DnB NOR.

Primary capital	Nordlandsbanken		DnB NOR Næringskreditt		Latvia	Lithuania	Denmark*	DnB NOR
	30 Sept. 2011	31 Dec. 2010	30 Sept. 2011	31 Dec. 2010	30 Sept. 2011	30 Sept. 2011	30 Sept. 2011	31 Dec. 2010
<i>Amounts in NOK million</i>								
Share capital	625	625	550	550	1499	1500	13.531	8.455
Other equity	1276	1276	4.816	4.816	982	646	(4.319)	(4.255)
Total equity	1901	1901	5.366	5.366	1777	1987	9.212	4.201
Deductions								
Goodwill	0	0	0	0	(3)	0	(629)	(428)
Deferred tax assets	(13)	(13)	(0)	(0)	(72)	(68)	(38)	(173)
Other intangible assets	(34)	(42)	0	0	(7)	(13)	(563)	(396)
Additions	0	0	0	0	0	0	0	0
Equity Tier 1 capital	1855	1847	5.366	5.366	1695	1906	7.982	3.204
Perpetual subordinated loan capital securities	0	0	0	0	0	0	0	1.172
Tier 1 capital	1855	1847	5.366	5.366	1695	1906	7.982	4.376
Perpetual subordinated loan capital	200	200	0	0	0	0	0	0
Term subordinated loan capital	500	500	0	0	0	611	350	4.226
Additions	0	0	0	0	0	0	0	0
Tier 2 capital	700	700	0	0	0	611	350	4.226
Total eligible primary capital	2.555	2.547	5.366	5.366	1.695	2.518	8.332	8.602
Risk-weighted volume	26.766	27.479	20.695	17.796	14.478	18.878	28.625	59.731
Minimum capital requirement	2.141	2.198	1.656	1.424	1.158	1.510	2.290	4.778
Tier 1 capital ratio (%)	6.9	6.7	25.9	30.2	11.7	10.1	27.9	7.3
Capital ratio (%)	9.5	9.3	25.9	30.2	11.7	13.3	29.1	14.4

\*The company in Denmark consists of portfolios in Denmark and Finland, a branch in Estonia and the subsidiary in Poland.

Specification of risk-weighted volume and capital requirements as at September 30<sup>th</sup> 2011<sup>1)</sup>

Amounts in NOK million	Nordlandsbanken		DnB NOR Næringskreditt <sup>2)</sup>	
	Risk-weighted volume	Capital requirements	Risk-weighted volume	Capital requirements
Central and regional government	7	1	0	0
Institutions	723	58	87	7
Corporate	13.672	1.094	20.396	1.632
Retail - residential property	7.629	610	0	0
Other retail	3.180	254	0	0
Other assets	489	39	0	0
<b>Total credit risk</b>	<b>25.700</b>	<b>2.056</b>	<b>20.483</b>	<b>1.639</b>
Market risk, standardised approach	0	0	0	0
Of which:				
Position risk	0	0	0	0
Currency risk	0	0	0	0
Operational risk	1.125	90	220	18
Deductions	(58)	(5)	(8)	(1)
<b>Total</b>	<b>26.766</b>	<b>2.141</b>	<b>20.695</b>	<b>1.656</b>

- 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

DnB NORD Amounts in NOK million	Latvia		Lithuania		Denmark*	
	Risk-weighted volume	Capital requirements	Risk-weighted volume	Capital requirements	Risk-weighted volume	Capital requirements
Central and regional government	0	0	0	0	0	0
Institutions	131	11	520	42	1.676	134
Corporate	3.993	319	10.825	866	16.557	1.325
Retail - residential property	2.178	174	1.929	154	1.603	128
Other retail	5.574	446	2.791	223	3.699	296
Other assets	1.307	105	625	50	875	70
<b>Total credit risk</b>	<b>13.183</b>	<b>1.055</b>	<b>16.690</b>	<b>1.335</b>	<b>24.410</b>	<b>1.953</b>
Market risk, standardised approach	219	18	593	47	255	20
Of which:						
Position risk	0	0	280	22	0	0
Currency risk	219	18	313	25	255	20
Operational risk	1.076	86	1.595	128	4.075	326
Deductions	0	0	0	0	(116)	(9)
<b>Total</b>	<b>14.478</b>	<b>1.158</b>	<b>18.878</b>	<b>1.510</b>	<b>28.625</b>	<b>2.290</b>

\*The company in Denmark consists of portfolios in Denmark and Finland, a branch in Estonia and the subsidiary in Poland.

## More about the minimum requirement concerning operational risk

Operational risk is the risk of losses due to deficiencies or errors in processes 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 2010, 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.

### Operational risk on business area<sup>1)</sup> - standardised approach

Amounts in NOK million	DnB NOR Bank ASA		
	Risk-weighted volumes 31 Dec. 2010	Risk weights 31 Dec. 2010	Capital requirements 31 Dec. 2010
Corporate finance	314	18 %	56
Trading and sales	3.921	18 %	706
Retail brokerage	521	12 %	63
Commercial banking	13.995	15 %	2.099
Retail banking	9.152	12 %	1.098
Payment end settlements	504	18 %	91
Agency services	182	15 %	27
Asset management	243	12 %	29
<b>Total operational risk</b>	<b>28.832</b>		<b>4.169</b>

Amounts in NOK million	DnB NOR Bank Group		
	Risk-weighted volumes 31 Dec. 2010	Risk weights 31 Dec. 2010	Capital requirements 31 Dec. 2010
Corporate finance	401	18 %	72
Trading and sales	3.985	18 %	717
Retail brokerage	532	12 %	64
Commercial banking	13.244	15 %	1.987
Retail banking	12.532	12 %	1.504
Payment end settlements	512	18 %	92
Agency services	173	15 %	26
Asset management	268	12 %	32
Total standardised approach	31.649		4.494
Total basic indicator approach	2.633	15 %	395
<b>Total operational risk</b>	<b>34.282</b>		<b>4.889</b>

Amounts in NOK million	DnB NOR Group		
	Risk-weighted volumes 31 Dec. 2010	Risk weights 31 Dec. 2010	Capital requirements 31 Dec. 2010
Corporate finance	393	18 %	71
Trading and sales	3.952	18 %	711
Retail brokerage	529	12 %	63
Commercial banking	13.112	15 %	1.967
Retail banking	12.532	12 %	1.504
Payment end settlements	509	18 %	92
Agency services	171	15 %	26
Asset management	268	12 %	32
Total standardised approach	31.467		4.466
Total basic indicator approach	3.284	15 %	493
<b>Total operational risk</b>	<b>34.751</b>		<b>4.958</b>

1) Business areas according to Finanstilsynet's definition

## Operational risk subsidiaries - standardised approach

<i>Amounts in NOK million</i>	<b>Nordlandsbanken ASA</b>		
	Risk-weighted volumes 31 Dec. 2010	Risk weights 31 Dec. 2010	Capital requirements 31 Dec. 2010
Trading and sales	(14)	18 %	(3)
Commercial banking	391	15 %	59
Retail banking	294	12 %	35
Agency services	(9)	15 %	(1)
<b>Total operational risk</b>	<b>661</b>		<b>90</b>

<i>Amounts in NOK million</i>	<b>DnB NOR Boligkreditt AS</b>		
	Risk-weighted volume 31 Dec. 2010	Risk weight 31 Dec. 2010	Capital requirement 31 Dec. 2010
Retail banking	2.118	12 %	254

## Operational risk subsidiaries – basic indicator approach

<i>Amounts in NOK million</i>	Capital requirements		
	Risk-weighted volumes 31 Dec. 2010	Risk weights 31 Dec. 2010	31 Dec. 2010
DnB NORD	2.150	15 %	322
DnB NOR Asset Management	651	15 %	98
Eksportfinans (40%)	367	15 %	55
DnB NOR Næringskreditt	117	15 %	18
<b>Total operational risk</b>	<b>3.284</b>		<b>493</b>

## 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<sup>st</sup> December 2010. Ordinary subordinated loan capital and perpetual subordinated loan capital securities in associated companies are also included in capital adequacy calculations by NOK 607 million and NOK 181 million respectively.

