

# EKSPORTFINANS

---

## CAPITAL AND RISK MANAGEMENT

PILLAR 3 DISCLOSURE

---

2015

---

## CONTENTS

---

<b>CONTENTS</b> .....	<b>2</b>
<b>1 INTRODUCTION</b> .....	<b>1</b>
1.1 STRUCTURE OF THE PILLAR 3 DISCLOSURE.....	1
<b>2 RISK MANAGEMENT AND CONTROL</b> .....	<b>3</b>
2.1 PRINCIPLES AND CONTROL .....	3
2.1.1 <i>The Board</i> .....	3
2.1.2 <i>Responsibilities of the CEO and the Management Team</i> .....	4
2.1.3 <i>Responsibility of Risk Management</i> .....	4
<b>3 CAPITAL ADEQUACY</b> .....	<b>5</b>
3.1 CAPITAL BASE .....	5
<b>4 ICAAP AND ECONOMIC CAPITAL</b> .....	<b>8</b>
4.1 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP).....	8
4.2 CAPITALISATION STRATEGY, CAPITAL TARGET AND RISK TOLERANCE .....	8
<b>5 ASSESSMENT OF CAPITAL REQUIREMENT</b> .....	<b>10</b>
5.1 CREDIT RISK .....	10
5.1.1 <i>Portfolio information</i> .....	10
5.1.2 <i>Management and monitoring</i> .....	13
5.1.3 <i>Capital requirements for credit risk</i> .....	13
5.1.4 <i>Counterparty risk for derivatives</i> .....	13
5.2 MARKET RISK.....	14
5.2.1 <i>Management and monitoring</i> .....	14
5.2.2 <i>Capital requirement for market risk</i> .....	14
5.3 OPERATIONAL RISK .....	15
5.3.1 <i>Management and monitoring</i> .....	15
5.3.2 <i>Capital requirement for operational risk</i> .....	15
5.4 BUSINESS RISK AND STRATEGIC RISK .....	15
5.4.1 <i>Management and monitoring</i> .....	15
5.4.2 <i>Capital requirement for business- and strategic risk</i> .....	16
5.5 LIQUIDITY RISK .....	16
5.5.1 <i>Management and monitoring</i> .....	16
5.5.2 <i>New liquidity regulations</i> .....	16
5.5.3 <i>Capital requirement for liquidity risk</i> .....	17

---

## 1 INTRODUCTION

---

This report contains information about risk management, risk measurement and capital adequacy in accordance with the capital adequacy regulation, Pillar 3.

The capital adequacy regulations consist of three pillars. Pillar 1 establishes minimum capital requirements, defines eligible capital instruments and describes methods for calculating risk-weighted assets. Pillar 2, consists of requirements for the Internal Capital Adequacy Assessment Process (ICAAP) to ensure sufficient capital to cover all risks, including risk types in addition to those described in Pillar 1. Pillar 3 describes the disclosure requirements.

Eksporthfinans continues to operate and manage its existing loan portfolio and other assets and liabilities and servicing its borrowers and investors. The overall focus at all times is to ensure that the company has sufficient funds to meet its obligations.

Eksporthfinans' risk profile is conservative. Capital adequacy is currently above the internally set risk capital level. Through the ICAAP-process, the board has decided that the company should aim for a risk capital level of about NOK 5.6 billion, including NOK 1.4 billion to cover large exposure regulations.

At year end 2015, Eksporthfinans had a core capital ratio of 36.5 %. At year end 2014, the core capital ratio was 24.3 %. The increase in capital ratio is mainly due to smaller balance.

The Pillar 3 report is updated annually and describes methods used in calculating the minimum capital requirement for credit risk, market risk and operational risk. In addition risk areas such as concentration risk, market risk, operational risk and business and strategic risks are considered for possible additional capital.

The Board of Directors ("the Board") approves the Pillar 3 report. The report is not subject to audit.

A more detailed description of Eksporthfinans can be found in the annual report and the 20-F which has been filed with the U.S Securities and Exchange Commission ("SEC").

### 1.1 Structure of the Pillar 3 disclosure

Eksporthfinans calculates the minimum capital requirement by using the following methods as shown in the table below.

