DNB-GROUP 2016

Risk and capital management

Disclosures according to Pillar 3

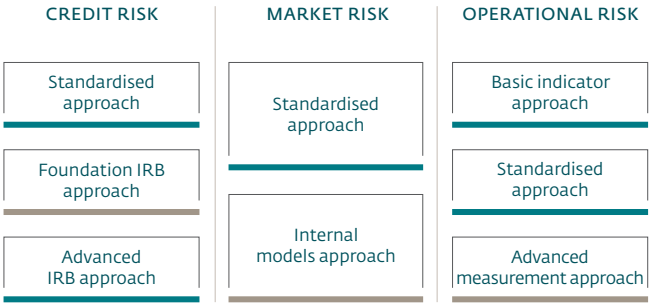
CONTENTS

Introduction

This report contains information about risk management, risk measurement and capital adequacy in accordance with the disclosure requirements in section IX: "Publication of financial information" of the capital adequacy regulations. In addition, the report contains information in accordance with the new reporting requirements issued by the Basel Committee in "Pillar 3 disclosure requirements – consolidated and enhanced framework".

The capital adequacy regulations consist of three pillars. Pillar 1 includes the quantitative minimum requirements for banks' capital and descriptions of measurement methods for risk-weighted assets and eligible capital. The capital adequacy regulations allow different methods for calculating the capital requirement.

The illustration below shows the methods used to calculate capital requirements for the various risk categories. DNB reports credit risk according to the advanced IRB approach, where internal risk models for PD, LGD and EAD are used. Some credit portfolios are temporarily or permanently exempt from IRB reporting, and are reported according to the standardised approach. Market risk is measured using the standardised approach. Operational risk is generally reported using the standardised approach, while some subsidiaries use the basic indicator approach.



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

The Board of Directors of DNB ASA approves the guidelines and procedures for the Pillar 3 reporting, and also reviews the report prior to publication. The Pillar 3 report is not subject to audit. Tables can be found in the appendix to the report.

Norway's leading financial services group

DNB represents more than 190 years of financial history, from the establishment of Christiania Sparebank in 1822 to the position as Norway's largest financial services group, with total combined assets of NOK 2 931 billion as at 31 December 2016.

The Group offers a full range of financial services, including loans, savings, investment, payment transfers, advisory services, real estate broking, insurance and pension products for personal and corporate customers.

DNB is among the world's leading banks within its international priority areas, especially the energy, shipping and seafood sectors. The bank is available across Norway through its 24/7 telephone and online banking service, branch offices and in-store postal outlets.

The company's largest shareholder is the Norwegian government, represented by the Ministry of Trade, Industry and Fisheries, which owns 34 per cent of the shares. The second largest shareholder is the DNB Savings Bank Foundation, which has a 9 per cent shareholding.

Fundamentals of the Norwegian economy

Norway has 5.3 million inhabitants, and a GDP per capita which is significantly higher than in the EU. For the last 15 years the Norwegian economy has experienced higher growth and less volatility in GDP than the other Nordic countries and the euro countries.

The strong financial situation has given Norway considerable fiscal policy leverage and flexibility to face a period of slower economic activity. Due to higher economic growth in Norway than in the EU member states after the financial crisis, the key policy rate has been higher than in most other countries in the Nordic region and the EU. With a national currency with a floating exchange rate, the effects of cyclical fluctuations are less pronounced for Norway. In addition to oil and gas, fish and aluminium are important Norwegian export products. Good access to low priced electricity from hydropower has been an important prerequisite for the development of Norwegian metal production.

Norwegian government bonds have the highest credit rating available and Norway has been ranked highest on the UN's Human Development Index, based on composite statistics of life expectancy, education and income indices, for 12 of the last 14 years.

Over the past 20 years, there has been a significant increase in Norwegian housing prices, reflecting high income growth, low and stable unemployment rates and periodically low interest rates. In addition, there has been limited housebuilding activity relative to population growth during parts of this period. Approximately 90 per cent of households own their own home. Thus, there is a limited residential tenancy market.

Since the first petroleum discoveries in the late 1960s, the importance of oil to the economy has grown substantially. In 2016, oil and gas export amounted to 11.9 per cent of the Norwegian GDP and 35.3 per cent of Norway's export revenues. Demand stemming from investment activity on the Norwegian Continental Shelf also affects mainland enterprises. Income from petroleum activities amounted to 12.9 per cent of the government's total income in 2016. The income is transferred to the Government Pension Fund Global, which serves as a buffer between current petroleum revenues and the spending of revenues in the economy. The Fund only invests abroad. In January 2016, the value of the Fund's investment size was approximately 202 per cent of GDP. The fiscal rule regulates the use of petroleum revenues and is set up to ensure that the revenues are being phased into the economy at a level that can be sustained over time.

High cost inflation over time in combination with low oil prices since the autumn of 2014, led to significant cuts in petroleum investment in 2015 and 2016. This has in turn resulted in a turnaround in the Norwegian economy, and both growth and capacity utilisation are lower than normal across the country. The unemployment rate has risen, but so far primarily in oil-dominated occupations and regions, especially in southern and western Norway. Oil investments are likely to fall further over the next years, and will thus continue to have a negative impact on the Norwegian business community and labour market. Lower interest rates, a weak national currency and an expansionary fiscal policy have nevertheless contributed to a positive growth in the Norwegian mainland economy.

The CRO's summary of the year

DNB aims to exploit the opportunities provided by new technology. Digitalising banking services is high on the agenda. The same applies to using vast amounts of data to improve risk management and develop better, faster decision-support tools. DNB has used internal risk measurement models for many years and consequently has specialists with considerable expertise in this area who are involved in the development of the «digital DNB».

In 2016, DNB completed a multi-year process of increasing the common equity Tier 1 capital to meet the new and much higher regulatory requirements. The DNB Group's common equity Tier 1 capital ratio was 16 per cent at year-end 2016, as compared to 14.4 per cent last year, and 12.7 two years ago. At year-end 2016, the common equity Tier 1 capital ratio requirement, including the Pillar 2 requirement and all the buffer elements, was 14.7 per cent

The Norwegian requirements are higher than the equivalent requirements in the neighbouring Nordic countries. One worry is that the Norwegian requirements will make banks that are subject to them less competitive on low-risk exposure than banks in the other Nordic countries. DNB meets the future leverage ratio requirement with a good margin, and is seen to be one of the world's best capitalised banks.

At the beginning of 2016, the greatest uncertainty was linked to how the persistently low oil price would affect the Norwegian economy. Looking back one year later, in brief it was a challenging year for actors in the most exposed sectors: the oil industry supply, offshore support vessel and drilling rig industries. DNB recognised impairment losses of NOK 7.4 billion in 2016, most of which were linked to credit exposure on these industries. At the same time, we note that the ripple effects on the Norwegian economy and «rub-off effect» on other industries have been less extensive than anticipated. Some of our customers in the offshore industry were still facing challenges at the end of the year, but there have been many restructurings and the industry has proved to be quite adaptable. This suggests lower losses in the time ahead.

DNB's risk exposure, measured in economic capital, decreased somewhat in 2016. The most important reasons for this were reduced equity exposure in the life insurance operations and trimming of credit exposure on large international customers. The business area Large Corporates and International reduced its loan volume by NOK 45 billion in the course of the year. The reduction was the consequence of a decision to limit concentrations of credit risk in the shipping, oil and energy portfolios. The commercial real estate portfolio in DNB, which primarily consists of loans in Norway, has also been reduced. This is in line with the objective of avoiding large concentrations on individual industries. On the other hand, both the volume of loans to small Norwegian enterprises and the volume of residential mortgages increased. The residential mortgage portfolio, in particular, grew strongly in 2016, as new records

were set for both sales of housing and house price growth in Norway. In an effort to dampen house price growth, the Norwegian Ministry of Finance tightened the rules for banks' residential mortgage lending practices in a new regulation that entered into force as of 1 January 2017. The default and impairment levels in DNB's residential mortgage portfolio have been very low in recent years. The same applies to the credit card and consumer loan portfolios.

Like many other industries, the financial services industry is experiencing major and increasingly rapid changes that affect business models. Technological advances enable increased digitalisation, self-service and information sharing. New digital solutions are replacing traditional banking services. DNB aims to

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TERJE TURNES, CRO

exploit the opportunities provided by new technology. Digitalising banking services is high on the agenda. The same applies to using vast amounts of data to improve risk management and develop better, faster decision support tools. DNB has used and worked on internal risk measurement models for many years, and consequently has specialists with considerable expertise in this area who are involved in the development of the «digital DNB». A solution for self-service refinancing of residential mortgages was launched in DNB's online banking service in 2016. Streamlining loan processes by means of digitalisation will have high priority in 2017, too. The goal is to expand the offering of self-service products while maintaining a low risk level. Group Risk Management's contribution is to provide expertise on both credit processes and model development.

Cyber-attacks on banks are also being fuelled by rapid and accelerating technological advances. The attacks can be of different types and severity but the number is soaring. DNB intensified its efforts to strengthen information and IT security in 2016. At the same time, steadily increasing digitalisation makes the bank more vulnerable. Many cyber-attacks were stopped last year, and cybercrime losses were limited. There is always a risk of new attacks and the attacks are increasing sophisticated. Efforts to ward off cyber-attacks will be strengthened further in 2017.

DNB has found that issues related to product characteristics and marketing can have major consequences for the Group's reputation. Although no significant reputational risk losses were incurred in 2016, reputation surveys have shown that such issues could damage DNB's reputation. The DNB Group is increasingly conscious of ethical issues, social corporate responsibility and conduct risk. One result of this is that the method for reputation monitoring in the risk appetite framework has been changed and expanded as of 2017. In addition, a new method has been implemented for analysing risk attached to new products and services.

Efforts to prevent money laundering and terrorist financing and help ensure that Norway complies with international sanction rules, are part of DNB's social corporate responsibility. Anti-money laundering (AML) efforts have been strengthened significantly in recent years. The quality of the documentation of customer information that is required by law has been examined, and improvements were made where it was found to be unsatisfactory. This work will continue in 2017. DNB has introduced templates and standard procedures for performing risk analyses of anti-money laundering measures and such analyses have been performed for the entire Group. All employees have been given new basic training in AML. A new internal AML framework will be completed in 2017. The framework will ensure a consistent approach to AML throughout the Group, and will serve as a practical aid both for formulating standard procedures and processes and for resolving concrete issues.

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

Terje Turnes, chief risk officer

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MAJOR DEVELOPMENTS

Major developments

At year-end 2016, both the Norwegian and the international economy appeared to be recovering. The price of oil (Brent spot) rose by 55 per cent in the course of the year and was USD 55.4 per barrel at end-December. Oilfield development on the Norwegian shelf has quickly been adjusted to the new and lower oil prices. Towards the end of 2016, somewhat greater interest in investing in blocks in oilfields in the British and Norwegian sectors was observed. Traditional exports were boosted by the weak Norwegian krone, which helped ensure record-high profits for salmon farmers, among others, in 2016. Due to delay mechanisms, impairment losses on loans to industries exposed to the decline in oil prices must be expected in 2017 also. Interest rates are on their way up, which will have a particularly positive effect for DNB Livsforsikring.

After building up capital for several years, the DNB Group had adequate primary capital at year-end 2016 to meet both regulatory requirements and internally calculated capital needs. DNB aims to have a management buffer of approximately 1.0 percentage point in addition to the total regulatory common equity Tier 1 capital requirement, which was 14.7 per cent at year-end 2016. The DNB Group's common equity Tier 1 capital ratio was 16.0 per cent while the capital adequacy ratio was 19.5 per cent at end-December 2016. One year earlier, the ratios were 14.4 and 17.8 per cent, respectively. The leverage ratio was 7.3 per cent at year-end 2016, compared with 6.7 per cent a year earlier.

The operational risk situation in 2016 was satisfactory, and there was a low level of losses. Efforts to strengthen information security in the Group have been intensified to meet the increasing threats relating to the protection of confidential information and cyberattacks. In general, IT operations became more stable during 2016, which was mainly attributable to the upgrading of the IT infrastructure in connection with the move of the Group's data processing centres to a single location in 2015. In August, a successful test of disaster recovery solutions for DNB's mainframe computer was conducted. The test confirmed that the Group's solution is robust and reliable.

The DNB Group quantifies risk by measuring economic capital. Economic capital declined by NOK 2.7 billion from year-end 2015, to NOK 73.0 billion at year-end 2016.

Economic capital for credit declined by NOK 1.1 billion, reflecting a reduction in credit volumes in the large corporate portfolio of approximately NOK 90 billion in terms of exposure at default (EAD). There was continued sound and stable credit quality in most portfolios, though some sectors faced significant challenges in 2016. The reduction in oil and gas investments had the most pronounced effect on oil supply companies, and there were several extensive restructurings in these sectors in 2016. DNB devotes considerable resources and professional expertise to these processes and expects this to continue into 2017.

The situation for traditional shipping companies has been demanding, but far less dramatic than for oil-related industries. Rates in the dry bulk market improved in 2016, but from a historically low level. Rates in the tanker segment were strong in the first half, but declined in the second half of the year, while rates in the container segment were weak throughout the year. It might also become necessary to restructure companies in these segments.

Yield levels for commercial real estate, especially in the best locations in Oslo, are record low, while prices are historically high. The quality of the Group's loan portfolio within Norwegian commercial real estate is considered to be robust, and losses are very low. Loan volumes were somewhat reduced in 2016 in line with prevailing strategy. DNB focuses on financing sound projects and properties with a stable and healthy cash flow ensuring adequate debt servicing capacity. When determining which projects should be offered financing, emphasis is placed on the liquidity of the property, the lease term, the lessees and the residual property value. Building projects are financed if advance sales or advance leases are at a satisfactory level.

On a national basis, housing prices were 12.8 per cent higher at end-December 2016 than a year earlier, though there are still large regional differences. In Oslo, prices were up as much as 23 per cent, while housing prices in Stavanger were down 2.6 per cent. The brisk growth in housing prices and price levels in Oslo and central parts of eastern Norway represents a risk of a higher share of defaulted loans in the event of a negative trend in the Norwegian economy.

ECONOMIC CAPITAL

NOK billion	31 Dec. 2016	31 Dec. 2015
Credit risk	54.4	55.5
Market risk	7.0	7.1
Market risk in life insurance	5.3	8.3
Insurance risk	1.7	2.0
Operational risk	11.5	11.2
Business risk	7.3	7.1
Total economic capital before diversification	87.2	91.2
Diversification *	(14.2)	(15.5)
Total economic capital after diversification	73.0	75.7
Diversification in per cent of gross economic capital	16.3 %	17.0 %

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

Economic capital for market risk in life-insurance declined by NOK 2.9 billion during the year, reflecting a lower equity exposure, larger buffers and higher interest rates. DNB Livsforsikring's solvency margin was 211 per cent at year-end 2016. DNB's market risk exposure in operations other than life insurance was virtually unchanged during 2016.

IMPORTANT EVENTS IN 2016

- New solvency regulations for European insurance companies, Solvency II, entered into force on 1 January.
- Nordea and DNB announced an agreement to combine their operations in Estonia, Latvia and Lithuania, aiming to create a leading bank in the Baltics with strong Nordic roots. The transaction is conditional upon regulatory approvals and other conditions, and is expected to close in the second quarter of 2017.
- In the wake of the Panama Papers case, the law firm Hjort was engaged to make an external review of DNB's involvement in the matter. The report was presented in mid-September and concluded that DNB had not violated the law. On the other hand, DNB's internal guidelines had been breached, and actions have been taken regarding this matter.
- In a stress test conducted by the European Banking Authority, ESA, DNB was shown to have the greatest resilience to economic crises among the tested banks.
- It became known that DNB is one of many banks involved in the financing of the construction of a new and controversial pipeline in North Dakota in the US. DNB will ensure that the bank can answer for its part of the project financing and may potentially reconsider its exposure in the pipeline project. During the fourth quarter, the Group's mutual funds sold their holdings in the companies building the pipeline.
- The Ministry of Finance adopted a new residential mortgage regulation. At the same time, it became clear that the Norwegian parliament (Stortinget) supported the government's proposal to introduce a financial activities tax.
- The Ministry of Finance raised the counter-cyclical buffer requirement from 1.5 to 2.0 per cent with effect from year-end 2017.

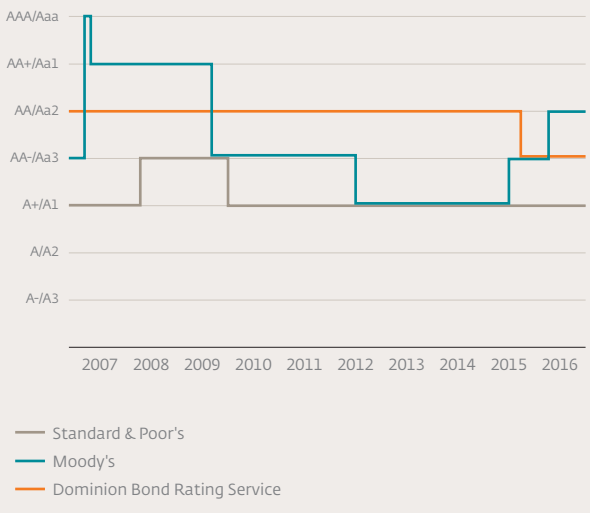
DNB BANK ASA'S CREDIT RATINGS

Credit ratings are forward- looking and reflect how future events may influence the issuer's creditworthiness. Credit ratings represent the credit agencies' assessment of issuers' capacity and willingness to fully meet their financial obligations on a timely basis. Strong credit ratings from recognised rating agencies are therefore important to secure predictable and flexible access to funding. The table below shows the credit ratings of DNB Bank ASA in 2016.

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

Rating agency	Rating	Latest report/ press release
Standard & Poor's	Short term: A-1 Long term: A+ Outlook: Negative	Standard & Poor's rating of DNB Bank ASA – December 2016
Moody's	Short term: P-1 Long term: Aa2 Outlook:Negative	Moody's Credit Opinion – October 2016
Dominion Bond Rating Service (DBRS)	Short term: R-1 (middle) Long term: AA (low) Trend: Stable	DBRS press release – September 2015

LONG TERM RATING HISTORY



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LEGAL STRUCTURE AND CONSOLIDATION RULES FOR CAPITAL ADEQUACY REQUIREMENTS

Legal structure and consolidation rules for capital adequacy requirements

The consolidated financial statements of DNB ASA (DNB) include DNB Bank ASA, DNB Livsforsikring AS, DNB Asset Management Holding AS and DNB Forsikring AS, all with underlying subsidiaries.

DNB prepares consolidated accounts in accordance with IFRS. A description of the Group's accounting principles can be found in DNB's annual report. When the consolidated accounts are prepared, intra-group transactions and balances along with unrealised gains or losses on these transactions between group units are eliminated. Consolidation of capital adequacy is regulated by the Norwegian regulation on capital adequacy, Financial Enterprises Act and regulation on consolidation etc. in cross-sectoral groups and in the EU Capital Requirements Directives for banks and investment firms (CRD IV / CRR). In accordance with the aforementioned legislation and regulations, only companies in the financial sector and companies providing ancillary services will be included in consolidated capital adequacy.

Effective as of the third quarter of 2016, assets and liabilities in DNB Baltics (AS DNB Pank (Estonia), AS DNB Banka (Latvia) and AB DNB Bankas (Lithuania)) will be recorded according to the equity method and presented on the line «Assets held for sale» and «Liabilities held for sale» in the consolidated accounts in accordance with IFRS. When the capital adequacy for the banking group and the DNB group is calculated, the companies in DNB Baltics are fully consolidated, like before.

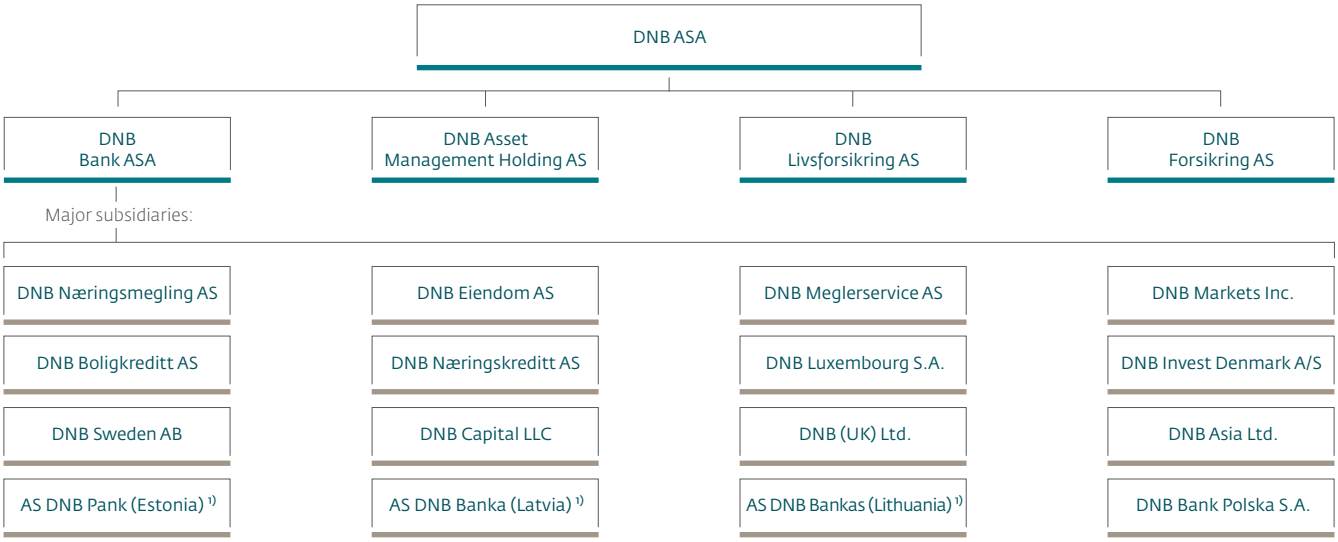
Associated companies are proportionally consolidated based on DNB's ownership interests therein. Consolidation of capital adequacy will be based on the valuation principles used in operating companies' financial. The valuation principles that form the basis for solvency calculations in the respective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

INVESTMENTS IN ASSOCIATED COMPANIES

DNB Bank ASA has a 40 per cent ownership interest in Eksportfinans. The bank has also issued guarantees for other loans in Eksportfinans. The transactions with Eksportfinans have been entered into on ordinary market terms as if they had taken place between independent parties.

The investment is recognised in the accounts according to the equity method and is consolidated pro rata in the capital adequacy calculations. DNB's share of risk-weighted assets in Eksportfinans was NOK 4.2 billion at year-end 2016.

LEGAL STRUCTURE



1) On 25 August 2016, DNB and Nordea announced an agreement to combine their operations in Estonia, Latvia and Lithuania. The transaction is conditional upon regulatory approvals and other conditions, and is expected to close in the second quarter of 2017. See note 40 to the annual accounts for further details.

3

CAPITAL ADEQUACY

Capital adequacy

The DNB Group aims to maintain a management buffer of approximately 1.0 percentage point in addition to the total regulatory common equity Tier 1 (CET1) capital ratio. The object of the management buffer is to cushion against fluctuations in risk-weighted assets and earnings that can occur as a result of, for example exchange rate movements or changes in credit spreads, and thereby enable the Group to maintain normal growth in lending, and a predictable dividend policy. At year-end 2016, the total regulatory CET1 capital ratio requirement was 14.7 per cent. DNB's internal target was 15.7 per cent. The capitalisation targets relate to the Group's risk-weighted assets at any given time. Norwegian banks are subject to a transitional rule for capital adequacy calculations, which stipulates that total risk-weighted assets cannot be reduced below 80 per cent of the corresponding figure calculated according to the Basel I regulations.

At year-end 2016, the DNB Group had a CET1 capital ratio of 16.0 per cent and a capital adequacy ratio of 19.5 per cent, compared with 14.4 per cent and 17.8 per cent, respectively, a year earlier. Risk-weighted assets came to NOK 1 051 billion at year-end 2016, compared to NOK 1 129 billion the year before.

The Basel I floor for risk-weighted assets reduced the CET1 capital ratio by 1.6 percentage points relative to calculations based on the Basel III rules at year-end 2016.

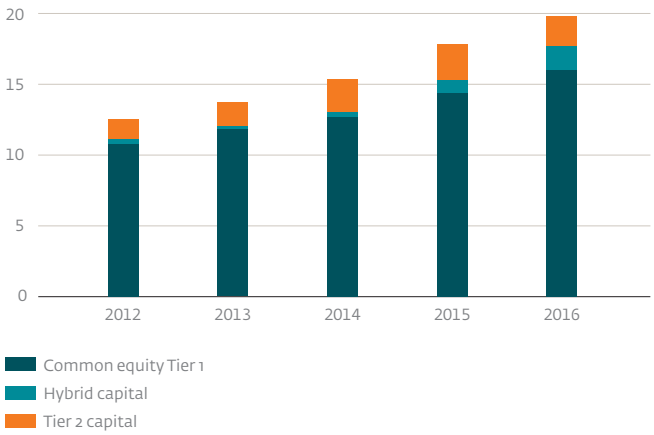
The DNB Bank Group had a CET1 capital ratio of 15.7 per cent and a capital adequacy ratio of 20.0 per cent at year-end 2016, compared with 14.3 and 17.9 per cent, respectively, a year earlier.

DNB Bank ASA had a CET1 capital ratio of 19.1 per cent at year-end 2016, compared with 15.1 per cent a year earlier. The capital adequacy ratio was 24.8 per cent at year-end 2016, compared with 19.3 per cent a year earlier.

The new rules for the capitalisation of insurance companies in Norway and Europe, Solvency II, entered into effect on 1 January 2016. DNB Livsforsikring had a solvency margin of 152 per cent at year-end 2016 calculated without the use of transitional rules, and 211 per cent calculated according to the transitional rules. A year earlier the corresponding pro forma ratios, were 113 percent without the use of transitional rules and 192 per cent when the transitional rules were applied. At end-December 2016, the remaining required increase in reserves for higher life expectancy was NOK 0.5 billion. The equity component of the required increase in reserves has already been recorded, whereby the remaining amount must be covered by policyholders' interest result in excess of the guaranteed return. Further information can be found in the chapter on DNB Livsforsikring.

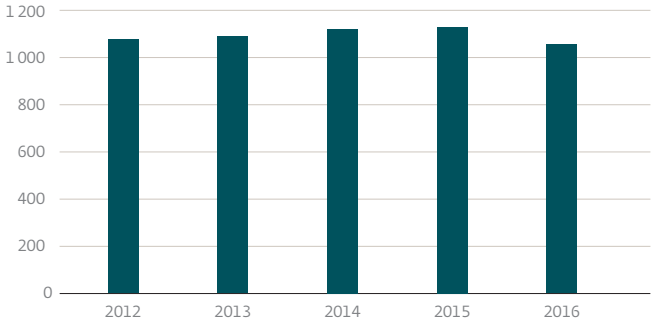
CAPITAL ADEQUACY RATIO, DNB GROUP

Per cent



RISK-WEIGHTED ASSETS, DNB GROUP

NOK billion



At year-end 2016, DNB Boligkreditt AS had a CET1 capital ratio of 16.0 per cent and a capital adequacy ratio of 18.0 per cent, calculated according to the transitional rules for risk-weighted assets. If the transitional rules were not applied, DNB Boligkreditt's CET1 capital ratio and capital adequacy ratio would have been 19.6 and 22.1 per cent, respectively.

LEVERAGE RATIO

As a supplement to the risk-weighted capital adequacy regime, the Basel Committee introduced a new capital measure, the

leverage ratio or non-risk based Tier 1 capital ratio. The Basel Committee recommended mandatory disclosure of this ratio as of 2015, and a minimum leverage ratio requirement as of 2018. In accordance with the Basel Committee's recommendation, the European Commission has recommended the introduction of a minimum requirement of 3 per cent.

The Norwegian Ministry of Finance has set a minimum requirement for the leverage ratio in financial institutions and investment firms in Norway, that will enter into effect as of 30 June 2017, and will be calculated on the basis of Tier 1 capital including hybrid capital. The basis of calculation consists of assets and off-balance sheet items converted by means of a conversion factors used in the standardised approach for calculating ordinary capital adequacy. In addition, some special adjustments are made for derivatives and repo transactions. Insurance operations are not included. The definitions of capital, and the basis of calculation are in accordance with international rules. The Norwegian leverage ratio requirement consists of a minimum requirement of 3 per cent that will apply to all financial institutions, a mandatory 2 per cent buffer for banks and an additional mandatory buffer of 1 per cent for systematically important banks. DNB is the only institution in Norway that will be required to have a leverage ratio of 6 per cent.

The DNB Group calculates its leverage ratio in accordance with the revised article 429 of the CRR, and the European Commission Regulation that entered into force on 18 January 2015. At year-end 2016, the Group's leverage ratio was 7.3 per cent, up from 6.7 per cent a year earlier. DNB meets the minimum requirement of 6 per cent by a wide margin.

PRIMARY CAPITAL

Strong level of profits of NOK 18.7 billion for 2016 enabled the DNB Group to continue to build capital. The healthy profit reflected increases in net interest income and other revenues as well as reduced costs. About half of the increase is attributable to the use of a new method for consolidation of insurance operations as of 31 January. The decrease for the banking group, which was not affected by the change that applied to insurance operations, came to NOK 16 billion.

The DNB Group's CET1 capital increased by NOK 5 billion in 2016. Due to changes in capital adequacy rules, DNB Livsforsikring and DNB Forsikring have been omitted from the statutory consolidation for the DNB Group effective as of the first quarter of 2016. This means that the equity capital and risk-weighted assets from insurance operations are not included in the basis for calculating capital adequacy. Instead, the companies are treated as investments. This led to a NOK 5 billion reduction of CET1 capital in the first quarter. The change reduced both the CET1 capital and risk-weighted assets. This had a positive net effect on the DNB Group's capital adequacy ratio. The financial group's risk-weighted assets was reduced by NOK 80 billion in the first quarter. The CET1 capital was increased further by hybrid bond issues for a total of NOK 7 billion. Further information about CET1 capital can be found in the attachment.

The Board of Directors has proposed a dividend for 2016 of NOK 5.70 per share. The proposed dividend gives a dividend yield of 4.4 per cent based on a share price of NOK 128.4 as at 31 December 2016. The proposed dividend means that DNB ASA will pay a total of NOK 9.3 billion in dividends for 2016. The pay-out ratio represents approximately 49.8 per cent of earnings per share.

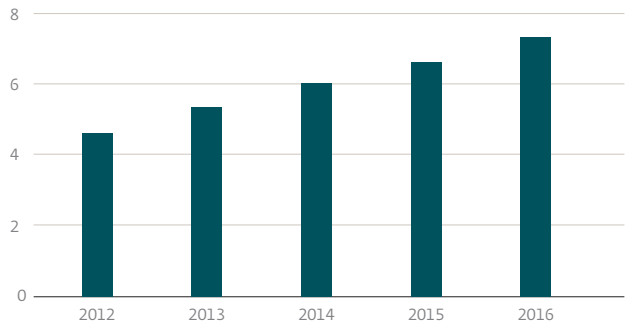
DNB's long-term financial objectives in the period up to 2018, are to achieve a return on equity above 12 per cent, a long-term CET1 capital ratio of approximately 16.0 per cent and a dividend pay-out ratio of more than 50 per cent, provided that the capital adequacy level is satisfactory.

LEVERAGE RATIO CALCULATION, DNB GROUP

NOK million	31 Dec. 2016
Tier 1 capital	185 509
Leverage exposure	
Securities financing transaction (SFTs)	196 891
Derivatives market value	54 155
Potential future exposure on derivatives	32 079
Eligible cash variation margin	(15 383)
Off balance sheet commitments	242 183
Loans and advances and other assets	2 043 384
Deductions	(6 644)
Total leverage exposure	**2 546 664**
CRD IV leverage ratio	**7.3 %**

LEVERAGE RATIO, DNB GROUP

Per cent



RISK-WEIGHTED ASSETS

The DNB Group reports credit risk for most of its portfolio according to the IRB approach, which means that internal models based on the bank's loss records for previous years are used to calculate capital requirements. The advanced IRB approach is used for the corporate portfolio, which means that internal models for probability of default (PD), loss given default (LGD), exposure at default (EAD) and maturity (M) are used both for

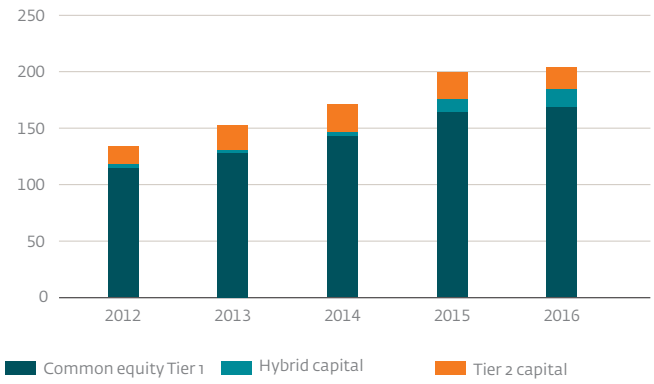
governance purposes and in capital adequacy calculations. The IRB portfolios are described in further detail in the chapter on credit risk. DNB Bank ASA reports operational risk according to the standardised approach, while some subsidiaries use the basic indicator approach. Market risk is reported according to the standardised approach.

Risk-weighted assets decreased by NOK 78 billion in 2016, totalling NOK 1 051 billion at the end of the year. The decrease is primarily due to the change in how investments in insurance companies are treated when risk-weighted assets is calculated. The risk-weighted asset was previously calculated on the basis of the insurance companies' total assets, but after the introduction of Solvency II, it is calculated on the basis of the book value of DNB ASA's shares in the insurance companies. At year-end 2016, the effective risk-weighting of these investments, based on the transitionary rule, was 80 per cent. This change led to a NOK 81 billion decrease in risk-weighted assets. However, effective as of 1 January 2017, there are new rules on how investments in DNB Livsforsikring and DNB Forsikring are to be treated when risk-weighted assets is calculated according to the transitionary rules. These new rules entail an increase of the effective risk-weight to 200 per cent, which will increase the DNB Group's risk-weighted assets by approximately NOK 20 billion and reduce the CET1 capital ratio by 0.2 percentage point.

The supplementary risk-weighted volume, calculated in accordance with the transitional rules, decreased by NOK 19 billion compared with year-end 2015 and came to NOK 94 billion at year-end 2016. Calculated according to the Basel III rules, risk-weighted assets decreased by 59 billion in 2016.

