BASEL II Pillar III – 2010
Disclosure of key risk information

EKSPORT FINANS
NORWAY

1 April 2011

Contents

Introduction:

The Basel II regulations consist of three parts, each focusing on a different aspect of bank regulation.

- Pillar I provides guidelines for how to calculate the minimum capital requirements.

- Pillar II requires an overall assessment of an enterprise's need for capital through an internal capital assessment process which should also cover any risks that have not been taken into account when calculating the minimum requirement according to Pillar I.

- Pillar III complements the first two pillars by demanding that a number of capital and risk assessments be published in order to improve market discipline.

The purpose of this document is to provide information on risk types, risk management and capital adequacy as described in Pillar III in the capital adequacy regulations of Basel II. The complete information is published annually in the form of this document. This report has not been revised by our company's external auditor since this is not required by the regulations. However, the figures used in the annual closing of the accounts have been revised in connection with the annual reports.

The information requirements contained in Pillar III include a description of the capital requirements of Eksportfinans ("the Company"), calculated using the applied methods for market risk, credit risk and operational risk (Pillar I) as well as information on internal processes for assessing the Company's total capital requirements (Pillar II).

Through the ICAAP process, the capital target has been set at 10%, an increase from last year's target which was "around 9%". To reduce the risk of achieving less than the target for core capital, the Company will also have a buffer in relation to the 10% level.

The capital needs and capital targets have been set on the basis of a combination of Pillar I and Pillar II requirements: Eksportfinans has calculated the minimum capital under Pillar I and then added the expected necessary additional capital for being sufficiently equipped based on our own assessments (Pillar II). Eksportfinans uses the standard method for calculating capital requirements for market risk and credit risk and the basis method for operational risk.

We have in our analyses used our internal long-term model for expected developments in income and profit and loss, and have looked at expected financial volumes according to our current financial plan. The expected net results and capital adequacy figures have then been adjusted with our assessment of a negative development caused by negative market-related, credit-related, operational and business-related events, based on the expected future exposure and current contingency plans. For the time horizon we are looking at, the four risk categories mentioned above will in our opinion be the most important ones.

1 OVERALL RISK STRATEGY AND TARGETS

In general about the overall risk strategy

The overall risk strategy determines and manages the Company's risk profile and financial target figures and is meant to describe the Company's total risk-willingness.

Overall risk strategy for Eksportfinans

Eksportfinans has the following key principles for risk and capital management:

- The management has the overall supervision of the Company's total risk and capital management. The Board of Directors monitors the risk and capital profile on a regular basis and reviews the guidelines on an annual basis.

- Eksportfinans manages the risks in relation to the markets, credit, operations, business and reputation as well as capital allocation on a hollistic basis. This is also true for complex products, which is normally managed with a focus on liquidity risk, since its duration may be uncertain.

- Our legal department, our risk management department and our financial section are closely linked to the business areas, yet independent.

- The Company's objective is to maintain a high credit rating from both Moody's Global Investors and Standard & Poor's.

The risk management in Eksportfinans is to support the Company's strategic development and goal achievement. Eksportfinans' risk profile shall be low.

Our risk management and capital strategy must contribute to:

- Ensure the Company competitive terms in the borrowing markets in order for the Company to provide competitive lending terms.

- Ensure the Company's ability to provide competitive rates of return for shareholders and other stakeholders.

- Maintain a strong capital base in order to support the development in the Company, including making use of opportunities to grow.

To achieve this, the core capital adequacy target has been set at minimum 10%.

MANAGEMENT AND CONTROL OF RISK IN EKSPORTFINANS

Purpose

The overall goal of Eksportfinans is to:

- Offer our customers the best lending terms
- Create values for our owners

The management of risk and capital in Eksportfinans is to support the Company's strategic development and goals and also to ensure financial stability.

The overall risk management determines principles for how Eksportfinans is to manage, report, monitor and control both its total risk and the risk in each activity area. This overall management should help ensure that the Company achieves its overall goals.