#### Pillar 1 capital calculation methods:

Credit risk	Market risk	Operational risk
Standardised method	Standardised method	Basic indicator approach

In the company's own risk assessment under Pillar 2, expected financial results are considered adjusted in accordance with qualified impact assessments from an adverse scenario for market, credit, operational and business/strategic risk. These risk categories are identified as significant for the company.

This Pillar 3 report is structured as follows:

- Chapter 2 (risk management and control) describes Eksportfinans' overall risk and capital management procedures.
- Chapter 3 (capital adequacy) provides information about items included in Eksportfinans' capital base. The chapter also gives a capital adequacy analysis.
- Chapter 4 (ICAAP and internal capital requirement) describes Eksportfinans' internal capital adequacy assessment process and the methods which apply to items included in Eksportfinans' capital base.
- Chapter 5 (own assessment of capital requirements) contains information about how Eksportfinans identifies and analyses credit risk, market risk, operational risk, and business/strategic risk. For all important risk categories, the chapter describes risk management, risk control and capital requirements.

---

## 2 RISK MANAGEMENT AND CONTROL

---

Risk and capital are managed through a framework of principles, organisational structures as well as measurement and monitoring processes that are closely aligned with the activities of the business areas. Eksportfinans' current strategy is to actively manage the outstanding portfolio of loans, other assets and bond debt.

### 2.1 Principles and control

Risk and capital management in Eksportfinans are governed by principles and procedures stated in guidelines set by the Board. In addition to defining authorities and key responsibilities, the guidelines are set to ensure that risk and capital are being measured, reported, monitored and controlled according to the overall risk strategy of the company.

Eksportfinans has three lines of defense for the management of risk.

The first line is the responsibility given to each business unit to perform day-to-day activities within set limits and according to internal control. Each business unit has responsibility to monitor market moves that could cause a potential breach of limits and to make sure that risk reducing actions are taken, if necessary.

The second line of defense is provided by Risk Management. The department provides the necessary tools and systems to support the business units in identifying, managing and monitoring risks. Risk Management reports issues to the Chief Executive Officer ("CEO") and the Board.

The third line of defense is provided by the internal audit function. This function makes an independent assessment of risk management and internal control. The internal audit reports directly to the Board.

#### 2.1.1 The Board

The Board has the ultimate responsibility for assessing the company's overall risk and setting limits for accepted risk exposure. The Board is provided with sufficient periodic information to assess the company's risk and capital management.

The Board is responsible for external reporting of financial accounts, risk information and capital adequacy regulations.

The Risk Committee and Audit Committee are sub-committees to the Board.

The Risk Committee assists the Board in monitoring risks, capital and internal control processes.

The Audit Committee evaluates the company's reporting of financial accounts and monitors the internal audit.

### **2.1.2 Responsibilities of the CEO and the Management Team**

The CEO has the overall responsibility for risk management including setting guidelines, to approve risk within set limits, monitor all exposures, ensure adequate controls, and report on limit excesses and loss events.

A number of committees assist the Management Team in monitoring and controlling risks, the most important being the Asset and Liability Management group (ALM), the Investment Committee and the Credit Committee.

### **2.1.3 Responsibility of Risk Management**

Risk Management has responsibility for conducting company-wide compliance with risk management policies, procedures and guidelines such as counterparty credit quality and risk limits, as well as risk pricing, asset and liability projections, sensitivity analysis and mark to market calculations for external reporting.

Every three months, the Board receives a risk report from Risk Management with an overview and evaluation of the company's current risk situation. An evaluation of the risk situation is also a key part of Eksportfinans' monthly management report.

Every year, Risk Management produces an ICAAP report which describes the company's own assessment of capital requirements and capital. The disclosure information (Pillar 3) is also produced annually.

At least annually, the company's risk policy and guidelines are reviewed and updated.

## 3 CAPITAL ADEQUACY

Eksportfinans had a core capital ratio of 36.5 % at year end 2015 (increased from 24.3 % at year end 2014). As of December 31, 2015 minimum capital requirements calculated for credit risk, market risk and operational risk were NOK 1.4 billion.

The Internal Capital Adequacy Assessment Processes (ICAAP) is conducted annually and Eksportfinans' capital strategy will be based on an assessment of the risk level in the organisation supplemented by the effect of various stress scenarios.

Eksportfinans complies with regulatory capital requirements at all times.

Capital is intended as a buffer against risk which the company is exposed to from its business operations.