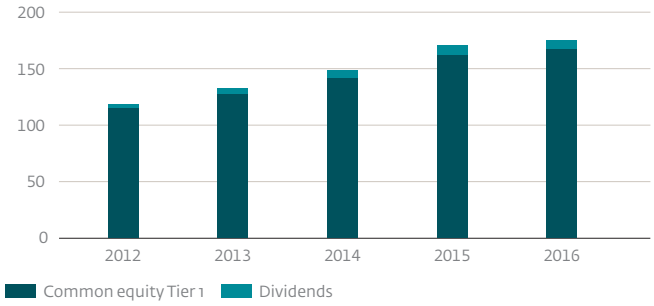
PRIMARY CAPITAL, DNB GROUP

NOK billion



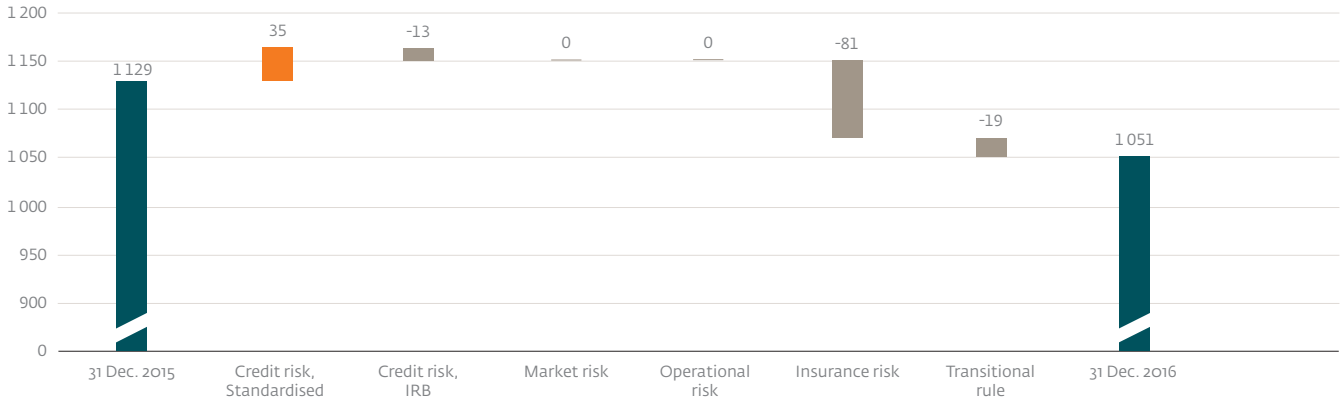
COMMON EQUITY TIER 1 CAPITAL AND DIVIDENDS, DNB GROUP

NOK billion



DEVELOPMENT IN RISK-WEIGHTED ASSETS, DNB GROUP

NOK billion



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

NOK million	Nominal exposure 31 Dec. 2016	EAD[1] 31 Dec. 2016	Average risk weights 31 Dec. 2016	Risk weighted assets 31 Dec. 2016	Capital requirements 31 Dec. 2016	Capital requirements 31 Dec. 2015
IRB approach						
Corporate	1 039 384	842 921	48 %	407 740	32 619	33 421
Specialised Lending (SL)	8 825	8 517	52 %	4 456	356	468
Retail - mortgage loans	706 195	706 195	22 %	155 814	12 465	12 241
Retail - other exposures	112 484	92 484	26 %	23 759	1 901	1 965
Securitisation	12 760	12 760	92 %	11 718	937	1 201
Total credit risk, IRB approach	**1 879 648**	**1 662 878**	**36 %**	**603 487**	**48 279**	**49 295**
Standardised approach						
Central government	55 426	69 760	0 %	84	7	33
Institutions	147 549	99 864	25 %	24 858	1 989	2 230
Corporate	160 608	127 538	86 %	109 582	8 767	9 657
Retail - mortgage loans	51 665	49 631	45 %	22 559	1 805	1 764
Retail - other exposures	122 926	48 737	75 %	36 742	2 939	2 642
Equity positions	19 712	19 711	230 %	45 291	3 623	276
Securitisation	1 760	1 160	45 %	518	41	60
Other assets	15 210	15 210	70 %	10 594	848	535
Total credit risk, standardised approach	**574 857**	**431 611**	**58 %**	**250 228**	**20 018**	**17 195**
Total credit risk	**2 454 505**	**2 094 488**	**41 %**	**853 714**	**68 297**	**66 490**
Market risk						
Position risk, debt instruments				14 615	1 169	1 141
Position risk, equity instruments				310	25	36
Currency risk				-	-	-
Commodity risk				72	6	3
Credit value adjustment risk (CVA)				6 131	490	513
Total market risk				**21 128**	**1 690**	**1 693**
Operational risk				83 370	6 670	6 670
Net insurance, after eliminations				-	-	6 463
Total risk-weighted assets and capital requirements before transitional rules				**958 212**	**76 657**	**81 317**
Additional capital requirements according to transitional rules [2]				**93 285**	**7 463**	**9 033**
Total risk-weighted assets and capital requirements				**1 051 498**	**84 120**	**90 350**

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

BUFFER REQUIREMENTS

The combined buffer is a key element in the new capital adequacy regulations. This buffer is the sum of the capital conservation buffer, the systemic risk buffer, the other systemically important institutions (O-SII) buffer and, if applicable, a counter-cyclical buffer. These buffers must consist of CET1 capital. If the CET1 capital falls below the level required to meet the minimum and combined buffer requirements, restrictions may be imposed on dividend and bonus payments and on repayment of hybrid capital.

The table below shows compliance with the minimum and buffer requirements as at 31 December 2016. With respect to the 8 per cent minimum capital adequacy requirement, Tier 2 capital can represent up to 2 per cent while hybrid capital can represent up to 1.5 per cent. Both the banking group and the financial conglomerate meet the minimum requirement by using the maximum amount of hybrid capital and Tier 2 capital.

At year-end 2016, there was a surplus of CET1 capital relative to the total capital requirements of NOK 10.4 and 13.6 billion respectively for the banking group and financial conglomerate.

At year-end 2016, the combined buffer requirement was composed of the capital conservation buffer, systemic risk buffer, O-SII buffer and the counter cyclical buffer, and constituted 7.5 per cent. The institution-specific countercyclical buffer requirement for DNB came to 1.2 percentage points at year-end 2016. This requirement is set as a weighted average of the countercyclical buffers in the countries in which the bank operates. At the end of 2017, the countercyclical buffer requirement in Norway will be raised from 1.5 to 2.0, which will increase the total buffer requirement for DNB from 8.7 per cent at year-end 2016 to 9 per cent at year-end 2017.

TOTAL CAPITAL REQUIREMENTS, 31 DECEMBER 2016

NOK million	Rate	DNB Bank Group	DNB Group
Risk-weighted assets (minimum capital requirement)		**1 040 888**	**1 051 498**
Minimum common equity Tier 1 capital required	4.5 %	46 840	47 317
Minimum Tier 1 capital required	6.0 %	62 453	63 090
Minimum total primary capital required	8.0 %	83 271	84 120
Allocation of capital to cover minimum capital requirements			
Common equity Tier 1 capital (CET1)		46 840	47 317
Additional Tier 1 securities		15 613	15 772
Tier 2 capital		20 818	21 030
CET1 buffer requirements			
Capital conservation buffer	2.5 %	26 022	26 287
Systemic risk buffer	3.0 %	31 227	31 545
Buffer for other systemically important institutions (O-SII)	2.0 %	20 818	21 030
Counter-cyclical buffer	1.2 %	12 491	12 618
Combined buffer requirement		90 557	91 480
Common equity Tier 1 capital vs combined capital requirements			
Common equity Tier 1 capital		163 389	168 214
Minimum capital requirement (CET1)		(46 840)	(47 317)
Pillar 2 capital requirement	1.5%	(15 614)	(15 772)
Buffer capital requirements		(90 557)	(91 480)
Surplus of common equity Tier 1 capital		**10 378**	**13 644**

4

RISK MANAGEMENT AND CONTROL IN DNB

Risk management and control in DNB

The ability to manage risk is of crucial importance in the financial services industry, and is a prerequisite for value creation over time. DNB Bank ASA aims to maintain a low risk profile, and will only assume risk that is understood and can be monitored. DNB is committed to not being associated with activities that could damage its reputation. DNB's corporate culture should be characterised by individual accountability, transparent methodology and processes that are conducive to good risk management.

POLICY AND GUIDELINES

The Board of Directors of DNB ASA has approved ten group policies that set out the overarching principles for the most important aspects of the Group's operations and apply to the entire Group. Associated group guidelines and rules elaborate on the group policies. The group policies for risk management, compliance and ethics are the domain of the DNB Group's chief risk officer (CRO).

The group policy for risk management sets out the principles for all of the Group's risk management activities and defines the ambitions for, attitude towards and organisation of risk management. There are group guidelines for market risk, credit risk, capitalisation, stress testing, validation and operational risk management, among others. The group policy for compliance sets out the guiding principles for compliance with laws and regulations, and the overarching principles for organising the Group's compliance function. The group guidelines for anti-corruption, handling personal data, anti-money laundering and counter-terror financing and sanctions elaborate on the aforementioned policy.

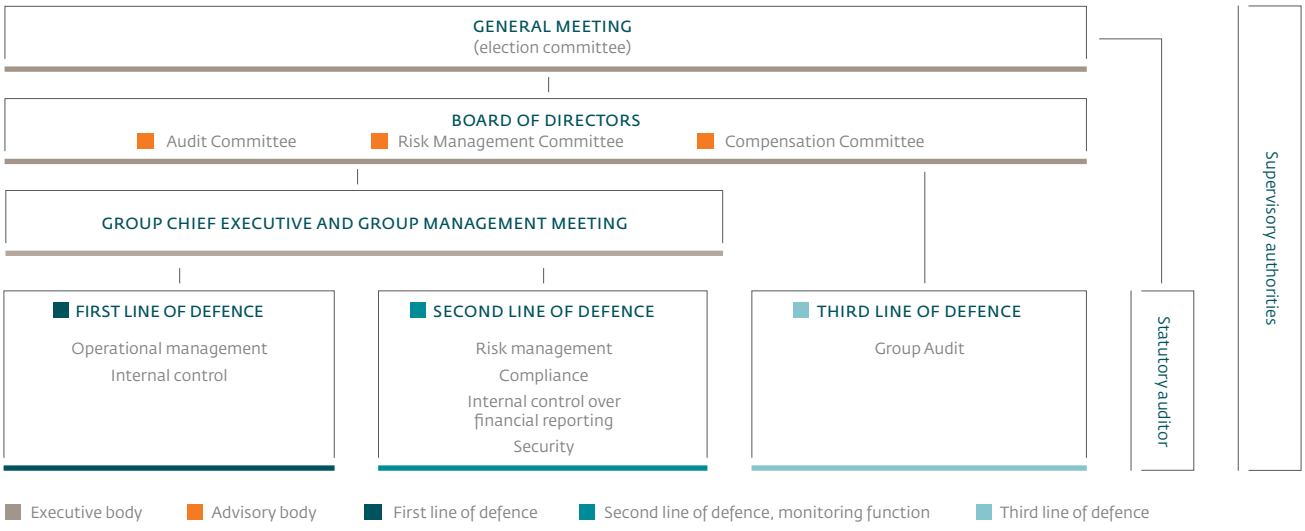
MANAGEMENT AND MEASUREMENT

The group policy for risk management is operationalised by means of the risk appetite framework. The framework is decided by the Board of Directors and is reviewed and renewed at least once a year. The targets and limits that are set under this framework are reflected in other elements of risk management such as limits on authorisations and business activity. Risk is also explicitly included as an element of the Group's management and reward systems, in the form of risk indicators that underpin the limits stipulated in the risk appetite framework and other overarching limits or strategies. The risk appetite framework is described in more detail later in this chapter.

The Group's internal capital adequacy assessment process (ICAAP) is integrated with the management processes by means of the risk appetite framework and general monitoring of risk trends. The ICAAP is described in more detail in a separate chapter.

Credit approval authorisations and position and trading limits are required in all key financial areas. The authorisations and overarching limits are decided by the Boards of Directors of DNB ASA and DNB Bank ASA and are delegated in the organisation. All further delegation of limits and authorisations must be approved and followed-up by the delegator's immediate superior. All decision-making authorisations in DNB are personal.

GOVERNING BODIES IN THE DNB GROUP



Authorisations are granted on the basis of assessments of the relevant individual's expertise and experience, and the need from a business perspective. Information about the conditions attached to, and limits of, the powers entailed by authorisations is provided when the authorisation is conferred. All authorisations that are granted in DNB are documented and monitored in a shared register. For more information about credit approval authorisations, please see the chapter on credit risk.

ROLES AND RESPONSIBILITIES

Risk management in DNB is based on a model with three lines of defence.

The Board of Directors of DNB ASA has laid down the principles for how the model is to be implemented in the Group.

- The first line of defence is the operational governance and internal control, including processes and activities to reach defined goals relating to operational efficiency, reliable financial reporting and compliance with laws and regulations.
- The second line of defence monitors and follows up the operational management's governance and internal control. The second line of defence sets the premises for risk management, coordination across organisational units and risk reporting.
- The third line of defence is Group Audit, which reviews and evaluates group management's overall governance. Group Audit is independent of the Group's executive management and reports to the Board of Directors of DNB ASA.

Authorisation to enter into agreements that create risk for the Group is delegated in the organisation. Responsibility for risk management is delegated correspondingly and is linked to the individual roles:

- Individual employees are required to understand and manage the risk associated with their own jobs.
- Managers must set the stage for ensuring that their subordinates understand and are actively attentive to risk and the potential return on risk.
- The CRO sets the premises for risk management and internal control, and also assesses and reports the Group's risk situation.
- The group chief executive is responsible for implementing risk management that contributes to achievement of the goals set by the Board of Directors. This includes effective management systems and internal control procedures.
- The Board of Directors has the ultimate responsibility for all risk management in the Group, including compliance with laws, regulations, and guidelines.

Risk management functions in DNB

Independence is crucial for the second line of defence and means that internal control functions and tasks must be kept separate from the first line. The primary duties of personnel in DNB's second line of defence are reporting, monitoring and giving advice.

A central unit, Group Risk Management, has the primary responsibility for the central second line function. The majority of DNB's risk management specialists are gathered in this unit. The unit is headed by the CRO, who reports directly to the group chief executive.

Group Finance, which is headed by the chief financial officer (CFO) also handles portions of the second line defence, including internal control over financial reporting. The same applies to the Group's support area for IT and Operations.

Decentralised second line defence functions have been set up for several risk categories. The functions are organisationally linked to the different business, product and support areas. To ensure their autonomy, templates and standard procedures have been established for the second line defence functions, as well as direct reporting lines to Group Risk Management.

The figure below shows how risk management in DNB is set up and where the various functions are located in DNB's risk management system. The figure also shows the organisation of the decentralised risk management functions.

Each individual business and support area is required to have an operational risk officer (ORO). The ORO must be independent of the business operations and reports to the Group's central risk management. The ORO's duties include registering and following up operational risk events, establishing risk-mitigating measures and participating in the preparation of the annual status reports on the management and monitoring of operational risk.

The compliance function in DNB consists of a central compliance unit and decentralised units in the business and support areas. The central unit is headed by the group chief compliance officer (GCCO) and is part of Group Risk Management. The GCCO is an independent officer who reports directly to both the group chief executive and the Board of Directors. All units must have a local head of compliance who reports both directly to the GCCO and to the local manager.

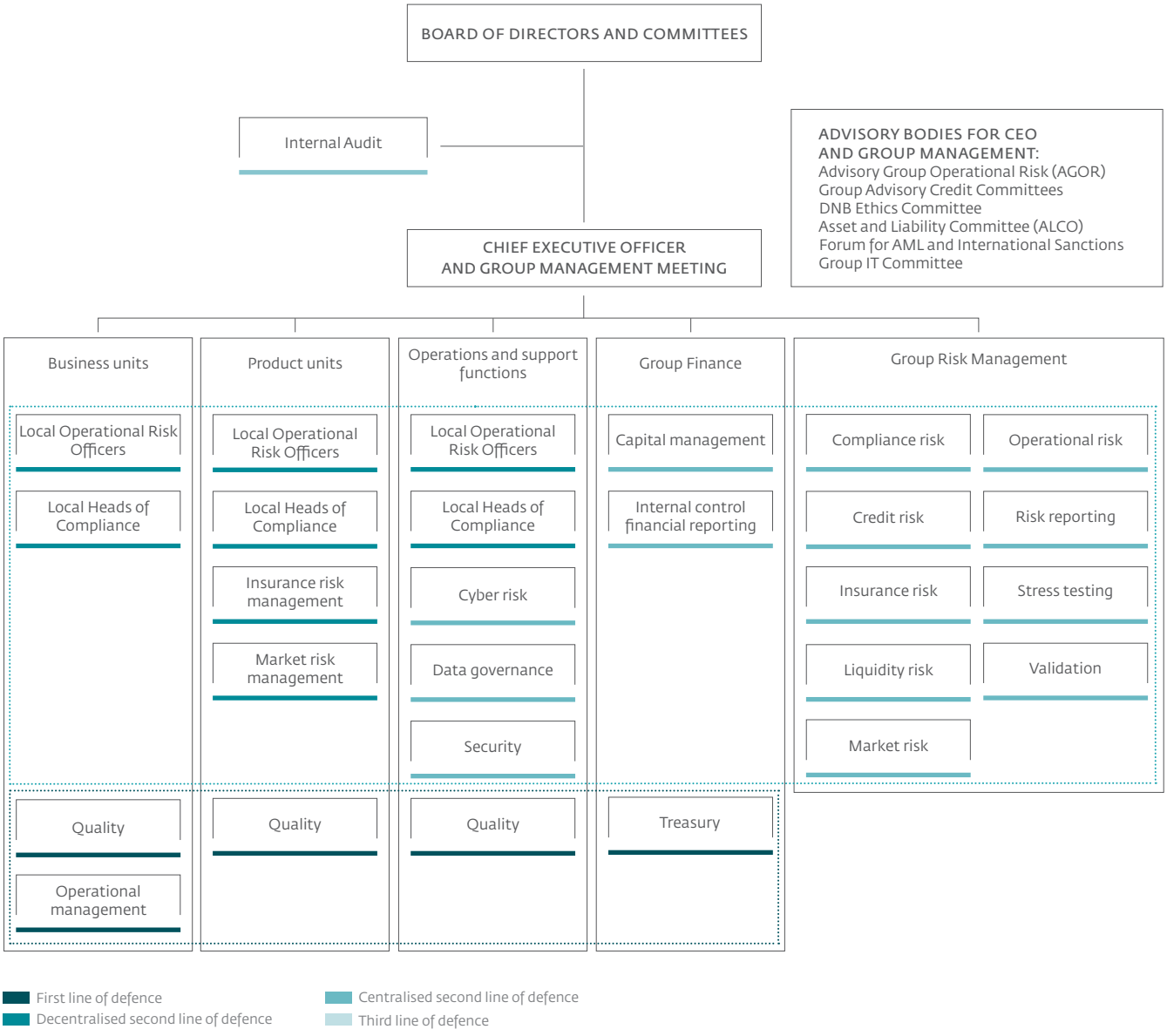
The GCCO is the anti-money-laundering (AML) officer and has full, overall responsibility for ensuring the Group's compliance with external anti-money laundering and sanction rules. The AML officer is responsible for setting up an AML function that has satisfactory expertise and resources, formulating DNB's internal anti-money laundering rules and setting standards for all of the Group's domestic and international operations. As the group AML officer, the GCCO is also responsible for defining the requirements for AML training and instruction as well as helping with and ensuring that such training is provided.

Group chief executive and executive bodies

The group chief executive is responsible for implementing risk management measures that contribute to the achievement of targets the Board of Directors of DNB ASA sets for operations, including effective management systems and internal control. The group management meeting is the group chief executive's collegiate body for management at the group level. All major decisions concerning risk and capital management are generally made in consultation with the group management team.

The group executive vice presidents for the business, support and staff areas take part in the group management meeting. Several advisory bodies have been established to provide assistance in connection with preparing decision-making documents as well as monitoring and control in various specialist areas:

- The Asset and Liability Committee, ALCO, is an advisory body for the chief financial officer and the chief risk officer, and handles matters relating to the management of market and funding risk, risk modelling, capital structure and return targets.
- Three central advisory credit committees: the Group Advisory Credit Committee, the Advisory Credit Committee for Large Corporates and International, and the Advisory Credit Committee for Corporate Banking Norway. The credit committees are advisory bodies for decision-makers in the business areas and in Group Credit Management, that endorse credit proposals by means of personal authorisations after discussing the proposals in question. The Group Advisory Credit Committee handles credit proposals for selected borrowers that are customers of more than one business area, and advises the group chief executive and the Board of Directors when they consider large individual credit proposals. The Group Advisory Credit Committee plays a key role in formulating the Group's credit guidelines and strategies and in the follow-up of credit strategies, rules for credit approval and portfolio risk management. The Advisory Credit Committees for Large Corporates and International, and for Corporate Banking Norway handle credit proposals that are within the scope of their decision-making authority for the respective business areas. The credit advisory committees are chaired by the group chief credit officer.



- Advisory Group Operational Risk, AGOR, is an advisory committee for the Group's chief risk officer and helps develop the Group's operational risk management solutions to ensure effective and consistent monitoring and reporting throughout the Group.
- The Forum for AML and International Sanctions is an advisory body for the Group's chief risk officer and provides advice and guidance on DNB's compliance with international sanctions and the Group's anti-money laundering and counter-terrorism financing efforts.
- The IT Group Council is a body that advises the head of IT and Operations on the prioritisation, approval and follow-up of the bank's IT development projects with the aim of ensuring that all IT investments support the bank's strategic goals.
- The Ethical Investment Committee manages and follows up approved guidelines for ethical information, gathers information about companies and ensures that cases are adequately examined before the committee recommends the possible exclusion of companies. The committee makes recommendations to the heads of DNB Asset Management Holding AS, Group Investments and DNB Livsforsikring ASA, who act as decision-makers for their respective units.

The Boards of Directors

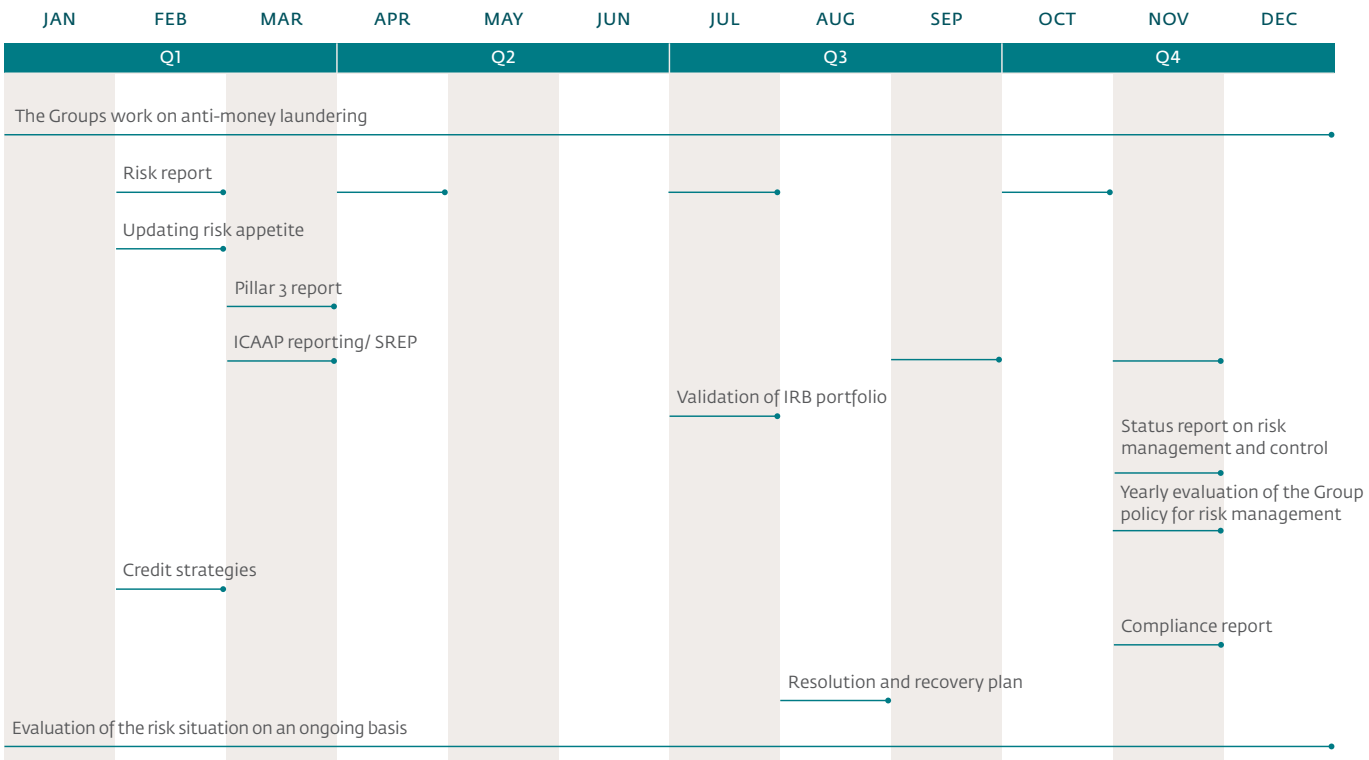
The Board of Directors of DNB ASA is the supreme governing body for the Group's business operations and is responsible for ensuring satisfactory oversight of operations, financial reporting and asset management.

The Board of Directors has an expressed goal of only taking on risk that the organisation understands and can monitor. The Group should not be associated with activities that can damage its reputation. The long-term risk profile target is set through the risk appetite framework.

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

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

THE RISK MANAGEMENT COMMITTEE'S WORK IN 2016



The Risk Management Committee monitors the Group's internal control and risk management systems, as well as internal audits, to make sure that they function effectively. In addition, the committee advises the Board of Directors on matters related to the Group's risk profile, including the Group's current and future risk appetite and strategy. Advice to the Board of Directors may include strategies for capital and liquidity management, credit-, market-, operational risk, risk related to compliance and reputation, as well as other risks within the Group. The committee prepares the basis for the Board's monitoring of risk management, which includes reviewing and assessing the administration's risk reporting. The review especially focuses on the capitalisation of the Group (ICAAP), significant changes of the models for calculating economic capital and risk-adjusted returns, and the monitoring of risk limits and risk strategies. The Committee consists of four members who are elected by the Board of Directors for two years at a time.

The Audit Committee evaluates the quality of the work performed by Group Audit and the statutory auditors, and shall ensure that the Group has independent and effective external and internal audit procedures, as well as satisfactory financial reporting that is in compliance with laws and regulations. The Audit Committee considers the choice of the statutory auditor for the Group and the statutory auditor's remuneration and submits a recommendation. The committee evaluates and monitors the impartiality of the auditor. The committee also supervises the financial reporting process, has regular contact with the external and internal auditors regarding audits of the financial statements, and reviews the statutory audit of the annual accounts and consolidated accounts. The committee prepares the basis for the Board's review of the financial reporting process, and also examines and assesses the Group's financial reports. The committee consists of four members, of whom at least one must be independent and have a degree in accounting and/or auditing.

RISK REPORTING TO THE BOARDS OF DIRECTORS IN DNB

Frequency	Management body	Reporting
Quarterly	The Risk Management Committee The Board of Directors of DNB ASA The Board of Directors of DNB Bank ASA	**Group Risk report** The report provides a status of the risk situation, measured in accordance with the framework for risk appetite, as well as an assessment of the capital situation in light of the risk development (ICAAP, and status on the recovery indicators). The report includes the utilisation of limits set by the boards of DNB ASA, DNB Bank ASA and DNB Livsforsikring.
	The Boards of directors in DNB's subsidiaries	**The subsidiaries' risk reports** All subsidiaries in DNB are required to submit risk reports to their Boards of Directors. The reports include a thorough review of the risk picture in the company and developments since the preceding quarter, with emphasis on key risks. All of the reports specify the status of operational risk and compliance risk. In the companies that have established their own risk appetite framework, follow-up of this is a central topic in the risk reports.
Semi-annually	The Risk Management Committee The Board of Directors of DNB ASA The Board of Directors of DNB Bank ASA	**Compliance report** The report provides a review of the Group's overall compliance risk and the measures necessary to reduce this. In 2017, the frequency of the reports from the group chief compliance officer (GCCO) to the group chief executive and the Boards of Directors will be increased from annually to semi-annually. In addition, the Board of Directors will receive monthly updates on implemented compliance measures.
Annually	The Risk Management Committee The Board of Directors of DNB ASA The Board of Directors of DNB Bank ASA	**ICAAP reporting (Internal Capital Adequacy Assessment Process)** The ICAAP report contains a detailed description of the DNB group's process for self-assessments of risk and the capital situation, as well as analyses and an evaluation of the status at year-end. Separate assessments and ICAAP reports for major subsidiaries are included in the group report. Group Audit examines the ICAAP process in DNB. The report summing up Group Audit's findings is discussed in the same board meeting as the self-evaluation.
		Resolution and recovery plan for the Group The recovery plan, which is part of the crisis management regime for banks, is an integrated part of the DNB group's risk and capital management. Descriptions of various identified measures that could improve the group's common equity Tier I capital ratio and liquidity situation in the event of a crisis, are an important element of the recovery plan. The plan is updated yearly. The status of defined "crisis indicators" is reported to the Board of Directors quarterly and to group management monthly.
		Validation report Validation, i.e. verification, is a key part of the asset quality procedures of the IRB system. The independent unit responsible for validation examines the precision of all internal models used in the calculation of capital requirements at least annually. The results are presented in the Validation report to the Boards of Directors. Group Audit prepares an annual IRB compliance report showing the compliance with IRB requirements. The report is treated simultaneously with the validation report by the Board.
		Status report on the management and control of operational risk The report summarises the results of the process carried out in all business and support units, and covers two parts: - Self evaluation of quality in management and operation. - Risk assessment of significant risks. The summary to the Boards of Directors identifies the most important operational risks, and suggests measures to reduce the risk.

The Compensation Committee makes recommendations on the Board of Directors' guidelines for remuneration to senior executives in accordance with Section 6-16a in the Public Limited Companies Act. The committee draw up proposals and issues recommendations to the Board of Directors regarding the remuneration awarded to the group chief executive. The committee serves as an advisor to the group chief executive on remuneration and other important personnel-related matters concerning members of the group management team and any others who report to the group chief executive. See the chapter on DNB's remuneration scheme for more information.

FOLLOW-UP

All measurement and reporting of risk must be based on consistent definitions, measurement methods and key figures. The Group's risk situation, including the status of all risk measurements stipulated in the risk appetite framework, must be reported to group management at least once a month and to the Board of Directors at least once per quarter.

Group Risk Management has the primary responsibility for risk reporting in DNB. This applies to both internal risk monitoring and risk reporting to the market and authorities. The risk reports must be in conformity with the Basel Committee's principles for risk data aggregation and reporting: accurate, complete, timely and adaptable.

Examining targets, limits and strategies is part of the internal risk-reporting process. Risk reports should help ensure a shared risk-culture for the Group and should be prepared on the basis of common principles and terminology.

All employees in DNB have an obligation to report and deal with major risk events or deviations. Serious operational events and all compliance breaches are to be registered in a loss and event database. The status is reported to the group management team and the Board of Directors through the risk appetite framework. Measures for handling all serious risk events and compliance breaches must be registered.

VERIFICATION

As the third line of defence, Group Audit is responsible for verifying and thereby helping the Board of Directors ensure that that the quality of all important aspects of the Group's risk management is satisfactory.

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

Group Audit does assessments to determine whether risk identification, established management processes and control measures effectively contribute to strengthening the Group's ability to reach targets.

RISK TYPES AND CORRESPONDING METRICS IN THE RISK APPETITE FRAMEWORK

Type of risk	Metric
Profitability and earnings	Probability of not reaching the minimum capital target
	Risk-adjusted profit
Capital adequacy	CET1 capital ratio
	Current level of Solvency II position in DNB Livsforsikring
Market risk	Market risk in per cent of total economic capital
Credit risk	Industry concentration (EAD)
	Single customer concentration (economic capital)
	Expected loss in per cent of Group EAD
	Annual EAD growth
Liquidity risk	LCR in accordance with minimum requirements
	NSFR in accordance with step-up plan
	Deposits to loans
Operational risk	Operational losses and significant operational events
	Number of critical IT events
	Data quality in the registrations of customer information
Reputation risk	RepTrak measure undertaken by Reputation Institute
Anti-money laundering	Progress according to the AML action plan

The status of the management and monitoring of operational risk is reviewed annually. The local OROs manage the status process in their areas. The reports include a self-evaluation based on Finanstilsynet's model for operational risk and risk assessment, which involves carrying out a set process to identify the greatest risks in the business/support area. Measures for dealing with each identified risk must be implemented and followed up throughout the year. A report, based on the areas' assessments, is prepared for the Board of Directors. The Board of Directors decides on measures to reduce the most important risks.

Validation is a central element of assuring the quality of DNB's IRB system. The validation results provide a basis for considering whether the classification and quantification of the Group's credit risk are satisfactory. The results of the validation process are presented to the Board of Directors at least once a year. The validation process is described in more detail in the section on validation results for the bank's IRB models in the chapter on credit risk.

RISK APPETITE

The Board of Directors of DNB ASA sets the long-term risk profile targets through the risk appetite framework. The risk appetite refers to the amount and type of risk a business is prepared to accept to achieve its objectives.

The risk appetite framework represents an operationalisation of the group policy for risk management and the associated guidelines. In addition, the risk appetite framework is a means of

ensuring that risk management is an integrated part of the Group's management processes. Renewal of the risk appetite framework is done separately from the strategic and financial planning process. The reason for this separation is that the risk limits specified in the risk appetite framework serve as a point of reference for formulating the organisation's strategic and financial plans.

Measuring risks against the stipulated risk appetite limits provides an overview of the risk situation in the DNB Group. The risk appetite framework contains 17 different risk metrics, across different risk types and business areas. The table on the previous page gives an overview of the framework and associated measurement methods.

Risk indicators have been established on lower levels to underpin the limits in the risk appetite framework. The risks are in the form of either limits for quantifiable risk or qualitative assessments of the risk level. They do not need be based on the same measurement parameters as the ones used at the group level, though they must support the same risk types and show the same trends. The procedures for monitoring risk indicators are tailored to the individual business areas, and are meant to ensure that risk is kept within the level stipulated in the risk appetite framework.

RISK APPETITE GOVERNANCE PRINCIPLES

As part of the risk appetite framework, four governance principles have been defined that set out the standard procedures and responsibilities within the DNB Group.

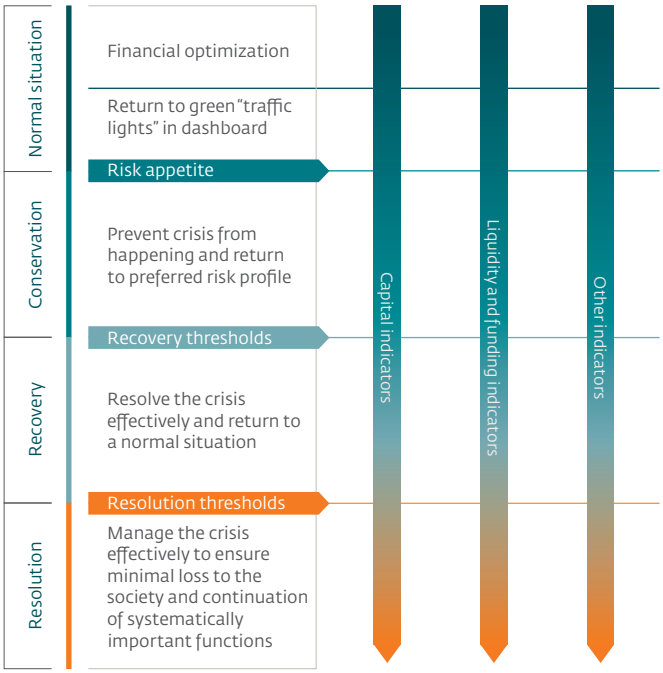
- Ownership: Ownership of the framework rests with the Board of Directors. All changes to the framework and the governance principles are to be approved by the Board of Directors.
- Accountability and responsibility: Each risk appetite statement is owned by a designated individual, who is responsible for monitoring risk and preparing action plans if defined risk levels are exceeded. The statement owner is also responsible for evaluating whether the measurement adequately captures risk development.
- Annual review: The risk appetite framework is to be reviewed at least once a year. This review must be independent of the strategic and financial planning process. In 2016, the quality of data in registered customer information was added as a risk indicator for operational risk. The measurement methods and threshold values were reviewed and changed where necessary.
- Reporting: Group management receives monthly reports on risk levels in the DNB Group in the form of a "traffic light assessment". The Board of Directors receives quarterly status reports with comments and analyses.

MEASUREMENT AND FOLLOW-UP

Continual monitoring of risk appetite limits ensures that the risks that are considered to be the most significant are also subject to follow up and discussion in operative units in the organisation.