<i>Amounts in NOK million</i>	<b>DnB NOR Group</b>	
	31 Dec. 2010	31 Dec. 2009
Term subordinated loan capital, nominal amount	17.167	22.455
Perpetual subordinated loan capital, nominal amount	7.005	6.830
Perpetual subordinated loan capital securities, nominal amount <sup>1)</sup>	8.241	8.468
Adjustments	1.065	1.297
<b>Total subordinated loan capital and perpetual subordinated loan capital securities</b>	<b>33.479</b>	<b>39.051</b>

<i>Amounts in NOK million</i>	<b>Changes in subordinated loan capital and perpetual subordinated loan capital securities</b>					<b>DnB NOR Group</b>	
	Balance sheet 31 Dec. 2010	Issued 2010	Matured/ redeemed 2010	Exchange rate movements 2010	Other adjustments 2010	Balance sheet 31 Dec. 2009	
Term subordinated loan capital, nominal amount	17.167		4.704	(583)		22.455	
Perpetual subordinated loan capital, nominal amount	7.005			175		6.830	
Perpetual subordinated loan capital securities, nominal amount <sup>1)</sup>	8.241			(227)		8.468	
Adjustments	1.065				(232)	1.297	
<b>Total subordinated loan capital and perpetual subordinated loan capital securities</b>	<b>33.479</b>	<b>0</b>	<b>4.704</b>	<b>(636)</b>	<b>(232)</b>	<b>39.051</b>	

Year raised	Recorded value in foreign currency		Interest rate	Maturity	<b>DnB NOR Group</b>	
					Call date	Recorded value in NOK
Term subordinated loan capital						
2004	EUR	11	6-month EURIBOR + 2,40%	2014	2009	86
2004	EUR	200	3-month EURIBOR + 0,30%	2016	2011	1.563
2006	EUR	500	3-month EURIBOR + 0,20%	2017	2012	3.907
2006	USD	500	3-month LIBOR + 0,23%	2016	2011	2.923
2007	GBP	150	6,52% p.a.	2017	2012	1.358
2008	GBP	250	6,17% p.a.	2018	2013	2.263
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	3.621
Other						(3)
<b>Total, nominal amount</b>						<b>17.167</b>
Perpetual subordinated loan capital						
1985	USD	215	3-month LIBOR + 0.25%			1.257
1986	USD	150	6-month LIBOR + 0.15%			877
1986	USD	200	6-month LIBOR + 0.13%			1.169
1996	JPY	3.000	4.00% p.a.		2011	216
1996	JPY	7.000	4.00% p.a.		2011	503
1999	JPY	10.000	4.51% p.a.		2029	719
2006	GBP	250	4.88% p.a.		2011	2.263
Other						1
<b>Total, nominal amount</b>						<b>7.005</b>
Perpetual subordinated loan capital securities <sup>1)</sup>						
2001	USD	400	7.73% p.a.		2011	2.338
2002	EUR	350	7.07% p.a.		2012	2.735
2007	GBP	350	6.01% p.a.		2017	3.168
<b>Total, nominal amount</b>						<b>8.241</b>

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.

# Risk management and control, capitalisation

The Board of Directors of DnB NOR ASA has a clearly stated goal to maintain a low overall risk profile, which is reflected in the DnB NOR Bank Group's aim to maintain at least an AA level rating for ordinary long-term debt. The profitability of DnB NOR will depend on the Group's ability to identify, manage and accurately price risk arising in connection with financial services. 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 business review, pages 43-45.

## **Organisation and authorisation structure**

- *Board of Directors.* The Board of Directors of DnB NOR ASA sets long-term targets for the Group's risk profile. The risk profile is operationalised through the risk management framework, including the establishment of authorisations. Risk-taking should take place within established limits.
- *Authorisations.* Authorisations must be in place for the extension of credit and for position and trading limits in all critical financial areas. All authorisations are personal. Authorisations and group limits are determined by the Board of Directors and can be delegated in the organisation, though any further delegation requires approval by an immediate superior.
- *Annual review of limits.* Risk limits are reviewed at least annually in connection with budget and planning processes.
- *Independent risk management functions.* Risk management functions and the development of risk management tools are undertaken by units that are independent of operations in the individual business areas.

## **Monitoring and use**

- *Accountability.* All executives are responsible for risk within their own area of responsibility and must consequently be fully updated on the risk situation at all times.
- *Risk reporting.* Risk reporting in the Group ensures that all executives have the necessary information about current risk levels and future developments. To ensure high-quality, independent risk reports, responsibility for reporting is assigned to units that are independent of the operative units.
- *Capital assessment.* A summary and analysis of the Group's capital and risk situation is presented in a special risk report to the Board of Directors in DnB NOR ASA.
- *Use of risk information.* Risk is an integral part of the management and monitoring of business areas. Return on risk-adjusted capital is reflected in product pricing, profit calculations and in monitoring performance in the business areas.

## **Relevant risk measures**

- *A common risk measure for the Group.* The Group's risk is measured in the form of risk-adjusted capital, calculated for main risk categories and for all of the Group's business areas.
- *Supplementary risk measure.* In addition, risk is followed up through supplementary risk measures adapted to operations in the various business areas, for example monitoring of positions relative to limits, key figures and portfolio risk targets.

## **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 transactions and exposure in the foreign exchange, interest rate, commodity and equity markets.
- *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.
- *Market risk in life insurance* is the risk that the return on financial assets will not be sufficient to meet the obligations specified in insurance policies.
- *Insurance risk* comprises risk in life insurance and risk in non-life insurance. Within life insurance, risk is related to changes in future insurance obligations due to changes in life expectancy and disability rates.

Within non-life insurance, insurance risk comprises premium risk, reserve risk and natural disaster 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 changes in external factors such as the market situation or government regulations. This risk category also includes reputational risk.

## Risk measurement and risk-adjusted capital

Calculations of profitability are based on internal calculations of economic capital – risk-adjusted capital. The quantification of risk-adjusted capital 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 target 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 are reported each quarter. Risk-adjusted return is a measurement parameter in the pricing model and is reported monthly in automated management systems. Risk-adjusted capital is also used as decision support for risk management.

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 risk in life insurance, insurance risk, operational risk and business risk. 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.

## Estimated risk level

At end-December 2010, net risk-adjusted capital for the Group was estimated at NOK 59 billion, a decline of NOK 3 billion from end-December 2009. Risk-adjusted capital for credit was NOK 45 billion, down NOK 5 billion from a year earlier. The reduction reflects a general improvement in the economy and a lower probability of default in the credit portfolios

Table. Risk-adjusted capital for the DnB NOR Group

<i>NOK billion</i>	<i>31. des. 2010</i>	<i>31. des. 2009</i>
Credit risk	45,5	50,9
Market risk	4,9	3,7
Market risk in life insurance	12,9	10,3
Insurance risk	1,8	1,6
Operational risk	7,7	7,2
Business risk	4,5	4,1
Risk-adjusted capital before diversification effects	77,3	77,6
Diversification effects <sup>1)</sup>	(18,5)	(16,2)
Risk-adjusted capital after diversification effects	58,8	61,5
Diversification effects in per cent of Risk-adjusted capital	23,9	20,8

1) *Diversification effects refers to the effect of operating within various areas, where losses are not expected to incur simultaneously.*

Credit growth in the corporate market, both in Norway and internationally, increased somewhat during 2010 compared with 2009. Parallel to this, credit quality improved in terms of both reduced probability of default and a decline in actual loan-loss provisions. Shipping losses remained low in spite of significant deliveries of new vessels in most segments. China and other Asian countries maintained economic growth and ensured satisfactory utilisation of the fleet.

Credit quality improved in that 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. The international

financial crisis had little impact on Norwegian private households. 2010 saw continued low unemployment, healthy wage growth, low housing loan rates and an increase in housing prices. There was stable growth in the housing loan portfolio during 2010.

The Group is to some extent affected by the continued weak trend in the international economy, especially in the Baltic States. However, write-downs in DnB NOR were reduced in 2010, and the Baltic economies show signs of stabilisation. There was a moderate level of write-downs on the portfolio of loans to Norwegian companies, while there was a very low level of write-downs on loans to personal customers in Norway.

During 2010, the Group made extensive efforts to ensure the value of problem commitments. A number of problem commitments were restructured, with a positive result.

The uncertainty relating to DnB NOR will continue, and economic developments in the Baltic States will be vital to the level of write-downs.

Risk-adjusted capital for market risk rose from NOK 3.7 billion at the end of 2009 to NOK 4.9 billion at end-December 2010. The increase mainly reflected a revaluation of equity investments.

DnB NOR enjoyed a sound liquidity situation at end-December 2010. The average remaining term to maturity for the portfolio of senior bond debt was 3.6 years at end-December 2010, an increase from 3.0 years a year earlier. The Group aims to achieve a sound and stable maturity structure for funding over the next five years.

Throughout 2010, the short-term funding markets were sound and stable for banks with good credit ratings, and the access to funding volumes with different maturities was close to normal. However, as the group of international banks which were considered to be well qualified grew during the year, competition for funding increased somewhat.

Financially strong banks generally had good access to long-term funding. At times, however, uncertainty regarding European sovereign debt had pronounced effects on price levels, and the markets were thus still challenging at the end of the year.

DnB NOR enjoyed a sound liquidity situation at end-December 2010. The average remaining term to maturity for the portfolio of senior bond debt was 3.6 years at end-December 2010, an increase from 3.0 years a year earlier. The Group aims to achieve a sound and stable maturity structure for funding over the next five years.

The DnB NOR Group reported risk-adjusted capital for market risk in life insurance of NOK 12.9 billion at the end of 2010 and NOK 10.3 billion at end-December 2009.

At the end of 2010, the average annual guaranteed return was 3.3 per cent. The yield on Norwegian 10-year government bonds declined from 4.2 per cent at year-end 2009 to 3.7 per cent at end-December 2010. In consequence, overall long-term financial risk in Vital increased somewhat.

At end-December 2010, risk-adjusted capital for operational risk was estimated at NOK 7.7 billion. A total of 454 operational loss events were reported during 2010, causing an overall net loss of NOK 182 million. Potential losses relating to the same events represented just under NOK 1.3 billion, which was roughly on a level with previous years.

The DnB NOR Group's risk-adjusted capital for insurance risk was NOK 1.8 billion at year-end 2010, compared with NOK 1.6 billion at end-December 2009.

Insurance risk in life insurance primarily relates to the need for provisions for higher future insurance payments due to an increase in average life expectancy. At year-end 2010, risk-adjusted capital was estimated at NOK 1 billion, virtually unchanged from year-end 2009. Risk-adjusted capital in DnB NOR Skadeforsikring was estimated at NOK 0.8 billion.