Organisation, roles and responsibilities

The Board of Directors, the Audit Committee, Control Committee, the management and the operative units share the responsibility of implementing risk management and control.

The Board of Directors

The Board of Directors is responsible for the external reporting of accounts and risk information, and for the external reporting pursuant to the Capital Requirement Regulations (fulfilled through this document).

It is the Board's responsibility to ensure that the funds handled by Eksportfinans are managed in a secure and appropriate manner. The Board must receive periodic and sufficient information from the CEO and the internal auditor to maintain and follow up:

- Its duty to stay informed concerning the financial position of the Company, and to ensure that its activity, accounts and asset management are subject to satisfactory control

- That the management ensures an appropriate and effective risk management process in compliance with laws, regulations, statutes and principles described in the Board's guidelines for overall risk management

- The Company's risk status and risk development in relation to the determined framework, risk-strategic target figures and business strategy

- That Eksportfinans has sufficient capital in view of its underlying risks and plans for future growth

Audit Committee

The Audit Committee is a subcommittee under the Board with the purpose of strengthening the Board's work of handling the control tasks. The Committee's responsibilities include the monitoring of internal control systems, risk management systems and internal audits.

Control committee
The Control Committee is to supervise the Board's work. This includes making sure the activities are run in accordance with laws and regulations. The Control Committee's tasks have been stipulated in instructions pursuant to the Financial Institutions Act, Section 3-11.

ALM group (Asset/Liability Management group)

The ALM group consists of members from Capital Markets, the Lending department, Risk Management and the Finance department, and they discuss the Company's liquidity in light of market conditions and the funds expected to be paid into and disbursed by the Company. The ALM group proposes liquidity measures to the ALM Committee.

Asset/Liability Committee (ALCO)

The Company's ALM Committee consists of the members of the Group Management. This group makes the decisions regarding the management of assets and liabilities, based on proposals from the ALM group.

Investment Committee

The Investment Committee in Eksportfinans has members from Capital Markets, Finance and Risk Management, and its mandate is to follow up development and strategy for our liquidity reserve portfolio within the framework determined by the Board.

Credit Committee

Eksportfinans has a credit committee that meets when there is a need. The credit committee is a decision-making body when credit cases need to be decided that are not covered by administrative authorisations.

The President and CEO must

- Maintain and follow up:
    - The Company's risk status and risk development in relation to the determined risk-strategic target figures and business strategy.
    - That prudent risk management has been established according to guidelines laid down by the Board.
    - That the risk management is being documented, implemented and monitored in a prudent manner.
    - That the Board's reporting duty complies with laws, regulations, statutes and principles described in the Board's guidelines for overall risk management (this document).
- Every year review significant risk types and risk-adjusted capital needs that cover the overall risk.
- Prepare an overall assessment of the risk situation which must be submitted to the Board for consideration. The Board may determine, insofar as it is in line with the

Internal Control Regulations, that the reporting of significant risks is covered by the ICAAP report.

- o Follow up that an independent party once a year provides a status report on the quality of the established internal control. This independent report must be submitted to the Board.

- o When changes are made, or new products and routines of significant importance are established, ensure that the risk assessment, internal control and documentation are in place before the activity is started. The Board must be informed of major changes in the Company's quality assurance work.

- o Meet with the Group Management regularly and discuss matters of fundamental importance for the Company, including decisions that will involve several activity areas.

Managers of the activity areas

- o Conduct risk management in our business operations in accordance with the set guidelines
- o Approve credit lines within the given limits
- o Monitor our commitments
- o Implement controls
- o Report on controls implemented, weaknesses and risk assessments pursuant to the Internal Control Regulations
- o Report on loss events.

The Risk Management Department

- o The Risk Management Department monitors risk management in the Company through regular monitoring of market and credit risk in relation to the set framework. This department is also responsible for the method and calculation of official fair values that are used in the accounts as well as the responsibility for use of models and model data for balance sheet and liquidity management.