All deviations from stipulated risk appetite limits are followed up. Monthly reports enable management to implement measures to reverse a negative trend before the defined risk appetite level has been exceeded. The yellow traffic light triggers a formal process, with clearly defined areas of responsibility. Group management decides whether remedial measures should be implemented. A red traffic light means that a limit has been exceeded. This is to be reported to the Board of Directors in the first subsequent board meeting, together with an action plan for reducing the risk in question.

CONNECTION BETWEEN RISK APPETITE AND THE DIFFERENT PHASES IN THE RECOVERY PLAN



RESOLUTION AND RECOVERY PLAN

The DNB Group has formulated a recovery plan based on the recommendation from the European Banking Authority. The preparation of such a plan is required according to the EU's Bank Recovery and Resolution Directive, BRRD, which came into force in the EU as of 1 January 2015.

The recovery plan is prepared as an integrated part of the Group's risk and capital management framework and will be activated if pre-defined recovery indicators are breached. Recovery indicator breaches will trigger a thorough assessment of the situation and the possible implementation of measures. If recovery is not feasible, the Group will enter the resolution phase. The authorities will then be responsible for developing a resolution plan for this phase. DNB has also submitted a resolution plan in the form of a "Living Will" to the US authorities concerning its operations in the US.

DNB has put in place a hierarchy of contingency indicators and measures as illustrated in the chart. Because the risk appetite framework functions as an early warning system, there are

a number of overlaps between indicators in the risk appetite statements and recovery plans. In most cases, red lights in a risk appetite context are aligned with threshold values (recovery thresholds) in the recovery plan.

The recovery plan includes the following descriptions:

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

The recovery plan is updated annually. In 2016, both the scope of the recovery plan and the indicators were expanded. As of the third quarter of 2016, the indictors were also followed up as part of the risk reporting to the Board of Directors of DNB ASA. In addition, the stress scenarios have been quantified further and the indicators in the different scenarios have been analysed.

5

CAPITAL MANAGEMENT AND ICAAP

Capital management and ICAAP

Financial institutions are required to carry out an Internal Capital Adequacy Assessment Process, ICAAP, at least once a year. Capital requirement assessments should be forward-looking and take business plans, growth, access to capital markets and economic conditions into account.

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

Quarterly risk reports are prepared for the Boards of Directors of DNB ASA and DNB Bank ASA and include assessments of the bank's capitalisation based on macroeconomic trends, risk exposure, the capital situation and anticipated future profitability.

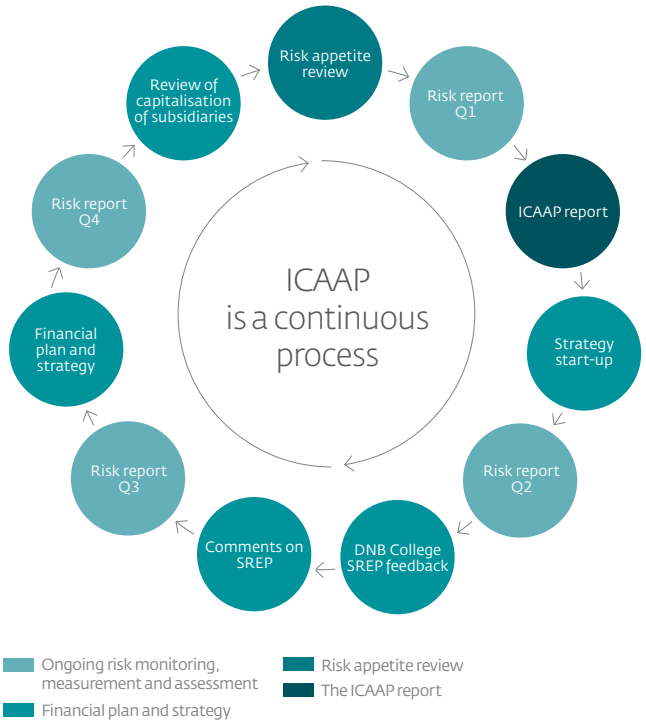
The diagram shows ICAAP activities throughout the year. The key elements in the ICAAP are annual updating of the Group's risk appetite framework, updating of the strategy and financial plan and the stipulation of financial targets.

The risk appetite targets and limits are reviewed and updated in the first quarter. The assessments in the ICAAP, ILAAP and Supervisory Review and Evaluation Process (SREP) are an important part of the decision-making basis. Targets for capital adequacy, the solvency margin and liquidity risk are operationalised in the risk appetite framework. The risk appetite framework is subject to monthly monitoring.

The Group's strategy and financial plan for the next three years are prepared in the second half of the year. Due to the stricter capital requirements, the Group's capital situation and the need for building up capital have been central elements in the financial planning and strategy process for the past few years. In the financial planning and strategy process, the Group's return on equity target is converted to a required rate of return on allocated capital. Allocation of capital to the business units is a central element of DNB's governance model and an operationalisation of the principle that the Group's capital requirements should be allocated in full to all business areas. Economic capital is one of many principles used in connection with the allocation of capital. The risk-adjusted return on allocated capital is an element of the risk appetite framework.

The Group's ICAAP is documented annually through a separate ICAAP report, which is sent to Finanstilsynet and is part of the basis for Finanstilsynet's assessment of the Group's risk and capital management. Each year, Finanstilsynet prepares a total risk assessment for the Group and evaluates the Group's capital evaluation process (SREP). Subsidiaries carry out a capital adequacy assessment process at least once a year. Most of the subsidiaries prepare their own ICAAP documentation, which is included in the Group's ICAAP report. An international supervisory collegiate body has been established for DNB under the auspices of Finanstilsynet.

ICAAP - ACTIVITIES THROUGHOUT THE YEAR



One of the central elements of the capitalisation assessment in DNB is the calculation of economic capital, which quantifies the total risk for all the main risk categories. The Risk Management Committee and the Boards of Directors of DNB ASA and DNB Bank receive the risk report together with the Group's quarterly financial report, which makes it possible for the Board to weigh the Group's financial performance against changes in risk.

ASSESSMENT OF RISK PROFILE, CAPITAL REQUIREMENTS AND REGULATORY CAPITAL LEVELS

The capital adequacy regulations specify a minimum primary capital requirement based on a risk-weighted asset for credit risk, market risk and operational risk. In addition to meeting

the minimum requirement, the bank must satisfy various buffer requirements. The difference between buffer requirements and minimum requirements lies in the consequences of non-compliance. Non-compliance with minimum requirements could result in the bank being restructured or wound up, while the consequence of non-compliance with buffer requirements is that measures would have to be implemented to strengthen capitalisation. Examples of penalties for non-compliance with buffer requirements include limits on dividend payments, interest payments on hybrid securities and variable remuneration payments to employees.

Finanstilsynet assesses whether there are any risk elements in the individual institution that are not adequately covered by the basis of calculation for the minimum requirements and the general capital requirements (Pillar 1). These are referred to as the Pillar 2 requirements. In the event of non-compliance with the combined requirements, including the Pillar 2 requirements, the bank is obligated to give Finanstilsynet an account of the reasons for this and of planned measures. In such a situation, Finanstilsynet will have the same intervention options as in the event of non-compliance with the buffer requirements, but with a greater scope of action.

The main conclusion of Finanstilsynet's review of last year's SREP was that, based on the prevailing risk level and external factors, DNB and its sub-groups and subsidiaries were adequately capitalised as at 31 December 2015. Finanstilsynet determined that the DNB Group, the DNB Bank Group and DNB Bank ASA should have a Pillar 2 capital add-on of 1.5 per cent. As per year-end 2016 that means a total common equity Tier 1 capital ratio of 14.7 per cent. Finanstilsynet also suggested that DNB should also have management buffer. Based on the anticipated increases of the counter-cyclical buffer requirement, DNB aims to have a common Tier 1 capital ratio in the region of 16 per cent by the end of 2017.

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

MORE ABOUT INTERNAL ASSESSMENTS AND REGULATORY REQUIREMENTS

The key element in assessments of financial strength and capitalisation is to compare risk with available loss-absorbing capital. In addition, various stress tests will be important references.

The table below shows the economic capital calculated by means of DNB's own internal models compared to the regulatory capital requirement. To ensure comparable figures, the same confidence level, the 99.9 per cent percentile, is used. A corresponding measure of unanticipated losses in the regulatory framework is 8 per cent of risk-weighted assets (RWA). Below, there is a description of the main differences in risk measurement between the internal Total Risk Model and the capital adequacy regulations. The outcome of the internal calculation of the Group's total risk was lower than the regulatory minimum requirement at year-end 2016. The difference is mainly related to credit risk measurements.

The difference between the minimum capital adequacy requirement and the internal model is substantial for credit risk. This is mainly because 29 per cent of the credit portfolio, measured by risk-weighted assets is measured by means of the standardised approach for the calculation of the capital adequacy requirement, which gives far higher risk weights.

COMPARISON OF CAPITAL REQUIREMENTS AND INTERNAL MODELS, 31 DECEMBER 2016

NOK million	DNB models, 99.97% percentile (economic capital)	DNB models, 99.9% percentile	Regulatory requirement (8 % of RWA)
Credit risk	54 441	42 522	64 877
Market risk	7 014	6 020	1 690
Market risk in life insurance	5 348	4 071	3 381
Insurance risk	1 664	1 364	
Operational risk	11 490	8 995	6 670
Business risk	7 274	5 909	
Total capital requirement	87 231	68 881	76 618
Diversification effects	(14 186)	(11 599)	
Total capital requirement after diversification	73 045	57 282	76 618
Transitional rule			7 502
Capital requirement with transitional rule			**84 120**

In the total risk model, classification models are used for all portfolios, regardless of whether the models have formal IRB approval. No supplementary economic capital is calculated for concentration risk on industries because the DNB Group has a well-diversified portfolio. Capital requirements for large individual exposures are also modest and were estimated to amount to NOK 250 million at year-end 2016.

The internal method for calculating market risk is more conservative than the method used to calculate the capital adequacy requirement. The main difference is that equity investments in the banking portfolio are treated as credits in the capital adequacy calculations and assigned a 100 per cent risk weight, and associated capital requirement of 8 per cent, whereas the economic capital calculated for the same investments is in the region of 55 per cent. The internal market risk measurement includes elements that are not covered by the regulatory requirements. These are interest rate risk in the banking portfolio, pension risk, credit spread risk on international and Norwegian bonds and basis risk in the trading portfolio.

In the Total Risk Model, market risk in the life insurance operation is treated separately, and takes into account asset volumes, asset mix, the size of buffer capital and the rate of return guaranteed to customers. The model also calculates the risk of accounting losses resulting from the liability adequacy test. The capital requirement for insurance in a capital adequacy context only reflects the company's asset volumes and asset mix on the measurement date. The measurement methods are fundamentally different. DNB's model generally measures the risk as higher than what follows from the capital requirement.

DNB has a not insignificant profit risk related to basis swaps. This is due to the fact that derivative contracts that are used to convert funding in foreign currency to lending in Norwegian kroner are measured at fair value on an ongoing basis. In practice, the contracts are held till maturity, so fluctuations in value are neutralised over the term of the contract. Due to the manner in which DNB has set up the basis swaps they will mostly provide gains for the Group in periods of market turmoil. Economic capital is not calculated for basis swap risk.

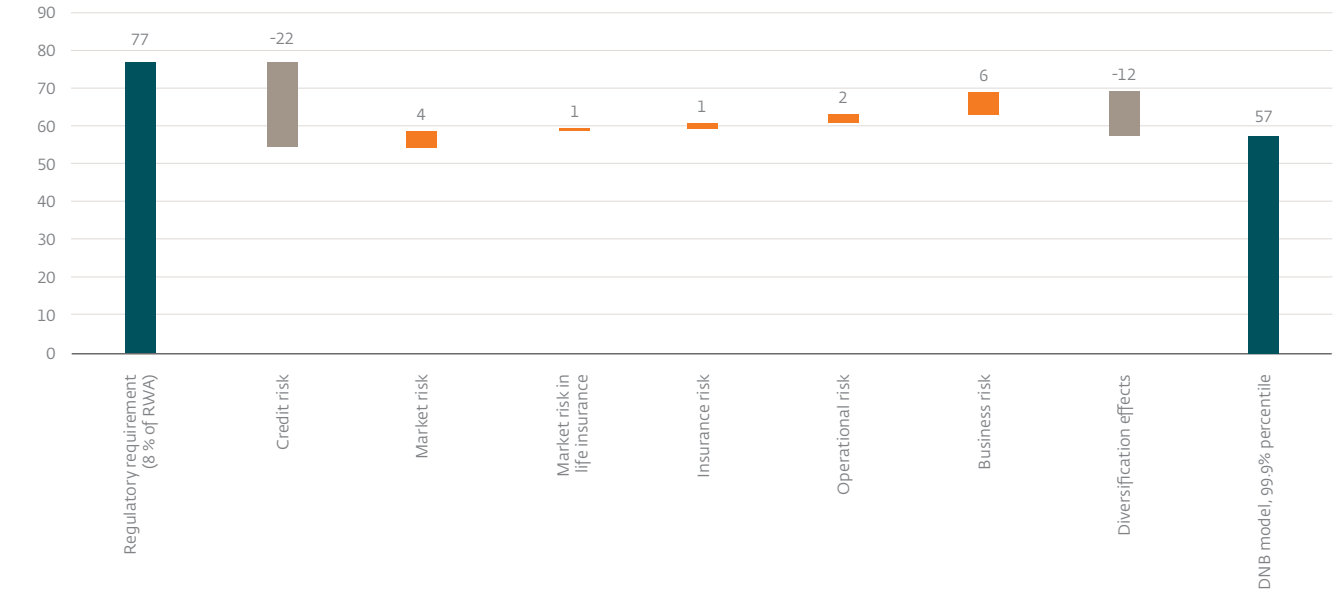
SYSTEMIC RISK

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

A high household debt-to-income ratio, high housing prices and the Norwegian economy's dependence on oil prices are factors that increase systemic risk in Norway. However, they are counteracted by other characteristic features of the Norwegian economy, such as a national currency, an independent monetary policy, great fiscal flexibility and a strong social security network. Risk in the housing market has been addressed by means of higher risk weights for residential mortgages in the calculation

COMPARISON OF CAPITAL REQUIREMENTS AND INTERNAL MODELS, 31 DECEMBER 2016

NOK billion



of the banks' capital adequacy requirements, and requirements pertaining to down payments, payments of principal and debt servicing capacity in the Regulation on requirements for new residential mortgage loans. In addition, a 1.5 per cent counter-cyclical buffer requirement has been introduced, which will be increased to 2.0 per cent as of 31 December 2017.

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

STRESS TESTING

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

At least once a year, a stress test report is presented to the Board of Directors as a basis for evaluating whether the bank's risk profile is satisfactory. This is normally done in connection with the bank's ICAAP report (the ICAAP stress test). The stress tests are conducted by organisational units that are independent of the business areas. The chief risk officer (CRO) has the primary responsibility for all stress testing. The stress tests are presented to the Group Advisory Credit Committee and approved by the CRO. Overarching stress tests that focus on the Group's capital adequacy are presented to the Asset and Liability Committee (ALCO), while stress tests on specific portfolios are presented to the Group Advisory Credit Committee. The CRO is responsible for recommending measures based on the conclusions of the stress tests. In addition to the Group's ICAAP stress test, annual stress tests are also performed for DNB Boligkreditt and DNB Næringskreditt. Crisis scenarios are also part of the recovery plan, as described in more detail in chapter on Risk management and control in DNB. DNB performs stress tests of specific credit portfolios on an ad-hoc basis.

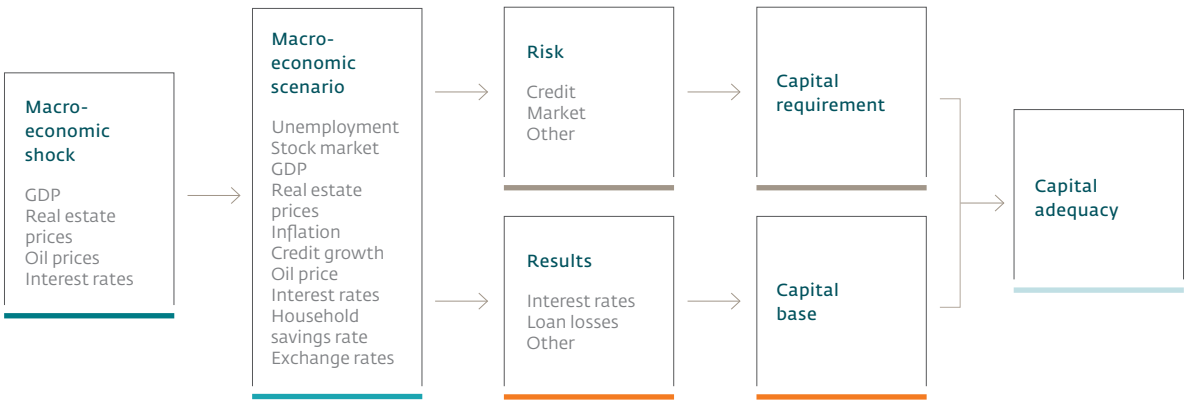
DNB took part in last year's stress test of European banks which were coordinated by the European Banking Authority (EBA). The stress test evaluate the banks' resilience to severe shocks and losses, and the effects on the banks' common equity Tier 1 capital ratios. In the stress test, accumulated impairment losses for the three-year period 2016 through 2018 were increased to NOK 24 billion, but DNB managed to maintain a positive result for the period. Because of this, together with the Basel I floor that specifically applies in Norway, the capital adequacy was not affected. The results of the stress test are posted on the EBA's website.

ICAAP STRESS TEST

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

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

IMPLEMENTATION OF STRESS TESTS



In the ICAAP stress test for 2017, emphasis was placed on the following risk factors:

- Uncertainty regarding China's effect on international financial markets pushes up the risk premiums on short-term interest rates.
- Global demand shock that has ripple effects on the Norwegian mainland economy. Long-term interest rates and stock markets fall.
- Global trade declines as a result of geopolitical instability and increased protectionism.
- House prices fall as Norwegian households become more pessimistic about the economic outlook.
- Oil prices fall due to lower global demand and oil sector investments decline.

The economic shocks are converted into specific development paths for key macro variables. The most important ones are described below. The shocks are assumed to occur early in 2017.

- Mainland GDP growth drops from 0.8 per cent to – 1.7 per cent the first year. The mainland economy shrinks by 3.1 per cent in the first three years. The GDP growth in this scenario is based on historical data, as well as important macroeconomic variables for the Norwegian economy in the scenario.
- The oil price drops to USD 25-35 per barrel. Oil investments on the Norwegian continental shelf decline significantly
- Unemployment rises to just under 7 per cent, which is higher than the level in the beginning of the 1990s
- House prices drop by more than 35 per cent. Household respond to falling house prices, declining real wage growth and an uncertain labour market by reducing private consumption and increasing their rate of saving. This in turn reduces economic growth even more.
- The key policy rate is assumed to be close to zero at year-end 2017. However, higher money market premiums will keep 3-month NIBOR at around 1-2 per cent throughout the stress period.
- Global GDP growth drops from 1.8 per cent to - 2.3 per cent in the first year. This is followed by weak growth in the global economy, below the long-term trend growth rate. Norwegian exports of traditional goods and services plummet.

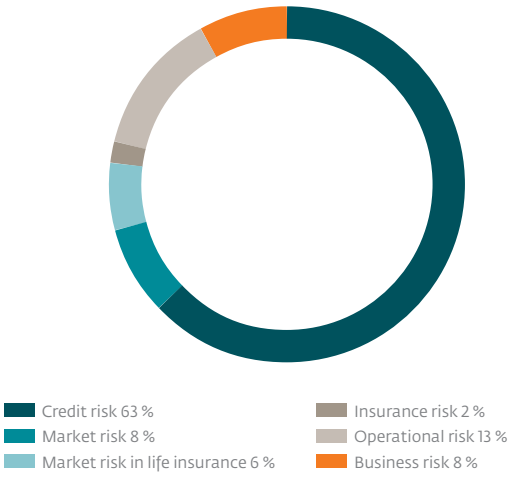
The results of the stress tests were a slight decrease of the common Tier 1 capital ratio, calculated in accordance with the transitional rules, from 15.7 to 15.6 per cent. The negative result in three out of four years in the stress test is countered by a major decline in risk-weighted assets. The negative results are primarily driven by a significant decline in interest income and large impairment losses linked to loan losses.

ECONOMIC CAPITAL AND CAPITAL ALLOCATION

DNB calculates economic capital for all of the main risk categories. A simulation model is used in the calculation, the Total Risk Model, which calculates unanticipated losses for the different types of risk and for the Group as a whole. The calculations cover all of the important business units, customers and products. The quantification is based on statistical probability distribution for the different types of risk based on historical data. In cases where the quality of the historical data is inadequate, discretionary estimates are used. The model simulates the risk of loss attached to the different risk categories separately, before calculating the total risk. A diversification effect arises when the risks are evaluated together, because it is unlikely that all of the loss events would occur at the same time. Due to the diversification effects between different risk categories and business areas, the Group's economic capital ends up being lower than if all of the business areas had been independent companies.

GROSS ECONOMIC CAPITAL SPLIT BY RISK CATEGORY, 31 DECEMBER 2016

Per cent



DNB has determined that economic capital should correspond to 99.97 per cent of possible unanticipated losses within a one-year horizon. That is the level that corresponds to the goal of an AA rating for ordinary long-term funding.

Allocation of capital to the business units is a central element of DNB's governance model and is an operationalisation of the principle that the Group's capital needs should be fully distributed to all of the business areas. DNB uses risk-adjusted returns in management and internal reporting of activities on the different organisational levels. The allocation of capital in the pricing and management systems is meant to ensure the achievement of satisfactory long-term return on capital. The principles for allocation are adapted to the different risk types.

- Capital for credit risk is distributed on the basis of the Group's internal calculation of economic capital for lending, multiplied by a factor that takes higher external requirements into account.
- Capital for market risk in DNB Markets is based on reported risk-weighted assets multiplied by the Group's common Tier 1 capital ratio target.
- Capital for operational risk is calculated as a factor of income. The factor is the same for all units and reflects the Group's capital target.

6

LIQUIDITY RISK AND ASSET AND LIABILITY MANAGEMENT

Liquidity risk and asset and liability management

GENERAL INFORMATION ABOUT LIQUIDITY RISK

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

Liquidity risk in DNB should be low and bolster the bank's financial strength. The bank seeks to have a balance sheet structure that reflects the liquidity risk profile of an international bank with an AA level long-term credit rating. Moody's upgraded DNB's rating from Aa3 to Aa2 in 2016. Standard & Poor's kept its rating unchanged at A+ and DBRS maintained DNB's credit rating of AA (low) with a stable outlook. See the chapter on major developments for more information about DNB's credit rating.

DEVELOPMENTS IN LIQUIDITY RISK IN 2016

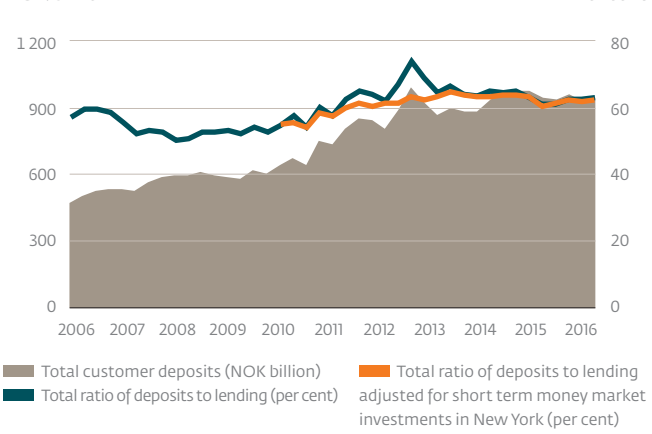
DNB had good access to both long-term and short-term funding throughout 2016. The markets for short-term funding were marked by uncertainty about the effects of upcoming regulations for US money market funds. This led to shorter maturities and higher spreads. The markets for long-term funding fluctuated considerably during the year due to regulatory and political issues. At the beginning of the year, apprehensions about the Chinese economy and weaker growth prospects for European banks increased spreads and reduced activity. Markets responded the same way early in the summer in advance of the EU referendum in the UK. Once the outcome was clear, markets normalised and spreads shrank. They shrank further in August after the European Central Bank (ECB) announced a further expansion of its asset purchase programme. The US presidential election also produced temporary unrest in markets. Spreads increased towards the end of the year due to fears of a possible reduction of the ECB's asset purchase programme.

The Liquidity Coverage Ratio (LCR), which measures short-term liquidity risk, stayed well above the minimum requirement of 100 per cent through the year and came to 138 per cent at the end of December.

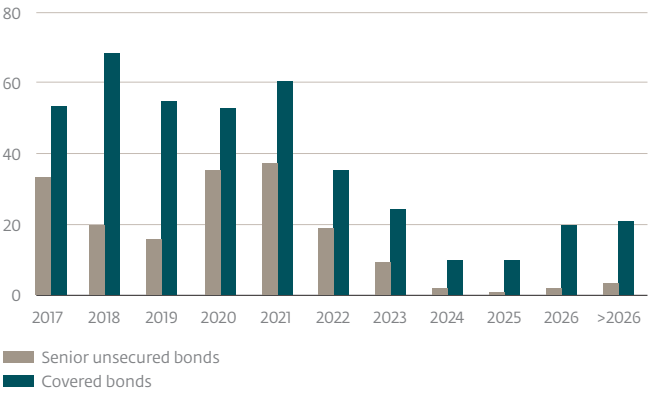
At year-end 2016, the minimum requirement for the long-term liquidity indicator, Net Stable Funding Ratio (NSFR), had not been finally decided. DNB's internal measurement indicates that the NSFR will be well over 100 per cent at year-end 2017. The NSFR was 104 per cent at the end of 2016.

The nominal value of long-term debt securities issued by the Group came to a total of NOK 580 billion at year-end 2016, compared with NOK 606 billion a year earlier. The average

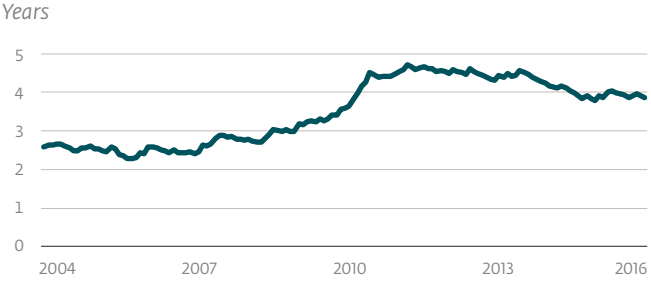
CUSTOMER DEPOSITS AND RATIOS OF DEPOSITS TO LENDING



LONG-TERM FUNDING, MATURITY PROFILE



AVERAGE TERM TO MATURITY FOR LONG TERM FUNDING



remaining term to maturity for the debt securities was 3.9 years at year-end 2016, compared with 3.8 years at year-end 2015.

The DNB Group's loans to customers decreased by NOK 40 billion, or 2.6 per cent from year-end 2015 to year-end 2016. Customer deposits declined by NOK 12 billion or 1.2 per cent in the same period. The ratio of customer deposits to net loans to customers rose from 60.5 per cent at end-December 2015 to 62.7 per cent a year later. The ambition is for the Banking Group's deposit to loan ratio to be at least 60 per cent.

LIQUIDITY RISK MANAGEMENT AND MEASUREMENT

The organisation of liquidity management in DNB is based on a clear authorisation and reporting structure, and is in conformity with the regulations on prudent liquidity management. The Boards of Directors of DNB Bank ASA and DNB ASA set the limits and guidelines and regularly review the bank's liquidity risk. The Board reviews the limits each year or more frequently if necessary.

The limit structure for liquidity risk is in conformity with the structure in the EU capital requirements regulations. Internal limits for the Liquidity Coverage Ratio (LCR) and stable funding (NSFR) are stipulated in the Group's risk appetite framework, along with the deposit-to-loan ratio requirement for the DNB Bank Group.

Group Treasury is responsible for making sure that the Group stays within the liquidity limits set by the Board of Directors at all times. The unit is also in charge of managing the bank's liquidity portfolio and providing funding to international subsidiaries and branch offices. Group Treasury's liquidity risk responsibilities are an element of the Group's first line defence. The second and third lines of defence are handled by Group Risk Management and Group Audit, respectively.

The liquidity limits reduce the bank's dependence on short-term funding from domestic and international money and capital markets. The short-term limits restrict the net refinancing need within the course of one week, one month and three months. The long-term limits involve requirements for the proportion of lending and other illiquid assets that are to be financed by stable sources such as customer deposits or funding with a residual maturity of minimum 12 months.

Senior debt is mainly issued through a European Medium Term Note programme of EUR 45 billion. In addition, senior programmes have been established in US dollars and Japanese yen. Covered bond programmes have also been established in Europe and the USA.

DNB uses a number of short-term commercial paper programmes for short-term funding, see table. These programmes give DNB good access to short-term funding as well as considerable flexibility in meeting investors' interests and the bank's liquidity requirements. In addition, DNB attracts substantial amounts from other banks, central banks and money market funds in the form of business deposits and excess liquidity. Together with commercial paper funding, this creates a liquidity buffer in the short end. In addition, parts of the bank's liquid assets are supported by long-term or stable funding sources.

COMMERCIAL PAPER PROGRAMMES, 31 DECEMBER 2016

Billion dollar / euro	Exposure	Limit
United States commercial papers (USCP)	11.4	USD 18 billion
Yankee CD*	4.4	USD 15 billion
European commercial paper (ECP)	1.5	EUR 15 billion
London CD program	0.5	

* Certificates in the United States issued by the US branch of foreign bank, in this case DNB's New York branch. This unlike the other commercial paper programme in the United States: USCP programme, where the issuer is DNB Bank ASA, Oslo.

DNB seeks to maintain well-diversified funding, which includes a broad deposit and funding base from personal and commercial customers. The domestic market is important both for diversification and because domestic funding markets tend to be more stable over time. However, the Norwegian funding market is relatively small and DNB depends on international funding in various currencies for some of its lending in the domestic market. Foreign currency funding leads to increased volatility in profits and losses in the form of basis swap risk.

The Norwegian domestic covered bond market has outgrown the Norwegian government bond market in terms of outstanding volumes, and is regarded by market participants as just as liquid as the government bond market. Covered bonds are an important instrument for long-term funding in DNB. They are issued by the bank's subsidiaries, DNB Boligkreditt AS and DNB Næringskreditt AS, and secured by the companies' residential mortgage and commercial real estate portfolios, respectively. During periods of turmoil, covered bonds have proved to be a more robust and much lower priced funding instrument than ordinary senior bonds. Over the next few years, DNB will thus seek to cover a large share of its long-term funding requirement through the issuance of covered bonds.

The use of covered bonds has contributed to raising awareness of asset encumbrance. The proportion of loans secured by pledged assets is high in Norway. This is because Norway has no securitisation market. Almost all loans are kept on the banks' balance sheets. In addition, the home ownership rate is quite high in Norway and this ownership is loan-financed. The current level of asset encumbrance is comfortable considering the Group's diversification, capitalisation and liquidity situation. At year-end 2016, the value of encumbered assets came to NOK 455 billion. Information about the level of available collateral is published quarterly in the Group's Fact Book and in the enclosure to the Pillar 3 report.

STRESS TESTING OF LIQUIDITY RISK

DNB simulates the liquidity effect of a downgrading of the bank's credit rating in the wake of one or more negative events. The results of such stress testing are included in the bank's contingency plan for liquidity management during a financial crisis. Developments in liquidity during a financial crisis lasting for up to 12 months are simulated. The stress tests differentiate between a financial crisis which only affects the bank, a so-called

bank-specific crisis, a crisis which affects the banking industry in general, a so-called systemic crisis, and a combination of the two. Applied stress testing factors are derived from historically observed data. Expert assessments are used in cases where the available data is limited, or market developments are deemed to be of little relevance. Stress factors are continually reviewed.

The need to strengthen Boligkreditt's cover pool in a stress situation is quantified in an extended stress test. This stress test estimates the bank's potential liquidity exposure in the event of a steep fall in housing prices combined with a major change in the market value of the derivative contracts between the parent bank and DNB Boligkreditt. Weakening of the NOK is the factor that has the greatest effect on changes in the value of the derivative contracts. This counterparty risk is reported weekly and is closely monitored and managed by Group Treasury.

A reverse liquidity stress test, RLST, is used to identify circumstances that could drain the bank's liquidity reserves in the longer term. The combined stress scenario described above is used as the starting point of departure. In addition, it is assumed that there will no longer be a market for the issuance and refinancing of covered bonds and that 40 per cent of the large corporate customers withdraw their deposits. A calculation is then done to determine the amount of deposit attrition (in the retail sector) the bank can withstand in the course of 30 days before its liquidity reserves are negative.

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

LIQUID ASSETS

At year-end 2016, deposits with central banks amounted to NOK 201.2 billion and receivables from other banks in the form of repo transactions, adjusted for encumbered assets, came to NOK 191.1 billion.

As an element of its ongoing liquidity management, DNB needs to have a holding of securities. The securities are used, among other things, as collateral for short- term loans from central banks and are an element of the liquidity buffers for fulfilment of regulatory liquidity requirements. In addition, changes of the credit ratings of the underlying securities are monitored and reported on an ongoing basis. Monitoring of the market risk in the liquidity portfolio is discussed in the chapter on market risk.

LIQUIDITY PORTFOLIO

The Bank's liquidity portfolio consists of an international portfolio and a Norwegian portfolio. At year-end 2016, the liquidity portfolio totalled NOK 174 billon. The Norwegian liquidity portfolio totalled NOK 64 billion at year-end 2016, of which Norwegian government and other level 1 public sector bonds accounted for NOK 30 billion. Other level 1 assets in the form of covered bonds accounted for NOK 25 billion, while the remainder consisted of level 2A assets. Level 1 and level 2A refer to the categorisation of liquid assets in the LCR framework, where level 1 represents the most liquid assets.

The international liquidity portfolio totalled NOK 110 billion at year-end 2016, distributed between a trading portfolio and a portfolio of multi-currency bonds held to maturity. The trading portfolio totalled NOK 97 billion. Half of the securities in this portfolio had an AAA rating. Public sector bonds comprised 60 per cent of the portfolio. The remainder consisted of covered bonds. The weighted average maturity in the trading portfolio was 2.4 years and the change in value resulting from a one percentage point change in spreads was NOK 23 billion at year-end 2016.

As of 31 December 2016, the hold-to-maturity portfolio totalled NOK 13.1 billion. 22 per cent of the securities in the portfolio had an AAA rating, while 39 per cent were rated AA. No new investments are added to the portfolio. There are no synthetic securities in the portfolio and no investments in US subprime bonds or Collateralised Debt Obligations, CDOs. The average maturity of the hold-to-maturity portfolio was 4.8 years at the year-end, and the change in value resulting from a one basis point change in spreads was NOK 6.3 million.

CAPITAL REQUIREMENTS

In the capital adequacy calculations, the hold-to-maturity portfolio is reported as an investment in securitisation, according to the IRB approach. The Group has no other portfolios or exposures which have been hedged against risk through securitisation. There have been no significant changes in the portfolio since the previous report. DNB Bank ASA has a 40 per cent ownership interest in Eksportfinans. Eksportfinans' bond portfolio is reported according to the standardised approach. DNB's share of the portfolio in terms of RWA was NOK 518 million in 2016, compared with NOK 748 million in 2015.