Risk-weighted volume included in the calculation of the formal capital adequacy requirement was NOK 1 028 billion at end-December 2010, down 2 per cent from 2009. The transitional rules which apply until year-end 2011 allow a maximum reduction in risk-weighted volume of 20 per cent. This transitional floor applied at year-end 2010. The Tier 1 capital ratio was 10.1 per cent at end-December 2010 and 9.3 per cent at year-end 2009, while the capital adequacy ratio was 12.4 per cent at year-end 2010.

# 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 cash 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 <sup>1)</sup>**

<i>Amounts in NOK million</i>	Loans and receivables		Guarantees <sup>2)</sup>		Unutilised credit lines <sup>3)</sup>		<b>DnB NOR Group</b>	
	Total commitments							
	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009
Retail customers	559.062	531.761	283	281	99.357	84.550	658.701	616.592
International shipping	133.926	122.500	9.748	15.973	38.430	28.063	182.104	166.536
Real estate	175.806	156.771	2.173	1.539	19.828	10.898	197.807	169.208
Manufacturing	47.897	46.097	10.438	10.345	38.856	34.127	97.191	90.569
Services	73.961	95.108	5.105	5.583	23.941	27.491	103.007	128.182
Trade	33.942	36.335	4.413	3.326	20.662	21.486	59.016	61.148
Oil and gas	18.076	17.063	8.439	6.261	26.653	18.490	53.168	41.814
Transportation and communication	29.421	26.105	4.139	4.899	17.418	28.380	50.979	59.384
Building and construction	35.790	29.843	8.931	7.342	15.222	14.358	59.943	51.544
Power and water supply	22.843	14.111	12.355	8.792	17.287	15.077	52.485	37.980
Seafood	13.893	14.438	191	395	4.652	3.234	18.737	18.068
Hotels and restaurants	5.121	5.706	127	119	1.053	1.179	6.300	7.004
Agriculture and forestry	7.499	7.664	37	58	900	889	8.437	8.611
Central and local government	6.042	5.142	2.844	2.958	5.137	4.510	14.023	12.610
Other sectors	6.731	7.044	4.848	5.151	20.637	38.196	32.216	50.391
Total customers, nominal amount								
after individual write-downs	1.170.011	1.115.690	74.071	73.022	350.033	330.928	1.594.115	1.519.638
- Collective write-downs, customers	1.872	2.969	-	-	-	-	1.872	2.969
+ Other adjustments	2.202	2.165	95	(207)	0	0	2.297	1.958
<b>Lending to customers</b>	<b>1.170.341</b>	<b>1.114.886</b>	<b>74.166</b>	<b>72.815</b>	<b>350.033</b>	<b>330.928</b>	<b>1.594.540</b>	<b>1.518.627</b>
*) Average	1.142.851	1.155.152	67.807	76.746	324.204	328.576	1.534.860	1.557.031
Credit institutions, nominal amount								
after individual write-downs	47.714	62.228	2.085	4.891	11.484	10.933	61.283	78.052
+ Other adjustments	77	89	0	0	-	-	77	89
<b>Lending to and deposits with credit institutions</b>	<b>47.792</b>	<b>62.317</b>	<b>2.085</b>	<b>4.891</b>	<b>11.484</b>	<b>10.933</b>	<b>61.360</b>	<b>78.141</b>
*) Average	54.971	67.574	3.488	4.858	11.209	11.264	69.668	76.940

1) The breakdown into principal sectors is based on standardised sector and industry categories set up by Statistics Norway.

2) With effect from 2010, documentary credit commitments which are not related to deliveries of goods have been reclassified from documentary credit commitments to performance guarantees. Figures for 2009 have been adjusted accordingly.

3) Unutilised credit lines have been changed in line with the Basel II definition. Figures for 2009 have thus been increased by NOK 33 billion.

**Non-performing and impaired commitments for principal sectors**

Net non-performing and impaired commitments totalled NOK 18.4 billion at year-end 2010, compared with NOK 19.1 billion a year earlier. Non-performing commitments not subject to write-downs represented NOK 2.3 billion at year-end 2010, a reduction of NOK 2.4 bn from year-end 2009. In percent of lending volume the figures represented 0.2 percent at year-end 2010, compared with 0.4 percent a year earlier.

<i>Amounts in NOK million</i>	Gross impaired commitments		Total individual write-downs		<b>DnB NOR Group</b>	
	Net impaired commitments					
	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009
Retail customers <sup>2) 3)</sup>	6.727	5.428	2.246	1.589	4.481	3.838
International shipping	1.144	1.610	335	513	810	1.097
Real estate	3.742	3.464	1.239	1.205	2.503	2.259
Manufacturing	4.865	4.571	1.700	1.151	3.165	3.420
Services and management	2.378	1.653	857	913	1.521	740
Trade	1.515	1.432	817	764	698	668
Oil and gas	0	0	0	0	0	0
Transportation and communication	977	1.048	487	515	490	533
Building and construction	2.777	1.954	1.067	778	1.710	1.176
Power and water supply	188	15	162	5	25	9
Seafood	52	57	41	47	10	10
Hotels and restaurants	481	361	130	135	351	226
Agriculture and forestry	441	412	162	108	279	304
Central and local government	0	0	0	0	0	0
Other sectors	81	145	29	24	53	121
Total customers	25.368	22.151	9.272	7.748	16.097	14.403
Credit institutions	1	1	1	1	0	0
Total impaired loans and guarantees	25.369	22.152	9.273	7.749	16.097	14.403
Non-performing loans and guarantees not subject to write-downs <sup>2)</sup>	2.313	4.724	-	-	2.313	4.724
Total non-performing and impaired commitments	27.682	26.876	9.273	7.749	18.409	19.127

**Commitments according to geographical location <sup>1)</sup>**

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

**DnB NOR Group**

Amounts in NOK million	Loans		Guarantees <sup>2)</sup>		Unutilised credit lines <sup>3)</sup>		Total commitments	
	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009
Oslo	211.013	195.613	19.648	19.285	72.656	98.071	303.317	312.969
Eastern and southern Norway	386.727	376.933	17.261	18.681	106.159	86.646	510.147	482.260
Western Norway	146.273	137.234	7.450	8.708	37.270	35.458	190.992	181.400
Northern and central Norway	156.597	144.002	7.378	7.159	32.625	26.947	196.599	178.108
<b>Total Norway</b>	<b>900.609</b>	<b>853.782</b>	<b>51.737</b>	<b>53.833</b>	<b>248.710</b>	<b>247.122</b>	<b>1.201.055</b>	<b>1.154.737</b>
Sweden	68.062	65.607	3.620	1.907	19.954	14.690	91.637	82.204
United Kingdom	25.094	33.990	4.450	5.671	1.147	3.062	30.691	42.722
Other Western European countries	60.229	66.379	5.476	3.982	28.987	21.916	94.693	92.277
Russia	1.360	1.690	43	21	131	79	1.533	1.790
Estonia	2.841	2.327	29	8	80	172	2.951	2.507
Latvia	18.242	20.531	492	829	844	638	19.577	21.999
Lithuania	22.690	26.948	441	452	1.806	1.666	24.938	29.066
Poland	14.408	12.840	690	736	1.786	2.231	16.884	15.807
Other Eastern European countries	251	143	73	15	3	1	326	159
<b>Total Europe outside Norway</b>	<b>213.177</b>	<b>230.454</b>	<b>15.313</b>	<b>13.622</b>	<b>54.738</b>	<b>44.456</b>	<b>283.229</b>	<b>288.531</b>
USA and Canada	25.573	27.223	5.017	7.659	33.076	28.381	63.665	63.262
Bermuda and Panama <sup>4)</sup>	17.828	16.222	324	527	7.449	5.258	25.601	22.007
South and Central American countries	6.109	3.492	2.353	620	6.004	5.473	14.466	9.585
<b>Total America</b>	<b>49.510</b>	<b>46.937</b>	<b>7.694</b>	<b>8.806</b>	<b>46.529</b>	<b>39.111</b>	<b>103.733</b>	<b>94.854</b>
Singapore <sup>4)</sup>	14.845	13.707	332	835	2.301	2.426	17.479	16.968
Hong Kong	3.780	3.365	7	22	856	844	4.643	4.231
Asian countries	13.067	9.025	386	491	990	1.201	14.443	10.718
<b>Total Asia</b>	<b>31.692</b>	<b>26.098</b>	<b>725</b>	<b>1.348</b>	<b>4.147</b>	<b>4.471</b>	<b>36.565</b>	<b>31.917</b>
Liberia <sup>4)</sup>	10.919	8.170	255	101	3.128	2.176	14.301	10.448
African countries	2.394	1.874	112	248	398	10	2.905	2.131
Australia, New Zealand and Marshall Islands <sup>4)</sup>	18.632	18.277	385	32	3.867	4.515	22.884	22.824
Lending and guarantees <sup>5)</sup>	1.226.935	1.185.592	76.220	77.989	361.517	341.860	1.664.671	1.605.443
- Individual write-downs	9.208	7.674	65	76	-	-	9.273	7.749
- Collective write-downs	1.872	2.969	0	0	-	-	1.872	2.969
+ Other adjustments	2.279	2.254	95	(207)	-	-	2.374	2.047
<b>Lending and guarantees</b>	<b>1.218.133</b>	<b>1.177.203</b>	<b>76.251</b>	<b>77.706</b>	<b>361.517</b>	<b>341.860</b>	<b>1.655.900</b>	<b>1.596.771</b>

1) Based on the customer's address.

2) With effect from 2010, documentary credit commitments which are not related to deliveries of goods have been reclassified from documentar credit commitments to performance guarantees. Figures for 2009 have been adjusted accordingly.