### 3.1 Capital base

The tables below provide information on regulatory capital, including core capital and supplementary capital. All tables are linked to regulatory reporting and are based on figures as of December 31, 2015.

#### Minimum capital requirements for credit risk, market risk and operational risk (Pillar 1) before buffer requirements:

NOK million	31 Dec.15	31 Dec.14
Credit risk	1.057	1.517
Government	0	0
Local and regional authorities	7	12
Government owned corporations	0	0
Multilateral development banks	0	0
Institutions	884	1.321
Enterprises	0	0
Security for property	1	1
Other commitments	17	17
Securitisation	150	165
Market risk	89	196
Operational risk	86	148
CVA	125	114
<b>Total minimum capital requirements</b>	<b>1.357</b>	<b>1.974</b>

#### Specification of risk-weighted assets:

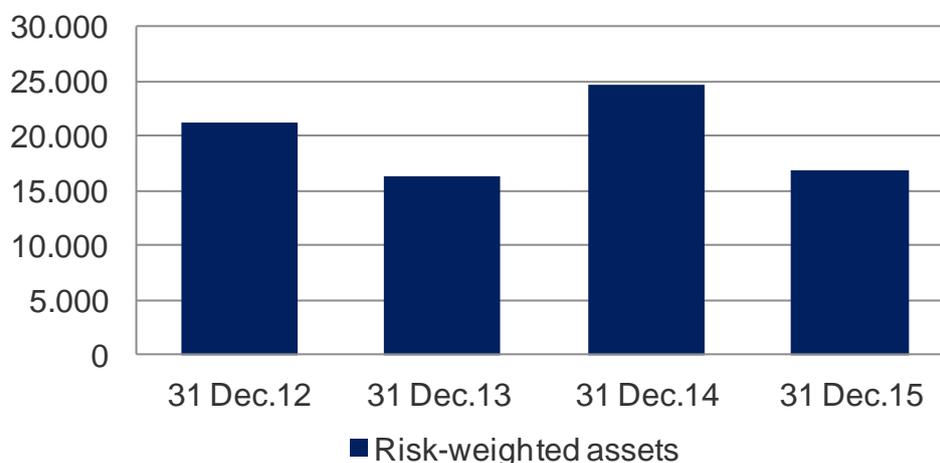
The table below gives an overview of the company's assets as of December 31, 2015, and the assets that are secured with guarantees, so that credit loss only occurs if both the borrower and the guarantor breach their obligations.

NOK million		Nominal exposure	Risk weight (%)	Risk-weighted assets
		31 Dec.15		31 Dec.15
Loans	Guarantees from GIEK and Governments	10.747	0	0
	Guarantees from banks	3.414	20	683
	Guarantees from banks	12.778	50	6.389
	Direct to banks	1.016	50	508
	Direct to banks	28	100	28
	Direct to or guarantees from municipalities	420	20	84
	Loans to employees	21	35	7
Securities	Securitisation	6.184		1.870
	Trading portfolio	18.003		406
Financial derivatives and		7.570		2.072
Other	3 bill NOK deposits	4.961		1.521
Off-balance transactions				53
Operational risk				1.079
Currency risk				704
CVA				1.558
<b>Total</b>		<b>65.142</b>		<b>16.962</b>
Total risk-weighted assets / Total assets				26,0 %

The graph below shows the development of risk-weighted assets over the past four years.

### Risk-weighted assets

NOK million



Eksporthfinans` risk-weighted assets were lower at year end 2015 than at year end 2014 due to smaller balance.