INTERNATIONAL BOND PORTFOLIO HELD TO MATURITY, BY CREDIT RATING

NOK million	EAD	RWA	EAD	RWA
Rating	31 Dec. 16	31 Dec. 16	31 Dec. 15	31 Dec. 15
AAA	2 834	210	5 935	470
AA	2 762	234	4 438	366
A+	293	31	2 357	244
A	464	59	525	65
A-	330	70	998	203
BBB+	2 026	751	2 080	746
BBB	326	207	687	424
BBB-	90	95	409	420
BB+	545	1 442	670	1 710
BB	243	1 095	294	1 296
BB-	0	0	0	0
Below BB-	2 848	7 524	768	9 062
Total	**12 760**	**11 718**	**19 162**	**15 007**

7

CREDIT RISK

Credit risk

GENERAL INFORMATION ABOUT CREDIT RISK

Credit risk is the risk of financial losses due to failure on the part of the Group's customers to meet their payment obligations towards DNB. Credit risk is attached to all claims against customers, primarily loans, but also liabilities in the form of other extended credits, guarantees, interest-bearing securities, approved, undrawn credits and interbank deposits.

Credit risk also includes residual value risk and concentration risk. Residual value risk is the risk that the value of collateral securing exposure is lower than expected. Concentration risk includes risk associated with large exposures to a single customer and clusters of commitments in geographical areas or industries, or with homogeneous customer groups. Counterparty risk is another type of credit risk and arises through derivative trading. There is a substantial degree of counterparty risk in the settlement risk which arises in connection with money transfers and settlement of futures contracts, but this is not included in the definition of credit risk.

The following terms are used to describe credit risk. DNB calculates PD, EAD and LGD on the basis of internal models for all credit exposure irrespective of whether the exposure is in a portfolio that has been approved for IRB reporting in the capital adequacy calculation.

- The probability of default (PD) is the probability that a given customer will go into default. It is calculated on the basis of financial and non-financial factors and forms the basis for internal credit risk classification. Non-performing and doubtful exposures are automatically assigned a PD of 100 per cent.
- Exposure at default, EAD, is the share of the approved credit that is expected to be drawn at the time of any future default at the same time as there is a downturn in the market.
- Loss given default, LGD, indicates how much the Group expects to lose if the customer fails to meet his obligations. The collateral provided by the customer, future cash flows and other relevant factors, such as a strong market downturn, are taken into consideration.
- Expected loss (EL) indicates the average annual expected loss over a full economic cycle. EL = PD*LGD*EAD. In normal times, EL should be higher than actual losses because the calculation takes both higher probability (the PD element) and higher losses (the LGD element) during a recession into account.

DNB's definition of defaulted exposure (non-performing and doubtful) is in conformity with the IRB rules (Section 10-1 of the Norwegian capital adequacy regulations): A loan should be defined as being defaulted if a an owed amount is more than 90 days overdue, the overdue amount is substantial and the event of default is not due to delays or incidental circumstances that affect the counterparty. A loan should also be classified as defaulted if the bank:

- Due to a weakening of the counterparty's creditworthiness, records an impairment loss 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.
- Expects that debt settlement or bankruptcy proceedings will be opened against the counterparty, expects the counterparty to be placed under public administration or has other reasons for not expecting the payment obligation to be met.
- Agrees on changes in terms and conditions, due to the counterparty's payment problems, that significantly reduce the value of the cash flow.
- Restructures the loan due to the counterparty's financial problems to prevent non-performance of obligations.

The definition of default in the retail banking market is solely based on the 90-day rule. In DNB, a "substantial amount overdue" is defined as an amount exceeding NOK 2 000, except for credit card debt, where the limit is NOK 200.

The definition of default in the IRB rules is used in all portions of this report dealing with the credit risk attached to portfolios. In the section entitled «Impairment and defaulted loans», the accounting definition of default is used (IFRS). This definition is similar to the definition according to the IRB rules but does not include exposures that have been restructured due to financial problems.

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

- Low risk: PD 0.01 – 0.75 per cent.
- Moderate risk: PD 0.75 – 3.0 per cent.
- High risk: PD over 3.0 per cent, but not defaulted.
- Non-performing and doubtful exposures.

DNB defines forborne exposures as loans or credits whose terms and conditions have been changed in a manner that would not have been approved if the customer had not had financial problems.

The Group's guidelines for credit activity have been approved by the Board of Directors. The principal objective for credit activity is that the quality and composition of the loan portfolio should ensure the Group's profitability in the short and long term.

In September 2016, the European Banking Authority published new guidelines on the definition of defaulted exposures. DNB has started making preparations to enable compliance with the guidelines. These preparations include clarification/specification of the definition of default, materiality threshold levels and a required minimum disqualification period after non-performing exposure has been reclassified as performing. This will entail major changes for DNB. The final deadline for compliance with the guidelines is 1 January 2021 but clarification of requirements and earlier implementation may be decided by local supervisory authorities.

DEVELOPMENTS IN CREDIT RISK IN 2016

The quality of the credit portfolios was stable and sound in most of the business areas, though it deteriorated in some sectors in 2016. This particularly applied to the oil service vessel and offshore rig segments as well as the container and dry bulk shipping segments. Oil prices rose gradually in 2016 but not enough to prevent a further reduction of activity levels in the global oil industry. In Norway, the effects have especially been felt in the oilfield services sector but the effects on the country as a whole have been much smaller than many feared.

The changes mentioned in the discussion of developments in the credit portfolio in 2016, are measured by EAD, irrespective of whether the portfolios have been approved for IRB reporting. The diagrams show developments in the portfolios in terms of EAD. The changes in EAD in 2016 have been broken down into customer segments and exchange rate effects. The portfolio does not include bonds held to maturity and banks.

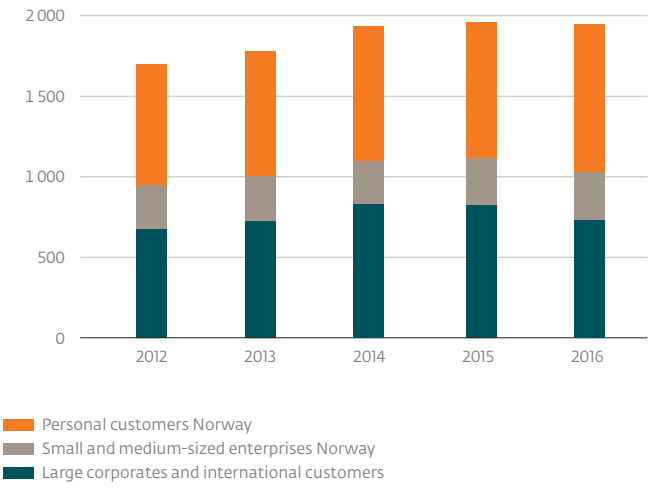
The credit volume, measured by expected exposure at default (EAD), declined by 0.8 per cent last year. Adjusted for changes of currency exchange rates, EAD increased by 0.4 per cent. 15 per cent of DNB's total credit portfolio, not including exposure on bonds held to maturity and banks, is denominated in USD and 7 per cent is in EUR. Exposure on personal customers increased. Meanwhile the credit volume in the large corporate portfolio declined, especially towards the end of the year. The reduction of EAD in the large corporate portfolio was due to sales of commercial real estate loans to DNB Livsforsikring, loan redemptions, intentional reduction of the portfolio and currency effects.

Oil and offshore, shipping and commercial real estate are the dominant industries in DNB's portfolio. Descriptions of the bank's exposure on these industries follow below. The residential mortgage portfolio, which comprises 40 per cent of the total credit portfolio (EAD) in DNB, is also discussed.

The decline of the credit quality in the large corporate portfolio in 2016 was due to challenges in the offshore rig, oil supplier and oil service vessel industries, and the container and dry bulk shipping segments. Reclassification of some exposures in the USA to meet requirements stipulated by the Federal Reserve through the Shared National Credit Program (SNC) also contributed to reducing the measured credit quality.

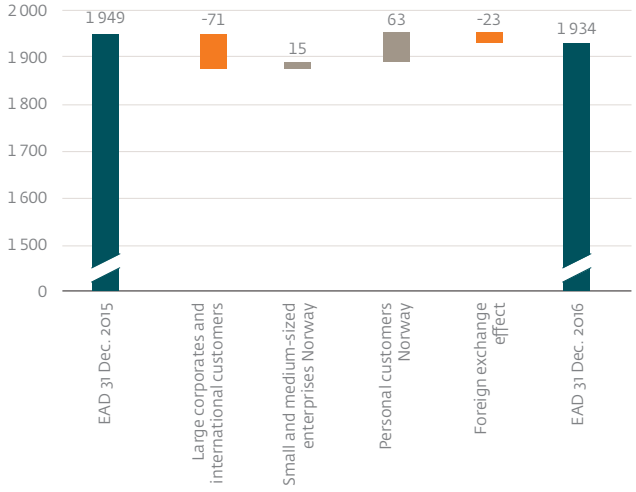
DEVELOPMENT IN TOTAL CREDIT PORTFOLIO, EAD

NOK billion



CHANGES IN TOTAL CREDIT PORTFOLIO, EAD

NOK billion



OIL RELATED INDUSTRY

DNB has been a bank for the oil related industry sector ever since oil was discovered on the Norwegian Continental Shelf. The Group's strategy and exposure are based on experience gained throughout this period. The portfolio is well-diversified with respect to both sub-sectors and geography. The aim is to have a low-risk portfolio consisting of exposures on financially strong companies.

Just like in 2015, low oil prices reduced exploration and production (E&P) companies' earnings, which led to a drop in investments and strong cost focus by the E&P companies. This, in turn affected the supplier sector which resulted in a decline in credit quality and increased impairment losses in the oil-related portfolio in 2016, in particular for oil service companies and sub-suppliers that are exposed to exploration activities.

At the turn of the year, the price of oil (Brent spot) was USD 55.4 per barrel. Oil price forecasts vary, but the price is expected to rise slowly in coming years. This probably means that a number of development projects in fields where the water is very deep will be postponed or cancelled. We have seen several instances on the Norwegian continental shelf where development costs have been reduced so much that the projects would be sufficiently profitably at an oil price in the region of NOK 40 - 50 a barrel. At the same time, the authorities are trying to provide a foundation for increased investments by launching new licencing rounds. The activity level on the Norwegian continental shelf is expected to be good in coming years albeit lower than in the peak years 2013 and 2014.

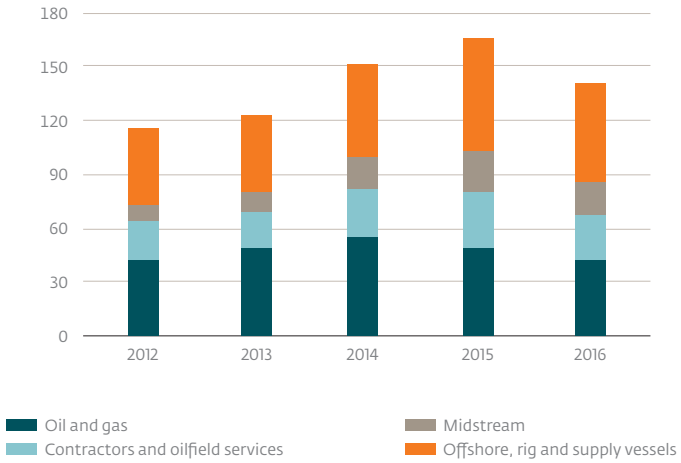
The markets for service vessels and rigs were very weak because of the low oil prices and investments were consequently lower than in preceding years. The capacity that has been built up in recent years will probably be too high, even in a scenario with higher oil prices and a rise in offshore activity.

A number of companies that operate service vessels were restructured in 2016. Some of these processes were very time-consuming due to considerable complexity. Different creditor positions have made it difficult to raise new equity on terms that ensure support from both unsecured and secured creditors. More restructurings and increased pressure on companies in the rig sector are expected in 2017. In general, rig companies have had longer-term contracts than oilfield service companies but there will be fewer new contracts and lower rates in the time ahead so the rig sector is expected to face greater challenges in 2017.

After growing for several years, the volume of the oil-related portfolio was reduced by 15 per cent in 2016, and now accounts for 7.3 per cent of DNB's credit portfolio in terms of EAD. This is partly due to a deliberate reduction of the portfolio and exchange rate effects. 55 per cent of the portfolio is classified as low or moderate risk. The percentage of Non-performing and doubtful exposures rose from 1.9 to 13.5 per cent. Additional impairment losses should be expected unless the price of oil rises significantly and offshore activity picks up.

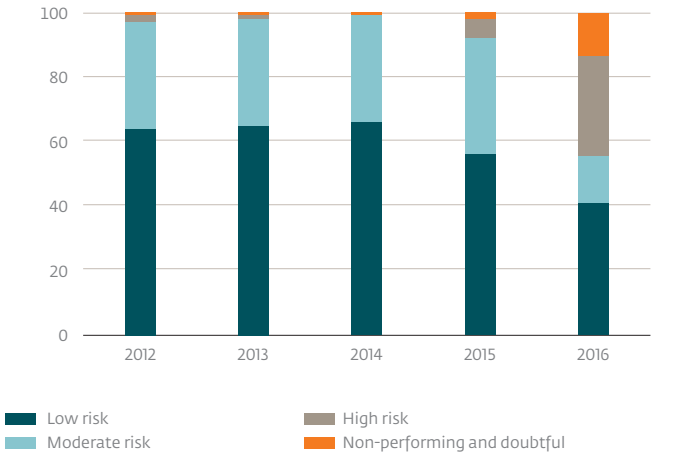
DEVELOPMENT IN OIL RELATED PORTFOLIO, EAD

NOK billion



DEVELOPMENT IN CREDIT QUALITY IN THE OIL RELATED PORTFOLIO, EAD

Per cent



SHIPPING

DNB is one of the world's leading ship financing banks, and is active in this sector all over the world.

On the whole, freight markets were weak for most of 2016, but they improved somewhat towards the end of the year. The dry bulk market rose slightly from historically low levels at the beginning of the year. However, though the rates cover operating expenses and interest payments in most cases, there is not enough to also fully cover loan payments. Developments in China are still decisive for the dry bulk market despite the fact that the Chinese economy is shifting from investments to consumption. The future outlook is a bit better due to moderate growth in demand combined with waning fleet growth as a result of lower orderbooks and an increase in ship scrapping.

The values of container ships dropped significantly in 2016 due to the collapse of a major South Korean ship owning company. However, the freight rates for line operators have risen a bit since the first half of 2016 and consolidation in the industry is increasing. Nonetheless, the charter market for container ships is expected to remain weak for the next few years. Increased protectionism and generally lower, less trade-intensive economic growth could have negative consequences for the container market.

Rates in the tanker market weakened considerably in 2016, especially in the product market, but this segment is expected to gradually improve. The market for liquid natural gas (LNG) is expected to improve. Meanwhile, the market for transportation of liquid petroleum gas (LPG) was very weak in 2016 and the outlook is uncertain.

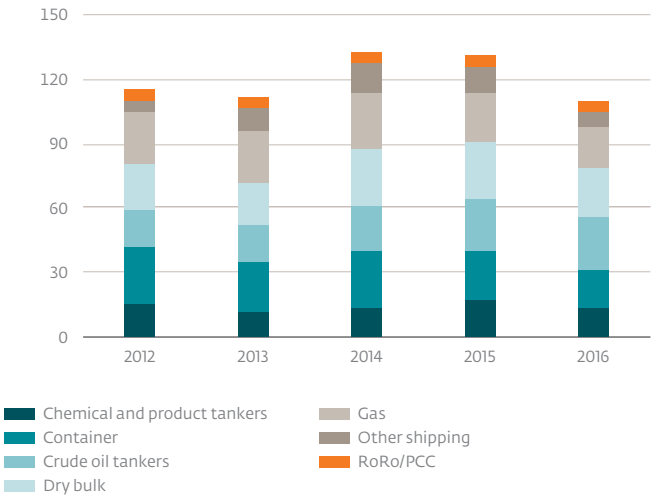
The loan volume (including guarantees) declined substantially in 2016 due to a combination of a reduced portfolio and a weaker USD. At the year-end 2016, the shipping portfolio comprised 5.7 per cent of DNB's credit portfolio. DNB expects the loan volume to decline further in 2017.

Since shipping is a highly cyclical industry, analyses and close monitoring are very important. Even though 2016 was a weak year in several segments, the level of impairment losses recorded by DNB was very low thanks to a well-diversified portfolio, and a predominance of large, financially sound companies.

The percentage of non-performing and doubtful exposures was increased by 1.7 percentage points in 2016, and amounted to 4.3 per cent of the portfolio at year-end. At the end of the year, 79 per cent of the portfolio was classified as low and moderate risk. The relatively low level of non-performing and doubtful exposures is the result of active follow-up of customers and good portfolio management.

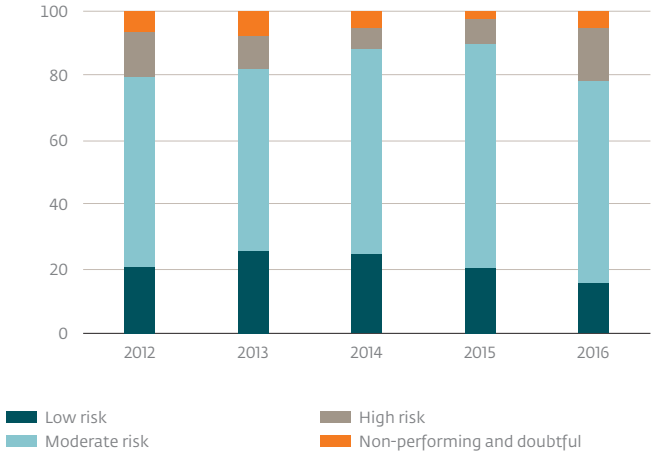
DEVELOPMENT IN THE SHIPPING PORTFOLIO, EAD

NOK billion



DEVELOPMENT IN CREDIT QUALITY SHIPPING PORTFOLIO, EAD

Per cent



COMMERCIAL REAL ESTATE

Commercial real estate, not including residential property, accounts for roughly 11 per cent of DNB's total credit portfolio measured by EAD. Priority is given to Norwegian customers with an industrial focus. DNB is able to follow the market closely due to its large pool of experts and local presence. DNB's commercial real estate exposure in the other Nordic countries is being downscaled.

DNB is committed to financing good projects and properties with stable and predictable cash flows that are owned by companies with sufficient debt servicing capacity. In considerations of which projects to finance, emphasis is placed on the liquidity of the property, the term of the leases, the lessees and residual value. Construction projects may be financed if a sufficient proportion of the building area is pre-sold or pre-let.

Market rent levels for office properties in Oslo declined from the autumn of 2014 to the winter of 2016, but the trend reversed last year and the consensus suggests that the leasing market is expected to improve in coming years. Prices have risen to record-high levels, driven by low interest rates and considerable interest among foreign property investors. The difference between prime and second-best locations has been increasing but now the trend for relative growth in value is expected to turn around, provided that interest rates rise. Reduced activity in oil-related industries has led to a higher vacancy rate and falling rents in the oil-related regions in the western part of Norway and in Lysaker, Asker and Bærum. The yield level for commercial real estate in the best locations in Oslo is record low, and prices are historically high. In isolation, a rise in interest rates could dampen prices but, given the expected rise in rents and persistent surplus demand, the value of office properties in Oslo will probably continue to be high. The fact that many of the least attractive office buildings are converted into other uses, like housing or hotels, helps sustain the market.

At year-end 2016, 94 per cent of the portfolio was classified as low and moderate risk. The volume of non-performing and doubtful loans in terms of EAD decreased, and came to 1.5 per cent at year-end 2016, compared to 2.0 per cent the year before.

RESIDENTIAL MORTGAGES IN NORWAY

DNB's residential mortgage portfolio mainly consists of loans to finance homes in Norway. DNB has a market share of approximately 25 per cent, though it has trended slightly downwards in the past few years. Residential mortgages are an important product for the banks, not least because customers tend to use their mortgage provider as their primary bank. By offering real estate broking, insurance and financing, the bank aspires to make the process of buying or selling residential property safe and straightforward.

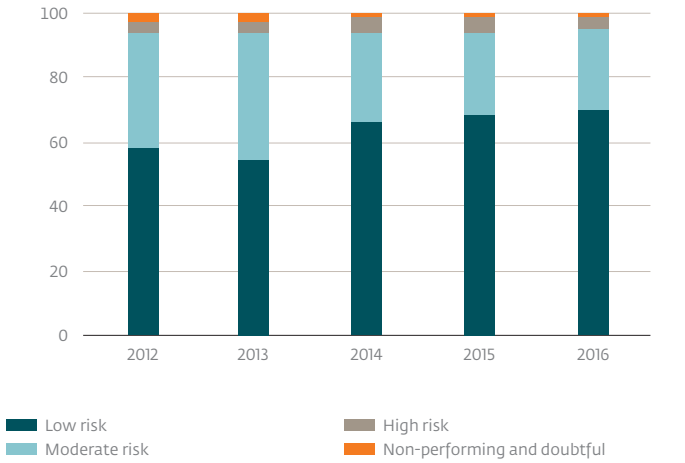
Credit assessments are based on the customer's debt servicing capacity and assumed willingness to service the loan, as well as the collateral securing the loan. All important information from customers verifying their debt servicing capacity must be documented.

DEVELOPMENT IN COMMERCIAL REAL ESTATE PORTFOLIO, EAD

NOK billion

DEVELOPMENT IN CREDIT QUALITY COMMERCIAL REAL ESTATE PORTFOLIO

Per cent



Approximately 82 per cent of the residential mortgages in the bank's portfolio have been transferred to DNB Boligkreditt and serve as the basis for the issue of covered bonds. DNB Boligkreditt's portfolio is of high quality, and approximately 81 per cent of the loans are classified as low risk.

Twelve-month growth in lending to Norwegian households was stable and came to just over 6 per cent towards the end of the year. Housing prices in Norway have risen 12.8 per cent in the last twelve months but with significant regional differences. Forecasts for 2017 and 2018 indicate that house price growth is likely to level off.

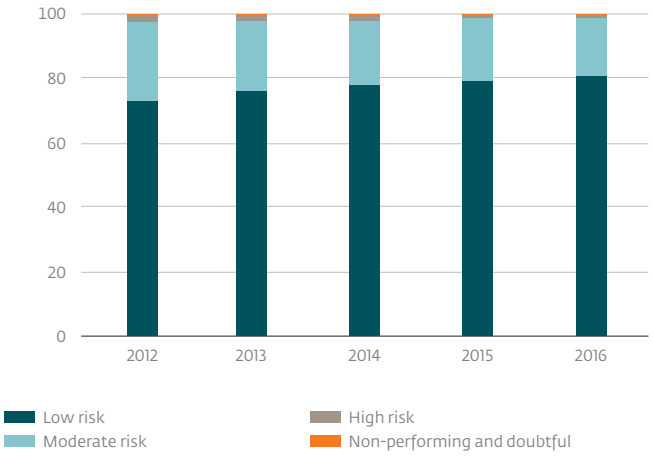
At year-end 2016, DNB met the requirements in the regulation that deals with collateral, debt servicing capacity and the size of instalments for residential mortgages in Norway by a wide margin. The regulation on requirements for residential mortgage lending was tightened further effective as of 1 January 2017 in an effort to reduce the strong growth in house prices and household debt, especially in Oslo. According to the new rules, the down-payment requirement in connection with taking out a residential mortgage is 15 per cent. The down payment requirement for buying a second home in Oslo has been raised to 40 per cent. Like before, borrowers must be able to tolerate a 5 percentage point rise in interest rates and this rule has been supplemented by a new rule regarding the borrower's debt-to-income ratio. A loan may not be granted if the borrower's total debt would thereby be more than 5 times greater than his/her gross annual income. The upper limit for interest-only loans (including home equity credit lines) has been reduced to 60 per cent of the home's appraised value. Financial institutions in Norway are permitted to grant exceptions to these rules for up to 10 per cent of their total mortgage loans, except in Oslo where the limit is 8 per cent. Reporting in accordance with the amended regulation has already been implemented in the organisation.

The diagram shows that the credit quality in the residential mortgage portfolio, including loan offers, did not change much in 2016. The portfolio grew by 8.6 per cent. The quality of the portfolio is still good and the risk is low. At year-end 2016, close to 99 per cent of the portfolio was classified as low and moderate risk. The level of defaults in the residential mortgage portfolio is still low. At year-end 2016, the percentage of non-performing and doubtful loans was 0.2 per cent, which is the same as the year before.

The loan-to value ratio is a risk measurement that shows the degree to which a mortgaged asset, e.g. a home, is loan-financed. For the residential mortgage portfolio, this is calculated as the size of the loan(s) divided by the appraised value of the property. Loan-to-value ratios are calculated on an object basis, which means that all loans secured by the same property are included. The loan-to-value ratio is deemed to be the same for all of these loans. Short-term bridge loans and loan offers are not included in this connection. The market value of each home is re-estimated each quarter. At year-end 2016, the loan-to-value ratio was 85 per cent or lower for just under 95 per cent of the residential mortgages. The EAD-weighted average loan-to-value ratio for residential mortgages was 59.2 per cent at year-end 2016, compared to 61.3 per cent a year earlier.

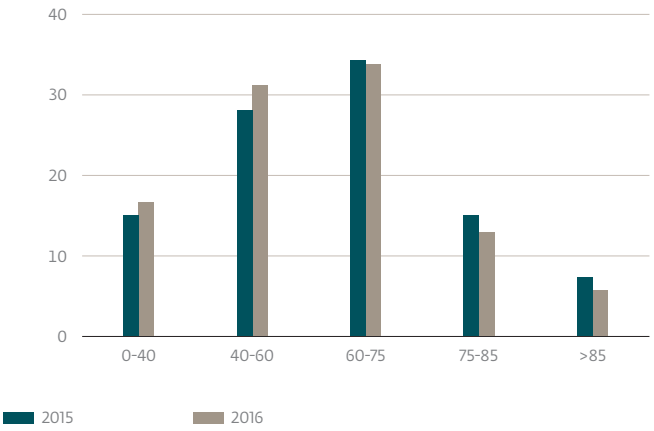
DEVELOPMENT IN CREDIT QUALITY RESIDENTIAL MORTGAGE PORTFOLIO

Per cent



LOAN TO VALUE, RESIDENTIAL MORTGAGES, EAD

Per cent



CREDIT RISK MANAGEMENT AND MEASUREMENT

The risk appetite framework defines maximum limits for credit exposure. Limits have been set for annual growth in lending, risk concentrations, total credit risk exposure and expected loss (EL). An upper limit for growth, measured in terms of EAD, is set for the total credit portfolio. Limits are also set for exposure on individual customers and certain industries. The limit for expected losses covers all types of credit risk and is measured by means of the Group's internal credit models.

The risk appetite framework is operationalised through credit strategies for the individual customer segments. In addition, risk indicators are established in the Group's governance model. The risk indicators are used in connection with the monitoring of managers on all levels. Please see chapter regarding Risk management and control for a more detailed discussion of risk appetite.

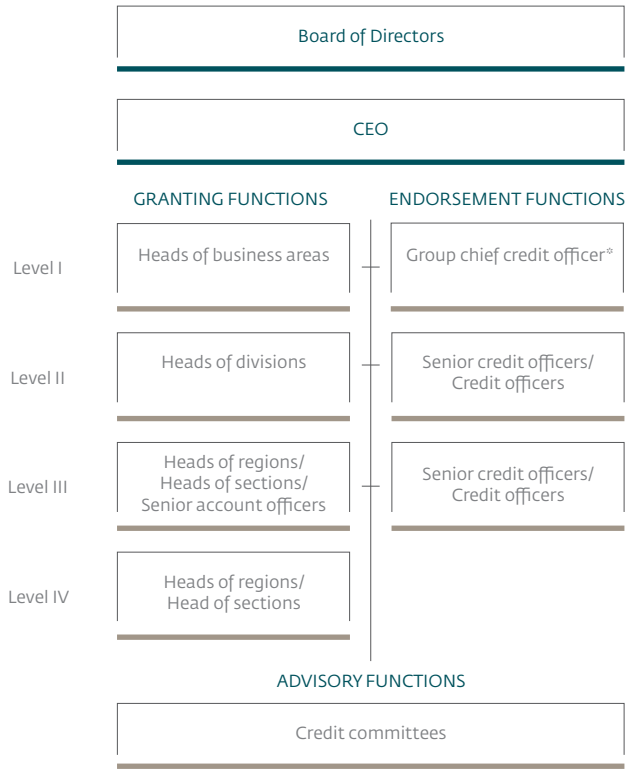
DECISION-MAKING PROCESS AND AUTHORISATIONS

Group Risk Management is responsible for preparing the framework for the credit process and credit management in all business areas. Additional responsibilities include checking and monitoring the quality of the credit portfolios and loan loss processes and the effectiveness of the credit process. Group Risk Management performs Credit Risk Reviews (CRR) to determine whether approved Group guidelines for credit activity, credit strategies and credit rules are in agreement with each other and are followed by the line organisation. Credit Risk Reviews are done continuously in the Retail and Corporate Banking areas. All of the regions/sections are reviewed annually. The results are also used for training purposes.

Each division is responsible for managing its own credit activities and credit portfolios within the confines of the risk appetite limits and credit strategies. In order to ensure that decisions are effective and of high quality, several levels of credit approval authorisations have been introduced. The levels are based on the size and complexity of the credit, the required expertise and the risk involved. The "two pairs of eyes" principle must be followed in connection with all credit approval. This means that a credit is approved by one person based on a recommendation from another person. In cases where the requested credit exceeds a specific level, the decision must be endorsed by a credit officer in Group Risk Management. For the smallest credits in the corporate segment, however, automated risk classification can replace one of the "pairs of eyes". A solution for self-service financing secured by existing collateral was launched in DNB's online banking service in 2016.

All credit approval and endorsement authorisations are personal, except for credits requiring approval by the Board of Directors, where the directors approve the credit as a group. The Board of Directors approves credits of an extraordinary nature that, for example, could affect the Group's corporate reputation and credits that tie up a large proportion of capital. If the decision-maker is not sure whether the credit is within the limit of his or her authorisation or the credit application is of an extraordinary nature or raises ethical or reputational questions, the matter should be elevated to a higher level decision-making body.

CREDIT DECISIONS IN DNB



* The endorsement authorisation is given from CEO to CRO who further delegates it to the group chief credit officer

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

CREDIT REGULATIONS

If the customer has not proven a satisfactory debt servicing capacity, credit should normally not be extended even if the collateral is adequate. The customer's debt servicing capacity is assessed on the basis of future cash flows. The main sources of the cash flows included in such assessments are income from business operations for corporate customers, and wage income for personal customers. In addition, the extent to which the bank's exposure will be covered through the realisation of collateral in the event of default or the reduction of future cash flows is taken into account.

Risk assessments are done on all corporate customers on which DNB has credit exposure in connection with all significant credit proposals and, unless otherwise decided, at least once a year. Risk classification should reflect the long-term risk associated with each individual customer and the exposure on the customer.

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

DNB keeps a list of exposures that need to be extra closely monitored, the so-called watch list. The object of the watch list is to identify customers that require special follow up as a basis for:

- Getting the customer to carry out the necessary improvement measures.
- Phasing out the customer relationship, if applicable, while the customer still has some financial momentum.
- Taking the necessary steps to avoid or reduce losses.

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

- Exposures that are classified as high risk.
- Forborne exposures, i.e. exposures on which deferred payments of principal or other easing of payment terms have been granted.
- Exposures on borrowers whose financial situation has deteriorated, for instance due to major negative budget variances, the loss of important business areas, significant changes of operating parameters, the loss of key personnel or similar events.

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

CREDIT RISK REPORTING

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

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

In addition, changes of credit risk are analysed and reported monthly to the business areas and Group Credit Management. The reports are along multiple dimensions, such as industry segment, customer segment and geography. This reporting is undertaken by a unit that is independent of the business units. In the internal monitoring of credit risk, all portfolios are measured and reported by means of internal models, irrespective of whether the portfolio is scored in IRB models that have been approved for use in capital adequacy calculations.

COLLATERAL AND OTHER RISK-MITIGATING MEASURES

In addition to assessments of debt servicing capacity, the Group uses collateral to reduce credit risk. Collateral can be in the form of physical assets such as homes, commercial property or vessels (mortgages), or in the form of guarantees, cash deposits, netting agreements or credit insurance. As a rule, physical assets must be insured. In addition, loan agreements may contain a negative pledge clause prohibiting the customer from pledging assets to other lenders. Applications for mortgages on real property are considered on the basis of the property's market value, external appraisals or internal value estimates.

The majority of guarantors are private individuals, businesses, the government/municipalities, guarantee institutes and banks. The value of a guarantee depends on the guarantor's debt-servicing capacity and financial wealth and is assessed individually. In cases where the bank is given a guarantee by a company, its value will fluctuate along with the company's financial performance and financial strength. A guarantee given by a limited company could be subject to Sections 8-7 through 8-11 of the Limited Liability Companies Acts, which stipulate restrictions on pledges of collateral by a limited company.

The main principle for valuing collateral is to use the expected realisation value at the time of a possible future default when the bank might need to realise the collateral. Valuations of collateral must be done in connection with all new loan proposals and annual renewals and are part of the basis for credit decisions.

In addition to assessments of the customer's debt servicing capacity, the future realisation value of collateral, received guarantees and netting rights, financial covenants are included in most credit agreements. These covenants are an additional means of reducing risk and ensuring adequate follow-up and management of the exposures, and may include minimum cash flow and equity ratio requirements.

STRESS TESTING

DNB's credit portfolios are subjected to a variety of stress tests, both on the overall level and for specific portfolios. The stress tests are used to gauge vulnerability to losses resulting from both loss of income and customer default in a business area or specific portfolio. Stress tests are also used to identify critical drivers for changes in credit risk and capital adequacy. Overall stress testing of the total credit portfolio is done at least once a year in connection with the internal capital adequacy assessment process. Externally ordered stress tests are conducted as well.

Stress tests must be conducted by organisational units that are independent of the business areas. The CRO has the primary responsibility for all stress testing. Stress tests of specific portfolios are normally performed in the line organisation, based on the principles laid down by the CRO. The central specialist unit for stress is responsible for quality control and for approving the assumptions and methodology used for the stress tests. The results of the stress tests are summed up in a report that is presented to the Group Advisory Credit Committee and approved by the CRO. The CRO considers the need for any further actions. When portfolio stress tests are conducted in the line organisation, the management of the business area must determine the need for risk-mitigating measures and measures that can be implemented if problems arise. The CRO does independent assessments and is responsible for recommending measures based on the conclusions of the stress tests. In 2016, DNB conducted stress tests of the offshore rig (drilling), offshore service vessel and dry bulk segment portfolios.

Various methods are used to estimate credit losses in connection with stress testing. If there is a need to show detailed results, for instance in connection with stress testing of specific portfolios, the internal credit models for default frequency (PD) and loss severity (LGD) are used. Using a macroeconomic scenario as a point of departure, for example, as described in the chapter on capital management and ICAAP, the PD and LGD for each individual borrower is recalculated on the basis of stress factors that are input in the models. The new PD and LGD values are used to do new estimates of expected loss (EL).

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

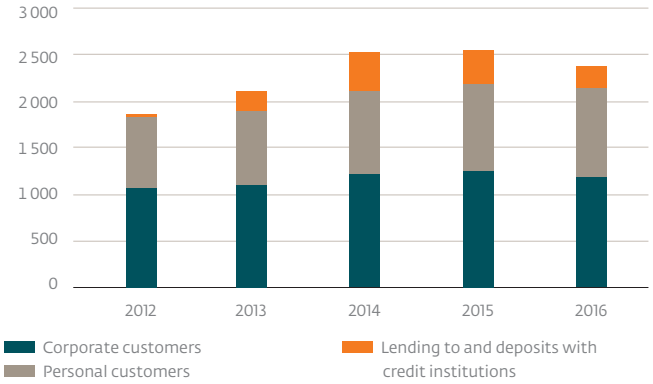
OVERVIEW OF CREDIT EXPOSURES

The figures to the right show the DNB Bank Group's total credit exposure distributed by customer segment, geography and industry. Total exposure includes loans, claims, guarantees and undrawn credit facilities. In this connection, total exposure includes banks and the portfolio of bonds held to maturity. The breakdown into industries is based on the Statistical Classification of Economic Activities in the European Community, NACE Rev 2.