3) Unutilised credit lines have been changed in line with the Basel II definition. Figures for 2009 have thus been increased by NOK 33 billion.

4) Represents shipping commitments.

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



## 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.

<i>Amounts in NOK million</i>	<b>DnB NOR Group</b>	
	31 Dec. 2010	31 Dec. 2008
No. of days past due/overdrawn		
1 - 29	1.238	1.210
30 - 59	466	451
60 - 89	103	140
> 90	261	441
<b>Past due loans not subject to write-downs</b>	<b>2.068</b>	<b>2.242</b>

## 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

<i>Amounts in NOK million</i>	2010				2009			
	Lending to credit institutions		Lending to customers		Lending to credit institutions		Lending to customers	
			Guarantees	Total			Guarantees	Total
Write-downs as at 1 January	1	11.249	76	11.325	11	6.358	104	6.473
New write-downs	0	3.305	16	3.321	1	4.816	19	4.835
Increase in write-downs	0	1.824	(3)	1.821	0	1.679	6	1.685
Reassessed write-downs	0	1.093	16	1.109	11	664	18	693
Write-offs covered by previous write-downs	0	2.209	8	2.217	0	1.610	17	1.627
Changes in individual write-downs of accrued interest and amortisation	0	51	-	51	0	129	-	129
Changes in collective write-downs	0	(1.077)	-	(1.077)	0	1.645	-	1.645
Changes in group structure	0	0	0	0	0	(371)	(13)	(384)
Changes due to exchange rate movement	0	(313)	0	(313)	0	(733)	(5)	(738)
<b>Write-downs as at 31 December</b>	<b>1</b>	<b>11.737</b>	<b>65</b>	<b>11.803</b>	<b>1</b>	<b>11.249</b>	<b>76</b>	<b>11.325</b>
<i>Of which: Individual write-downs</i>	<i>1</i>	<i>9.207</i>	<i>65</i>	<i>9.273</i>	<i>1</i>	<i>7.673</i>	<i>76</i>	<i>7.749</i>
<i>Individual write-downs of accrued interest and amortisation</i>	<i>0</i>	<i>658</i>	<i>-</i>	<i>658</i>	<i>0</i>	<i>607</i>	<i>-</i>	<i>607</i>
<i>Collective write-downs</i>	<i>0</i>	<i>1.872</i>	<i>-</i>	<i>1.872</i>	<i>0</i>	<i>2.969</i>	<i>-</i>	<i>2.969</i>

### Income statement

<i>Amounts in NOK million</i>	2010			2009			
	Lending <sup>1)</sup>	Guarantees	Total	Lending <sup>1)</sup>	Guarantees	Total	
Write-offs <sup>2)</sup>	459	0	459	547	7	554	
New individual write-downs <sup>3)</sup>	5.128	13	5.141	6.496	25	6.521	
Total new individual write-downs	5.587	13	5.600	7.043	32	7.075	
Reassessed individual write-downs	1.092	16	1.109	675	18	693	
Recoveries on commitments previously written off	418	0	418	317	0	317	
Net individual write-downs	4.077	(3)	4.074	6.051	14	6.065	
Changes in collective write-downs on loans <sup>3)</sup>	(1.077)	-	(1.077)	1.645	-	1.645	
<b>Write-downs on loans and guarantees</b>	<b>3.000</b>	<b>(3)</b>	<b>2.997</b>	<b>7.696</b>	<b>14</b>	<b>7.710</b>	
Write-offs covered by individual write-downs made in previous years		2.209	8	2.217	1.610	17	1.627

1) Including write-downs on loans at fair value.

2) Including a NOK 98 million adjustment for commitments previously written down in 2010.

3) In the first quarter of 2010, collective write-downs of NOK 284 million were reclassified as individual write-downs following more precise identification of impairment on individual commitments in sub-portfolios in DnB NORD.

**Write-downs on loans and guarantees for principal sectors <sup>1)</sup>**

<i>Amounts in NOK million</i>	2010				2009			
	New	Reassessed	Recoveries on	Net	New	Reassessed	Recoveries on	Net
	individual	individual	commitments	Net	individual	individual	commitments	Net
	write-downs	write-downs	previously	write-downs	write-downs	previously	written off	write-downs
			written off					
Retail customers <sup>2) 3)</sup>	1.830	110	307	1.414	1.444	129	253	1.061
International shipping	356	63	12	281	544	1	23	520
Real estate	805	335	8	462	1.076	105	1	970
Manufacturing	835	98	1	736	945	180	0	765
Services and management	345	161	61	123	617	39	5	574
Trade	368	126	3	240	959	79	2	878
Oil and gas	3	0	0	3	0	0	0	0
Transportation and communication	192	87	2	103	396	42	17	337
Building and construction	487	86	8	393	678	41	1	637
Power and water supply	158	1	0	158	1	0	0	1
Seafood	9	0	0	9	11	21	0	(10)
Hotels and restaurants	92	16	0	76	104	13	0	92
Agriculture and forestry	95	25	1	69	81	16	1	62
Central and local government	0	0	0	0	0	3	0	(3)
Other sectors	22	0	14	9	218	16	14	187
<b>Total customers</b>	<b>5.600</b>	<b>1.109</b>	<b>416</b>	<b>4.076</b>	<b>7.075</b>	<b>686</b>	<b>317</b>	<b>6.073</b>
Credit institutions	0	0	2	(2)	0	7	0	(8)
Changes in collective write-downs on loans <sup>2)</sup>	-	-	-	(1.077)	-	-	-	1.645
<b>Write-downs on loans and guarantees</b>	<b>5.600</b>	<b>1.109</b>	<b>418</b>	<b>2.997</b>	<b>7.075</b>	<b>693</b>	<b>317</b>	<b>7.710</b>
<i>Of which individual write-downs on guarantees</i>	13	16	0	(3)	32	18	0	14

1) The breakdown into principal sectors is based on standardised sector and industry categories set up by Statistics Norway.

2) In the first quarter of 2010, collective write-downs of NOK 284 million were reclassified as individual write-downs following more precise identification of impairment on individual commitments in sub-portfolios in DnB NORD.

3) Including a NOK 98 million adjustment for commitments previously written down in 2010.

## 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 7 and 8.

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 are grouped in IRB categories. The following categories and risk weights are used in reporting according to the standardised approach as at 31 December 2010.

Risk Class	Standard & Poor's	Moody's	Fitch	Risk weights for different exposure classes (main rule) ie. the Capital Adequacy Regulations	
				Stater og sentralbanker	Institusjoner
	0 %	20 %	50 %		
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 %

- 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.
- 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.

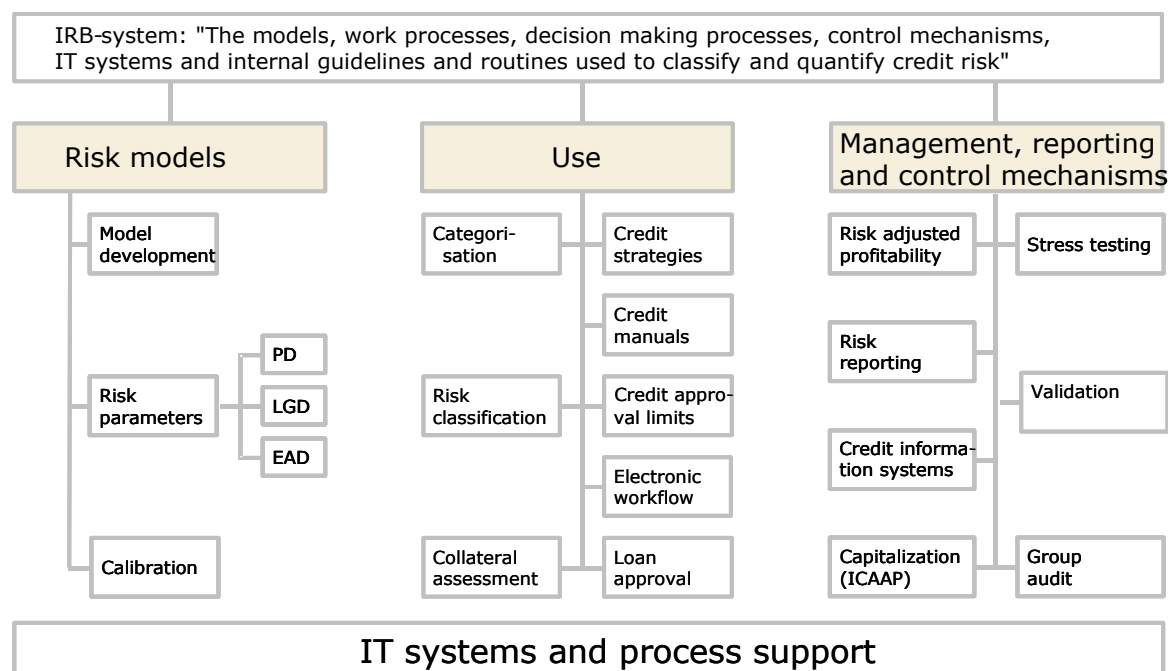
Past due commitments are not reported in a separate category, but under the categories specified above. The applicable risk weights are 100 per cent and 150 per cent depending on whether write-downs represent more or less than 20 per cent of the unsecured part of the assets before write-downs.

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 7 and 8.

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 and 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 Group's definition.

### Relationship between risk categories and probability of default

Risk class	Probability of default (per cent)	
	As from	Up to
1	0.01 <sup>1)</sup>	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 governments.

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.