- o The Risk Management Department prepares periodic information in order to maintain and follow up:

  - That relevant risk management systems have been implemented and function and are followed up and documented in accordance with applicable laws, regulations, strategy/guidelines and routines.

  - That the risk management process is satisfactory and efficient pursuant to the guidelines stipulated by the Board and that the guidelines pursue best practice.

  - That the Company's risk status and development are in line with the set risk-strategic target figures and business strategy.

  - Compliance and regulatory risk requirements

Forum for approval of new products, instruments, structures
This is an ad hoc forum which convenes when new products, instruments and structures are going to be approved. The routine for approval of new products provides a more detailed account of when the group should meet. The implementation of a new calculation system for

price and risk calculations was completed in 2010. The system calculates, among other things, the fair values and expected maturity for the structured borrowing portfolio of Eksportfinans, and internal guidelines have been introduced to ensure satisfactory treatment of all the structures that have been or will be issued.

Staff members

- Must have sufficient knowledge about the risk management process, routines, instructions, authorisations and risk models associated with their own area of responsibility.
- Must have sufficient competence within their own area of responsibility to implement adequate internal control, and to consider improvement measures in this regard on their own initiative.
- Are responsible for reporting major breaches in the risk management process upwards in the organisation.

Internal audit

- The internal auditor reports the results of project reviews in line with the set audit plan to the Board, the Company Management and the Risk Management Department at least once a year.
- Provides unbiased advice to the Board and the Management concerning the Company's risk management, preparation of and compliance with controls, as well as compliance with established routines, procedures and guidelines.
- Must have adequate competence and experience, as well as the necessary methodology and tools to be able to assess whether all areas that constitute a major risk for the Company have been covered.

Risk management

Eksportfinans' extensive lending, borrowing and investment activities in many different markets require the Company to identify, aggregate and manage total risk in a sensible manner. The Company manages the risk by means of various frameworks, organisational division, delegation, calculation/reporting and monitoring.

The risk management process in Eksportfinans is based on the following elements:

- Control environment
- Risk identification
- Risk analysis
- Guidelines and routines
- Risk strategy
- Control measures
- Reporting
- Monitoring and follow-up

Within each element there is a set of principles which provides the framework for risk management. These elements are described in more detail in the following chapters.

Control environment

The control environment includes the way the Company is organised, the management guidelines, management style and the integrity of the staff. Eksportfinans emphasises the following principles:

- Basic values / ethical guidelines:
  The Company's ethical guidelines and values underpin the Company's strategy these are to be communicated throughout the organisation.

- Corporate social responsibility:
  Eksportfinans' policy for social responsibility consists of guidelines for ethics, whistle-blowing, corruption and the environment. In the course of 2010 the Company also endorsed a set of voluntary guidelines concerning environmental and social issues in project financing, (the Equator Principles[1]), and introduced guidelines for environmental and social issues for Company loans. Eksportfinans is to have a proactive approach to social responsibility in the running of the Company and in all business activity.

- Control and management structure:
  Control and management comprise all processes and control measures implemented by the management to secure efficient business management and implementation of Company strategies. The Company emphasises a control and management structure that promotes targeted management and independent control. Eksportfinans follows the Sarbanes Oxley framework for reporting of accounts, a policy that entails extensive use of routine descriptions and presentation of control evidence which enables the auditor to see what has been done. In-house forums have also been established to assess our product range, the asset/liability composition and to assess special credit issues, in addition to the external control systems.

Risk identification

The Board and Management have assessed Eksportfinans' risk picture in order to determine a framework for the desired risk exposure so that targeted risk management strategies may be chosen for managing the risk level in relation to the framework and target figures. The Company has frameworks for individual countries and for individual parties, mainly based on the credit assessments of FitchRatings, Moody's and S & P.