DNB's credit portfolio is roughly equally distributed between personal and corporate customers, 46 per cent and 54 per cent respectively. Most of the credit portfolio is linked to Norway or Norwegian customers. The diagram shows the geographic distribution of credit exposure based on the individual customers' primary addresses. Real estate is the predominant industry sector in the corporate portfolio. In this diagram, real estate includes residential property. More detailed information can be found in the attachment.

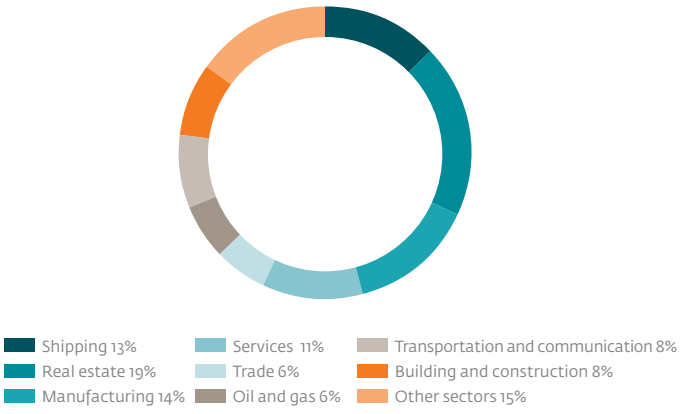
TOTAL COMMITMENTS SPLIT BY CUSTOMER SEGMENTS

NOK billion



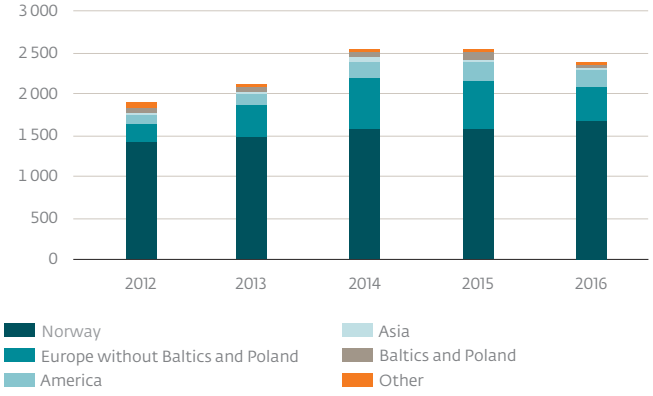
COMMITMENTS TO CORPORATE CUSTOMERS SPLIT BY CUSTOMER SEGMENTS, 31 DECEMBER 2016

Per cent



TOTAL COMMITMENTS SPLIT BY GEOGRAPHY

NOK billion



FORBORNE EXPOSURES

DNB defines forborne exposures as loans/credits whose terms and conditions have been changed in a manner that would not have been approved if the customer had not had financial problems. This includes both non-performing and doubtful and performing exposures.

Since 2014, the bank has reported forborne exposures to Finanstilsynet. The reports cover customers who have been granted forbearance on their loans due to financial problems. The most common forms of forbearance are:

- Changing the term of the loan.
- Refinancing.
- Debt forgiveness, including forgiveness of overdue interest payments.
- Deferment of overdue interest payments.

Procedures for handling these exposures have been incorporated in the credit process. Operative guidelines have been prepared describing the procedures in the line organisation for identifying, analysing, approving and tagging forbearance cases in the system.

EXPOSURES WITH FORBEARANCE MEASURES IN DNB BANK GROUP, 31 DECEMBER 2016

NOK million	Exposure
Exposures with forbearance measures not in default	24 906
Exposures with forbearance measures in default	15 648
Total exposures with forbearance measures	**40 554**

The reported volume of forborne exposures has increased since reporting began in 2014. The increase is partly due to the negative trends in the oil service vessel and offshore rig segments and the shipping segments, container and dry bulk, and partly because the bank has developed better systems and processes for identifying and reporting such exposures.

IMPAIRMENT AND DEFAULTS

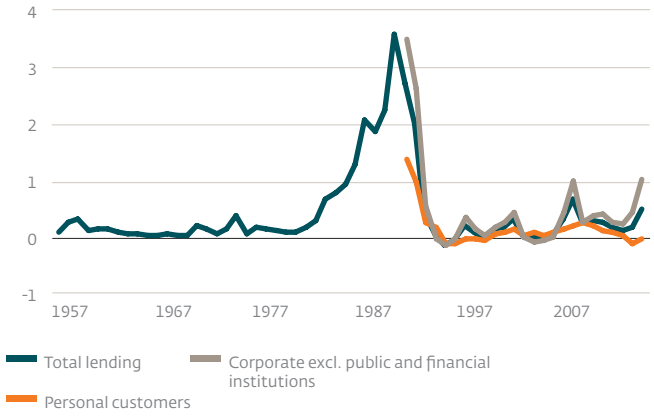
The term default as used in this section of the chapter is based on the accounting definition (IFRS). It does not include exposures that have been restructured due to the borrowers' financial problems in order to avoid default. For a more specific definition of default, see the text box at the beginning of the chapter.

If a loss event occurs that gives objective proof of a reduced future cash flow for servicing a loan, DNB must promptly consider whether an impairment loss should be recorded. Loss events include:

- Serious financial problems.
- Default or other material breaches of contract.
- The approval of deferred payment or new credit to pay instalments.
- Renegotiation of interest rates or other loan terms due to financial problems or the likelihood that the debtor will enter into debt negotiations.
- Other financial restructuring or if the borrower is subject to bankruptcy or winding up procedures.

NET IMPAIRMENT LOSSES PER YEAR, 1957 - 2016

Per cent



Development in annual net impairment losses

The diagram, shows the development in net annual impairment losses for the period 1957 - 2016. Due to lack of data, only total net impairment losses are shown for the period 1957 – 1991. As of 1992, the figure shows net impairment losses broken down on personal and corporate customers, excluding the public sector and financial institutions.

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

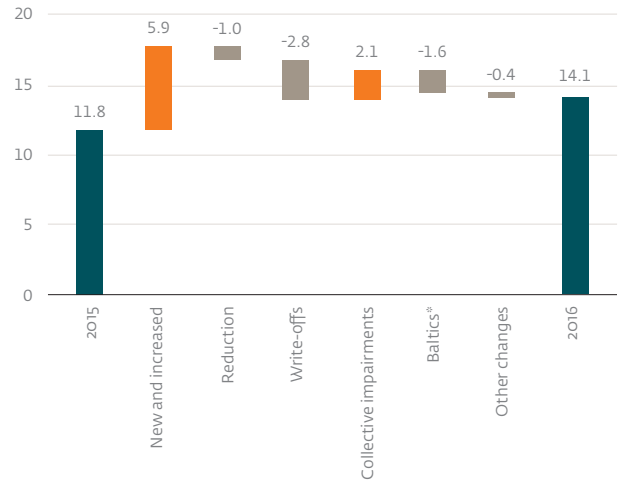
The diagram to the upper right shows the development in accumulated impairments recorded in the Banking Group in 2016. Accumulated impairments increased by NOK 2.2 billion, and came to NOK 14.1 billion. The increase was mainly due to an increase in impairment losses in the offshore rig, and oil service vessel segments and in the shipping segments container and dry bulk. See the comments on these segments in the beginning of the chapter. New individual impairments losses of NOK 5.9 billion were recorded, which is NOK 2.6 billion higher than in 2015. Collective impairment losses increased by NOK 2.1 billion. Reductions in write-offs in previous years came to approximately NOK 2.8 billion.

Total net individual impairment losses on loans and guarantees for the Banking Group increased by NOK 3.3 billion in 2016 compared to the preceding year. Sales of portfolios of non-performing and doubtful loans to Lindorff contributed to a major reduction in both 2015 and 2016, primarily in the personal customer segment.

Loans which have not been individually evaluated for impairment are evaluated in groups. This is called collective assessment of impairment. Loans are grouped according to similarities in risk and value characteristics, based on industries and risk categories. DNB has developed a model that estimates the need for impairment per industry based on changes in portfolio quality and macroeconomic trends. Just like individual impairment assessments, collective impairment assessments are based on discounted cash flows. The discount factor determined on the basis of statistics derived from individual impairments. DNB uses economic trends in selected industries as shown by indices for rent, oil prices, salmon prices, production gaps, shipping indexes and housing price growth as objective evidence for collective impairment. Collective impairment allowances reduce the value of loans and guarantees in the balance sheet, and changes during the period are recorded under Impairment of loans and guarantees.

DEVELOPMENT IN ACCUMULATED IMPAIRMENTS

NOK billion



* The Baltics portfolio is reclassified as assets held for sale

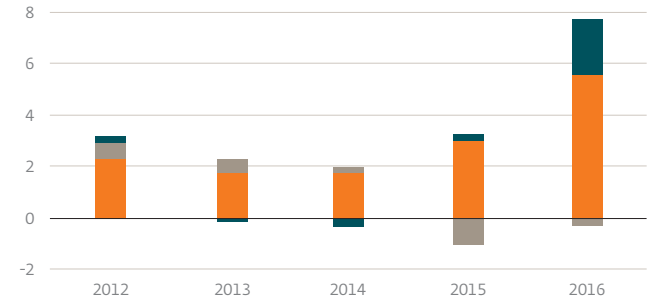
NET INDIVIDUAL IMPAIRMENTS OF CORPORATE CUSTOMERS SPLIT BY PRICIPAL SECTORS, 31 DECEMBER 2016

Per cent

Shipping 27%
Real estate 1%
Manufacturing 20%
Services 3%
Trade 1%
Oil and gas 15%
Transportation and communication 27%
Building and construction 5%
Other sectors 2%

DEVELOPEMENT IN NET IMPAIRMENT, DNB BANK GROUP

NOK billion



Changes in collective impairment of loans
Personal customers
Corporate customers

The diagrams on the right show the distribution of the Group's net non-performing and doubtful exposures geographically and among customer segments. The breakdown into principal customer segments is based on standardised sector and industry categories. More detailed information can be found in the attachment to the report.

Net non-performing and doubtful exposures amounted to NOK 25.7 billion at year-end 2016, up from NOK 14 billion at year-end 2015. The increase was predominantly in the commercial customer market and was due to the negative trends in the offshore rig, oil supplier and oil service segments, as well as the container and dry bulk shipping segments. Net non-performing exposures amounted to 1.2 per cent of the loan portfolio in the DNB Group, an increase of 0.6 percentage points from year-end 2015.

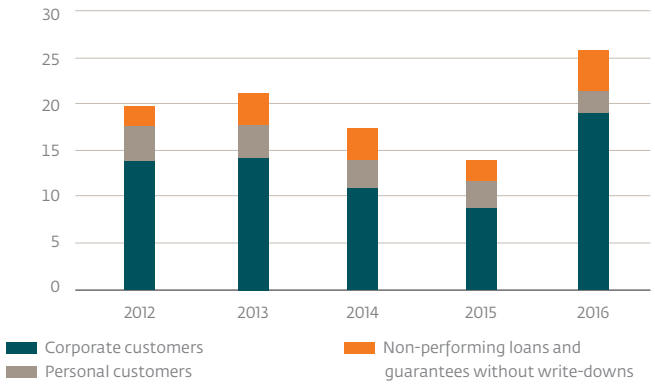
The table below shows past due amounts on loans and overdrafts on credit lines/deposit accounts broken down by the number of days after the due date. Past due loans and overdrafts on credit lines/deposit accounts are subject to continual monitoring. In cases where it has been determined that the customer's payment ability is likely to deteriorate, the exposure is assessed for impairment. Such assessments have been done on the exposures included in the table, but no need for impairment was identified. The main reason for this is that the value of the pledged collateral is higher than the outstanding balance on the loan. There was a substantial decrease in past due loans and credit lines that were overdrawn for than 90 days last year. This decrease reflects the downturn in the afore mentioned segments. The tables showing impairments and defaults can be found in the enclosure.

PAST DUE LOANS NOT SUBJECT TO IMPAIRMENT

	31 Dec. 2016		31 Dec. 2015	
NOK million	Past due/ overdrawn	Outstanding balance on past due loan	Past due/ overdrawn	Outstanding balance on past due loans
10-29 days	753	7 210	129	8 278
30-59 days	467	1 149	272	2 743
60-89 days	14	430	32	758
> 90 days	222	3 265	1 706	5 076
Total	**1 456**	**12 054**	**2 139**	**16 855**

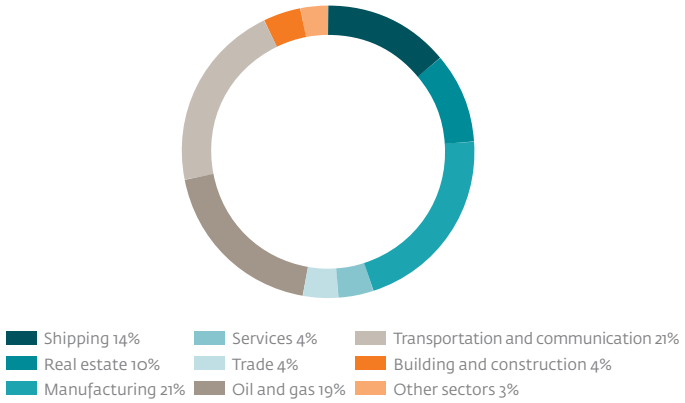
NET NON-PERFORMING AND DOUBTFUL COMMITMENTS, SPLIT BY CUSTOMER SEGMENTS

NOK billion



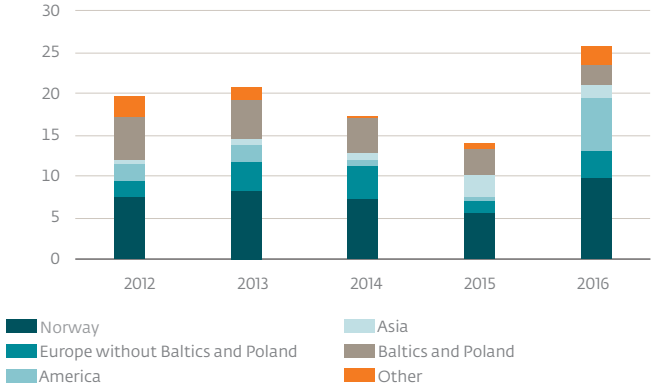
NET NON-PERFORMING AND DOUBTFUL COMMITMENTS FOR CORPORATE CUSTOMERS SPLIT BY PRINCIPAL SECTORS, 31 DECEMBER 2016

Per cent



NET NON-PERFORMING AND DOUBTFUL COMMITMENTS SPILT BY GEOGRAPHY

NOK billion



CAPITAL REQUIREMENTS FOR CREDIT RISK

The total capital requirement for credit risk was NOK 68.3 billion at year-end 2016, up NOK 1.8 billion from a year earlier. The capital requirement for credit risk reported according to the standardised approach decreased by NOK 2.8 billion. The capital requirement for the IRB portfolio was reduced by NOK 1.0 million in 2016. For more details see the paragraph on developments in risk-weighted assets. The equity positions are mostly holdings in DNB Livsforsikring.

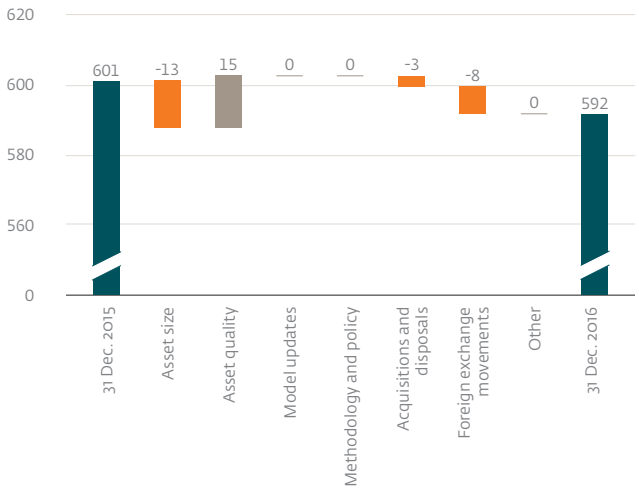
Risk-weighted assets for credit risk in the DNB Group was reduced by NOK 22.1 billion in 2016, of which NOK 9.4 billion was in the IRB portfolio. The effect of reduced credit volumes in the large corporate portfolio exceeded the effect of somewhat weaker asset quality.

The figure shows the change in risk-weighted assets for the IRB-reported credit portfolio in the DNB Bank Group. The changes have been broken down as shown in table CR7 in the enclosure.

The reduced credit volume (EAD) leads to a NOK 13.3 billion reduction of the risk-weighted assets, while an increase of the non-performing and doubtful volume pulls in the opposite direction by the amount of NOK 14.8 billion. The sale of loan portfolios to DNB Livsforsikring reduced the risk-weighted assets by NOK 2.9 billion, while the currency exchange effect contributed to a reduction of NOK 8.0 billion.

DEVELOPMENT RISK WEIGTHED ASSETS, CREDIT RISK, IRB PORTFOLIO DNB BANK GROUP

NOK billion



SPESIFICATION OF RISK-WEIGHTED ASSETS AND CAPITAL REQUIREMENT FOR CREDIT RISK, DNB GROUP

NOK million	Nominal exposure	EAD	Average risk weights in per cent	Risk weighted assets	Capital requirement 31 Dec. 2016	Capital requirement 31 Dec. 2015
IRB approach						
Corporate	1 039 384	842 921	48	407 740	32 619	33 421
- of which corporate SME	200 921	174 759	44	77 419	6 194	6 474
Specialised Lending (SL)	8 825	8 517	52	4 456	356	468
Retail - mortgage loans	706 195	706 195	22	155 814	12 465	12 241
Retail - other exposures	112 484	92 484	26	23 759	1 901	1 965
Securitisation	12 760	12 760	92	11 718	937	1 201
Total credit risk, IRB approach	**1 879 648**	**1 662 878**	**36**	**603 487**	**48 279**	**49 295**
Standardised approach						
Central government	55 426	69 760	0	84	7	33
Institutions	147 549	99 864	25	24 858	1 989	2 230
Corporate	160 608	127 538	86	109 582	8 767	9 657
Retail - mortgage loans	51 665	49 631	45	22 559	1 805	1 764
Retail - other exposures	122 926	48 737	75	36 742	2 939	2 642
Equity positions	19 012	19 011	230	45 291	3 623	276
Securitisation	1 760	1 160	45	518	41	60
Other assets	15 210	15 210	70	10 594	848	535
Total credit risk, standardised approach	**574 857**	**431 611**	**58**	**250 228**	**20 018**	**17 195**
Total credit risk	**2 454 505**	**2 094 488**	**41**	**853 714**	**68 297**	**66 490**

INTERNAL MEASUREMENT METHODS (IRB)

The purpose of the IRB regime is to ensure sound risk management and make sure that the capital adequacy requirements are fulfilled. This calls for high quality and transparency throughout the value chain. The Board of Directors assesses the need for capital on the basis of risk measurements and an overall evaluation of operating parameters as well as business and strategic targets. All links 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 identify needs for improvement.

DNB started using internal risk models in 1995. The bank received its first formal permission to use the IRB approach in early 2007. Most of the risk models used in the bank's IRB system have now been approved by Finanstilsynet. The calculations from the IRB system are fully integrated in the bank's internal management tools. DNB only uses the advanced IRB (AIRB) approach for its corporate portfolios. The foundation IRB (FIRB) is not used by DNB.

Finanstilsynet has stipulated that, in practice, PD in the large corporate portfolio should provide a virtually invariable capital requirement that is not sensitive to cyclical fluctuations. The LGD levels in the simulation models are adjusted to the floor levels specified in Finanstilsynet's conditions for capital adequacy calculations.

Finanstilsynet has set requirements for the PD level in the residential mortgage portfolio by defining the level during a downturn as well as the weighting of good and bad economic periods. In addition, there is a minimum PD requirement of 0.2 per cent for each loan in addition to two requirements regarding the LGD level.

The risk models are also used in internal processes, and DNB wants the models to maintain the ability to pick up on changes in the risk picture. Finanstilsynet consequently gave DNB permission to use two sets of risk parameters for the large corporate portfolio and the residential mortgage portfolio. The internal risk models are more risk-sensitive and should be able to give both higher and lower levels than what is assumed in the calculation of capital adequacy

At year-end 2016, the measured risk was lower for most of the internal key figures than for the key figures used in the capital adequacy reporting for the DNB Bank Group. The exception was for the large corporate portfolio where both the weighted PD and the EL in the internal reports were higher than the external key ratios.

The most important areas of application for the IRB models are:
- Capital adequacy calculations.
- Decision-support in the credit process.
- Setting limits in the risk appetite framework and credit strategies.
- Risk measurement and ongoing reporting.
- Pricing risk and measuring portfolio profitability.

Measured by EAD, 79 per cent of the portfolio was reported according to IRB models at year-end 2016.

REPORTING METHODS FOR CREDIT PORTFOLIOS IN DNB

Asset class	Reporting metode	Comments
Corporate	AIRB, mainly	Retail SME is reported as asset class corporate. DNB is not allowed to classify those as Retail SME. Standardised approach includes housing cooperatives and newly formed corporates.
Retail	IRB	The credit card portfolio are reported as Retail other exposures. DNB is not allowed to classify those as Retail qualifying revolving (QRRE).
Securitisation positions	IRB	International bond portfolio, DNB Markets. In accordance to Kapitalkravsforskriften (CRD IV) §29-2 regarding IRB banks.
Institutions	Standardised approach	Banks and financial institutions are reported using the standardised approach. DNBs ambition is the AIRB.
Approved exceptions	Standardised approach	Governments, municipalities and equity positions .
Temporary exceptions	Standardised approach	Subsidiaries in the Baltic countries, Polen and Luxembourg. In addition to some minor portfolios.

CREDIT RISK MODELS AND RISK CLASSIFICATION

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

DNB divides its performing credit portfolio into ten risk grades based on the PD for the exposures. The risk classification should reflect the long-term risk on the customer and the exposure. Non-performing and doubtful exposures are assigned a PD of 100 per cent.

DNB's models reflect that different variables give the best explanations for risk in the various portfolios. As far as possible, DNB's IRB models are developed on the basis of historical data using statistical methods. This is the case for the models used for residential mortgages and small and medium-sized enterprises. Normally, access to data will be more limited the farther we go back in time. A distinction is therefore made between the underlying data for developing models and the data used for calibrating them. The historical data used in connection with calibration covers a longer period of time that includes a major economic slump. These models are therefore developed as expert models, where adjustments of the models are based to a greater degree on expert assessments than on observed defaults

The PD level in the models should reflect the expected average default frequency over a full business cycle. By the same token, the EAD and LGD models should reflect exposure at default and loss given default during an economic slump. DNB is required to include the Norwegian banking crisis in the period 1988-1993 in the underlying data for calibrating models.

DNB's PD models are a cross between completely stable and anticipatory estimates. This reflects the fact that many of the factors used to identify good and less good customers vary over time. In the context of risk reporting and internal processes it is advantageous for the PD models to capture changes in risk reflecting the economic situation. An uncertainty factor is added to the PD estimate to increase the probability that the models do not underestimate the risk over time.

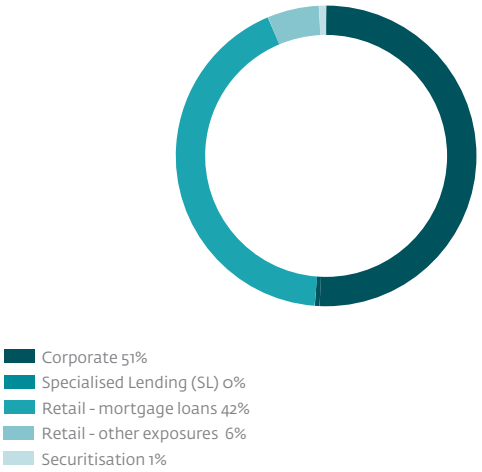
Models used in the IRB reporting at end-year 2016

The tables on the next page show an overview over the most important models used in DNB and include a short description of each model. In the cases where models have been adjusted due to requirements issued by Finanstilsynet, this is specified. A full overview of all the IRB models used by DNB can be found in the attachment. No new models were implemented in 2016.

The models described here cover most of the EAD in the IRB portfolio. The PD models are used for 92.9 per cent, and the LGD and EAD models are used for 94.4 per cent of the total EAD. The PD models show a lower share of total EAD because of the non-performing and doubtful exposures, which are assigned a PD of 100 per cent.

ASSET CLASSES IN THE IRB PORTFOLIO EAD, 31 DECEMBER 2016

Per cent



DNB'S CREDIT RISK CLASSIFICATION

	Probability of default (per cent)		External rating	
Risk grade	**From PD**	**To PD**	**Moody's**	**Standard & Poor's**
1	0.01	0.10	Aaa - A3	AAA - A÷
2	0.10	0.25	Baa1 - Baa2	BBB+ - BBB
3	0.25	0.50	Baa3	BBB÷
4	0.50	0.75	Ba1	BB+
5	0.75	1.25	Ba2	BB
6	1.25	2.00		
7	2.00	3.00	Ba3	BB÷
8	3.00	5.00	B1	B+
9	5.00	8.00	B2	B
10	8.00	Defaulted*	B3, Caa/C	B÷, CCC/C

*Maximum PD in risk grade 10 is 40.00 per cent.

PD MODELS APPROVED FOR CAPITAL ADEQUACY CALCULATIONS (IRB)

Asset (commitment) category	Model description and method	Number of years of loss data	Limit from Finanstilsynet
Corporate, large corporates scorecard	Scorecard models based on expert evaluations combined with a statistical approach. Expert evaluations are an essential amendment as the bank has too few observed defaults in the portfolio to rely exclusively on statistics. The models include both quantitative and qualitative risk drivers, and the bank has separate scorecards for shipping and acquisition financing. The Norwegian banking crisis during the early 90s is taken into account when calculating the long-term calibration level, while the recent shipping crisis sets the extrem economic downturn for this scorecard.	>10 years	Level determined based on a formula from Finanstilsynet
Corporate, large corporates simulation	Simulation models are used for companies like SPVs (Single Purpose Vehicle) where the main source of debt servicing is income generated by the entity's assets. Possible future scenarios are randomly generated based on a set of risk drivers. The simulated PD is then adjusted by qualitative factors based on a scorecard approach. The models are based on industry segments. The Norwegian banking crisis during the early 90s is taken into account when calculating the long-term calibration level.	6-10 years	Level determined based on a formula from Finanstilsynet
Corporate, SME	Statistical scorecard models based on industry segment and size, to ensure that variables and critical values may vary between different segments. Accounting data are included, as is some behavioural indicators. The Norwegian bank crisis during the early 90s is taken into account when calculating the long-term calibration level.	>10 years	
Retail, residential mortgages	Statistical regression models using information regarding the customer's financial position, demography, and payment record. The calibration level is set by the Norwegian FSA (Finanstilsynet), with minimum requirements for to AIRB parameters for residential mortgage portfolios.	>10 years	Limit (floor) determined based on a formula from Finanstilsynet

LGD MODELS APPROVED FOR CAPITAL ADEQUACY CALCULATIONS (IRB)

Commitment category	Model description and method	Number of years of loss data	Limit from Finanstilsynet
Corporate, large corporates general	Scorecard models based on expert evaluations combined with a statistical approach. Expert evaluations are an essential amendment as the bank has too few observed defaults in the portfolio to rely exclusively on statistics. The input includes seniority, covenants and collateral. The Norwegian banking crisis during the early 90s is taken into account. The downturn period is set by the Norwegian FSA (Finanstilsynet).	6-10 years	
Corporate, large corporates SPV (Single Purpose Vehicle)	Simulation models are used on companies like SPVs where the main source of debt servicing is the income that is generated by the entity's assets. Possible future scenarios is randomly generated based on a set of risk drivers. The model identifies under which scenarios the cash flow are not sufficient to cover the entity's debt obligations. These scenarios are used to calculate the LGD. The downturn calibration level is set in light of the Norwegian banking crisis during the early 90s.	6-10 years	Limit (floor) determined based on a formula from Finanstilsynet
Corporate, SME	statistical scorecard models where collateralisation is a key explanatory variable. In the model, the downturn calibration is set in light of the Norwegian banking crisis during the early 90s.	6-10 years	
Retail, residential mortgages	Classification model based on demographic information and collateral values. The calibration level is set by the Norwegian FSA (Finanstilsynet) with minimum requirements for to AIRB parameters for residential mortgage portfolios.	> 10 years	Limit (floor) determined based on a formula from Finanstilsynet

EAD MODELS APPROVED FOR CAPITAL ADEQUACY CALCULATIONS (IRB)

Commitment category	Model description and method	Number of years of loss data	Limit from Finanstilsynet
Corporate	Model combining expert evaluations and a statistical approach to determine credit conversion factors. Expert evaluations are chosen where the bank does not have a sufficient number of defaults in the portfolio to calculate the credit conversion factors.	6-10 years	
Retail, residential mortgages	Credit conversion factors estimated using statistical methods.	6-10 years	

VALIDATION

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

The quantitative validation includes testing the models' discriminatory power, ability to determine the correct level (calibration) of risk parameters and the reliability of the risk parameters. The discriminatory power is the PD model's ability to differentiate between customers that are likely to default on their loans and customers that are unlikely to do so. With respect to LGD, DNB has implemented methods to test the models' ability to distinguish between defaults with a high LGD and defaults entailing a small or no LGD.

The calibration level is validated by means of tests to determine whether PD, EAD and LGD are set at the right levels. The criterion for determining this is whether predicted values are consistent with observed outcomes or whether any deviations are anticipated or acceptable given the phase of the business cycle at the time in question.

The calibration of the PD models is assessed by means of a test for each risk grade that involves answering the question: "If our predicted PD for the risk grade is correct, what is the probability that the number of observed cases of default will materialise?" Since the predicted default frequency should be an expression of the average observed during a full economic cycle, the tests are based on all the observation periods for the individual model or portfolio.

Several methods are used to assess the calibration of the LGD models. One of the methods is to compare the predicted LGD and observed loss severity in intervals to assess the difference between the average predicted and the average observed loss severity. The average observed loss severity over a period of several years should ideally be well below the upper limit for the intervals and not exceed this limit during economic downturns. This is because the LGD should reflect the loss severity during a downturn. The same applies to the predicted EAD. In order to identify systematic variations in the observed default frequency and the observed loss severity, a macroeconomic model has been developed to be used as support for assessing the level of observed default in light of the economic conditions.

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

Comparison of risk parameters with actual outcomes

Updated values from the validation report for 2016 can be found in the attachment.

The comments and figures in this text are based on the report for 2015, as at the time of the publication of this report, the validation results for 2016 were still in preparation.

The most recent validation report shows that most of the models have good predictive ability. This especially applies to the models classifying existing personal customers. Cases in which models are unable to distinguish between good and less good customers result in the development of new models, which are implemented as soon as they are approved. In addition, the LGD calibration levels for large corporate customers will be reviewed in 2017.

The actual (observed) default frequency for residential mortgage loans, was much lower than the predicted frequency throughout the period. The predicted values shown here are the ones produced by the internal models used by the bank, and not the ones specified by Finanstilsynet for calculating capital adequacy requirements. The average prediction level of the latter values was 0.89 per cent at year-end 2016.

DNB was given permission to report the simulation models in the large corporate portfolio as IRB as of the fourth quarter of 2015. All of the past figures are included in the diagram. The observed default frequency is highly volatile because there are so few defaults in the portfolio that individual defaults have a significant impact.

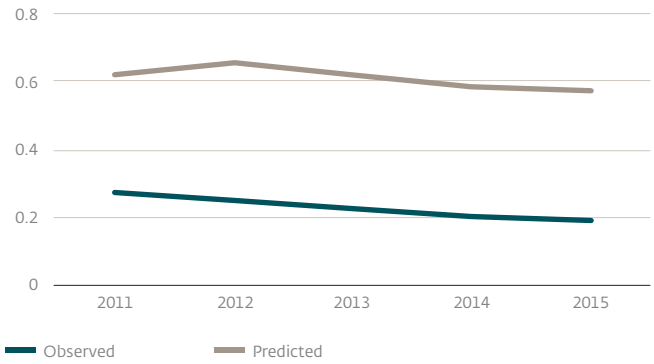
The diagrams show the predicted probability of default (PD), in terms of the number of defaults, at the beginning of the year compared with the observed default frequency in the years 2011 through 2015.

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

Different conversion factors are used for the various types of products that are included when the predicted EAD is calculated. EAD for binding offers is based on a set acceptance ratio calculated on the basis of the previously registered percentage of customers that have accepted offers from the bank. Assessments of the conversion factors for EAD are based on observed exposures at default relative to the associated predicted EAD 12 months prior to the time of default. There is not enough underlying data on the large corporate customers to do a statistically robust assessment of the predicted EAD. Both the offer-to-acceptance ratio and ratios of relevance to the various portfolios are shown in the attachment.

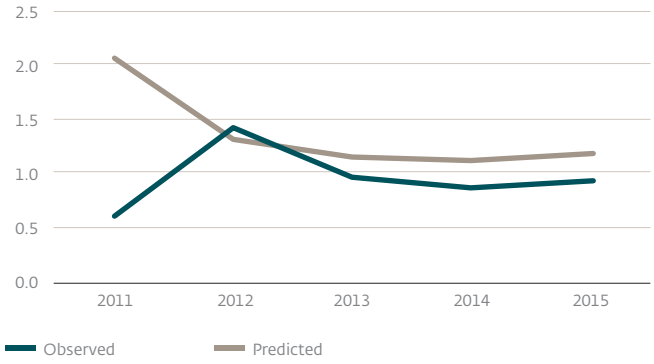
COMPARISON OF PREDICTED AND OBSERVED PD RESIDENTIAL MORTGAGE PORTFOLIO

Per cent



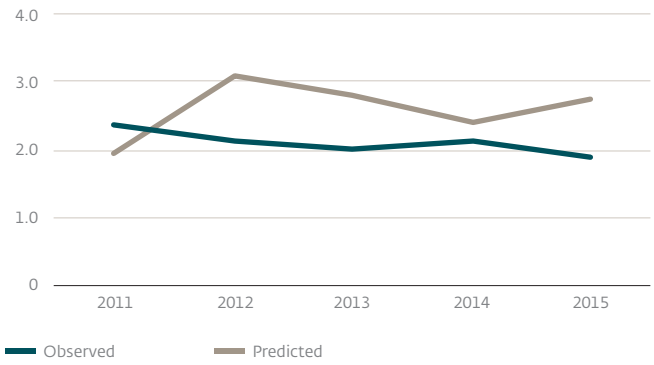
COMPARISON OF PREDICTED AND OBSERVED PD FOR LARGE CORPORATE MODELS

Per cent



COMPARISON OF PREDICTED AND OBSERVED PD FOR SMALL AND MID-SIZE COMPANIES

Per cent

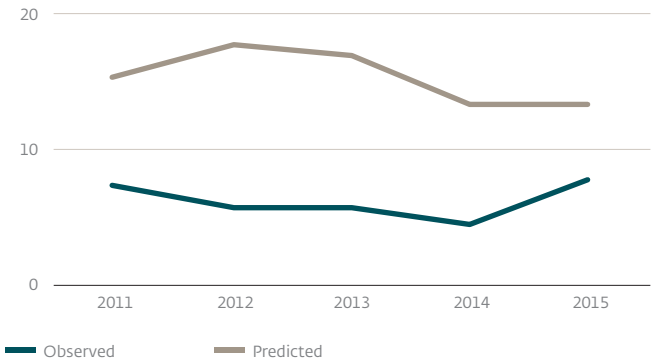


The LGD table in the attachment shows the predicted volume-weighted severities at the beginning of the year compared with the observed volume-weighted severities for defaults that occurred in the course of the year. The predicted values are based on the non-performing and doubtful portfolio, which normally gives an average that is higher than the average for the entire portfolio. The large corporate portfolio is an exception, as the predicted values there are the average for the entire portfolio.