Models used for portfolios with IRB approval as at 31 December 2010

Commitment category	Customer segment	Risk models		
Residential mortgage exposure	Residential mortgage financing	PD RM Application	EAD RM	LGD RM
		PD RM Behavior		
	Other retail exposure within DnB NOR Finans	PD Application/Behavior	EAD	LGD
Other Retail	Qualifying Revolving Retail Exposure	PD Application	EAD QRRE	LGD QRRE
		PD Behavior		
	Limited companies with turnover < 1000 MNOK. Property companies with a balance sheet < 200 MNOK	PD SME		
Corporates	General Partnerships with commitment < 50 MNOK	PD GP	EAD SME/GP/SP	LGD SME/GP/SP
	Sole Proprietorship with commitment < 20 MNOK	PD SP		
	Limited companies with turnover < 1000 MNOK. Property companies with with a balance sheet < 200 MNOK. Exposure in DnB NOR Finans	PD SME	EAD SME/SP	LGD SME/SP
	Sole Proprietorship with commitment < 5 MNOK. Exposure in DnB NOR Finans	PD SP		
	Large Corporates with a turnover > 1000 MNOK	PD GC	EAD LC	LGD GC
	Shipping General Corporates (SPV's excl.)	PD SGC		LGD SGC
	Leveraged Buyouts (LBO)	PD LBO		LGD LBO

### 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:

- due to a weakening of the counterparty's creditworthiness makes write-downs<sup>1</sup> representing a not insignificant amount,
- due to a weakening of the counterparty's creditworthiness sells a claim at a reduced price and the reduction represents a not insignificant amount,
- agrees on changes in terms due to the counterparty's payment problems, and this must be considered to reduce the value of the cash flow by a not insignificant amount,
- expects that debt settlement or bankruptcy proceedings will be opened against the counterparty or that the counterparty will be placed under administration,
- 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.

<sup>1</sup>) Write-downs made on the basis of portfolio analysis should not be classified as events of default.

<sup>1</sup>) The models used in the bank's IRB classification are primarily based on empirical data for the years dating back to and including the

**Risk parameters versus actual outcome**

PD-models	2008		2009		2010	
	Predicted	Observed	Predicted	Observed	Predicted	Observed
Small and medium-sized limited corporations <sup>1)</sup>	1.83 %	2.06 %	1.84 %	2.52 %	2.22 %	2.49 %
One-man businesses <sup>1)</sup>	2.33 %	1.88 %	2.21 %	1.56 %	3.62 %	1.89 %
General partnerships	2.60 %	1.34 %	1.84 %	1.76 %	2.41 %	1.85 %
Other retail - Residential mortgage financing	0.80 %	0.34 %	0.77 %	0.46 %	0.65 %	0.36 %
Other retail - Revolving credit					2.24 %	1.70 %
Other retail - Exposures within DnB NOR Finans					2.74 %	1.74 %
Large corporates					1.92 %	0.94 %

LGD-models <sup>2)</sup>	2009		2010	
	Predicted	Observed	Predicted	Observed
Small and medium-sized limited corporations	30.40%	19.70%	31.80%	20.60%
One-man businesses	23.00%	9.10%	24.70%	9.60%
General partnerships	23.30%	8.10%	32.40%	26.30%
Other retail - Residential mortgage financing			16.40%	8.60%
Other retail - Revolving credit <sup>3)</sup>			39.00%	33.50%
Other retail - Exposures within DnB NOR Finans			25.20%	17.90%
Large corporates			29.50%	8.80%

EAD-models	EAD-measures	2008	2009	2010
Small and medium-sized limited corporations	Observed/predicted EAD	89.30 %	82.00 %	77.60 %
	Acceptance ratio			47.40 %
One-man businesses	Observed/predicted EAD	89.30 %	82.00 %	77.60 %
	Acceptance ratio			36.60 %
General partnerships	Observed/predicted EAD	89.30 %	82.00 %	77.60 %
Other retail - Residential mortgage financing	Observed/predicted EAD		97.80 %	96.90 %
	Acceptance ratio	93.40 %	94.70 %	93.10 %
Other retail - Revolving credit	Observed/predicted EAD			95.50 %
Other retail - Exposures within DnB NOR Finans	Acceptance ratio			44.10 %

1) Exposures within DnB NOR Finans included in 2010.

2) Predicted LGD is normally higher for a defaulted portfolio compared to the total portfolio. Both predicted and observed LGD above are based on defaulted exposures.

3) Predicted LGD reflects the calibration level in absence of predictions from the newly developed LGD-model implemented 2010-Q3.

**Total exposure for approved IRB portfolios**

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.

Before calibration	Retail, private property					Other retail				
	Unutilised credit lines	EAD	LGD <sup>1)</sup>	KF <sup>1)</sup>	RW	Unutilised credit lines	EAD	LGD <sup>1)</sup>	KF <sup>1)</sup>	RW
NOK million										
Risk class 1										
Risk class 2	18.126	175.983	12 %	100 %	5 %	26.461	24.892	34 %	70 %	13 %
Risk class 3	11.929	146.080	12 %	100 %	8 %	5.525	8.917	34 %	76 %	22 %
Risk class 4	3.601	55.817	13 %	100 %	12 %	2.374	4.983	36 %	79 %	31 %
Risk class 5	3.685	67.249	13 %	100 %	17 %	2.174	4.822	36 %	77 %	38 %
Risk class 6	1.409	30.737	13 %	100 %	24 %	13.556	12.300	34 %	72 %	44 %
Risk class 7	428	12.859	14 %	100 %	34 %	858	2.253	36 %	84 %	52 %
Risk class 8	121	5.464	15 %	100 %	46 %	1.158	3.055	37 %	83 %	57 %
Risk class 9	30	1.817	14 %	100 %	55 %	314	1.261	34 %	86 %	55 %
Risk class 10	9	525	15 %	100 %	75 %	940	3.745	39 %	84 %	86 %
Risk class 11	0	74	18 %	100 %	96 %	17	99	46 %	73 %	127 %
Risk class 12	13	2.412	18 %	100 %	105 %	244	1.312	41 %	82 %	92 %

Before calibration	Corporate					After calibration				
	Unutilised credit lines	EAD	LGD <sup>1)</sup>	KF <sup>1)</sup>	RW	Unutilised credit lines	EAD	LGD <sup>1)</sup>	KF <sup>1)</sup>	RW
NOK million										
Risk class 1	44.417	46.460	32 %	70 %	11 %	41.445	43.931	31 %	71 %	11 %
Risk class 2	60.601	78.061	31 %	66 %	26 %	49.154	63.575	32 %	69 %	27 %
Risk class 3	51.403	108.056	28 %	67 %	36 %	55.308	104.981	28 %	64 %	36 %
Risk class 4	36.912	98.892	26 %	69 %	46 %	27.688	76.352	27 %	71 %	48 %
Risk class 5	35.647	86.368	26 %	67 %	56 %	47.054	111.253	26 %	66 %	55 %
Risk class 6	24.640	102.404	26 %	81 %	67 %	25.095	93.679	28 %	79 %	72 %
Risk class 7	5.691	25.906	25 %	72 %	66 %	12.197	47.855	24 %	75 %	67 %
Risk class 8	4.624	18.895	31 %	77 %	92 %	5.568	21.909	30 %	74 %	92 %
Risk class 9	719	5.948	25 %	68 %	86 %	1.115	7.402	27 %	66 %	91 %
Risk class 10	1.311	8.473	27 %	71 %	123 %	1.348	8.529	27 %	70 %	124 %
Risk class 11	548	5.679	36 %	67 %	177 %	548	5.679	36 %	67 %	178 %
Risk class 12	392	4.977	35 %	96 %	188 %	386	4.976	35 %	97 %	188 %

1) Average values.

The Large Corporate portfolio classified with scoring models were IRBA-approved by the Financial Regulatory Authorities in the fourth quarter of 2010, under the condition that the models were calibrated to a specific level. The levels of calibration for the corporate portfolio are being revised in 2011. Until this work is concluded, the Group will use the calculated levels for internal reporting purposes (table on the left).

**Actual value adjustments according to risk parameters****DnB NOR-group**

amounts in million kroner	Retail, private property		Other retail		Corporate		Corporate, Specialised lending	
	2010	2009	2010	2009	2010	2009	2010	2009
Write-downs	335	463	510	-	2.993	871	7	-
Expected Loss	838	1.135	1.030	-	4.772	1.312	0	-

Expected loss estimated value adjustments compared with actual value adjustments.

## 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 data<sup>1</sup>. For larger customers, the classification will also include 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 years<sup>2</sup>. 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)

---

1) 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.

2) 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.

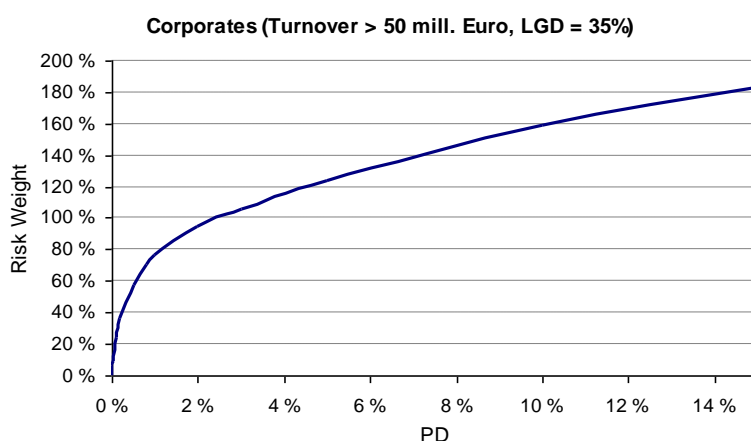
A low CCF reflects the bank's chances of discovering problems in the company and withdrawing the credit/guarantee in the event of default/bankruptcy. In consequence, banks may report different EAD levels, even for customers with an identical underlying product mix.