Risk identification is to cover all major risks faced by the Company and is performed at least once every year, or as otherwise indicated. We endeavour to perform the following processes on a frequent basis:

- Identify strategic risks as a part of ICAAP and the strategy process and incorporate these in the planning. Responsible: the Board and the Management.

- Identify major risks in the Company's processes through an annual internal control report and annual risk review with our internal auditor, with the area managers confirming the risk situation. Responsible: managers and process owners.

- When changes are made, or new products and routines of major importance are established associated with borrowing, lending or investments, a risk identification must

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[1] The Equator Principles are the finance industry's established framework for assessing and managing environmental and social risk issues in the financing of major, global projects. The principles were drawn up by private sector banks in 2003 and are based on the World Bank's environmental standard and the social guidelines of the International Finance Corporation (IFC).

be performed before the activity is permitted. Responsible: Forum for approval of new products, instruments and structures

- An ALM (assets/liability) committee meets every month to perform overall assessments of the balance between borrowing and future lending. This committee functions as an advisory committee for the Group Management.

- An investment committee follows up the development and strategy for the liquidity reserve portfolio within the framework determined by the Board.

Risk assessment

The continuous assessments of changes in the portfolio, regulations, time until guarantee agreements expire, etc. determine how the Company understands and manages the risks identified. Some of the consequences of this are:

- That all major risks must be quantified, based on recognised methods and procedures for how to measure risk, combined with one's own assessment.

- That sensitivity and stress tests must be conducted for different scenarios.

- It must be ensured that the implemented control and management measures are subject to qualified and structured assessment and documentation, and that these measures are adequately maintained by the Company.

- That risk profile targets are prepared for the key risk types in relation to risk tolerance based on current and expected future exposure.

- The expected and unexpected loss risk for investments in securities (realised and unrealised fluctuations) and credit exposures (expected and unexpected losses) must be calculated at least once a year in connection with ICAAP. The capital target has been raised from "around 9%" to at least 10% in the course of the year, through the ICAAP process.

- The manager of each business area must make sure the defined risk profiles are appropriate, updated and in line with the Company's risk strategy. Risk assessments with an identified risk profile, and proposals for an acceptable risk profile for risk types and risk areas, must be presented and approved in the Group Management before they are finally approved by the Board.

Guidelines, instructions and routines

The Board must evaluate the approved risk management guidelines every year.

The Board determines guidelines for:

- Overall risk management
- ICAAP at Eksportfinans
- Credit risk
- Liquidity risk
- Market risk, including
    - Interest rate risk
    - Foreign exchange risk
    - Credit spread risk (including basis swap risk)
- Operational risk

- The lending activity
- The funding activity

The following instructions and authorisations also apply:

- Regulations relating to instructions for control committees in financing enterprises
- Instructions for the Board of Eksportfinans ASA
- Instructions for the President and CEO
- Authorisation for the President and CEO
- Instructions for internal audit in Eksportfinans ASA

A number of routines have been prepared for each department. These are detailed descriptions that cover new borrowing, a lending handbook, uncovering market risk and approval of new products.

For staff that can commit the Company externally, for example by trading, the job descriptions contain clear authorisations that show over which products and within which framework each person may commit the Company. A matrix of authorisations provides managers and general staff with an easy overview.

Risk strategy

A risk strategy contains priorities and measures to ensure that Eksportfinans manages and follows up the risks in line with acceptable and approved risk profiles (framework and target figures), so that the overall risk exposure complies with the Company's overall risk profile.

In choosing a risk management strategy, the following principles must be applied. The risk management strategies must:

- reflect the Company's overall goals and strategies
- be an integrated part of the Company's ongoing activities
- match both the Company's risk tolerance and its cost budget

Control measures

Once the risk strategy has been chosen, the key management and control measures for given risks are chosen and incorporated into the management of the risk type in question.

The following principles apply:

- For all significant parts of the Company's activity areas there must be updated documentation in place that shows what control and management measures have been established, making reference to any instructions, authorisations and work descriptions.