The diagrams show the results of the validation of some of the LGD models. These show that the observed loss severity is lower than the loss at default predicted by the models for both residential mortgages and small and medium-sized limited companies. The high observed loss severity in 2014 for the large corporate segment is still an uncertain estimate, as a large proportion of these customers are still in default. The loss severity for the customers will keep changing until the defaults are resolved. In addition, because there are few defaults in the portfolio, defaults by individual customers have a significant impact.

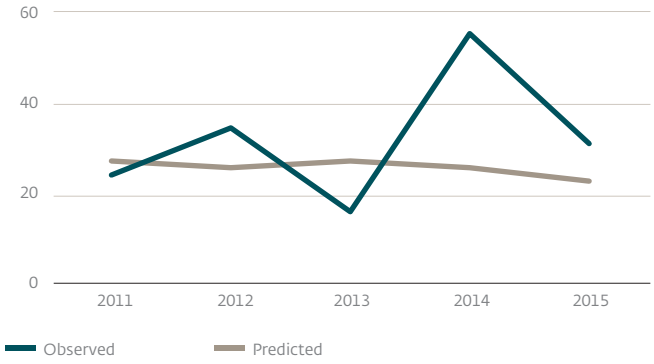
COMPARISON OF PREDICTED AND OBSERVED LGD RESIDENTIAL MORTGAGE PORTFOLIO

Per cent



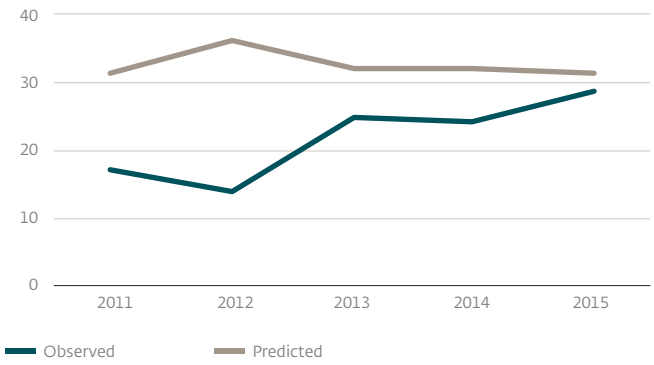
COMPARISON OF PREDICTED AND OBSERVED LGD FOR LARGE CORPORATE MODELS

Per cent



COMPARISON OF PREDICTED AND OBSERVED LGD FOR SMALL AND MID-SIZE COMPANIES

Per cent



ACTUAL VALUE ADJUSTMENTS

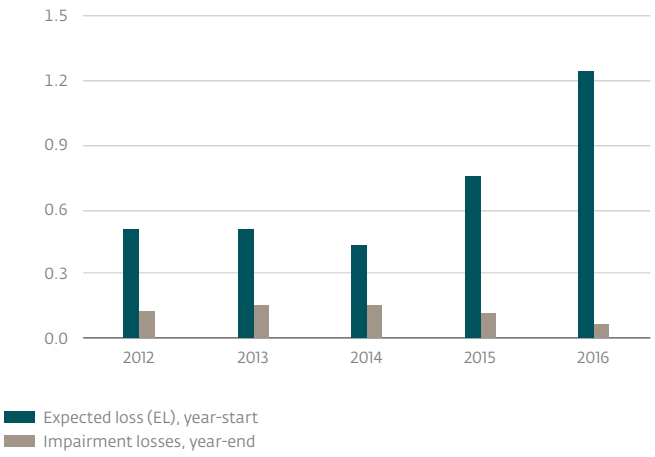
The figures on the right show a comparison between expected losses at the beginning of the year and new impairment losses recorded during the year for largest IRB-approved portfolios in the DNB Bank Group. The EL was calculated using the same key figures that are used in the capital adequacy calculations.

The expected loss (EL) for the residential mortgage portfolio has increased over the past two years, but the actual change in value has been reduced. The reason for the increase in EL that Finanstilsynet ordered increases of both the PD and LGD levels in the basis for calculation. In 2014 a requirement of a 20 per cent average LGD on the portfolio level was introduced. In 2015 came additional requirements, inter alia, a new PD floor of 0.2 per cent on the contract level. This led to a further increase in calculated expected loss. The actual changes in value were significantly lower than the estimated EL.

In the corporate portfolio, both the expected loss and the actual change in value increased. This is due to the declining quality in the offshore rig and oil service vessel industries, in addition to worsening of the situation in the container and dry bulk segments during the year.

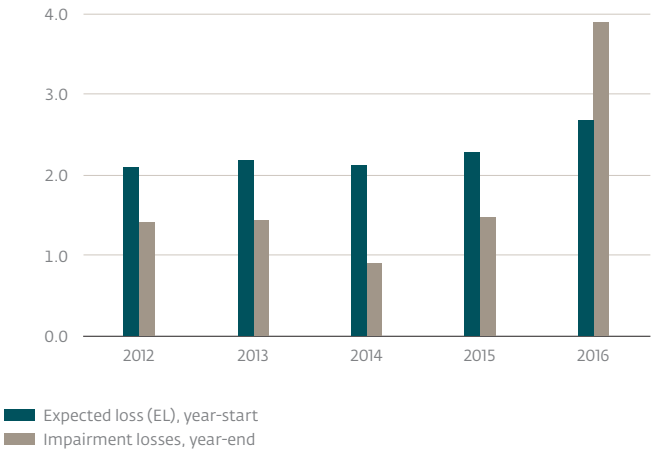
COMPARISON BY EXPECTED AND ACTUAL VALUE ADJUSTMENTS ACCORDING TO RISK PARAMETERS FOR RETAIL RESIDENTIAL MORTGAGE LOANS

NOK billion



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

NOK billion



EXPOSURES FOR APPROVED IRB PORTFOLIOS

DNB has been given permission by Finanstilsynet to use two sets of risk parameters in the large corporate portfolio and the residential mortgage portfolio as of 2015. At year-end 2016, the risk in the residential mortgage portfolio was lower when measured on the basis of internal key figures than when it was measured by means of the key figures that are used in the capital adequacy calculation. The opposite applied for the large corporate portfolio. In the tables below, the key figures used in calculating capital requirements are presented under the heading Used in the calculation of capital adequacy. The key figures used in the internal management of credit risk are shown under the heading Used in internal reporting.

The tables below show the different risk parameters for the IRB portfolios distributed by risk grade. EAD is the total of the amount drawn and the unutilised credit line multiplied by a credit conversion factor (CCF). For the corporate portfolio, the average maturity is also shown. The PD for the total portfolio is weighted by EAD and only includes risk grades 1–10. In these tables, the non-performing and doubtful exposures have been combined in a single row.

The quality of the residential mortgage loans portfolio improved slightly in 2016, and the portfolio grew by 6 per cent. No new or amended requirements for calculating the external capital adequacy were introduced during the year.

RETAIL - RESIDENTIAL MORTGAGE LOANS

	2016 Used in calculation of capital requirements						2016 Used in internal reporting					
Risk grade	Unutilised credit lines, NOK million	CCF, %	EAD, NOK million	PD, %	LGD, %	Risk weight, %	Unutilised credit lines, NOK million	CCF, %	EAD, NOK million	PD, %	LGD, %	Risk weight, %
1	-	-	-	-	-	-	-	-	-	-	-	-
2	11 096	100	81 291	0.20	18	8	34 753	100	292 063	0.16	10	3
3	24 469	100	225 373	0.31	20	12	17 350	100	201 317	0.37	10	7
4	16 317	100	180 590	0.62	20	19	4 447	100	72 067	0.62	10	10
5	4 668	100	78 194	1.01	21	27	5 505	100	85 977	0.99	10	14
6	5 486	100	84 961	1.64	20	37	1 810	100	35 551	1.61	11	19
7	1 814	100	35 084	2.63	21	50	411	100	10 822	2.46	11	26
8	426	100	12 305	3.97	22	66	134	100	4 509	3.89	11	35
9	132	100	4 420	6.43	22	86	49	100	1 686	6.35	11	44
10	69	100	2 482	13.00	22	113	18	100	707	11.88	12	60
Non-performing and doubtful	12	100	1 495	100.0	24	189	12	100	1 495	100.0	14	77
Total [1)]	**64 489**	**100**	**706 195**	**0.88**	**20**	**22**	**64 489**	**100**	**706 195**	**0.53**	**10**	**8**

[1)] Total portfolio PD is EAD weighted, and includes only risk grade 1-10.

CORPORATES - EXCLUDING SMALL AND MEDIUM-SIZED ENTERPRISES (SME)

	2016 Used in calculation of capital requirements							2016 Used in internal reporting						
Risk grade	Unutilised credit lines, NOK million	CCF, %	EAD, NOK million	PD, %	LGD, %	Risk weight, %	Maturity years	Unutilised credit lines, NOK million	CCF, %	EAD, NOK million	PD, %	LGD, %	Risk weight, %	Maturity years
1	59 809	52	53 038	0.06	26	13	2.6	65 368	52	59 602	0.06	25	13	2.7
2	93 473	56	114 511	0.18	24	23	2.6	101 291	55	123 952	0.18	23	22	2.6
3	75 526	54	131 127	0.38	20	29	2.5	68 468	55	131 039	0.37	20	28	2.5
4	36 905	57	101 396	0.62	22	41	2.7	31 488	59	76 659	0.61	19	35	2.7
5	22 587	60	78 191	0.97	22	46	2.7	18 685	56	58 376	0.98	20	43	2.6
6	9 957	60	46 640	1.56	22	54	2.6	15 080	58	61 452	1.58	23	58	2.6
7	11 302	57	40 620	2.47	21	60	2.7	8 269	65	46 155	2.48	20	58	2.8
8	13 574	64	31 731	3.82	25	80	2.6	7 440	66	32 400	3.94	22	73	2.8
9	10 079	65	24 767	6.01	21	82	3.0	22 096	62	32 058	6.49	25	95	2.6
10	8 946	61	16 768	11.44	24	110	2.5	3 971	83	17 113	12.88	21	102	3.1
Non-performing and doubtful	4 655	60	29 374	100.0	22	228	2.2	4 655	60	29 357	100.0	22	213	2.2
Total [1)]	**346 812**	**56**	**668 162**	**1.32**	**22**	**49**	**2.6**	**346 812**	**56**	**668 162**	**1.48**	**22**	**48**	**2.6**

[1)] Total portfolio PD is EAD weighted, and includes only risk grade 1-10.

The PD in the corporate portfolio, not including SME, increased in 2016 due to the worsening situation in the offshore rig, oil supplier and oil service vessel industries, and the container and dry bulk shipping segments. The non-performing and doubtful exposure portfolio increased for the same reason. The weighted PD for the total portfolio was higher in the internal reports than in the capital adequacy calculation at the end of the year. This was because of Finanstilsynet's requirement that the PD should, in practice, give a virtually invariable capital adequacy requirement, irrespective of the economic conditions. The internal risk models are more risk-sensitive and thus give higher values in the present economic situation than what is assumed in the capital adequacy calculation. LGD for large corporates is adjusted according to regulations given by Finanstilsynet.

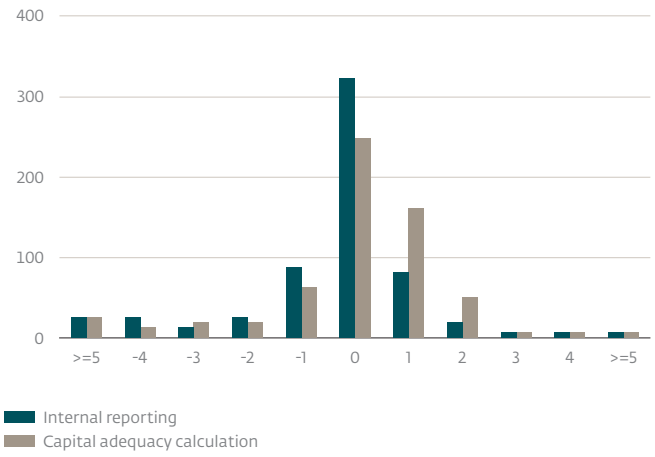
ANNUAL MIGRATION IRB PORTFOLIO

Risk classifications of all customers on which DNB has credit exposure must be done at least once a year. The diagrams show how volumes, measured by EAD, in the IRB corporate and residential mortgage portfolios migrated between risk grades in 2016. Positive figures indicate migration to better risk grades. Migration is measured for customers on which the bank has had exposure for the entire year. New customers that were added to the portfolios in the course of the year are not included.

The diagrams for IRB residential mortgages and IRB corporates, not including SME, show the migration both as specified in the internal reports and based on the capital adequacy calculation. The migration in the corporate portfolio is due to the afore-mentioned changes of credit quality in the course of the year. There were no changes of external requirements in 2016.

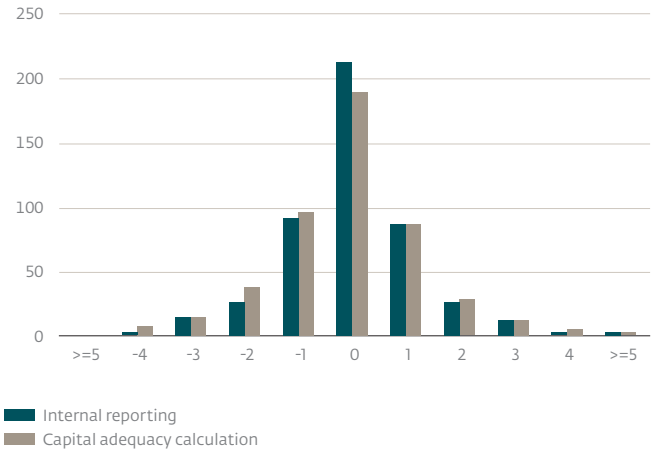
YEAR-ON-YEAR MIGRATION, IRB CORPORATE, EXCLUDING SME, 2016 CAPITAL ADEQUACY AND INTERNAL REPORTING

NOK billion



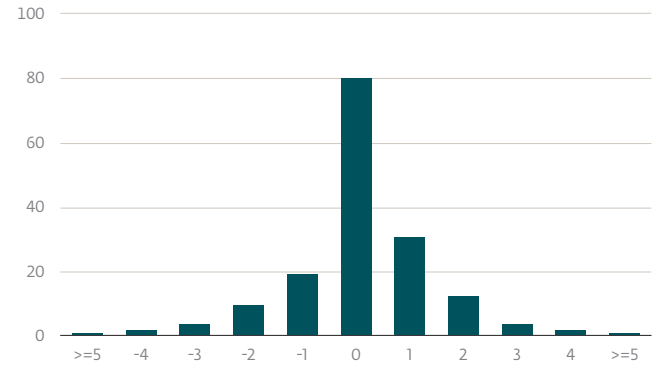
YEAR-ON-YEAR MIGRATION, IRB RETAIL, RESIDENTIAL MORTGAGES, 2016 CAPITAL ADEQUACY AND INTERNAL REPORTING

NOK billion



YEAR-ON-YEAR MIGRATION, IRB CORPORATE, SME 2016

NOK billion



THE IRB PORTFOLIOS BY INDUSTRY SEGMENTS

The table below provides a detailed overview of the performing IRB portfolios by industry segment. DNB's internal categorisation of industries was used in this connection. This categorisation is somewhat different from the one used earlier in this chapter in the section about credit exposures, defaults and impairment losses.

IRB PORTFOLIO BY INDUSTRY SEGMENT, PERFORMING PORTFOLIO

	2016 Used in calculation of capital requirements					2016 Used in internal reporting				
Industry segment	**EAD, NOK billion**	**Risk weight, %**	**PD, %**	**LGD, %**	**Maturity, years**	**EAD, NOK billion**	**Risk weight, %**	**PD, %**	**LGD, %**	**Maturity, years**
Residential mortgages	704.7	22	0.88	20	-	704.7	8	0.53	10	-
Other exposures, personal customers	91.0	24	1.33	34	-	91.0	24	1.33	34	-
Commercial real estate	181.8	37	1.09	21	2.8	181.8	34	0.91	20	2.8
Shipping	104.4	55	1.35	25	2.9	104.4	62	2.43	23	2.9
Oil, gas, offshore	122.0	53	2.20	24	2.9	122.0	54	2.89	24	2.9
Power and renewables	44.0	33	0.63	25	2.8	44.0	26	0.49	23	2.8
Healthcare	33.2	25	0.90	17	2.6	33.2	24	0.78	17	2.6
Public, state, municipality	18.2	39	0.86	23	3.0	18.2	35	0.75	22	3.0
Fishing, fish farming, farming	34.6	34	1.06	20	2.6	34.6	33	1.02	20	2.6
Trade	40.0	42	1.45	24	2.3	40.0	40	1.23	24	2.3
Manufacturing	75.3	36	1.01	23	2.3	75.3	34	0.85	23	2.3
Technology, media and telecom	35.6	37	1.29	24	2.5	35.6	34	0.90	24	2.5
Hotel, cruise, tourism	17.9	33	0.77	19	2.6	17.9	32	0.72	19	2.6
Services	29.8	48	2.07	24	2.5	29.8	44	1.59	24	2.5
Residential property	27.0	32	1.07	19	2.2	27.0	30	0.98	19	2.2
Construction	16.0	45	1.42	27	2.0	16.0	44	1.39	27	2.0
Transport road/rail	14.1	44	1.08	24	3.0	14.1	42	1.00	23	3.0
Bank, insurance, portfolio management	12.5	43	1.59	21	2.9	12.5	40	1.25	21	2.9
Other exposures, corporate customers	11.7	49	4.09	22	2.1	11.7	48	3.72	22	2.1
Total portfolio	**1 613.8**	**32**	**1.14**	**22**	**-**	**1 613.8**	**25**	**1.05**	**17**	**-**
Total corporate portfolio	818.0	42	1.35	23	2.7	818.0	41	1.46	22	2.7
Total retail portfolio	795.7	22	0.93	22	-	795.7	10	0.62	13	-

STANDARDISED APPROACH

DNB reports all portfolios that do not qualify for reporting based on the IRB approach according to the standardised approach, which involves grouping the portfolios in IRB categories. In addition, loans that qualify for being reported according to the IRB approach, but on which DNB does not have adequate available data, are reported according to the standardised approach. Finanstilsynet has granted a permanent exception from the IRB approach for governments, central banks and equity positions. Other portfolios reported according to the standardised approach are regarded as temporary exceptions and include the corporate and residential mortgage portfolios in DNB's subsidiaries in the Baltic countries and Poland. DNB's securitisation investments are reported according to the IRB approach, while Eksportfinans' portfolio is reported according to the standardised approach. 21 per cent of the credit portfolio, measured by EAD, is reported according to the standardised approach.

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

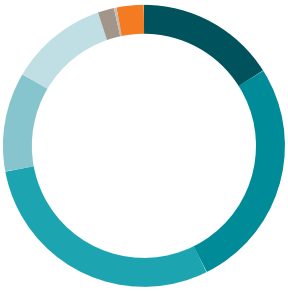
External ratings are used for foreign government risk and public administration outside Norway as well as international banks and credit institutions included in the exposure segments governments and institutions. The ratings are based on the rating of the country. As a rule they are set as the average of the ratings from Moody's, Standard & Poor's and Fitch. If one of the rating agencies does not have a rating for the country in question, the average of the ratings the two other agencies is used. If two of the rating agencies have not issued a rating, the rating from the third agency should be used. If none of the rating agencies mentioned above have issued a rating for the country in question, a rating from The Economist Intelligence Unit, or alternatively Euromoney or Institutional Investor, is to be used.

INVESTMENT IN SECURITISATION

The topic is discussed in chapter Liquidity risk.

ASSET CLASSES IN STANDARDISED PORTEFOLIO, EAD, 31 DECEMBER 2016

Per cent



Central government 16%
Institutions 27%
Corporate 30%
Retail - mortgage loans 11%
Retail - other exposures 11%
Equity positions 2%
Securitisation 0%
Other assets 3%

COUNTERPARTY RISK FOR DERIVATIVES

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

Derivatives are traded with a number of different counterparties. The credit risk that arises in connection with derivative trading is included in the DNB Group's overall credit risk measurement. Such measurement and monitoring is done on a daily basis. Netting agreements and bilateral guarantee agreements have been entered into as a means of minimising counterparty risk associated with individual counterparties. These agreements make it possible to net all the positive and negative market values linked to individual counterparties. To reduce the risk exposure, CSA agreements (Credit Support Annex) have been entered into with most major bank counterparties and a large number of other counterparties. Under these agreements, the market value of all derivative contracts between DNB and the counterparty is settled either daily or weekly, whereby counterparty risk is largely eliminated. These transactions are generally backed by cash collateral, though Treasury bills and covered bonds are also used. The collateral agreements are normally not based on rating triggers, but a few of them stipulate that the minimum exposure level will be reduced if DNB is downgraded. The way an agreement with a rating trigger functions is that as long as DNB has an AA rating, the counterparty expects DNB to pledge collateral for daily changes in market value, as long as the total market value of the contracts with the counterparty exceeds USD 10 million. The agreement could, for example, include a clause stipulating that if DNB's rating were to be downgraded to A, the minimum exposure level would be reduced to USD 5 million. The effects of a possible downgrade are very limited.

Interest rate products (interest rate swaps and FRAs in different currencies) are cleared via clearing houses, such as the LCH Clearnet. The counterparty risk for an individual party is thus transferred to the clearing house. Equity forward contracts, securities issues and currency trading for personal customers are monitored and margined on a daily basis. Entering into CSA agreements reduces the capital adequacy requirement. Counterparty risk in DNB Markets can fluctuate substantially from month to month, but netting agreements and collateral agreements with the largest counterparties means that much of the risk is netted.

DNB uses internal models to measure and monitor limits for counterparty credit risk related to interest-rate and currency derivatives. The models simulate future exposure and are an integrated part of DNB's system for managing counterparty and credit risk. The models take both netting and collateral agreements into account.

COUNTERPARTY RISK, FINANCIAL DERIVATIVES, DNB GROUP

NOK million	31 Dec. 2016	31 Dec. 2015
Gross nominal amount before netting	2 996 768	3 966 802
Net nominal amount after netting	125 641	167 884
Replacement cost, MTM before netting	86 235	157 943
Replacement cost, MTM after netting	54 155	79 626
Credit equivalent / EAD	68 047	115 400
Risk-weighted amount RWA	37 958	49 617

DNB has a stress testing program that is specially designed for counterparty risk and also follows up occurrences of specific and general correlation risk between credit and market risk factors, so-called Wrong Way Risk (WWR). Specific WWR is when there is perfect correlation, for example when a company sells an option on its own company (legal correlation). In such cases, the relevant transaction is removed from the basis for netting (i.e. it will not be netted against the other contracts) and is reported as a gross amount. This is done automatically in the risk management tool for monitoring counterparty risk. General WWR is an unfavourable correlation such as if an oil company takes a long position on the oil price. This means that if the oil price falls, the company will take a loss on the transaction at the same time as its credit rating is likely to be reduced. DNB Markets reports any occurrences of general WWR to management and to the Financial Market Risk Committee (FMRC), which is comprised of individuals from Markets, Group Treasury and Group Risk management. The models are validated on the basis of the same principles as the other internal credit risk models in DNB. The validation is done by the validation team in DNB Markets' Risk Management section. The models that calculate counterparty credit risk (CCR) are classified as market risk models and are validated by the Group validation team in cooperation with the Integrated Risk Management division in Group Risk Management and FMRC.

The Current Exposure Method (CEM) is used to calculate capital adequacy requirements. The table shows the exposure and risk-weighted volume of the counterparty risk on financial derivatives. The nominal amount is the principal or underlying amount in the contract and mark-to-market (MTM) shows the market value for all derivative contracts that have a positive market value. The EAD is the sum of MTM and the estimated future risk. The risk-weighted volume is calculated by multiplying EAD by the associated risk-weightings for the different counterparties. The table also shows the risk-weighted volume for counterparty risk.

No credit derivatives were bought or sold in 2016. The remainder expire in 2017. The change of the amount from 2015 to 2016 is due to exchange rate movements. The amount is USD 10 million.

CREDIT DERIVATIVES USED FOR HEDGING, DNB GROUP

NOK million	Bought 31 Dec. 2016	Sold 31 Dec. 2016	Bought 31 Dec. 2015	Sold 31 Dec. 2015
CDS - Credit Default Swaps	0	86	0	88
CLN - Credit Linked Notes	86	0	88	0
Total credit derivatives	86	86	88	88

8

MARKET RISK

Market risk

GENERAL INFORMATION ABOUT MARKET RISK

Market risk is the risk of losses due to unhedged positions in the foreign exchange, interest rate, commodity and equity markets. The risk reflects potential fluctuations in profits due to volatility in market prices or exchange rates. Market risk includes both risk which arises through ordinary trading activities, and risk which arises in connection with banking activities and other business activities. In addition, market risk arises in DNB Livsforsikring ASA and is the risk that the return on financial assets will be insufficient to meet the obligations specified in agreements with customers.

DEVELOPMENTS IN MARKET RISK IN 2016

Norwegian financial markets were highly volatile throughout 2016. The oil price strengthened by 55 per cent in the course of the year. The Norwegian krone strengthened in a period of high volatility in foreign exchange markets. Long-term Norwegian interest rates dropped to a record-low level in 2016, but rose again towards the end of the year.

DNB's market risk, measured as a percentage of risk-adjusted capital (economic capital) was reduced from 15.9 per cent to 13.6 per cent in 2016, mainly due to a reduction of equity exposure in DNB Livsforsikring. The exposure was reduced in the second half-year because the earned returns were already sufficient to cover the annual return guaranteed to policyholders. At the same time, the rise in long-term Norwegian interest rates reduced the net present value of the liabilities, which in turn reduces the probability of failure to achieve guaranteed rate of return on the longer term. For more detailed information, see the chapter on DNB Livsforsikring.

The market risk level in the banking operations was about the same as at year-end 2015. A sale of loans by DNB Bank ASA to DNB Livsforsikring, for a total of NOK 12 billion, reduced the bank's need for external funding. It also reduced the need for hedging foreign currency funding and basis swap spread exposure. In connection with the change of the Group's pension scheme, compensation was agreed for employees who switched from the defined-benefit to the defined-contribution pension plan. This compensation is recorded as a liability for the Group and came to NOK 668 million at year-end 2016.

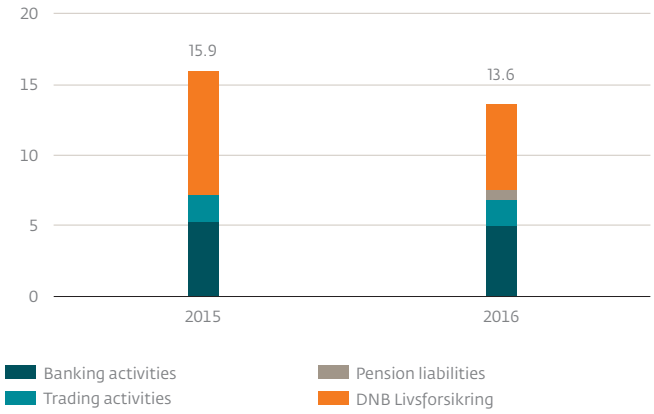
MANAGEMENT AND MEASUREMENT OF MARKET RISK

ROLES AND RESPONSIBILITIES

The Board of Directors of DNB ASA determines the risk appetite framework that limits total market risk in the DNB Group. The risk appetite framework covers both the banking and insurance operations and is measured as a percentage of the Group's total economic capital. The risk appetite framework is discussed in the chapter on risk management and control in DNB.

MARKET RISK AS SHARE OF ECONOMIC CAPITAL

Per cent



The principles in group guidelines for market risk ensure that all market risk is managed and monitored in a consistent and holistic manner. The guidelines are owned by the CRO and are updated annually by the Board of Directors. Local guidelines have been implemented for business areas with substantial market risk exposure. The principles for delegating the control tasks in the second line of defence to local control units (the decentralised second line of defence) are set out in the local guidelines. The local control units report or functions directly to Group Risk Management.

DNB distinguishes between market risk associated with trading activities and market risk that arises as a result of banking activities. The trading activities in DNB are mainly customer-related and include market making, facilitation of corporate financing and proprietary trading. DNB Markets is responsible for all trading activities. The market value principle is used as the accounting principle for trading activities, which are subject to capital adequacy requirements for market risk. The risk associated with trading activities accounted for 13.4 per cent of the Group's total market risk at year-end 2016.

Market risk in the banking operations stems from the Group's funding activities or from equity investments. Group Treasury is responsible for managing market risk stemming from funding activities and liquidity management, as well as asset and liability

management. The most significant market risk factors are interest rate risk, credit spread risk in the bond portfolios and basis swap spread risk associated with hedging currency risk in connection with funding in foreign currencies.

The Group's CFO is responsible for DNB's equity and real estate investments. These investments consist of strategic investments, financial equity investments as well as equities and property that have been repossessed due to customer defaults.

MARKET RISK LIMITS

The risk appetite framework for market risk is operationalised in the form of sensitivity limits for each type of risk. The sensitivity limits for significant market risk exposure are determined by the Board of Directors of DNB ASA. Limits are set annually, and automatically expire if they are not renewed. The sensitivity limits are delegated from the Board of Directors to the CEO and further to the units responsible for investment or trading decisions. If limits are exceeded, this must be reported immediately both to whoever delegated the limit and to the second line of defence for market risk in Group Risk Management.

Administrative limits are set for exposures that are defined as less significant, and where there is a need for operational room for action or where the credit limits set by the Board of Directors effectively limit the exposure. The limits are set by the group executive vice president for the relevant business area. The CRO must be informed of any changes of these limits. The table gives an overview of the most important administrative limits and the limits set by the Board of Directors that applied at the start of 2017. In addition sub-limits are set for options and non-linear derivatives.

DNB's total limit for interest rate risk at year-end 2016 was NOK 12.8 million for each basis point change in interest rate levels. Separate limits are set for each currency and for intervals on the yield curve. Interest rate risk associated with banking operations is measured and reported on a daily basis. Interest rate risk arises through traditional banking activities such as customer lending and deposits, and stems from differences in fixed-rate periods for assets and liabilities. The banking group's securities holdings also generate interest rate risk. Derivatives are used to reduce interest rate risk.

All currency risk in the Group is hedged against DNB Markets, which means that this is the only unit that is directly exposed to currency risk. The exposure is moderate and is predominantly linked to business operations and, to some extent, to support customer trades.

Equity risk is the risk attached to financial investments, which consist of the portfolio for direct investments and investments in private equity funds. The limits for these are NOK 350 and 700 million, respectively. In addition there is a NOK 1 000 million equity risk limit for equities in DNB Livsforsikring's corporate portfolio and a limit of NOK 235 million for equities held by DNB Forsikring. The total equity risk limit for non-trading activities is NOK 2 285 million.

Basis risk is the risk that the value of a hedge does not match the changes in the value of the underlying investment it hedges. Basis risk that is of significance to DNB is monitored by means of separate market risk limits. Basis swaps are used by Group Treasury and DNB Boligkreditt to hedge funding in foreign currency. Basis swaps are carried at fair value, while the loans are recognised at carrying value. The use of different valuation principles for funding and hedging instruments leads to volatility in profits in the consolidated accounts. There is no limit for basis swap exposure in the banking portfolio, as such swaps are used only for hedging purposes. The bank's commodity risk is exclusively tied to trading activities to support customer trades. The limit for and exposure on commodity risk is low. It does not constitute a significant market risk for the Group.

DNB's commercial real estate exposure consists of both strategic property investments and property that has been repossessed due to customer defaults. The strategic real estate exposure mainly consists of office buildings. Real estate exposure is measured on the basis of the market value of the underlying property, irrespective of the financing structure.

MARKET RISK LIMITS FOR 2017, DNB GROUP

NOK million		Limits, trading activities	Limits, non-trading activities	Total	Description
Limits set by the Board	Interest rate risk*	5.0	7.8	12.8	Sensitivity limit
	Currency risk	3 000	0	3 000	Market value limit
	Equity risk	2 200	2 285	4 485	Market value limit
	Commodity risk	300	0	300	Market value limit
	Basis swap risk*	30	0	30	Sensitivity limit
Administrative limits	Real estate risk	0	4 185	4 185	Sensitivity limit
	Physical asset risk	0	4 050	4 050	Market value limit
	Basis curve risk	44	n/a	44	Market value limit
	Credit spread risk	30	25	55	Sensitivity limit

* per basis point value

Asset risk (other physical assets) is exposure through direct ownership of non-standardised physical assets such as industrial equipment, construction machinery, factories, mines, ships and infrastructure. This limit covers exposure to residual value of vehicles associated with leasing operations in DNB Finans.

Basis curve risk is interest-rate risk that is incurred when interest rate instruments denominated in the same currency are not valued by means of the same yield curve. Because this is not picked up by the regular interest-rate sensitivity limits linked to the ordinary swap curve, it has to be monitored by means of separate limits.

Credit spread risk is mostly incurred as a consequence of the bank's liquidity risk management and management of bonds in the liquidity portfolio.

MEASUREMENT AND REPORTING OF MARKET RISK

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

Sensitivity measures in the measurement of market risk reflect how much the bank risks losing on a given change in the underlying type of risk. Sensitivity measures are used to report and follow up exposures against specific limits, e.g. limits on yield curve intervals. The sensitivity measures are important elements in qualitative risk assessments and are also used as a basis for quantitative risk modelling. Stress testing is used to identify exposures and losses which could arise under extreme, but credible, market conditions.

Market risk exposure is reported quarterly to the Boards of Directors of DNB ASA and DNB Bank ASA. In addition, risk exposures are reported monthly to the group management team and the Asset and Liability Committee (ALCO). The Group's CRO monitors the limits set by the Board of Directors.

MARKET RISK EXPOSURES

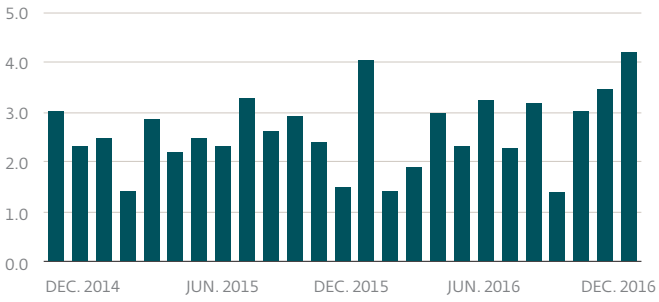
INTEREST RATES

Interest rate exposure in trading activities is largely a function of customer trading and fluctuated substantially in 2016. The total interest rate exposure attached to banking activities was stable throughout 2016.

The high interest rate volatility in 2015 and 2016 is reflected in the VaR for interest rate risk associated with trading activities. VaR ranged between NOK 11 million and NOK 36 million. The annual average was NOK 24 million, which is somewhat higher than in 2015.