### 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<sup>3</sup>:



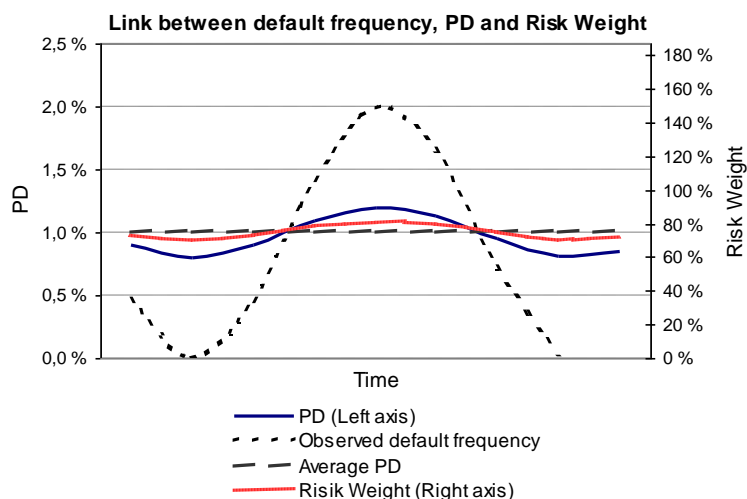
Thus, even in a scenario where PD is doubled from 1 to 2 per cent, the risk-weighted volume will not rise by more than 24 per cent, as the risk weight will increase from 76 to 95 per cent. Indeed, the increase is larger when the risk is low, whereby, for example, a doubling in PD from 1 to 2 per cent 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.

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.

<sup>3</sup>) 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.



### 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 under the Standardised approach. Consequently, DnB NOR will be less exposed to cyclicality until the IRB system is fully implemented.

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.

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.

Overall effect of cyclicality as at 31 December 2010:

Portfolio	Risk-weighted volume	Risk-weighted volume (10 % stress)	Risk-weighted volume (20 % stress)	Risk-weighted volume (30 % stress)
Total credit risk, IRB	403 331	443 664	483 997	524 330
Total credit risk, standardised approach	328 368	328 368	328 368	328 368
Total credit risk	740 298	780 631	820 964	861 297
Percentage increase in credit risk		5.4 %	10.9 %	16.3 %

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 16.3 per cent. The cyclicality will have increasing impact as major portfolios are being implemented.

## 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.

The main types of collateral used are mortgages on property, registrable movables, accounts receivable, 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.

The Group'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 Group 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.

<b>Counterparty risk, financial derivatives</b>	Nominal amount		Credit equivalent		Weighted amount	
	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009	31 Dec. 2010	31 Dec. 2009
<i>Amounts in NOK million</i>						
Gross amount before netting	5.389.200	5.165.371	160.426	141.241	54.740	53.388
Net amount after netting	446.241	295.266	82.294	70.486	39.259	36.494

### Credit derivatives used for hedging

<i>Amounts in NOK million</i>	Bought	Sold	Bought	Sold
	31 Dec. 2010	31 Dec. 2010	31 Dec. 2009	31 Dec. 2009
CDS - Credit Default Swaps	68	193	78	297
CLN - Credit Linked Notes	122	0	163	0
Total credit derivatives	190	193	241	297

## Credit risk – investment in securitisation

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". Portfolios in this category are recorded at amortised cost and written down if there is objective evidence of a decrease in value.

### Measurement

The reclassification in accordance with 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 in 2008. The markets normalized through 2009. However, due to increasing financial market turmoil resulting from the debt situation in a number of European countries, especially in the first half of 2010, there were still no observable prices for large parts of the portfolio. In order to meet the disclosure requirement at end-December 2010, 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. If the model had been applied to the liquidity portfolio in 2010, there would have been a NOK 107 million increase in profits.

### 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 2010, DnB NOR Markets' portfolio represented NOK 113 billion. 96.3 per cent of the securities in the portfolio had an AAA rating, while 3.0 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. DnB NOR Markets' liquidity portfolio is 3.4 years, and the change in value resulting from an interest rate adjustment of one basis point was NOK 34 million at end-December 2010. The structure of DnB NOR Markets' liquidity portfolio is shown below.

Asset class	DnB NOR Group	
	Per cent 31 Dec. 2010	NOK million 31 Dec. 2010
Consumer credit	2	2.190
Residential mortgages	64	73.387
Corporate loans <sup>1)</sup>	2	2.578
Government-related	31	35.909
Total liquidity portfolio DnB NOR Markets, nominal values	100	114.064
Accrued interest, including amortisation effects		(1.497)
Total liquidity portfolio DnB NOR Markets	100	112.567
Of which reclassified portfolio		54.087

In the capital adequacy calculations this portfolio is reported as an investment in securitisation. From the 3rd quarter of 2010 the portfolio has been reported according to the IRB approach. The average term to maturity of

Amounts as at 31 December 2010	NOK millions	Risk weight	Factor	DnB NOR Group
				NOK millions RWA
Rating				
AAA	108.377	7 %	1.06	8.042
AA	3.483	8 %	1.06	295
A	468	12 %	1.06	60
BBB	74	60 %	1.06	47
BB	164	425 %	1.06	739
<b>Total</b>	<b>112.567</b>			<b>9.183</b>

**Eksportfinans' liquidity portfolio**

DnB NOR Bank ASA has a 40 per cent ownership interest in Eksportfinans. In the capital adequacy calculations for DnB NOR banking group and DnB NOR Group 40 per cent of risk-weighted assets is consolidated. Eksportfinans' liquidity portfolio is reported according to the standardised approach.

**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 2010 and 2009, 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".

**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.

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

<i>Amounts in NOK million</i>	<b>DnB NOR Group</b>	
	31 Dec. 2010	31 Dec. 2009
Financial institutions	2	3
Norwegian companies	929	695
Companies based abroad	1.971	393
Mutual funds *)	1.658	1.408
Shareholdings, designated as at fair value	4.560	2.499
Net gains on shareholdings, designated as at fair value	624	149
*) <i>Of which investments in private equity funds</i>	378	381

## 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 (FRA's) 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 (Asset and Liability Committee) once a month. Limits for interest rate risk are reviewed 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.

<i>Amounts in NOK million</i>	Change in income		Unrealised gain/loss	
	31.12.10	31.12.09	31.12.10	31.12.09
NOK	(1.868)	522	(1.177)	691
EUR	111	0	111	0
Total	(1.757)	522	(1.066)	691

# Changes in the regulatory framework

The financial crisis identified a need to increase the regulation of the financial services industry in a number of areas. Proposals from the Basel Committee on Banking Supervision to strengthen banks' capital and liquidity, the so-called Basel III framework, constitute the core of the many regulatory initiatives. Parallel to this, a number of changes have been announced in the International Financial Reporting Standards, IFRS, in order to make financial reporting more robust against economic fluctuations and ensure more correct long-term reporting and improved valuation of balance sheet items. Against the same background, an international standard for the regulation of remunerations in the financial services industry has been approved, which has been followed up in Norway through approved regulations and guidelines. In June 2009, the Norwegian government appointed a commission to evaluate Norwegian financial market regulation and describe the underlying causes of the financial crisis. The commission presented its report in January 2011.

## Basel III

In December 2009, the Basel Committee launched new proposals for capital adequacy and liquidity requirements. After an extensive consultation round and quantitative impact studies, and after the main principles were endorsed by the leaders of the G20 countries, the final recommendations were presented in December 2010. The collective term for the recommendations is Basel III.

Based on the recommendations from the Basel Committee, the EU Commission will present a proposal for new rules for the financial services industry in the EU in the course of 2011. The rules will have an impact on the Norwegian financial services industry through the EEA agreement.

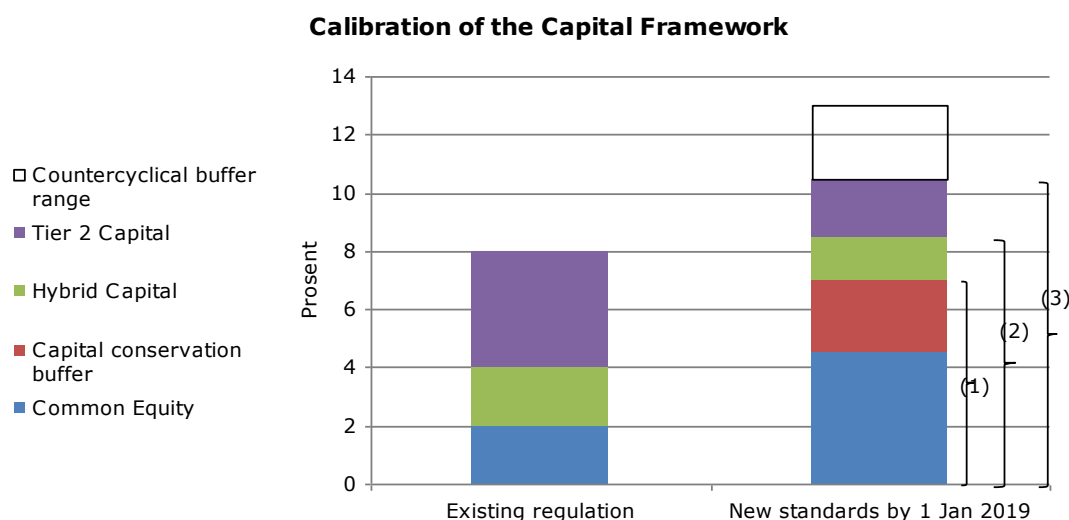
The main elements of Basel III are described below.