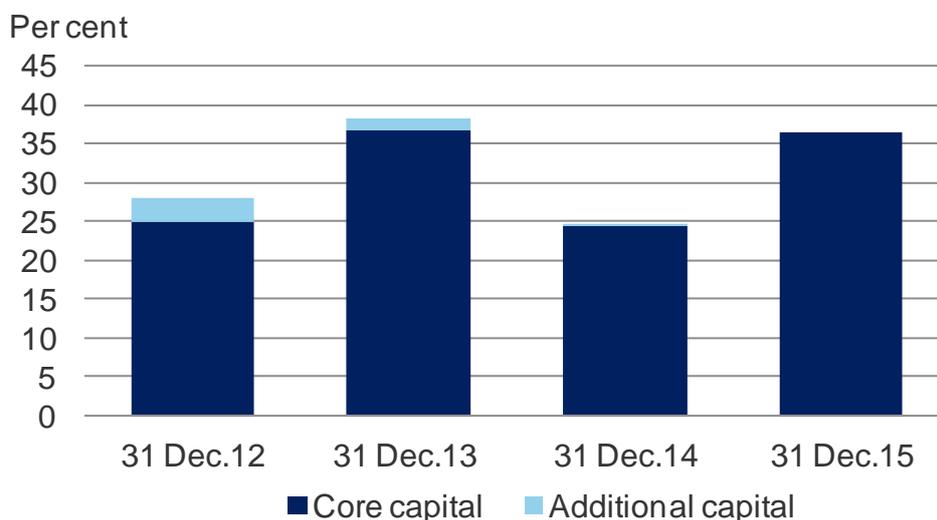
The Norwegian authorities implemented new capital regulations as of September 30, 2014 based on Basel III/CRD IV. These regulations resulted in increased risk weights on financial institutions affecting mainly Eksporthfinans` bank guaranteed loans and securities, as well as the CVA (Credit Valuation Adjustment) charge on financial derivatives. The risk weight according to the standardised approach increased for

most financial institutions from 20 % to 50 %. These changes lead to increased risk-weighted assets for Eksportfinans at year end 2014, compared with year end 2013. The table below shows the development of capital adequacy during the past four years.

### Capital adequacy 2012-2015:

NOK million	31 Dec.15	31 Dec.14	31 Dec.13	31 Dec.12
Share capital	2.771	2.771	2.771	2.771
Share premium reserve	0	0	0	177
Reserve for unrealized gains	566	1.043	5.349	10.713
Other equity	4.072	3.946	3.955	3.277
<b>Total equity</b>	<b>7.409</b>	<b>7.760</b>	<b>12.075</b>	<b>16.938</b>
Declared dividends	0	0	0	0
Capital contribution securities	0	0	0	0
Deductions	(1.225)	(1.786)	(6.044)	(11.633)
Additions	0	13	10	8
<b>Total core capital</b>	<b>6.184</b>	<b>5.987</b>	<b>6.041</b>	<b>5.314</b>
Subordinated debt	0	0	174	582
Additions	0	37	46	46
<b>Additional capital</b>	<b>0</b>	<b>37</b>	<b>220</b>	<b>628</b>
<b>Total risk capital</b>	<b>6.184</b>	<b>6.024</b>	<b>6.261</b>	<b>5.942</b>
<b>Risk weighted assets</b>	<b>16.962</b>	<b>24.677</b>	<b>16.416</b>	<b>21.243</b>
Core capital adequacy (%)	36,5 %	24,3 %	36,8 %	25,0 %
Capital adequacy (%)	36,5 %	24,4 %	38,1 %	28,0 %

### Capital adequacy ratio



At year end 2015, Eksportfinans' core capital ratio was 36,5 %, which is an increase from 24,3 % at year end 2014. The increase in capital ratio is mainly due to smaller balance. The new capital regulation implemented in September 30, 2014, lead to decreased capital ratio at year end 2014 compared with year end 2013, even though total assets decreased in the period.

## 4 ICAAP AND ECONOMIC CAPITAL

### 4.1 Internal capital adequacy assessment process (ICAAP)

According to Pillar 2 of the capital adequacy regulations institutions are required to use their own process of self-assessment of capital requirements and capital (internal capital adequacy assessment process, ICAAP). This requires an overall and total risk estimation and evaluation. From this, capital requirements, including robustness of a three-year adverse scenario are determined. In the ICAAP document, Eksportfinans analyses this information which is approved by the Board and submitted to the Norwegian FSA.

Regulatory capital (Pillar 1)	Add-on capital (Pillar 2 ICAAP assessments)
Credit risk	Credit risk (concentration)
Market risk	Market risk (credit spread risk, currency and interest rate risk)
Operational risk	Operational risk
	Business risk

The assessment of capital under Pillar 1 and 2 is based on different methodologies. Eksportfinans analyses all material risk categories for the company and calculates capital requirements for every risk category. For categories with regulatory minimum capital requirements (credit risk, market risk and operational risk), Pillar 2 calculations are compared to the minimum requirements. If Pillar 2 assesses a higher capital requirement than Pillar 1 then the difference is added as the Pillar 2 add-on. Pillar 2 assessments provide additional capital for credit, market, operational and business risk as shown in the figure above.