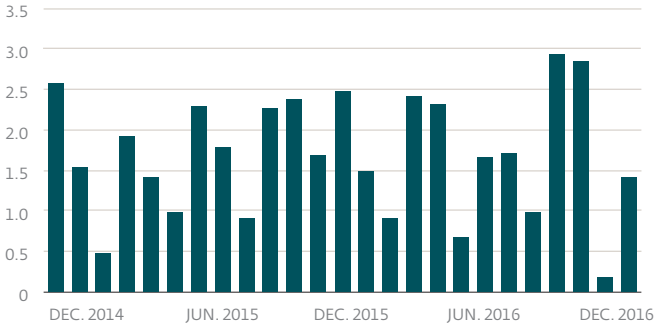
INTEREST RATE EXPOSURE IN TRADING ACTIVITIES, BASIS POINT VALUE

NOK million



INTEREST RATE EXPOSURE IN BANKING ACTIVITIES, BASIS POINT VALUE

NOK million



THE EFFECT OF INTEREST RATE SHOCKS ON THE INTEREST RATE EXPOSURE IN BANKING ACTIVITIES AS AT 31 DECEMBER 2016

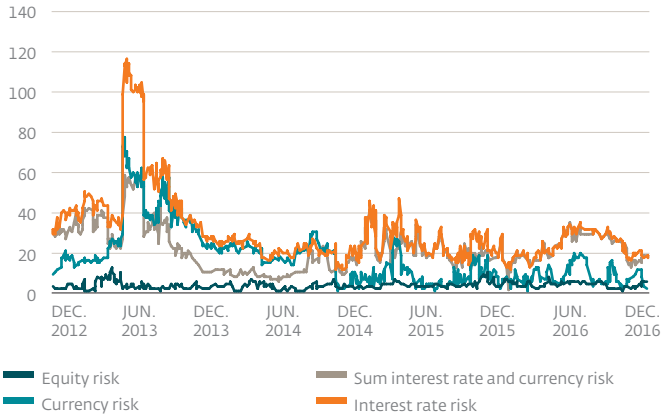
NOK million	+ 200 bpv	+150 bpv	+ 100 bpv	+50 bpv	- 50 bpv	-100 bpv	-150 bpv	-200 bpv
NOK	(286)	(214)	(143)	(71)	71	143	214	286
EUR	7	6	4	2	(2)	(4)	(6)	(7)
Total	(279)	(209)	(139)	(69)	69	139	209	279

The figure below shows the term structure for interest rate exposure related to banking activities. The exposure is regarded as positive if the bank would suffer losses in the event of a decline in interest rates. The net interest rate exposure at the end of 2016 was positioned for falling interest rates.

The table below shows the impact on profits on banking activities based on various interest rate changes. An interest rate increase of 100 basis points will result in a loss of about NOK 143 million, while an equivalent decrease in interest rates will result in a gain of about NOK 143 million. Interest rate risk connected to banking activities is generally linear, which means that changes in the interest rate multiplied by the interest rate sensitivity provide a realistic picture of the interest rate risk in the Group Treasury.

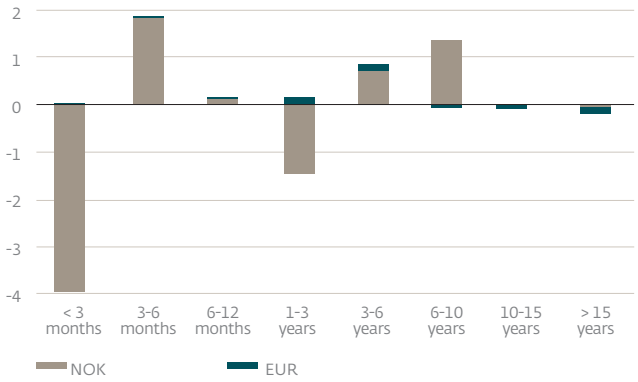
VALUE-AT-RISK IN TRADING ACTIVITIES, ONE DAY HOLDING PERIOD, CONFIDENCE LEVEL 99 PER CENT

NOK million



MATURITY STRUCTURE OF THE INTEREST RATE EXPOSURE IN BANKING ACTIVITIES AS AT 31 DEC. 2016

NOK million



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

NOK million

EQUITY INVESTMENTS

The object of financial investments is to help create new business opportunities for DNB. For investment management purposes, they are divided into credit portfolio investments, real estate investments, a portfolio for direct investments and investments in private equity funds. The latter two are being phased out. The purpose of the credit portfolio is to secure or recover the value of credit exposures through ownership and subsequent realisation. Strategic financial investments and investments in credit portfolios vary as a result of strategic choices and developments in the bank's ordinary business operations. The table below shows the equity positions posted on the balance sheet.

Exposure relative to market risk limits is measured on the basis of the investments' market value plus any future amounts committed to private equity funds. Guarantees for share issues and secondary investments in the equity markets are fully counted in measurements of limit utilisation. Shares in subsidiaries and associated companies are not included, as they are fully or partially consolidated in the financial statement. In accordance with IFRS 7, equities are carried at fair value in the financial statement.

EQUITY-POSITIONS, SHAREHOLDINGS NOT IN THE TRADING PORTFOLIO, DNB GROUP

NOK million	31 Dec. 2016	31 Dec. 2015
Financial Institutions	13	113
Norwegian companies [1)]	525	397
Companies based abroad	39	195
Mutual funds [2)]	813	610
Investments in non-financial subsidiaries and associated companies*	1 269	1 878
Shareholdings DNB Bank and investments (designated as at fair value)	**2 659**	**3 193**
Net gains on shareholdings, designated as at fair value DNB Bank and DNB asset management	143	(90)
1) Of which listed on a stock exchange	-	-
2) Of which investments in private equity funds	226	337
Shareholdings in DNB Livsforsikring	15 992	10 552

* The biggest item under assets in non-financial subsidiaries and associated companies is DNB's stake in Visa Norway, which is not a financial company. However, the underlying values in Visa Norway are the shares in Visa Inc., which is a financial company.

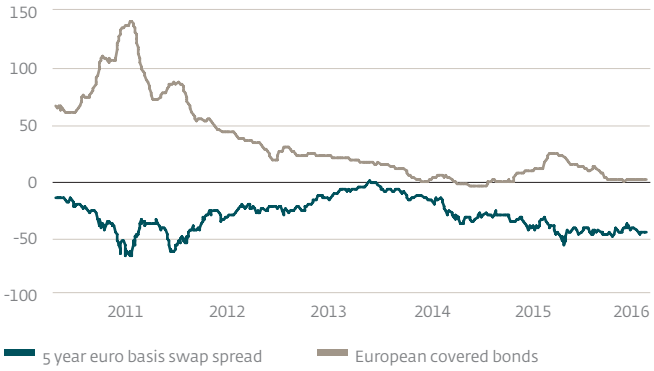
BASIS SWAPS

The most pronounced basis risk in DNB arises in connection with currency hedging of future cash flows in foreign currency, so-called basis swap risk. Future cash flows in various currencies are priced differently in the basis swap market. The price differential is the basis for basis swap risk. DNB's profits from the basis swaps are sensitive to, and negatively correlated with, the euro basis swap spread.

The volatility of the euro basis swap spread was reduced after the financial crisis, but increased again in 2015. The graph below shows that a negative correlation between historical movements in the spreads for European covered bonds and five-year Euro basis swaps. As a result of this, the euro basis swap spread has partially functioned as a hedge against losses in the Group's liquidity portfolio during times of market turbulence.

DEVELOPMENT OF CREDIT SPREAD AND BASIS SWAP SPREAD

Basis point value



OTHER SIGNIFICANT EXPOSURES

The exposure on commercial real estate came to NOK 2.2 billion at year-end 2016. The credit spread sensitivity in the liquidity portfolio was NOK 41.6 million basis point value at year-end 2016.

CAPITAL REQUIREMENTS FOR MARKET RISK

DNB reports market risk according to the standardised approach. The capital requirement for market risk was virtually unchanged from 2015 to 2016. The capital adequacy requirement that takes the risk of a reduction in counterparties' creditworthiness into account (Credit Value Adjustment risk) was reduced due to a decline in counterparty exposure.

CAPITAL REQUIREMENT FOR MARKET RISK

NOK million	31 Dec. 2016	31 Dec. 2015
Position risk, debt instruments	1 169	1 141
Position risk, equity instruments	25	36
Currency risk	-	0
Commodity risk	6	3
Credit value adjustment risk (CVA)	490	513
Total capital requirement for market risk	**1 690**	**1 693**

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OPERATIONAL RISK

Operational risk

GENERAL INFORMATION ABOUT OPERATIONAL RISK

Operational risk is the risk of losses due to deficiencies or errors in processes and systems, human errors or external events.

Operational risk also includes compliance risk, legal risk, conduct risk and IT risk, which includes risk associated with information security. Compliance risk is the risk of losses caused by breaches of laws and regulations or similar obligations. Compliance risk is discussed in a separate chapter. Legal risk is often related to the documentation and interpretation of contracts and differences between legal practices in the various countries where the bank does business.

Conduct risk is the risk of losses due to substandard delivery of financial services or losses incurred as a result of generally unacceptable conduct.

Operational risk differs from most other types of risk, in that higher operational risk does not increase potential returns. The object of the Group's quality assurance process is to help DNB reach its target of low operational risk.

DEVELOPMENTS IN OPERATIONAL RISK IN 2016

Operational losses are still at a stable, low level and are well within the limits in the Group's risk appetite framework. 804 operational risk events were registered in 2016, and net losses came to NOK 110 million. Business disruption and system failures, execution, delivery and process management as well as external fraud, accounts for the largest losses. These categories are also highest in terms of number of incidents. The diagrams on the right shows the development in operational losses and events.

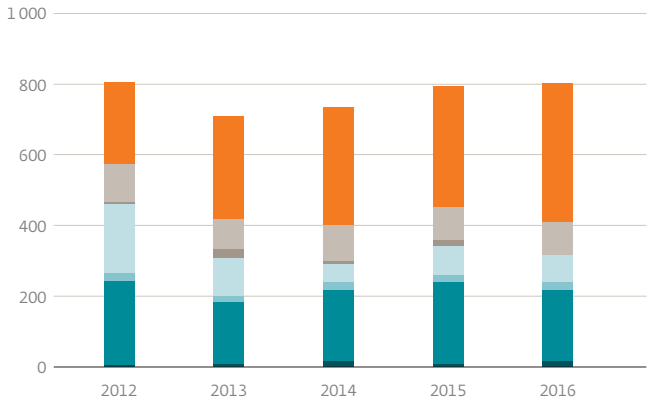
Efforts to strengthen information security have intensified to deal with the increasing threats from cyberattacks and cybercrime and to protect confidential information.

There was a general improvement in IT operating reliability in 2016. This improvement was largely attributable to the upgrade of the IT infrastructure when all the data processing centres were moved to a single location in 2015. In August 2016, disaster recovery testing of DNB's mainframe was carried out successfully. The test results proved that DNB has a robust, reliable solution that has the capacity for full mainframe operations if an ordinary operating location were to become unusable for a lengthy period of time.

DNB incurred substantial conduct risk losses in both 2010 and 2013 that were linked to sales of structured products and property investment products, respectively. The Group works purposefully to reduce conduct risk.

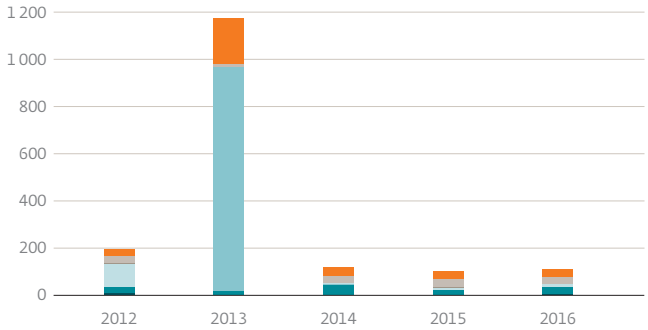
OPERATIONAL EVENTS

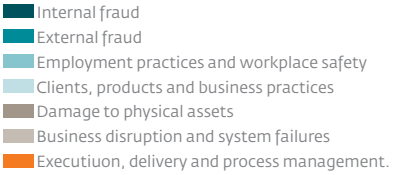
Number of events



OPERATIONAL LOSSES

NOK million





MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISK

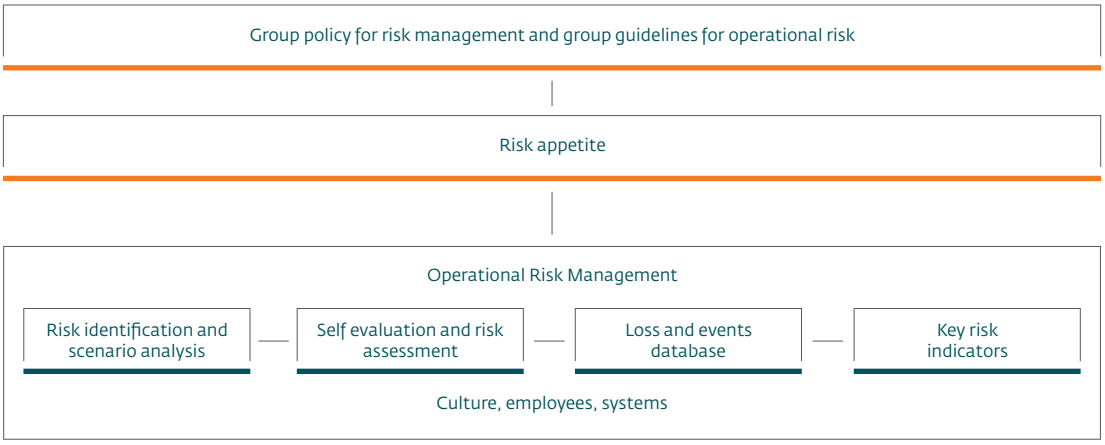
The risk appetite framework specifies certain maximum limits for operational risk. The aim is for operational risk in DNB to be characterised by few and minor operational loss events. Total annual losses resulting from operational events should have no pronounced effect on the Group's return on equity. Critical IT events are reported in a separate risk appetite statement. The same applies to measurements of the data quality in registered customer information in the Group.

The figure below shows how the group policy for risk management, the group guidelines for operational risk and the risk appetite framework establish the principles for managing and measuring operational risk in DNB. The object of operational risk management is to reinforce the risk culture and activate employees in order to achieve the ambition of few and minor operational events.

The group guidelines for operational risk are linked to the group policy for risk management and explain in more detail how risk is to be kept low by ensuring a low number of loss events and low loan losses. To achieve the ambitions given in the group guidelines, each business and support area is required to have an operational risk officer (ORO). The ORO must be independent of the business operations and is part of the decentralised second-line defense for operational risk. The ORO is responsible for registering operational risk events, following them up and implementing risk-mitigating measures. The risk sections in the international units have been strengthened through the establishment of separate units to deal with operational risk, which is highlighted through direct representation in the respective management teams. In addition, these units independently report directly to the Group's central risk management unit. For a more detailed description of the risk management function, see the chapter on risk management and control in DNB.

All managers are required to be cognizant of and manage operational risk within their own areas of responsibility. This is to be achieved through quality assurance and risk assessments of everyday operations, of all major changes in operations and of crucial processes. Comprehensive contingency and business continuity plans have been drawn up in order to limit the consequences of serious events such as operational disruptions etc. The plans are constantly updated, and regular drills are carried out.

MANAGEMENT AND MEASUREMENT OF OPERATIONAL RISK



The annual status reporting is a key element of the Group's internal control and operational risk management. All of the Group's business areas and staff and support units carry out an extensive self-assessment, which consists of answering questions about the area's management and control in addition to measuring operational risk. The managers take part in a process that involves identifying the risk areas in each unit, and are responsible for implementing measures to mitigate identified risks. The risk assessment for the Group as a whole is done on the basis of the risk assessments from all the different business and support areas. Thereafter, concrete risk-mitigating measures are identified. In addition, developments in operational risk are reported monthly to group management and the Board of Directors as part of the Group's risk reporting.

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

DNB has a comprehensive insurance programme that is an element of its operational risk management and is intended to help limit the financial consequences of undesirable events which may occur in spite of established security procedures and other risk-mitigating measures. The insurance policies normally cover fire and other disasters, criminal activity as well as various forms of liability associated with business operations, systems errors etc. Losses linked to the Group's lending and market operations are not normally covered unless they are attributable to operational errors or defects. All of the Group's insurance policies basically cover DNB ASA and all of its subsidiaries. Cyberattack, embezzlement, professional liability and board liability insurance cover the Group's operations all over the world.

CAPITAL REQUIREMENTS FOR OPERATIONAL RISK

The DNB Group mainly reports operational risk according to the standardised approach and uses the basic indicator approach for some smaller units. At end-2016, the capital requirement for operational risk was NOK 6.7 billion, the same level as last year.

CAPITAL REQUIREMENTS FOR OPERATIONAL RISK

NOK million	Risk weights	31 Dec. 2016	31 Dec. 2015
Corporate finance	18 %	148	107
Trading and sales	18 %	834	735
Retail brokerage	12 %	59	65
Commercial banking	15 %	3 248	3 144
Retail banking	12 %	1 804	2 068
Payment end settlements	18 %	194	191
Agency services	15 %	103	65
Asset management	12 %	52	44
Total standardised approach		6 441	6 420
Total basic indicator approach	15 %	228	250
Total operational risk		**6 670**	**6 670**

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COMPLIANCE RISK

Compliance risk

GENERAL INFORMATION ABOUT COMPLIANCE RISK

Compliance risk is the risk of legal or regulatory sanctions, financial loss or loss to reputation the Group may suffer as a result of violations of external laws, rules and regulations. At present, the most important external rules and legislation that are being specially examined by the DNB Group's compliance function are the Money Laundering Act, the Personal Data Act, anti-corruption legislation, securities legislation and international sanctions. The compliance area is and will keep on changing, so new issues will arise. The compliance function uses a risk-based approach to set priorities.

The goal of compliance work in DNB is to identify the risk of breaches of internal and external rules and requirements, and prevent them. There shall be low compliance risk in DNB. This is stipulated in the group policy for compliance and approved by the Board of Directors.

DEVELOPMENTS IN COMPLIANCE RISK IN 2016

The pace of innovation in the financial services industry is high, fuelled by innovation and new actors. The requirements for compliance work are consequently changing. New issues keep arising and receive a lot of attention. At the same time, rules and legislation are changing at a rapid, rising rate and the authorities' expectations for and monitoring of compliance have increased. These developments call for the bank to take a holistic, structured, risk-based approach to ensure effective management and handling of compliance risk. The central elements are clear roles and responsibilities, internal control, uniform methods for analysing risk and reporting, as well as satisfactory expertise on compliance in the organisation. Considerable emphasis was placed on these matters in 2016, and this will continue in 2017.

In 2016, compliance risk monitoring was strengthened when the frequency of the Compliance report was increased from once to twice a year. In addition, the Board of Directors it is to be given monthly updates of current issues in the compliance area.

DNB identified three high-risk areas for 2016:
- Money laundering, terrorist financing and sanctions
- Protection of privacy
- International tax reporting (FATCA/CRS)

DNB's efforts to prevent money laundering and terrorist financing, and help ensure that Norway abides by international sanctions are part of the bank's corporate social responsibility. Anti-money laundering (AML) efforts were intensified early in 2015 through the establishment of a three-year action plan. The action plan was initiated and supported by the Board of Directors and its aim is to ensure that all AML activities are of high quality.

Work done in 2016 has led to a major improvement in the quality of customer information. In addition, a uniform method for performing AML risk analyses was implemented and risk analyses were performed throughout the Group. All of the Group's employees were required to go through new basic training in AML. The central goal for 2017 is the completion of an internal anti-money laundering regime in DNB that will ensure consistent handling of issues in all parts of the Group, and practical assistance with designing standard procedures, processing and resolving concrete issues.

A new Protection of Personal Data Directive will enter into force in the EU and Norway in May 2018. The new rules impose more obligations and tighten the requirements for information security and internal control. DNB manages large amounts of customer information of both a personal and business nature. Correct handling of personal data is crucial for maintaining customer's trust. New technological solutions and an increasingly complex threat picture call for structure and expertise to ensure that customers' personal privacy is protected. To meet these challenges, at the end of 2016 DNB formulated an action plan for the protection of personal privacy for the period 2017-18. The goal is to establish a framework for how compliance with current and future protection of personal data rules is to be ensured and make sure that the necessary quality improvement and competence-building is carried out.

DNB is required to identify and report customers that are taxpayers of a country other than the one in which their account is held. The bank thus needs to gather information on all customers to determine where the customer is classified as a resident for tax purposes, and keep this information up to date. The compliance risk in this connection, is related to whether the information that is registered is correct and sufficient. This is a prerequisite for correct reporting to local tax authorities. In 2016, DNB has introduced technical solutions to ensure that it has correct information about where its customers are domiciled or registered for tax purposes, and make sure the relevant information is reported to the tax authorities. Customers are informed when this information is reported.

MANAGEMENT AND MEASUREMENT OF COMPLIANCE

According to the group policy for compliance, all managers are obligated to ensure that the activities and processes in their areas of responsibility are in conformity with internal and external rules and regulations. This includes responsibility for internal control and for ensuring that subordinates have the requisite expertise.

Risk appetite in the compliance area is measured by the pace at which projects are executed. As of 2017, the risk appetite measurement will also include the overall qualitative assessment of compliance in the Group.

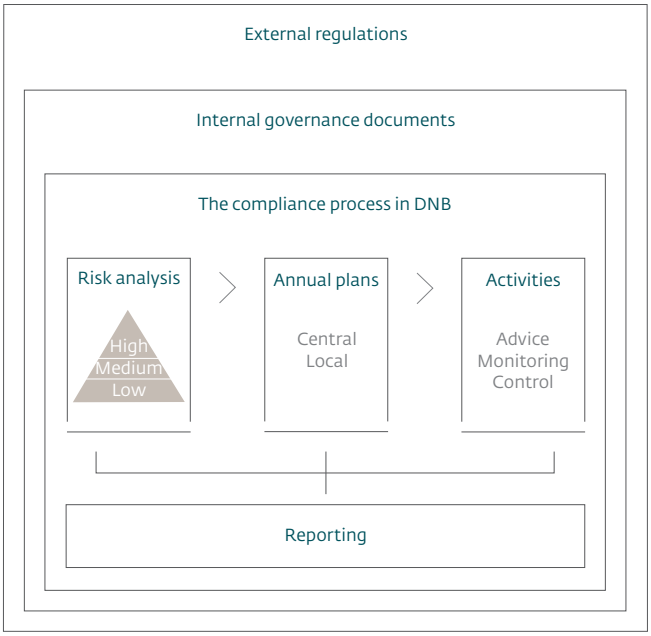
The figure shows how external rules and internal governance documents lay down the principles for the compliance process. Work on compliance issues in DNB is risk-based. Risk analyses form the basis for concrete advisory, internal control and monitoring activities. Regular reporting of compliance risk ensures that processes and activities are properly checked and documented.

DNB's compliance function is an independent internal control function that is part of the Group's second line of defence. The compliance function consists of a central unit and a decentralised organisation consisting of compliance personnel in the business and support areas. The central unit is part of Group Risk Management, and is headed by the group chief compliance offer (GCCO). The GCCO reports directly to Group Management and the Board of Directors. The central unit has group-wide responsibility for the compliance function, including processes and rules, risk analysis methodology and reporting structures.

All of the business and support areas must have a local head of compliance (LHC), who performs the decentralised compliance function in the second line of defence. The GCCO has delegated responsibility for day-to-day monitoring and contact with the business and support areas to the LHC. Decisions to hire or dismiss a LHC must be approved by the GCCO. The LHC sends quarterly reports to the GCCO and local management. This reporting is done by means of the templates and processes determined by the GCCO and is not to be influenced by local management.

The compliance function provides advice and support for the organisation on compliance issues, and reports to Group Management and the Board of Directors. The compliance report contains an overall evaluation of compliance in the Group and highlights special risks. The object is to give Group Management, and the Board of Directors updates on the status of compliance work and the risk situation as a basis for implementing necessary measures.

THE COMPLIANCE PROCESS IN DNB



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DNB LIVSFORSIKRING

DNB Livsforsikring

GENERAL INFORMATION ABOUT DNB LIVSFORSIKRING

DNB Livsforsikring AS is a wholly-owned subsidiary of DNB ASA. Its assets under management at year-end 2016 came to approximately NOK 300 billion. DNB Livsforsikring sells insurance and pension products to companies, associations and private individuals. DNB Livsforsikring is exposed to insurance, market, counterparty and operational risk.

DNB Livsforsikring will publish its own Pillar 3 report, «Solvency and Financial Condition Report» on 20 May 2017.

DEVELOPMENTS IN DNB LIVSFORSIKRING IN 2016

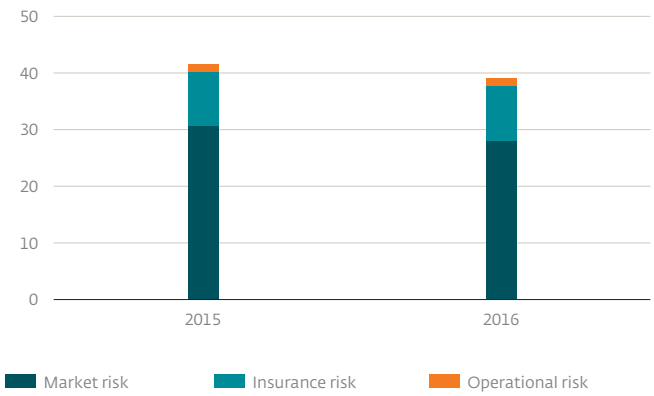
The solvency rules (Solvency II) set out requirements for capital in life insurance companies. Capital adequacy is calculated on the basis of the risks that arise in the business. The primary capital is supposed to cover most of the capital adequacy requirement, but the effects of calculating both liabilities and assets at market value are also taken into account. The solvency ratio is the ratio of capital to the capital adequacy requirement. If the transitional rules in the Solvency II regime are not applied, DNB Livsforsikring's solvency margin rose in 2016 from 113 to 152 per cent. This entails a substantial buffer relative to the minimum requirement of 100 per cent. The improvement of the solvency margin was due to reduced equity risk, increased provisions for future customer liabilities, reduced interest rate risk and retained annual profits. See the section on capital adequacy requirements for more detailed information.

Market risk, which is the primary risk calculated according to the solvency rules, had been reduced by NOK 2.5 billion to NOK 28.3 billion at year-end 2016. Market risk consists of interest rate risk, equity risk, credit spread risk and foreign exchange risk. Interest rate risk is the predominant risk and accounted for 44 percent of the total market risk at year-end 2016. Interest-rate risk is linked to the company's assets and liabilities. Equity risk has also been reduced and accounted for 28 per cent of the total market risk at year-end 2016. Credit spread risk increased in 2016 as a result of purchases of high-yield bonds and commercial property loans. At year-end 2016, credit spread risk accounted for 27 per cent of the total market risk. The foreign exchange risk was negligible.

Insurance risk is the second largest risk, calculated according to the solvency rules. The insurance risk had declined by NOK 0.4 billion to NOK 9.3 billion at year-end 2016. The decline is due to changes of the product composition, updating of underlying assumptions in the solvency calculations and higher interest rates. Longevity risk, which is the risk that people live longer than the company has assumed and accounted for 46 per cent of the total insurance risk.

SOLVENCY CAPITAL REQUIREMENT FOR MARKET, INSURANCE AND OPERATIONAL RISK

NOK billion



Calculated according to the solvency rules, operational risk amounted to NOK 1.2 billion at year-end 2016, and was thus at the same level as at year-end 2015.

The trends for market risk, insurance risk and operational risk measured according to the solvency rules are shown in the figure above.

In addition to changes of risk levels, changes of allocations to policy holders, added value and the retention of annual profits will strengthen the solvency margin. Altogether, these factors boosted the solvency margin by NOK 2.2 billion in 2016.

Life expectancy has increased, and Finanstilsynet gave the life insurance industry seven years, starting in 2014, to build up sufficient reserves. Returns in excess of the guaranteed rate of return are used to build up the mandatory reserves. In addition, the shareholder contribution must be minimum 20 per cent of the total required increase in reserves. The provisions for longer life expectancy in connection with the above-mentioned build-up of the company's reserves came to NOK 1.5 billion in 2016. The remaining required increase in reserves is NOK 0.5 billion. This will be covered in its entirety by returns in excess of the guaranteed rate of return. The company has also increased its additional statutory reserves, i.e. the reserves the company can use if it does not achieve returns that exceed those guaranteed to customers by NOK 0.7 billion.

Interest rate movements are very important for the company because higher interest rates make it easier to achieve the returns guaranteed to customers. The ten-year swap rate rose from 1.87 per cent at year-end 2015 to 1.95 at year-end 2016. The average annual return on fixed annuity products guaranteed to customers was 3.11 per cent in 2016. The figure on the right shows the movements of ten-year swap rates in NOK and the average guaranteed interest rate.

Proper asset composition is important for ensuring that customers' funds are managed in the best possible manner and for achieving the guaranteed rate of return. A large proportion of DNB Livsforsikring's financial investments is in assets that generate strong, stable and predictable returns.

The chart to the right shows the changes in the composition of the common portfolio, which represents the funds managed for policyholders, at year-end 2015 and year-end 2016. 55 per cent of the portfolio was invested in bonds that are held to maturity. This portfolio is well-diversified and generated a recorded return of 4.4 per cent in 2016. To optimise the composition of assets, the company bought NOK 7 billion in commercial property loans and an additional NOK 5 billion in residential mortgages from DNB Bank. The loans are included in the portfolio of held-to-maturity bonds and accounted for 24 per cent of this portfolio at year-end 2016. The total return on the common portfolio came to 4.3 per cent in 2016.

RISK MANAGEMENT AND MEASUREMENT IN DNB LIVSFORSIKRING

DNB Livsforsikring follows the Group's principles for risk management and control, and may only take on risk that the organisation understands and can monitor. Sound risk management shall contribute to increased risk-adjusted profitability.

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

Risk management in DNB Livsforsikring is based on the Solvency II requirements for governance and control in insurance companies. There are statutory requirements for the risk management, actuarial, compliance and internal audit functions. The head of Risk Management in DNB Livsforsikring reports directly to the Group's CRO as well as to the CEO of DNB Livsforsikring and Group Risk Management.

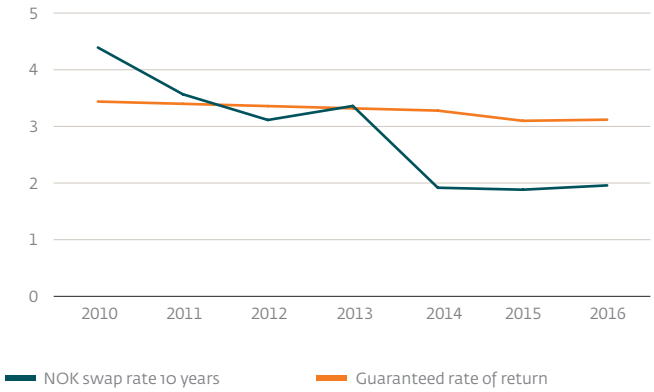
The company's risk is managed and measured in accordance with the Group's regime for risk management and control, which differentiates between the operational, monitoring and audit functions:

- The first line of defence is the operational management. The individual managers are responsible for the risk within their own areas of responsibility. DNB Livsforsikring's risk selection process is meant to protect the company from taking on exposure that is expected to generate losses or lead to unwanted volatility in key measurement parameters.
- The second line of defence is an independent function that monitors and follows up the operative units and the risk to which DNB Livsforsikring is exposed. The actuarial function, risk management function, including the operational risk officer, and the compliance function are all part of the second line of defence.
- The third line of defence is the internal auditors, who examine and evaluate DNB Livforsikring's internal standard procedures. DNB Livsforsikring's internal auditing function is performed by Group Audit in DNB ASA.

For more detailed information, see the chapter Risk Management and Control in DNB.

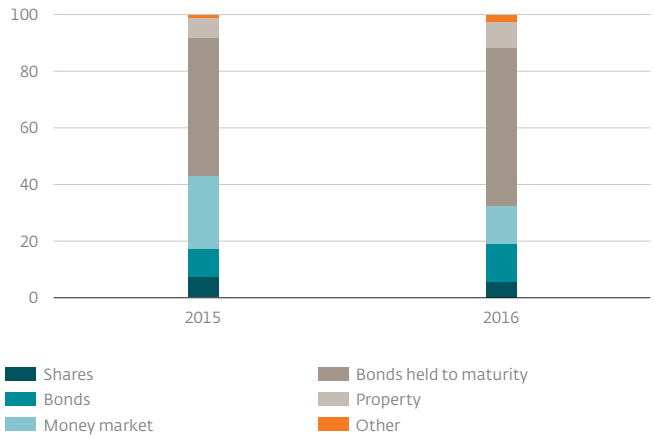
GUARANTEED RATE OF RETURN AND INTEREST RATE

Per cent



INVESTMENTS IN THE COMMON PORTFOLIO

Per cent



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

Risk trends and analyses are reviewed in a quarterly risk report that is submitted to management and the Board of Directors. The utilisation of limits is reported monthly to management and the Board of Directors of DNB Livsforsikring.

MARKET RISK

Market risk in DNB Livsforsikring is primarily attached to the common portfolio, and is the risk that the recorded return on financial assets will not be sufficient to meet the obligations specified in insurance policies.

If the return on investments is not sufficient to cover the annual return guaranteed to customers, the shortfall must be covered from the additional statutory reserves or charged to equity. The annual distribution of profits limits the company's opportunities to invest in assets with a long-term investment horizon. In addition, the Group is directly exposed to changes in the value of investments of the company's equity (the own funds portfolio). Limits have been established for market risk in the common and corporate portfolios.

INSURANCE RISK

Insurance risk in DNB Livsforsikring predominantly consists of the risk attached to pension products. The primary risks are longevity risk and disability risk. Limits have seen set for mortality, longevity, disability and disaster risk. In addition, requirements have been set for portfolio quality and product composition.

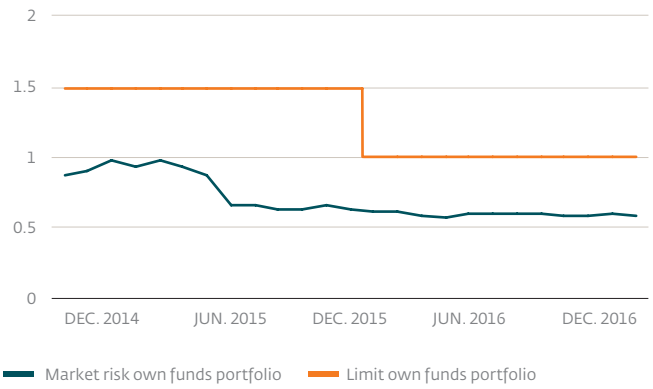
OPERATIONAL RISK

Some of the administration, IT, sales and customer follow-up activities are handled by central units in the DNB Group. Written guidelines have been formulated for reporting and monitoring outsourced activities.

Monitoring of operational risk involves observing changes in the number of insurance events as well as operational losses. Risk appetite limits have been established for the parameters and the trend since 2013 is shown in the diagrams below.