### New capital adequacy requirements for banks

Experience from the financial crisis identified a need to improve the quality and increase the size of banks' primary capital and introduce stricter reporting requirements.

Thus, a number of new requirements have been proposed concerning the various components included in total capital adequacy. Capital adequacy is a ratio whereby the bank's primary capital is measured against a risk-weighted calculation base which expresses the inherent risk in the bank's lending and other activities.

A new component in capital adequacy calculations is a so-called capital conservation buffer of 2.5 per cent. For practical purposes, this buffer will be included in the minimum capital adequacy requirement. The description of the minimum requirements below thus includes the capital conservation buffer. This implies that the minimum capital adequacy requirement is to be increased from 8 to 10.5 per cent of risk-weighted volume. Minimum 8.5 percentage points of this must represent Tier 1 capital, whereby Tier 2 capital can represent maximum 2 percentage points of the minimum requirement.



### Tier 1 capital requirement

Tier 1 capital may include common equity and other Tier 1 capital, so-called hybrid capital.

The new proposal implies that the common equity requirement will be increased from the current 2 per cent to 4.5 per cent. However, the common equity requirement for Norwegian banks was 3.4 per cent up until year-end 2010. With effect from 2011, the Norwegian rules have been harmonised with EU rules with respect to the

use of hybrid instruments. In consequence of Basel III, the increased access to use hybrid instruments will be of no practical significance for Norwegian banks.

The above-mentioned 2.5 per cent capital conservation buffer comes in addition to the 4.5 per cent minimum Tier 1 capital requirement and will in practice be regarded as part of the minimum requirement. The new minimum common equity requirement will thus be 7 per cent. Common equity must be fully loss absorbing and can only consist of common share capital or retained earnings. The rules concerning deductions from equity have also become stricter, though this is of less significance for Norwegian banks, which already follow strict rules.

Furthermore, up to 1.5 percentage points of Tier 1 capital may represent hybrid capital, which brings the minimum Tier 1 capital requirement to 8.5 per cent. The hybrid capital must be fully loss absorbing, which means that it must be possible to write down the capital or convert it to common equity without consequences for the bank's ordinary operations. In addition, the hybrid capital must be perpetual and offer banks no incentive to redeem. Under Basel III, there are much stricter requirements governing the actual loss absorbing capacity of hybrid capital than under previous and current regulatory frameworks.

It has been announced that a requirement may be presented whereby systemically important banks must increase Tier 1 capital beyond the above-mentioned minimum requirements.

### **Tier 2 capital requirement**

Tier 2 capital may represent up to 2 percentage points of the minimum requirement and can include term subordinated loan capital or corresponding instruments which should provide loss absorption in a situation when the bank is declared insolvent. Among other things, the instruments must have a minimum original maturity of five years. The Tier 2 capital will be required to provide loss absorption also in a situation where the bank can continue to operate as a going concern after being recapitalised by the national authorities.

### **Countercyclical capital buffer**

In addition to the above-mentioned capital conservation buffer, a so-called countercyclical capital element will also be introduced, ranging between 0 and 2.5 per cent. This element should consist of common equity, and the size of the buffer will be determined by the national supervisory authorities. It will later be considered whether the countercyclical capital buffer may also include other fully loss absorbing capital. This element will be of particular relevance during periods when total private sector credit exposures relative to GDP are above the long-term trend. During weaker economic periods, this element may be set at zero.

The total common equity requirement will thus range between 7 and 9.5 per cent, representing the minimum common equity requirement of 4.5 per cent plus a total buffer requirement, comprising the capital conservation buffer and the countercyclical capital buffer, of between 2.5 and 5 per cent, depending on the size of the countercyclical buffer.

If a bank fails to fully satisfy the buffer requirement, limitations will be placed on dividend and discretionary bonus payments etc. The limitations will be stricter the further the bank's capital base is from meeting the formal 8 per cent minimum requirement.

### **Leverage ratio**

As a supplement to the risk-weighted capital requirements and as a measure against creative adjustments and gaps in the regulations, a non-risk based capital requirement, "leverage ratio", will also be introduced. This requirement implies that Tier 1 capital must be minimum 3 per cent of the total of balance sheet items and off-balance sheet risk exposure. Off-balance sheet items are converted to on-balance sheet items according to further specified rules.

### **Improved measurement of counterparty risk**

In addition to the capital adequacy regulations, stricter and more exhaustive rules are proposed for the risk-weighting of exposures through derivatives, repurchase agreements and any indirect obligations related to securitisation. According to the new rules, such counterparty risk will be estimated based on assumptions of stressed market conditions as well as a weakening of counterparty creditworthiness.

Due to the highly complex and not very transparent derivative market, measures have also been proposed to increase standardisation in the derivatives market and the use of clearing houses.

### **New liquidity requirements for banks**

Prior to the onset of the financial crisis, there were two clear market trends: the financial system's increased dependence on money and capital market funding and on short-term funding instruments. In addition, contingent liquidity obligations had been accumulated, partially through securitisation activities and obligations relating to so-called margin requirements in derivative transactions.

In consequence of the liquidity problems during the financial crisis, two liquidity requirements have been proposed to achieve two separate, but complementary objectives. The first objective is to promote the short-term resilience of the liquidity risk profile of banks by ensuring that they have sufficient high-quality liquid

assets to survive an acute stress scenario lasting for a month. The liquidity coverage ratio, LCR, was developed to achieve this objective.

The liquidity requirement, LCR, is calculated as follows:

$$\text{Liquidity coverage ratio: } \frac{\text{Liquid assets}}{\text{Net cash flow over 30 days in a stress scenario}} > 100 \%$$

The requirement entails that the bank's highest-quality liquidity reserves must exceed the net payments from the bank over a 30-day stress period. The highest-quality liquidity reserves can be in the form of cash and central bank deposits, as well as securities issued by public entities with a zero per cent credit risk weight. In addition, 40 per cent of the reserve may consist of securities issued by a public entity with a maximum 20 per cent credit risk weight, and corporate and covered bonds with a rating of at least AA- which have not been issued by the bank itself. For all securities, there is a qualitative requirement that they are traded in large and active secondary or so-called repo markets even during stressed market conditions.

Net payments during the stress period are estimated by, among other things, assuming a decline in deposits. The extent of the reduction depends on the type of deposits. A further assumption is larger drawdowns on the undrawn portion of credit facilities and no renewal of short-term capital market funding which is due during the stress period. These stress effects come in addition to ordinary cash inflows and outflows, including planned lending growth.

The LCR requirement should be met for each currency of significance for the banks. With respect to countries with inadequate access to securities which meet the LCR in local currency, the Basel Committee has drawn up three alternative solutions. Final details and a specification of the countries this will apply to will be considered during the observation period for the LCR up until mid-2013.

The second objective is to strengthen the liquidity profile over a longer time horizon by creating incentives for banks to fund their operations with more stable sources of funding on a permanent basis. The net stable funding ratio, NSFR, was launched to achieve this objective and has a time horizon of one year.

The liquidity requirement, NSRF, is calculated as follows:

$$\text{Net stable funding ratio: } \frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} > 100 \%$$

The net stable funding ratio sets requirements for banks' funding structures relative to lending, investments and other assets. The objective is to limit banks' short-term funding of illiquid and long-term assets. The requirement is based on a comparison between the bank's available amount of stable funding and the estimated required amount of such funding. Calculations of the bank's available amount of stable 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 10 and 50 per cent, depending on how stable they are considered to be. Calculations of the required amount of long-term funding entail that all assets with maturities greater than one year that are not particularly liquid, must be backed by long-term funding. Home mortgages which meet certain requirements and do not serve as collateral for the issue of covered bonds require only 65 per cent long-term funding. Loans with maturities shorter than one year must be backed by 50-85 per cent long-term funding. In addition, 5 per cent of the undrawn portion of credit facilities must be covered by long-term funding.

### **Supplementary requirements for systemically important banks**

Systemically important banks and the close ties between them reinforced the extent of the crisis. To limit such risk, the G20 has initiated a process to define further supplementary requirements for these banks. In addition, changes in framework conditions are being considered, aiming to establish systems for the dissolution of banks which make it possible to allow even the largest banks to fail.

## **Introduction of Basel III**

The new capital adequacy requirements will be gradually phased in over a six-year period starting on 1 January 2013, whereby the new requirements will have full effect from 1 January 2019.

Unless changes are approved in the leverage ratio requirement during the observation period, which lasts from 2013 to 2017, this will be included as a minimum requirement with effect from 1 January 2018.

Following an observation period starting in 2011, the liquidity requirements LCR and NSFR will be introduced with effect from 1 January 2015 and 1 January 2018, respectively. According to the Basel Committee's recommendation, the LCR should be reported at least monthly, while the NSFR should be reported at least quarterly within 1 January 2012. In addition, there will be extended reporting requirements in relation to liquidity.