- When changes are made or new products or routines of major importance are established, there must be documentation in place that shows what control and management measures have been established, making reference to any instructions, authorisations and work descriptions before the work is started.

Reporting

Every month a report is prepared and forwarded to the Board. This report provides information on financial key figures, profit/loss and balance sheet developments. It also provides an overview of activities in the lending areas, developments in the liquidity portfolio, and the funding situation.

In its monthly report to the Board, the Risk Management Department reports developments within credit risk, market risk and liquidity risk. Market risk is reported as credit spread sensitivity, interest rate risk and foreign exchange risk. Credit risk is reported as counter-party exposure per counter-party, country, region and security type, and is shown against set frameworks. Liquidity risk is reported in the form of a liquidity scenario with comments on the need for new funding or investment of surplus liquidity.

Eksportfinans' risk reporting is to ensure that all relevant departments in the organisation maintain an overview of risk exposure and any weaknesses in the risk management process. The reporting forms the basis for further follow-up and monitoring of the risk exposure and risk management process in the Company.

The Board receives reports concerning positions and trends in relation to all frameworks and target figures for risk that have been set by the Board. Risk reports are prepared by the Risk Department.

Internal control reporting

The President and CEO is responsible for attending to the requirements in the Internal Control Regulations regarding documentation and reporting.

Every year, a review is conducted of control measures within all the Company's areas of activity. This overview is based on a systematic analysis of risk elements associated with the ICT Regulations Sections 5, 7 and 11, and inherent risk elements in operations as well as Sarbanes-Oxley (SOX) controls. The analysis is based on a homogenous presentation in every part of the business. The control measures will be assessed and any improvement measures must be described.

Once a year, members of the Company's Group Management will conduct an overall risk assessment. Each risk element will be analyzed in terms of probability and consequence, and the strength of relevant control measures and the desired level of control. The results of the assessments will be presented together and will provide a foundation for prioritizing internal audit work. All managers must annually and on behalf of their own areas of responsibility provide confirmation of performance of the internal control. Any improvement measures will be remarked on separately.

A summary of the risk situation will be prepared by the President and CEO and submitted to the Board annually. The internal auditor also prepares an independent report on the risk picture for the Board. The Board approves the proposed annual internal audit plan.

Contingency plans

The ICAAP document defines a graded contingency plan for capital adequacy that specifies actions if the capital adequacy were to fall towards our need for capital.

BASEL II – CAPITAL ADEQUACY RULES

Introduction to the capital adequacy rules

The regulations for supervision and capital adequacy, Basel II, were introduced in Norway on 1 January 2007. These capital adequacy rules rest on three pillars.

- Pillar I is about minimum capital adequacy requirements.
- Pillar II is about the authorities' supervisory function, and the financial institutions' own capital assessment.
- Pillar III is about requirements for external risk reporting.

This document will cover the requirements regarding disclosure of financial information (Pillar III) in the capital adequacy rules, but Pillars I and II are described briefly below.

Pillar I – minimum capital requirements

Pillar I is about minimum requirements for capital adequacy. The minimum requirement for capital (core capital + additional capital) is 8% of the basis for the calculations.

Different methods have been developed for each risk type that the financial institution can choose from to calculate the capital requirement – see Table 1 below.

Table 1 *– Overview of different approaches*

CREDIT RISK	MARKET RISK	OPERATIONAL RISK
Standardised approach Basic IRB approach *) Advanced IRB approach*)	Standardised approach Internal measuring approaches*)	Basic indicator approach The template approach The AMA method*)

*) Requires approval by the Financial Supervisory Authority of Norway

Pillar II – assessment of the total capital requirement (ICAAP) and supervisory follow-up

Pillar II is based on two main principles: a) Financial institutions must have a process to assess their total capital in relation to the risk profile and b) Financial institutions must have a strategy for maintaining their capital levels. Under Pillar II all risk types to which the Company is exposed must be assessed, beyond those covered by Pillar I.