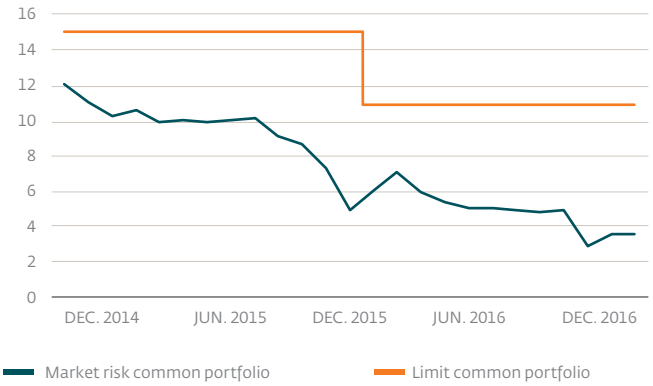
MARKET RISK IN THE OWN FUNDS PORTFOLIO, FINANSTILSYNET'S STRESS TEST, CONFIDENCE LEVEL 99,5 PER CENT

NOK billion



MARKET RISK IN THE COMMON PORTFOLIO, FINANSTILSYNET'S STRESSTEST, CONFIDENCE LEVEL 99.5 PER CENT

NOK billion



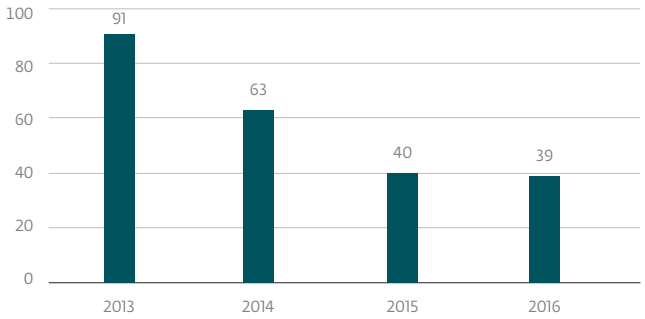
CAPITAL REQUIREMENTS FOR DNB LIVSFORSIKRING

On 1 January 2016, the current requirements for capital adequacy and solvency were replaced with the Solvency II regulations, whereby capital requirements for insurance operations are tightened considerably. The capital requirements for equity and spread risk that the company had on the implementation date will be reduced for the first seven years with a linear increase after the introduction of Solvency II. DNB Livsforsikring has been given permission to apply the transitional rules that give a 16-year phase-in period for measuring liabilities at fair value. The transitional rules give the insurance industry time to adapt its risk and capital. Norwegian life insurance companies have a large number of paid-up policies. These products have a high interest rate and involve long-term liability. The rules are especially effective for this type of product in a low interest rate environment. DNB Livsforsikring's solvency margin at year-end 2016 calculated with and without the transitional rules was t211 and 152 per cent, respectively. The calculation of the solvency margin is shown in the figure below.

Calculated without applying the transitional rules, the company had a buffer that exceeded the capital adequacy requirement by NOK 8.9 billion. The company used the entire profit for 2016, the equivalent of NOK 1.3 billion, to strengthen its primary capital.

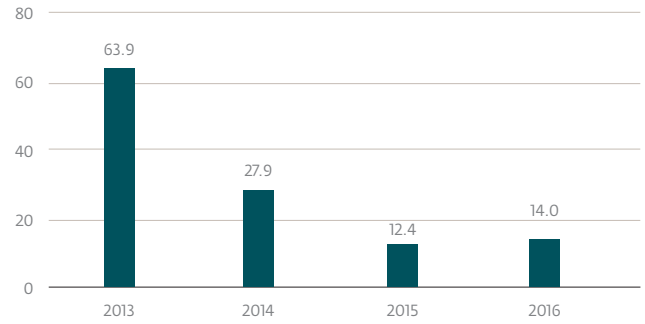
OPERATIONAL EVENTS

Number of events



OPERATIONAL LOSSES

NOK million



CALCULATION OF SOLVENCY MARGIN

NOK million	With transitional rules 31 Dec. 2016	Without transitional rules 31 Dec. 2016
Equity	22 165	22 165
Subordinated loans	5 500	5 500
Other equity	407	407
Market value adjustment	6 707	(2 091)
Solvency capital	**34 779**	**25 981**
Market risk	27 285	28 310
Counterparty risk	354	354
Insurance risk	9 333	9333
Health insurance risk	1 887	1 887
Diversification	(7 174)	(7 221)
Gross Solvency capital requirement	**31 685**	**32 663**
Operational risk	1 095	1 147
Loss absorbing capacity in tax and future earnings	(16 262)	(16 694)
Solvency capital requirement	**16 518**	**17 116**
Buffer to Solvency capital requirement	**18 261**	**8 865**
Solvency margin	**211 %**	**152 %**

*When calculating solvency capital, assets and liabilities are converted to market value.

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DNB FORSIKRING

DNB Forsikring

GENERAL INFORMATION ABOUT DNB FORSIKRING

DNB Forsikring AS is a non-life insurance company. DNB's personal customers are its most important customer group. Organisationally, DNB Livsforsikring has been attached to the business area, Personal Banking Norway, in DNB Bank since October 2016. The company's main products are motor vehicle, home and travel insurance, which accounted for 37, 20 and 16 per cent, respectively of the premium income in 2016. DNB Forsikring is exposed to insurance, market, counterparty and operational risk.

DNB Forsikring will publish its own Pillar 3 report, "Solvency and Financial Condition Report" on 20 May 2017.

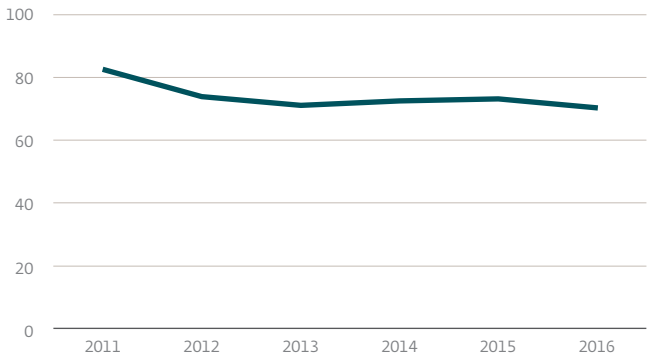
DEVELOPMENTS IN DNB FORSIKRING IN 2016

Insurance risk was the biggest risk category and accounted for 79 per cent of the risk exposure at year-end 2016. During the course of the year, there was an increase in the exposure to personal risk, i.e. illness, death and unemployment. Measured by premium income, personal risk accounted for roughly 10 per cent of the portfolio at year-end. The reason for the increase is that in April 2016, the company entered into an agreement with DNB Finans for the distribution of payment protection insurance on credit cards. In addition, in the autumn of 2016, the company launched a payment protection insurance product for residential mortgage loans. Increased exposure to personal risk is favourable for DNB Forsikring because the covariance between personal risk insurance and the other main products is limited. Measured by premium income, motor vehicle, home and travel insurance still account for approximately 70 per cent of the total insurance portfolio.

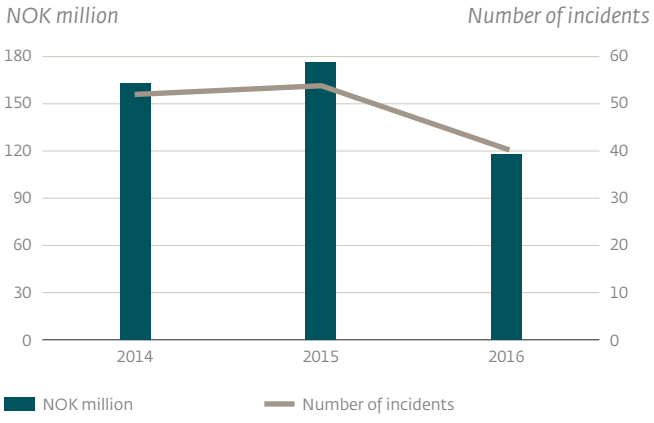
In recent years, there has been a positive profit trend in DNB Forsikring. The claims ratio, i.e. claims payable as a percentage of premium income, has improved and dropped from 73 per cent in 2015 to 70 per cent in 2016.

The percentage of large claims, i.e. claims paid for individual insurance events where the amount of compensation exceeds NOK 1 million, was stable in the period 2014-2015, and accounted for about 12 per cent of the claims paid in both years. This trend changed for the better in 2016, when the percentage of large claims dropped to just under 9 per cent for the year as a whole. One exception was a severe rainstorm that pounded Eastern Norway in the beginning of August 2016. This incident resulted in more than 400 damage claims and liability amounting to NOK 60 million. Most of this liability was covered by the company's reassurance programme, so the cost for DNB Forsikring was NOK 18 million, and the capital situation was thus not significantly weakened. The chart on the right shows the trend for large claims.

DNB FORSIKRING, DEVELOPMENT IN CLAIMS RATIO



DNB FORSIKRING, CLAIMS THAT EXCEED NOK 1 MILLION



There were few natural disasters in Norway in 2016. The powerful storms, Tor and Urd, hit the coastal areas in Mid-Norway in January and December, respectively. The total claims payments in the market came to NOK 220 million for Tor and roughly NOK 180 million for Urd. Most of this was covered by the Norwegian Natural Perils Pool, so DNB Forsikring's liability came to less than 3 per cent of the total claims payments for both events.

DNB Forsikring's financial assets are largely invested in a portfolio of bonds with financially sound Norwegian issuers. The company's market risk is consequently low. Lower interest rates and reduced credit spreads for large parts of the year led to good returns on the financial assets.

In recent years, DNB Forsikring has adhered to a strategy of conservative asset allocation and low market risk. Towards the end of 2016, the company decided to expand its market risk limits because this provides positive diversification effects and thereby a high expected risk-adjusted return.

RISK MANAGEMENT AND MEASUREMENT IN DNB FORSIKRING

DNB Forsikring has established a risk and capital strategy that is based on the Group's risk management policy and risk appetite framework, and ensures that risk management is an integral part of the company's governance processes. DNB Forsikring's risk appetite framework is determined by the company's Board of Directors and stipulates limits for key risks. The company's risks are managed and monitored in accordance with the Group's risk management regime, which is based on a model with three lines of defence.

- The first line of defence is the operational management. The individual managers are responsible for the risk within their own areas of responsibility.
- The second line of defence is an independent function that monitors and follows up the operative management's governance and internal control. The actuarial function, risk management function, including the operational risk officer, and the compliance function are all part of the second line of defence.
- The third line of defence is Group Audit, which reviews and evaluates DNB Forsikring's overall governance and internal control.

See the chapter on Risk Management and Control in DNB for more detailed information about the system of three lines of defence in DNB.

DNB Forsikring is reviewed in the Group's risk report to group management and the Board of Directors of DNB. A separate quarterly risk report is prepared for the Board of Directors of DNB Forsikring in which the company's risk appetite and corporate governance are reviewed.

The terms of individual insurance policies are set on the basis of statistical pricing models and selection processes to ensure that insurance premiums are proportionate to the risk. Large individual claims are difficult to predict using statistical models. The company reduces its risk exposure to such claims through a reassurance programme that limits the company's liability for individual events to a maximum of NOK 10 million. This contributes to stable operating results and a major reduction of the capital adequacy requirement.

Reserve risk is a type of insurance risk that reflects the uncertainty in estimates of provisions for future liabilities. Statistical models are used to estimate expected future claims and contribute to reducing the volatility of the provisions.

CAPITAL REQUIREMENTS FOR DNB FORSIKRING

DNB Forsikring calculates the solvency capital requirement according to the standard method set out in the Solvency II rules. The Solvency II rules have applied to insurance operations since 1 January 2016. DNB Forsikring's solvency capital amounted to NOK 772 million. The requirement was NOK 451 million. This gives a capital adequacy ratio of 171 per cent.

The table below shows the solvency capital requirement calculated according to the standard method under Solvency II rules at year-end 2015 and year-end 2016, distributed among different risk categories.

A capital restructuring was carried out in 2016 as an element of the company's adaptation to the Solvency II rules. DNB Forsikring has taken out a subordinated loan of NOK 250 million from DNB Invest Denmark A/S. At the same time, a subordinated loan of NOK 50 million from DNB was redeemed. In addition, an extraordinary group contribution of NOK 200 million was paid to DNB ASA.

In accordance with the Solvency II rules, at least once a year DNB Forsikring is required to do a forward-looking assessment of the company's capitalisation and the adaptation of the company's risk profile to the standard model. The process is documented in the ORSA (Own Risk and Solvency Assessment) report for 2016. The process includes mapping the company's risk profile, assessment of the conditions of the standard model and scenario analyses based on the financial plan. The ORSA process shows that DNB Forsikring AS is well capitalised and will be able to meet the solvency margin requirement even if quarterly and annual results were to be significantly weaker than expected.

CALCULATION OF SOLVENCY MARGIN

NOK million	31 Dec. 2016	31 Dec. 2015
Market risk	67	66
Counterparty risk	25	13
Insurance risk	491	496
Health insurance risk	102	67
Operational risk	63	58
Total	**748**	**700**
Deferred taxes	(150)	(147)
Diversification	(145)	(111)
Solvency capital requirement	**451**	**441**
Solvency capital	772	783
Solvency margin	171 %	178 %

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REGULATORY FRAMEWORK FOR CAPITAL AND LIQUIDITY REQUIREMENTS

Regulatory framework for capital and liquidity requirements

The financial services industry supports the underlying principles in the international process to implement new and stricter banking regulation. The new requirements significantly affect Norwegian banks' operations and their competitive position.

The changes are so extensive that they will have a profound impact on how the financial institutions will have to organise important parts of their operations. In addition, they will increase costs, both because the regulations in themselves entail higher costs and because compliance with the regulations is complicated and requires extensive resources.

CAPITAL ADEQUACY REQUIREMENTS FOR BANKS

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

Pillar 1

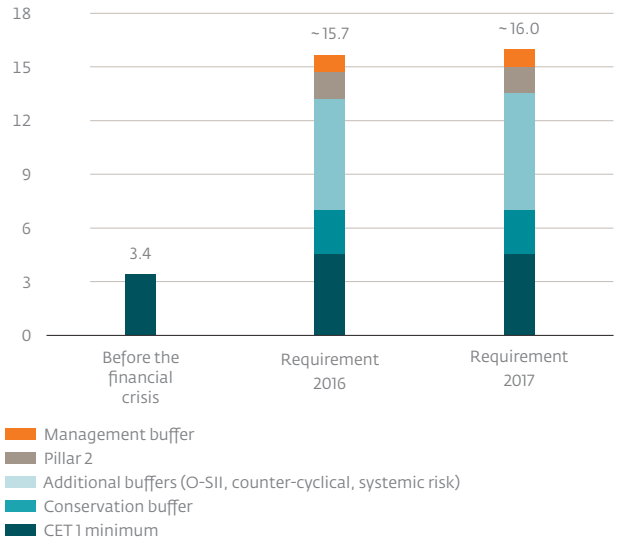
The capital adequacy requirements for banks consist of two pillars. Pillar 1 encompasses minimum requirements and buffer requirements determined by the political authorities. As of 1 July 2016, the total common equity Tier 1 capital requirement was 13.5 per cent for the three banks which the Norwegian authorities have defined as domestic systemically important, O-SIIs (DNB, Nordea Bank Norge and Kommunalbanken), and 11.5 per cent for other banks. This includes a counter-cyclical buffer of 1.5 per cent. The prevailing counter-cyclical capital buffer requirement will increase by 0.5 percentage points, to 2.0 per cent, as of 31 December 2017.

Basel 1 floor

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

COMMON EQUITY TIER 1 CAPITAL REQUIREMENT FOR DNB GROUP (INCL. MANAGEMENT BUFFER)

Per cent



Non-risk based capital requirement, leverage ratio

As a supplement to the risk-weighted capital requirements and as a measure to counter adjustments and gaps in the regulations, a non-risk based capital requirement, leverage ratio, will also be introduced. The Basel Committee has recommended and the European Commission has proposed a leverage ratio requirement of minimum 3 per cent as from 2018.

In Norway, the Ministry of Finance has set the minimum leverage ratio requirement at 3 per cent as of 30 June 2017. All Norwegian banks must have a buffer on top of the minimum requirement of minimum 2 per cent. Systemically important banks must have an additional buffer of minimum 1 per cent. As a systemically important bank in Norway, the total requirement for DNB will thus be 6 per cent. At year-end 2016, DNB had a leverage ratio of 7.3 per cent, well above the upcoming requirement.

Pillar 2
The Pillar 2 requirement comes in addition to the other requirements and is intended to reflect institution-specific capital requirements relating to risks which are not covered, or are only partly covered, by Pillar 1. This requirement may vary between banks, depending on the risk factors of the individual bank. The Pillar 2 requirement for DNB is set at 1.5 per cent common equity Tier 1 capital. New rules for the calculation of the counter-cyclical capital buffer entered into force as of 1 October 2016. For DNB, this means that the counter-cyclical buffer requirement will be the weighted average of the buffer rates for the countries where the bank has credit exposures. At year-end 2016, the common equity Tier 1 capital requirement was 14.7 per cent under Pillar 1 and 2.

There is a need to have a margin over the total common equity Tier 1 capital requirement to take into account expected fluctuations in exchange rates and market prices. In the opinion of Finanstilsynet (the Financial Supervisory Authority of Norway), DNB should have a margin of approximately 1 percentage point, which means that the Group needed to have a common equity Tier 1 capital ratio of 15.7 per cent at year-end 2016. The reason why Finanstilsynet has set this margin is that DNB must be able to retain normal lending growth during a downturn while the capitalisation of the Group must help ensure access to the capital markets even under difficult market conditions. The DNB Group's common equity Tier 1 capital ratio was16.0 per cent as at 31 December 2016.

Failure to comply with the total common equity Tier 1 capital requirement of 14.7 per cent will not automatically result in restrictions on the allocation of the bank's profits, including payments of dividends, variable remuneration and interest on additional Tier 1 capital. However, the bank is expected to explain the reason for the situation in writing and to present an action plan to increase capital adequacy or reduce the risk level. This is in line with regulations in other countries. Any decision by Finanstilsynet to introduce restrictions will be based on the different priorities of equity and additional Tier 1 capital when covering losses, which means that restrictions on variable remuneration and dividend payments will be introduced before interest payments on additional Tier 1 capital are reduced.

The Ministry of Finance has approved a regulatory change that clarifies the regulations on the consolidation of capital requirements for banks and insurance companies which entered into force on 31 January 2016. This has implications for how IRB banks that have ownership interests in insurance companies (an IRB bank uses internal models to calculate and report credit risk) should calculate the Basel I floor that is unique to Norway. The regulatory change came into effect on 1 January 2017 and reduces the DNB Group's common equity Tier 1 capital ratio by approximately 20 basis points.

The Basel Committee has proposed revisions of several parts of the Basel III standards for capital adequacy calculations, aiming, among others, to facilitate comparability of banks' reported capital adequacy figures and capital requirements. Changes in the standardised approach and the IRB approach have been proposed, along with the introduction of a new capital floor for IRB banks. Revisions of the standards may influence future capital adequacy regulations in the EU and Norway.

LIQUIDITY REQUIREMENTS FOR BANKS

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

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

In Norway, the LCR will be introduced ahead of the EU schedule. The O-SIIs were required to meet the 100 per cent LCR requirement as early as from 31 December 2015. For other banks, the requirement will be phased in by 70 per cent as of 31 December 2015, 80 per cent as of 31 December 2016 and 100 per cent as of 31 December 2017.

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

According to the Basel Committee's proposal, the NSFR requirement must be met by 1 January 2018. On 23 November 2016, the European Commission submitted a proposal for a minimum requirement of 100 per cent. The banks will be given a period of two years to meet the requirement after the regulation enters into force. In Norway, Finanstilsynet has given its recommendation to the Ministry of Finance, stating that the NSFR should be introduced as a minimum requirement for the O-SIIs and other enterprises with total assets in excess of NOK 20 billion as soon as a final decision on the NSFR has been reached in the EU. Until the NSFR has been introduced in Norway, Finanstilsynet will continue to use liquidity indicator 1 when monitoring the bank's long-term funding. Liquidity indicator 1 resembles the NSF.

NEW RULES ON DEPOSIT GUARANTEES AND CRISIS MANAGEMENT

The financial crisis demonstrated the need for better solutions for the winding-up and restructuring of banks. On 1 January 2015, the EU introduced extensive regulations in this field, the Bank Recovery and Resolution Directive, BRRD.

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

Resolution fund and deposit guarantee fund
Under the BRRD, each country will establish a national resolution fund to be used by the resolution authorities as a crisis management tool. In accordance with the revised Deposit Guarantee Directive, each country must also have a deposit guarantee fund. Norway has one of the best capitalised deposit guarantee funds in Europe with total capital that is well above the combined EU requirements to the deposit guarantee fund and the resolution fund of 1.8 per cent of guaranteed deposits in 2024.

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

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

According to the BRRD, bail-in should be the final alternative, and such measures should not be initiated until the bank is close to insolvency. An underlying principle is that investors, as a minimum, should receive the same financial return as if the bank had been liquidated according to normal insolvency proceedings. Deposits covered by the deposit guarantee will normally be protected from losses.

All banks in the EU must have a minimum level of own funds and eligible liabilities (Minimum Requirement for Own Funds and Eligible Liabilities, MREL) that can be written down or converted into equity (bail-in) when a bank is close to liquidation. The Financial Stability Board, FSB, has previously proposed a similar requirement whereby global systemically important institutions, G-SIIs, must hold minimum levels of capital and other instruments that can absorb losses or be converted to equity. On 26 November 2016, the European Commission proposed that this requirement, known as Total Loss-Absorbing Capacity, TLAC, be integrated in MREL.

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

The implementation of the BRRD and the revised Directive on Deposit Guarantee Schemes will require extensive changes in the Norwegian crisis resolution system, including the rules on public administration and the role of the Norwegian Banks' Guarantee Fund. The Banking Law Commission has considered how the directives should be implemented in Norwegian law. Among other things, it has been proposed that the banks should pay annual levies to both a deposit guarantee fund and a resolution fund. This will have practical consequences for the current fund structure and the obligation to pay levies. In addition, the Banking Law Commission has proposed that the Ministry of Finance should act as the crisis resolution authority in Norway. The Ministry circulated the draft legislation for public consultation in the autumn of 2016. Crisis resolution rules relating to insurance and pensions will be considered in a separate report to be presented during the first half of 2017.

NORWAY HAS JOINED THE EU FINANCIAL SUPERVISORY SYSTEM
Due to a stipulation in the Norwegian Constitution on limited access to transfer powers to international organisations, it was not possible to incorporate the EU regulations establishing the European supervisory authorities into the EEA agreement until the autumn of 2016.

Authority has been granted to the EFTA Surveillance Authority, ESA, by Norway, Liechtenstein and Iceland to make legally binding decisions addressed to national supervisory authorities and individual institutions in the respective countries. Decisions will be based on drafts prepared by the relevant EU supervisory authority. ESA and the national supervisory authorities in the three EEA/EFTA states shall participate, without voting rights, in the EU's three European supervisory authorities, EBA, ESMA and EIOPA. Also, the EU supervisory authorities shall participate, without voting rights, in ESA's work in this field. The same applies to preparatory bodies. The EU supervisory authorities will be granted competence to issue recommendations, that is non-binding decisions, vis-à-vis EEA/EFTA national authorities and enterprises.

The Norwegian government is working to incorporate the remaining several hundred legislative acts on financial services that have been accumulated in the EEA Joint Committee into the EEA agreement and Norwegian legislation. Important legislative acts include the capital adequacy requirements for banks (CRR/CRD IV), the crisis management regulations for banks (BRRD), the revised Directive on Deposit Guarantee Schemes (DGS) and the capital adequacy regulations for insurance companies (Omnibus II).

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INFORMATION ABOUT DNB'S REMUNERATION SCHEME

Information about DNB's remuneration scheme

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

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

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

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

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

VARIABLE REMUNERATION

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

The purpose of variable remuneration is to reward conduct and develop a corporate culture which ensures long-term value generation.

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

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

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

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

DECISION-MAKING PROCESS

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

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

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

A. GUIDELINES FOR THE COMING ACCOUNTING YEAR

Remuneration to the group chief executive

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

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

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

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

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

The group chief executive is a member of the defined-contribution pension scheme pursuant to the Norwegian Defined-contribution Pension Act in line with all other employees in Norway.

Up until 31 December 2016, the group chief executive had an agreement whereby his retirement age was 60 years with a pension representing 70 per cent of fixed salary. According to the agreement, if employment was terminated prior to the age of 60, he would still be entitled to a pension from the age of 60 with the deduction of 1/14 of the pension amount for each full year remaining to his 60th birthday. As of 1 January 2017, this agreement has been replaced by a defined-contribution direct pension agreement based on the same conditions and principles as those used in connection with the conversion of the Group's defined-benefit occupational pension scheme in 2016 pursuant to the Norwegian Occupational Pension Act. According to the new agreement, the entitlements of the group chief executive, calculated on the conversion date, are estimated to correspond to the technical insurance value of the former defined-benefit agreement. Based on the calculation assumptions, the new agreement will have the same value as the former defined-benefit agreement would have had at retirement age. Future pension entitlements will comprise annual contributions and the return on the rights earned. After the age of 60, no further contributions will be earned under this agreement. The group chief executive's pension scheme is thus based entirely on defined-contribution principles, and the company carries no risk for the return achieved on the contributions.

According to the agreement, the group chief executive is entitled to a termination payment for two years if employment is terminated prior to the age of 60. If, during this period, the group chief executive receives income from other employment, the termination payment will be reduced by an amount corresponding to the salary received from this employment. Benefits in kind will be maintained for a period of three months.

Remuneration to other senior executives

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

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

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

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

Target structure 2017
The Compensation Committee approves principal criteria, principles and limits for variable remuneration. The Compensation Committee has decided that the Group's return on equity, the common equity Tier 1 capital ratio and cost/income ratio should constitute the financial target figures for 2017. In addition to the financial targets, the Group's customer satisfaction and corporate reputation scores are taken into consideration, as well as developments in key performance indicators relating to the Group's corporate culture and innovation.

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

The above targets will be key elements when calculating and paying out the variable remuneration for 2017. All financial targets have been defined and communicated to the relevant business areas and staff and support units as part of the work with and follow-up of the targets for 2017.

Determination of variable remuneration for 2017
The variable remuneration for 2017 will be determined by means of an overall assessment of performance, based on a combination of quantitative attainment of pre-set performance targets and qualitative assessments of how the targets were achieved.

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

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

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

For risk takers, the following main principles apply to variable remuneration:
- The remuneration is earned over a period of two years.
- Variable remuneration cannot exceed the agreed fixed remuneration.

Deferred and conditional payment of minimum 50 per cent of the earned variable remuneration in the form of DNB shares. The remuneration paid in the form of shares will be divided into three, subject to minimum holding periods (deferred and conditional), with one-third each year over a period of three years. The deferred and conditional payments will be in compliance with the stipulations in the remuneration regulations.

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

Senior executives are members of the defined-contribution pension scheme pursuant to the Norwegian Defined-contribution Pension Act, in line with all other employees in Norway. Up to 31 December 2016, most senior executives in the Group had agreements entitling them to a defined-benefit pension at the age of 65, subject to certain adaptations, which at all times have been in accordance with government guidelines for remunerations to senior executives. Pension entitlements were not to exceed 70 per cent of fixed salary and should constitute maximum 12 times the National Insurance basic amount. However, the DNB Group has honoured existing agreements. As of 1 January 2017, these agreements have been replaced by defined-contribution direct pension agreements based on the same calculation assumptions and principles as those used in connection with the conversion of the Group's defined-benefit occupational pension scheme in 2016 pursuant to the Norwegian Occupational Pension Act.

The pension entitlements of the senior executives, calculated on the conversion date, are estimated to correspond to the technical value of the former defined-benefit scheme. Future pension entitlements will from now on comprise annual contributions and the return on the rights earned. The annual contributions are calculated individually to ensure that, based on the calculation assumptions, the new scheme will have the same value as the former defined-benefit agreement would have had at retirement age.

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

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

B. BINDING GUIDELINES FOR SHARES, SUBSCRIPTION RIGHTS, OPTIONS ETC. FOR THE COMING ACCOUNTING YEAR

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

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

C. STATEMENT ON THE SENIOR EXECUTIVE SALARY POLICY IN THE PREVIOUS ACCOUNT YEAR

The group guidelines determined in 2011, including changes effective as from 2015, have been followed.

D. STATEMENT ON THE EFFECTS FOR THE COMPANY AND THE SHAREHOLDERS OF REMUNERATION AGREEMENTS AWARDING SHARES, SUBSCRIPTION RIGHTS, OPTIONS ETC.

An amount corresponding to 50 per cent of the gross variable remuneration earned by the group chief executive and senior executives in 2016 is invested in shares in DNB ASA. The Board of Directors believes that the awarding of shares to senior-executives, in view of the total number
of shares in the company, will have no negative consequences for the company or the shareholders.

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DEFINITIONS AND EXPLANATION OF TERMS

Definitions and explanations of terms

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

Credit risk is the risk of financial losses due to failure on the part of the Group's customers to meet their payment obligations towards DNB. Credit risk refers to all claims against customers, primarily loans, but also liabilities in the form of other extended credits, guarantees, interest-bearing securities, approved, undrawn credits and interbank deposits. Credit risk also includes residual value risk and concentration risk. Residual value risk is the risk that the value of collateral securing exposure is lower than expected. Concentration risk includes risk associated with large exposures to a single customer and clusters of commitments in geographical areas or industries, or with homogeneous customer groups. Counterparty risk is another type of credit risk and arises through derivative trading. There is a substantial degree of counterparty risk in the settlement risk which arises in connection with money transfers and settlement of futures contracts, but this is not included in the definition of credit risk.

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

Operational risk is the risk of losses due to deficiencies or errors in processes and systems, human errors or external events. Operational risk also includes compliance risk, legal risk, conduct risk and IT risk, which includes information security. Compliance risk is the risk of legal or regulatory sanctions, financial loss or loss to reputation the Group may suffer as a result of violations of external laws, rules and regulations. Legal risk is related to the documentation and interpretation of contracts and different legal practices in countries where the bank is operating. Conduct risk can be defined as the risk of losses due to substandard delivery of financial services or losses incurred as a result of generally unacceptable conduct.

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

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

Business risk is the risk of profit fluctuations due to changes in external factors such as the market situation, government regulations or the loss of income due to a weakened reputation. Reputational risk is often a consequence of other risk categories. The Group's business risk is generally hand led through the strategy process and through on going work to safeguard and improve the Group's reputation. When determining and following up the Group's risk appetite, reputational risk is treated separately. In addition to the above risk categories, the Group is exposed to strategic risk, which can be defined as the risk of a decline in income if the Group fails to exploit the strategic opportunities which are offered. The Group's strategic risk is not measured or reported, but is on the agenda in discussions concerning annual strategy processes.

In addition to the above risk categories, the Group is exposed to strategic risk, which can be defined as the risk of a decline in income if the Group fails to exploit the strategic opportunities which are offered. The Group's strategic risk is not measured or reported, but is on the agenda in discussions concerning annual strategy processes. Other risks referred to in the Pillar 3 report:

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

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

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

EXPLANATION OF TERMS

EAD, Exposure at Default
EAD is the share of the approved credit that is expected to be drawn at the time of any future default at the same time as there is a downturn in the market.

EL, Expected Loss
EL indicates the average annual expected losses over an economic cycle. EL = PD * LGD * EAD. In good/normal times, EL should be higher than actual losses because the calculation takes both higher probability (the PD element) and higher losses (the LGD element) during a recession into account.

LGD, Loss Given Default
LGD represents the percentage of the Exposure at Default (EAD) which the Group expects to lose if the customer fails to meet his obligations, taking the collateral provided by the customer, future cash flows and other relevant factors, such as a strong market downturn, into consideration.

PD, Probability of Default
The probability that a customer will go into default. PD is calculated based on financial and non-financial factors and forms the basis for risk classification of credit exposures. Non-performing and doubtful exposures are automatically assigned a PD of 100 per cent.

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

Leverage ratio
The leverage ratio is defined as Tier 1 capital as a percentage of total exposure calculated according to the CRR.

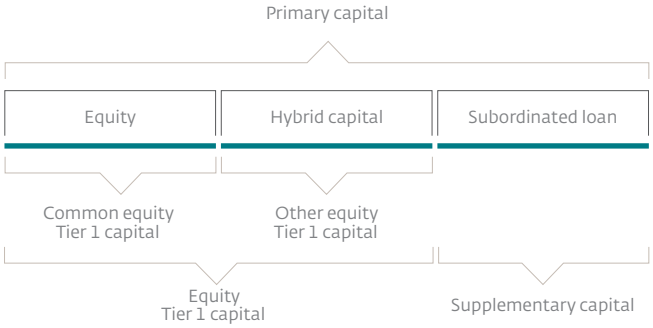
Liquidity indicators
- LCR (Liquidity Coverage Ratio): measures short- term liquidity risk. The LCR requires banks to hold risk-free assets that may be easily liquidated in order to meet required payments during a thirty-day crisis period without central bank support.
- NSFR (Net Stable Funding Ratio):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

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

Wrong-way risk (WWR)
WWR is the additional risk that arises through an adverse correlation between counterparty exposures and the credit quality of the counterparties. Thus a correlation between credit risk and market risk.

Economic capital
The internally calculated capital requirement which is deemed necessary for the Group to support the risks to which it is exposed. Economic capital in DNB is calculated using an internal model called the Total risk model. DNB has stipulated that economic capital should cover 99.97 per cent of potential unexpected losses within a one-year horizon.

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



Regulatory capital
Regulatory capital is capital that can be used to cover capital requirements. Regulatory capital includes Tier 1 capital and supplementary capital. Common equity Tier 1 capital consists of paid-in capital and retained earnings. Hybrid securities are also included in Tier 1 capital. Hybrid securities are borrowing instruments that in special cases may be converted into equity. Tier 2 capital consists of subordinated debt. Subordinated debt can be either perpetual or time-limited. It is interest-bearing and repayment may be demanded, but it is ranked below other debt and above Tier 1 capital. Subordinated debt cannot represent more than 2 percentage points of the minimum capital adequacy requirement of 8 per cent. Hybrid capital (perpetual subordinated loan capital securities) has traits of both debt and equity, and is part of the Tier 1 capital. However, it cannot exceed 1.5 percentage points of the minimum Tier 1 capital requirement of 6 per cent. Hybrid capital is perpetual and can be written down or converted to equity when the common equity Tier 1 capital ratio falls below 5.125 per cent.

Buffer requirements
Financial institutions must fulfil a combined buffer requirement consisting of four separate requirements:
- The capital conservation buffer is a buffer imposed on all banks to provide time and space for correcting measures if the bank were to get into a crisis situation.
- The systemic risk buffer is a buffer that reflects especially high, non-cyclical risk factors in the economy.
- The buffer for systemically important financial institutions is a buffer to mitigate the likelihood that systemically important financial institutions come into a crisis situation.

- The countercyclical capital buffer is a buffer that takes into account that credit risk may increase during periods of strong credit growth. The buffer shall reduce the effect of cyclical variations. During recessions the buffer requirement can be waived to make it easier for banks to provide credit.

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

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

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

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

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

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

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

Capital requirement calculations used in DNB

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

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

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

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

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

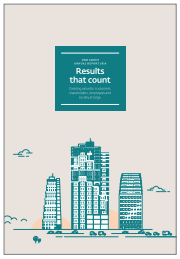
MiFID II (Markets in Financial Instrument Directive)
The directive regulates the market for financial instruments, and describes how institutions in the financial markets should be organised and behave.

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

Pensions

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

Topics covered in more than one DNB report for 2016



TOPIC	RISK AND CAPITAL MANAGEMENT	ANNUAL REPORT
Summary of the year	The CRO's summary of the year Major developments Important events in 2016	Group chief executive's statement Important events in 2016 Directors' report Sustainable operations
Customer privacy, including IT security	Operational risk Compliance risk	Sustainable operations
Regulatory framework	Risk management and control in DNB Capital management and ICAAP DNB Livsforsikring DNB Forsikring Legal structure and consolidation rules for capital adequacy requirements Regulatory framework for capital and liquidity requirements	Sustainable operations New regulatory framework
Regulations and guidelines	Regulatory framework for capital and liquidity requirements Capital management and ICAAP Credit risk	Corporate governance Directors' report New regulatory framework Accounting principles Sustainable operations
Risk management	Risk management and control in DNB Liquidity risk and asset and liability management Credit risk Market risk Operational risk DNB Livsforsikring DNB Forsikring	Sustainable operations Corporate governance Directors' report Notes 5-18 to the accounts
Strategy and targets	Capital management and ICAAP	Group chief executive's statement DNB in brief Directors' report Products and services Sustainable operations
Governance and organisation	Legal structure and consolidation rules for capital adequacy requirements Risk management and control in DNB	Corporate governance Products and services

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When it matters the most.