Liquidity risk is controlled through active management and frequent ALM to analyse liquidity under different stress conditions. The company does not calculate capital for liquidity risk.

### 4.2 Capitalisation strategy, capital target and risk tolerance

Every year The Board of Directors has a strategy meeting to discuss market developments, future focus areas and capital requirements. The capital strategy defines how capital management supports the business areas.

The primary objectives of the company's capital management are to have a sound capital base and to ensure compliance with externally imposed capital requirements.

The total capital assessment is based on an expected balance sheet development for the next three years and the robustness of consequences of a significant negative event in a three year adverse scenario.

Pillar 1 (credit risk, market risk and operational risk) has a set of minimum requirements. The company performs an assessment process to determine the level

of capital and to what extent these minimum requirements are sufficient. In the internal assessment of other key risks, both qualitative and quantitative methods are taken into account. Most capital required is to cover credit risk. Since a large part of the loan portfolio is guaranteed by governments and banks, this portfolio is considered to have a low risk profile. The company evaluates that credit risk capital under Pillar 1 is sufficient to cover total credit risk.

In Pillar 2 risk areas considered for possible additional capital are concentration risk, market risk (credit spread risk, currency risk and interest rate risk), operational risk and business and strategic risk.

Large exposure: Finally, an additional assessment of capital to comply with external rules and regulations is conducted. To meet the EU's CRD large exposures regulations, which set a limit of maximum 25 % of regulatory capital per single client, the company currently holds another capital buffer. Eksportfinans is granted exemption by the Norwegian FSA for one outstanding loan.

Total capital calculations determine a risk based capital requirement for the company. Capital adequacy is currently above the internally set risk capital level. Through the ICAAP-process, the board has decided that the company should aim for a risk capital level of about NOK 5.6 billion, including NOK 1.4 billion to cover large exposure regulations, future economic downturns and possible future capital regulations.

## 5 ASSESSMENT OF CAPITAL REQUIREMENT

### 5.1 Credit risk

Eksportfinans' credit risk is the risk of loss due to defaults on loans with guarantees where both the debtor and the guarantor default, defaults on loan contracts for direct loans, and defaults of interest and principal payments on investments.

The company's credit portfolio consists of guarantors and counterparties with high credit ratings. Loans are generally guaranteed by Governmental entities or banks. Eksportfinans is exposed to credit risks through loans to the export industry/guarantors, towards issuers of securities, and to swap counterparties.

Capital for credit risk is calculated with the Basel II standardised approach in Pillar 1. Eksportfinans is exposed to financial institutions through direct exposure, guarantee exposure, derivative exposure and exposures from investments in the liquidity reserve portfolio.

#### 5.1.1 Portfolio information

As shown in the table below, the company has a portfolio of high credit quality.

#### Aggregated credit exposure per rating class as of December 31, 2015:

NOK million	Loans			Liquidity portfolio			Total
	Unsecured	Guaranteed	Total Loans	Liquidity reserve portfolio	PHA portfolio	Total Liquidity portfolio	
Rating							
AAA	404	10.208	10.612	8.035	948	8.983	19.595
AA+/AA/AA-		2.542	2.542	2.360	876	3.236	5.777
A+/A/A-	1.352	13.168	14.520	6.979	1.596	8.575	23.095
BBB+/BBB/BBB-		206	206	300	1.555	1.855	2.061
BB+/BB/BB-		1	1		349	349	350
B+/B/B-					739	739	739
CCC+/C							
No international rating	257	79	335	853		853	1.188
Total	2.012	26.203	28.215	18.527	6.062	24.589	52.804

Most of the loan portfolio is guaranteed either by GIEK (38%) or Norwegian banks (49%). The majority of guarantees from Norwegian banks were provided by DNB Bank ASA, which guaranteed 34% of outstanding loans as of December 31, 2015.