In addition, the supervisory authorities must review and evaluate the institutions' internal assessment of capital requirements and strategies, and monitor and secure compliance with the statutory capital adequacy requirements. The Financial Supervisory Authority of Norway has the authority to initiate measures if it is not satisfied with the result of this process.

Pillar III – disclosure of information

The purpose of Pillar III is to supplement the minimum requirements in Pillar I and the supervisory follow-up in Pillar II. Pillar III is to contribute to increased market discipline through the disclosure of information that allows the market, including analysts and investors, to assess the institution's risk profile and capitalization as well as management and control.

All institutions are required to disclose information about their organizational structure, risk management system and reporting channels, and how the risk management is structured and organized. There are also detailed requirements regarding disclosure of capital levels, capital structure and risk exposures, with the latter depending on the calculation approaches used by the financial institutions in Pillar I.

Eksportfinans will publish the report on the Internet.

Implementation of the capital adequacy rules at Eksportfinans

Eksportfinans has chosen the standardized approach for calculating credit risk and market risk. The Company has chosen the basic method for operational risk.

Capital assessments (ICAAP) are conducted at least once a year, and Eksportfinans' capital strategy will be based on an assessment of the risk level in the activity, supplemented by the effect of different stress scenarios.

Eksportfinans must meet the regulatory capital requirements at all times.

Accounting principles and measurements

A significant part of the Company's balance sheet is made up of financial instruments. The accounting principles applied to these assets and liabilities are therefore important in order to understand the accounts. From an accounting perspective, the financial instruments on Eksportfinans' balance sheet can be divided into three categories, based on how the values are set:

1. Financial assets and liabilities measured at fair value with a value change via the income statement.
2. Loans and receivables measured at amortized cost.
3. Other financial liabilities measured at amortized cost.

Financial assets and liabilities measured at fair value with value via the income statement

Financial assets and liabilities that are measured at fair value, with profit and loss over the income statement, consist of financial instruments that are either classified for trading purposes or which when measured for the first time are measured at fair value, with value changes via the income statement (the fair value option).

Financial instruments for trading purposes include securities classified for trade, as they were primarily acquired for sale in the short term. The portfolio includes derivatives used for risk management. Borrowing to finance the portfolio's investments has also been included in the trading portfolio.

Financial instruments, which at first calculation are earmarked as at fair value, with value changes via the income statement, consist of lending, liquidity placements, including securities and bank deposits, borrowing and cash deposits as security for swap agreements. The fair value option is used when this yields the most relevant information under the principles for measurements that are available for financial instruments.

Lending and receivables measured at amortised cost

Lending and receivables measured at amortized cost consist of lending and receivables as agreed with the authorities, based on Proposition to the Storting no. 108 (1977–78), referred to as “The 108 Scheme”, and loans to our former subsidiary Kommunekreditt Norge AS (now KLP Kreditt AS).

The 108 Scheme has been established to offer exporters of capital goods financing at terms that comply with the OECD's consensus agreement for export credits (CIRR financing). The agreement gives Eksportfinans coverage of interest rate and foreign exchange risk associated with lending, borrowing and liquidity under the scheme. The Company enters into derivative agreements on behalf of the 108 Scheme to reduce the market risk.

In connection with the sale of Kommunekreditt, an agreement was entered into for Eksportfinans to provide financing to its former subsidiary for a two-year period. This loan has been recorded in the accounts at amortized cost.

Other financial liabilities measured at amortised cost

Other financial liabilities measured at amortised cost consist of borrowing and other liabilities under the 108 Scheme.