The extent of possible changes in the requirements after the consideration by the EU remains uncertain. In order to ensure that the Basel III framework will have the desired effect, the Basel Committee has considered

that a fairly long observation period is required. DnB NOR agrees that this period is important to refine the final requirements and avoid undesirable consequences. Among other things, there is no past experience related to the effects of global liquidity standards, and the new requirements will entail a need for significant adjustments for a number of banks. For this reason, and with regard to the competition with international banks, it is important that the introduction of the regulatory framework in Norway takes place parallel to the introduction in the rest of Europe.

## **Important IFRS amendments**

A number of new International Financial Reporting Standards (IFRS) must be expected to be introduced over the coming years. The amendments are expected to become effective for Norway after being considered by the EU Commission and the Norwegian authorities. Some of the new accounting rules are due to a wish for improvements which was expressed in the wake of the financial crisis, while others are based on other improvement initiatives, not least in connection with the wish to coordinate international and US financial reporting rules.

The amendments which are expected to have the most pronounced impact on the Norwegian financial market are new accounting rules for the assessment of loans and new rules for the assessment of insurance contracts. In this connection, the International Accounting Standards Board, IASB, a standard-setting body, has drawn up an exposure draft for the assessment of credit losses, issued in November 2009. At end-January 2011, the IASB and the US Financial Accounting Standards Board, FASB presented a supplement to the original exposure draft on an impairment model for financial assets. At the beginning of 2011, the standard-setting bodies were still discussing the accounting treatment of the impairment of financial assets, and additional changes may thus be made to the original exposure draft. The final draft for a new IFRS on amortised cost and the impairment of financial instruments is expected to be presented by end-June 2011. If the amendments are implemented in their current form, they may have major consequences for the banking industry and the market in general.

## **Current rules for measuring loan losses**

According to prevailing rules, the value of a financial asset shall be written down if there is objective evidence of impairment, i.e. when a loss has occurred. Standard-setting bodies, auditors and users have criticised the impairment rules based on the following:

- Interest income is overstated during the period before a loss event occurs. Write-downs can partially be regarded as reversals of "overstated " income in previous periods. Equity may also be overstated.
- It is sometimes unclear when a loss has actually occurred, which results in differences in the way the rules are practiced. Losses may also have to be recorded even if there are no changes in the original expected losses.
- In some cases, the rules have resulted in delayed recognition of losses, as a loss event must have occurred in order for the loss to be recognised under current rules.

## **New rules for measuring loan losses**

In the exposure draft presented in November 2009, the IASB proposed an Expected loss model which entails that expected losses upon initial recognition of a financial asset, including loans, are included when determining the effective interest rate underlying the recognition. This implies that the part of the interest rate which compensates for expected losses, should not be recognised as income.

In a supplement dated 31 January 2011, the IASB and the FASB presented a joint model for recognising impairment of financial assets in portfolios where assets are added and removed during the life of the portfolio, so-called open portfolios. The impairment model includes elements of the IASB's original proposal, as well as adjustments which are intended to make the model easier to use. Among other things, expected losses are not included in calculations of effective interest rates to be used as a basis for interest income recognition. In addition, a minimum provision level for loan losses in the balance sheet will be introduced, which harmonises with the impairment model originally proposed by the FASB.

According to the exposure draft, the accrual of expected losses over the life of the assets should be determined by the characteristics of the assets. The financial assets in the portfolio should be divided into two groups based on the company's internal risk management systems. Expected losses relating to doubtful commitments should be recognised immediately. Provisions for losses on loans on which the company intends to receive interest and instalments, should be recorded at the higher of the losses expected over the remaining life of the portfolio, based on the ratio of the portfolio's age to its expected life, and losses that are expected to occur within the foreseeable future, minimum 12 months.

After responses to the exposure draft have been received, the IASB will consider whether the open portfolio model should also apply to other financial assets.

The intention behind the new methods is to better reflect the underlying economics in a lending transaction. There should be no need to identify triggering events in order to estimate changes in expected losses. According to the IASB, this method is intended to ensure greater consistency between various reporting entities. The standard-setting bodies expect that the rule changes will present useful information to users of

financial statements for their assessment of original loss estimates and possible changes in estimates over the life of an asset.

It is highly questionable whether the new rules will actually give the desired effect. It will be very challenging to assess future expected cash flows for all loans, find good and stable expected loss estimates and identify changes in the originally expected losses on each reporting date. The life of each loan must be determined, including the life of roll-over credits and overdraft facilities. There will be considerable uncertainty related to these estimates.

The new rules are expected to cause great volatility in financial reporting. Due to limited experience and the lack of relevant and reliable statistics, adjustments will regularly be made to the assumptions underlying expected loss measurements. Such changes will be reflected in the accounts on a cumulative basis, which means that the full effect of new estimates must be recognised immediately for all commitments affected by the changes. However, adjustments in the new exposure draft may nevertheless result in somewhat lower volatility in financial reporting.

Once the new rules are implemented, a reduction is expected in the equity of most financial institutions, as there will probably be a need for higher loan-loss provisions in the accounts. Credit risk margins which up until the implementation of new rules are taken to income through the recognition of interest income on loans, will have to be reversed and recorded as provisions in the accounts. In light of the introduction of Basel III, the consequences may be challenging unless capital adequacy requirements and accounting rules are coordinated. The original preliminary implementation date for the new loss reporting rules was 1 January 2013. However, this will be delayed due to coordination with the US rules.

The effective date of IFRS 4, Insurance contracts, was originally planned for 1 January 2013. The new rules imply that insurance liabilities will be measured at the fair value of the cash flows arising from the insurance contracts, plus a risk margin. According to current rules, liabilities are measured according to rules which are further defined in the Act on Insurance Activity. The assets are thus measured at a combination of amortised cost and fair value, depending on the characteristics of the assets. The accounting rules must be expected to result in greater volatility in profit measurements for life insurance companies in the longer term.

## **Regulation of remunerations in the financial services industry**

The regulations on remuneration schemes in financial institutions, mutual funds and management companies for mutual funds entered into force on 1 January 2011. Bonuses earned in 2010 or earlier which are paid in 2011, are not encompassed by the regulations.

The regulations are based on the EU's CRD III directive, which was finally approved on 30 September 2010. In 2011, Finanstilsynet has issued supplementary guidelines to the regulations in the form of a circular. The regulations are based on the guidelines from the Committee of European Banking Supervisors, CEBS, dated 10 December 2010.

In line with the purpose of the regulations, DnB NOR's remuneration scheme should help promote and give incentives to sound management and good control of the company's risk, counteract excessive risk taking and help avoid conflicts of interest.

DnB NOR will work on the implementation and follow-up of the regulations through and beyond 2011. In this connection, the Group will prepare revised group remuneration guidelines to ensure compliance with the regulations and appurtenant guidelines.

DnB NOR's remuneration scheme will determine which groups of employees belong to the following categories:

1. Senior executives
2. Employees whose responsibilities are of great significance to the company's risk exposure (risk takers)
3. Employees engaged in control functions
4. Employees whose remuneration places them in the same bracket as senior executives

In accordance with the regulations, the remuneration scheme will include special rules for the above-mentioned groups. For these employees, DnB NOR's remuneration scheme will ensure a balanced mix of fixed and variable remuneration. The variable salary of CEOs and senior management team members in banks should not represent more than 50 per cent of fixed salary.

## **Report from the Financial Crisis Commission**

In light of the international financial crisis and the experiences gained during this period, the Norwegian government appointed a Financial Crisis Commission in June 2009 to evaluate the Norwegian financial market. Among other things, the Commission was asked to describe the underlying causes of the crisis and to examine whether there were any specific national factors that contributed to its development in Norway. The Commission's report was presented on 25 January 2011.

Norway is among the countries that fared best during the financial crisis. However, the failure of international financial markets nevertheless led to acute liquidity challenges for Norwegian banks, and extensive government measures were initiated. The monetary and fiscal policy framework in Norway provided a sound basis for

stabilising the economy and mitigating the effects of the financial crisis. Past experience has shown that fiscal manoeuvrability and confidence in government finances must be built up in good times in order to be well prepared to meet possible periods of recession.

According to the report, various taxes and fees may be suitable for supplementing financial market regulation and promoting financial stability. The commission proposes that a new stability fee be imposed on Norwegian financial institutions based on the institutions' debt in excess of equity and guaranteed deposits. In addition, the report proposes the introduction of a new tax on financial institutions' profits and salary payments to compensate for the fact that financial services are exempt from VAT.

The Commission recommends that key features of Norwegian financial market regulation be refined and proposes that the Norwegian authorities work to strengthen the regulatory cooperation in the Nordic area relating to financial markets. Cooperation on stricter capital adequacy and liquidity requirements for banks and special requirements for systemically important financial institutions are particularly emphasised.

The Commission proposes various measures with a view to improving consumer protection in the financial markets. The Commission's report was sent on a three-month consultation round in January 2011.

The Financial Crisis Commission's proposal concerning taxes and fees is presented parallel to the work on possible sector-wide rules on fees for the European financial services sector. In the opinion of DnB NOR, it is questionable whether the premises underlying the Commission's tax proposals are relevant for Norway, as the Norwegian Banks' Guarantee Fund is fully funded even after the financial crisis. Norwegian banks have paid sizeable levies to the Fund, thus fees applying solely to Norwegian financial institutions seem unreasonable. Such fees could also distort competition in favour of institutions which operate under different framework conditions.

The Norwegian financial services industry is not particularly large, and there are no indications that financial services are excessively used. Thus, it does not seem appropriate to introduce fees to reduce the use of financial services, which would contribute to higher product and service prices for end users. Nor should the impression be given that Norwegian financial institutions pay little tax. Only the oil sector pays more tax than the financial services industry in Norway.