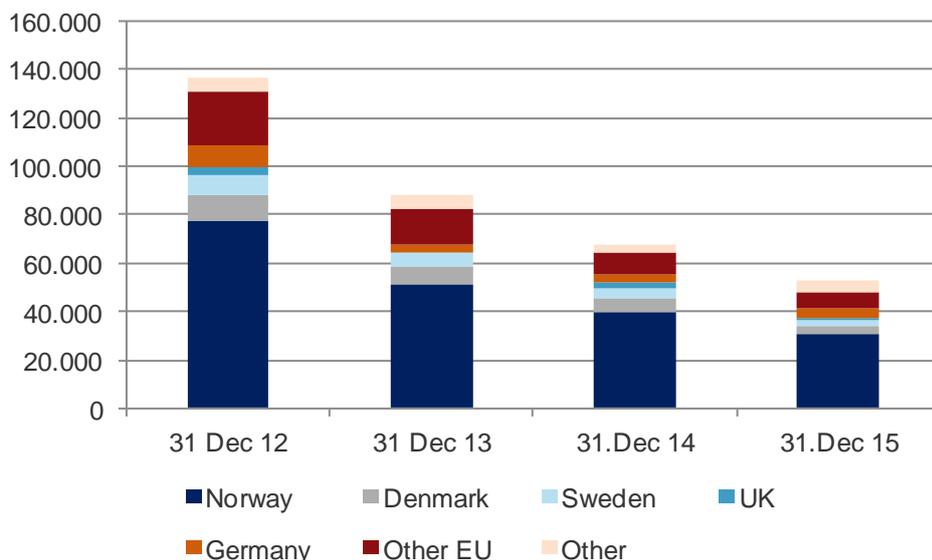
Eksportfinans holds a portfolio of securities in the PHA Portfolio<sup>1</sup> and Liquidity Reserve Portfolio. These portfolios are held and managed to provide liquidity. The securities in the PHA portfolio are mainly held to maturity. The Liquidity Reserve Portfolio consists of senior unsecured and covered bonds with short maturities and has an average rating of AA.

<sup>1</sup> Eksportfinans has entered into a derivative portfolio hedge agreement with the majority of its shareholders. The agreement, effective from March 1, 2008, will offset losses up to NOK 5 billion in the liquidity portfolio held as of February 29, 2008.

### Total credit exposure split by geography:

The graph below shows the geographic distribution of the company's credit exposure (loans and securities) for the last four years. Loans are categorised by reference to the country of the guarantor.

NOK million



### Total credit exposure split by maturity:

The following table shows the total credit exposure split by maturity as of December 31, 2015.

NOK million	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
Loans	1.086	861	7.426	16.252	2.590	28.215
Securities	35	3.564	16.088	3.458	1.444	24.589

### Total loans outstanding at year-end

The table below shows the loans outstanding at year end for the past four years.

NOK million	2015	2014	2013	2012
Export-related Loans				
of which Ships (1)	12.872	17.443	21.630	34.148
of which Capital goods (2)	8.146	10.112	13.678	23.973
of which Other export-related and international activities (3)	5.402	8.535	16.322	20.532
Direct loans to Norwegian local government	1.074	2.345	3.513	4.373
Municipal-related loans to other credit institutions	700	700	3.388	4.448
Loans to employees	21	39	37	35
<b>Total</b>	<b>28.215</b>	<b>39.174</b>	<b>58.568</b>	<b>87.509</b>

- (1) "Ships" includes loans made in connection with the financing of ships built in Norway for export or for Norwegian ship owners operating in the offshore oil

and gas sector, and loans made to Norwegian ship owning companies, but excludes ship equipment, which is included in capital goods.

- (2) “Capital goods” includes loans made for ships’ equipment, telecommunications, energy, oil rig and environmental protection equipment industries, as well as a variety of other businesses.
- (3) “Other export-related and international activities” comprises the following sub-groups, all related to the international expansion of the Norwegian industry and domestic investments in Norway, as specified below:

NOK million	2015	2014	2013	2012
Shipping	2.476	2.934	3.446	4.284
Renewable energy	-	1.950	4.994	5.494
Infrastructure	790	977	1.289	1.333
Banking and finance	747	626	2.684	4.615
Oil and gas	309	485	596	1.223
Real estate	679	995	849	660
Consumer goods	300	450	1.831	2.275
Environment	101	118	632	646
Other categories	—	—	1	2
<b>Total</b>	<b>5.402</b>	<b>8.535</b>	<b>16.322</b>	<b>20.532</b>

### Loans past due or impaired:

The following table sets forth the company’s loans that are past due or impaired at year end 2014 and 2015.

NOK million	31 Dec 15	31 Dec 14
Interest and principal installment 1-30 days past due	-	-
Not matured principal on loans with payments 1-30 days past due	-	-
Interest and principal installment 31-90 days past due	-	-
Not matured principal on loans with payments 31-90 days past due	-	-
Interest and principal installment more than 90 days past due	195	212
Not matured principal on loans with payments more than 90 days past due	322	329
<b>Total loans past due</b>	<b>517</b>	<b>541</b>
Relevant collateral or guarantees received	409	440

A total of NOK 108 million of total loans past due relates to exposure towards Icelandic banks as of December 31, 2015. Apart from the exposure towards the Icelandic banks, the company considers all other loans to be secured in a satisfactory manner. For these transactions, amounting to NOK 409 million as of December 31, 2015, the Norwegian government, through the Guarantee Institute for Export Credit

(GIEK), guarantees approximately 98 percent of the amounts in default. The remaining 2 percent are guaranteed by private banks, most of them operating in Norway.

### 5.1.2 Management and monitoring

The limits and guidelines are reviewed by The Board yearly or more frequently if necessary. Eksportfinans applies credit ratings and analyses from the major rating agencies (Moody's, Standard & Poor's and Fitch) to monitor the credit quality of all guarantors and credit counterparties. The Risk Management department monitors credit limits on a daily basis. Concentration risk and counterparty credit quality status are reported to the Management Team on a monthly basis.

### 5.1.3 Capital requirements for credit risk

Under Pillar 1 Eksportfinans uses the standardised method to calculate capital for credit risk. The regulatory risk weights used for the portfolio are considered relatively conservative by the company. A high proportion of the total loans are guaranteed by highly creditworthy banks; credit risk is therefore assumed to be limited.

Based on the information above, the company's Pillar 1 calculation should provide robustness against actual credit risk also in an adverse scenario.

### 5.1.4 Counterparty risk for derivatives

The company's credit exposure related to counterparties to derivative agreements is governed by master agreements developed by ISDA (International Swaps and Derivatives Association). The exposure is mitigated by collateral annexes to the ISDA Master Agreements. As of December 31, 2015 the company has daily valuation of collateral with practically all of its counterparties, which cover nearly all of the company's derivative contracts. These collateral agreements enable Eksportfinans to call for cash collateral if the derivative exposure exceeds set limits.

The table below shows the exposure and risk-weighted assets for counterparty risk of the derivative portfolio as of December 31, 2015. The nominal amount is defined as the contract size (notional) and the financial instruments represent the market value (MTM) of the derivative portfolio. On a portfolio level, there is a positive net amount of financial instruments after netting due to differences in MTM between Eksportfinans and the counterparties, including posted threshold and independent amounts to the counterparties as a result of the company's rating.

NOK million	Nominal amount	Financial instruments (MTM)	Financial collateral	Net financial instruments on balance	Exposure at default (EAD) - discounted	RWA for CVA
Derivative portfolio as of Dec 31, 2015	117.961	707	510	1.217	1.654	1.558

The company has adopted the standard approach in the calculation of CVA (Credit Valuation Adjustment) risk. In the table above, the CVA risk of the counterparties has been aggregated on a total portfolio level. The risk-weighted asset (RWA) for CVA is the basis for how much capital the company needs to set aside to account for potential mark-to-market losses on the derivatives.

## 5.2 Market risk

Market risk is the risk of loss due to an adverse move in the market value of an asset, a liability or a derivative contract. For Eksportfinans the market value of the net positions will primarily depend on general interest rates, specific interest rates (credit spreads) and foreign exchange rates. A potential loss of derivative contracts could also increase Eksportfinans' market risk.

### 5.2.1 Management and monitoring

The company applies various hedging strategies to manage interest rate risk, currency risk and other market-related risks in alignment with the company's limits.

Credit spread sensitivity is calculated per business area and reported monthly to the Management Team and The Board of Directors.

Eksportfinans has quantitative measures in order to monitor the company's exposure to market risks. These include:

- Risk Limits for currency exposure.
- Limits for interest rate risk.
- "Stop loss" limits per security for the liquidity portfolio. If these "stop loss" limits are exceeded, the investment committee will meet and recommend further action.
- The limits for credit spread sensitivity.

The PHA portfolio is guaranteed against all market risk through the Portfolio Hedge Agreement with the owner banks (see annual report for a more detailed description of the PHA portfolio).

The company's system for management and control of market risk is regularly evaluated by internal and independent external control functions. The external controls are most often performed by the company's auditor.

### 5.2.2 Capital requirement for market risk

The company uses the standardised method for the calculation of minimum capital requirements. Additional capital requirements are considered for credit spread risk, currency risk and interest rate risk. This add-on assessment and calculation has also been tested against the adverse three year scenario. The negative scenario may

result in additional capital for credit spread, currency, and basis risk to cover market risk under Pillar 2.

## **5.3 Operational risk**

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes or systems, human error or external events in all of the company's business areas.

### **5.3.1 Management and monitoring**

Operational risk is inherent in all activities performed by Eksportfinans. Prudent management of operational risk is critical to maintain a low overall risk level. Historically, the losses due to operational risk in Eksportfinans have been low.

Operational risks are reduced through increased focus on regulations concerning the use of information and communication technology (ICT Regulations), procedure manuals, training programs, ethical guidelines and a separate compliance function. The company's framework for managing and controlling operational risk is the responsibility of the Risk Management team.

The company is also audited and receives reporting from external parties such as external auditors, internal auditors, regulators and rating agencies. The Management Team will annually review the company's major risks in a risk workshop facilitated by the internal auditor.

Eksportfinans has various contingency plans that will take effect in the case of unexpected events.

### **5.3.2 Capital requirement for operational risk**

Eksportfinans utilises the basic indicator approach for calculating capital to cover operational risk under Pillar 1. Eksportfinans considers to allocate additional capital for operational risk based on the Pillar 2 assessments.

## **5.4 Business risk and strategic risk**

Business and strategic risk are defined as the risk arising from wrong strategic decisions, loss of reputation, reduced rating, or limitation of the company's business opportunities. Lower overall margins, the need for an unfavorable sale of assets or early termination of contracts could have a negative impact on financial results.

### **5.4.1 Management and monitoring**

Eksportfinans' current strategy is to actively manage the existing portfolio of loans, securities and other assets, liabilities and other commitments. In addition, other main objectives are to service borrowers and investors and to secure the necessary expertise for the organisation in the best interest of the company and its stakeholders.

## 5.4.2 Capital requirement for business- and strategic risk

Business and strategic risk is not a risk category in Pillar 1. The company considers to allocate additional capital to be able to cover possible loss due to business- and strategic risk in the Pillar 2 assessments.

## 5.5 Liquidity risk

Liquidity risk is defined as the ability of the company to meet all debt obligations.

### 5.5.1 Management and monitoring

Eksportfinans' main focus is to ensure sufficient funds to meet future payment obligations when they become due. Since Eksportfinans currently does not issue new debt, the liquidity portfolio has been the main instrument for securing liquidity. The liquidity portfolio consists of short maturity, very liquid and highly rated securities. The company manages liquidity risk both through matching maturities for assets and liabilities and through stress testing. However, after benchmark debt repayment in May 2016, the liquidity reserve portfolio will be substantially reduced.

Different stress tests and scenario analyses are conducted regularly to ensure sufficient funds even under stressed conditions. The company manages liquidity risk against defined limits and has contingency plans if given limits are exceeded.

Eksportfinans has the following available liquidity buffers:

- A liquidity portfolio with highly rated instruments with short maturities.
- Repurchase agreements
- Committed credit line in the amount of USD 1 billion with three of the owner banks

### 5.5.2 New liquidity regulations

In the CRD IV two new liquidity requirements have been introduced; Liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). LCR requires liquidity buffers under stressed conditions over a short term period. NSFR requires an amount of stable funding to finance loan and investments.

Eksportfinans reports LCR monthly and NSFR on a quarterly basis to the FSA.

Eksportfinans meets the proposed minimum requirements on both LCR and NSFR. The requirement for LCR is effective from June 30, 2016. Minimum requirement for NSFR will be implemented in 2018.

### **5.5.3 Capital requirement for liquidity risk**

Eksportfinans allocates no capital for liquidity risk. The company focuses on conservative and professional liquidity management. Stressed scenarios are implemented in Asset and Liability analyses. The results from scenarios indicate that the company has the ability to meet its obligations even under severe stress.