Fair value and amortised cost

The Company measures a significant part of its financial instruments at fair value. Fair value is that amount, or the best available estimate of the amount, which it is expected that an asset may be sold for, or which a liability is settled for in cash in a transaction at arm's length between well-informed willing parties.
The fair value of listed securities is based on current selling prices, if possible. If there is no active market for financial assets (or unlisted securities), the Company will set the fair value through the use of different valuation methods. This includes the use of transactions that have recently taken place at arm's length, reference to other instruments that are largely comparable, discounting of the expected cash flow, and use of recognized valuation models that as far as possible use market data and, to the least extent possible, use unobservable data.

Lending, borrowing and liquidity under the 108 Scheme, and loans to KLP Kreditt, are measured at amortized cost, using the effective interest method. When disbursing a loan, the amortized cost will be equal to the value of the nominal amount, adjusted for any premiums or discounts on disbursement, direct costs or charges. Using the effective interest method, the internal rate of return will be calculated on the disbursement date. The internal rate of return will be set by discounting the expected cash flow over the expected term to maturity over the amortized cost upon disbursement.

Eksportfinans considers the risk of credit loss on the part of the loan portfolio that is valued at amortized cost to be insignificant, and consequently we have not Done any impairment adjustments.

Below is an overview of realised and unrealised profit/(loss) for 2010.

Table 2

Amount in NOK thousands	2010
Securities	(41 971)
Foreign currency	4 181
Other financial instruments at fair value	(11 385)
Net realized profit (loss)	(49 175)
Lending (1)	(89 018)
Securities (2)	(61 868)
Commercial paper liabilities (1,2,3)	1 225
Bond liabilities (1,2,3)	(392 753)
Subordinated loan capital and capital contribution securities	2 243
Foreign currency	4 698
Other financial instruments at fair value	1 678
Net unrealized profit (loss)	(533 795)
Financial derivates related to The 108 agreement (4)	(20 105)
NET REALIZED AND UNREALIZED PROFIT (LOSS)	(603 075)

1) Including financial derivates with the purpose of financial hedging
2) Accumulated net profit on our own liabilities is NOK 1.4 billion as at 31 December 2010
3) During 2010, Eksportfinans has had unrealised losses of NOK 390 million on our liabilities, including derivatives.
2) Derivatives related to components of the 108 agreement. The 108 agreement is recorded at the amortized cost, which is why these derivatives have not been included in the effects related to the financial instruments at fair value.

Internal audits

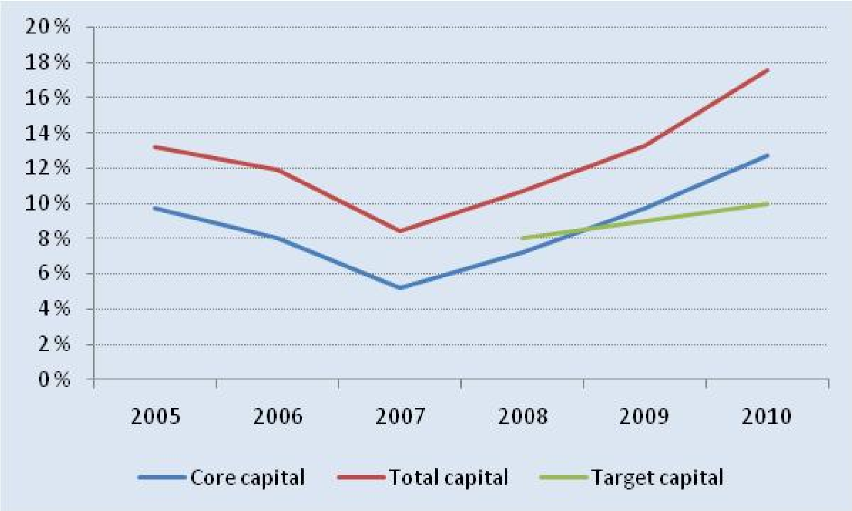
The Company's internal auditor must regularly, and at least once a year, review Eksportfinans' process for assessing capital needs in relation to the risk profile and strategy (the ICAAP process).

CALCULATION OF CAPITAL ADEQUACY – PILLAR I

Introduction

Figure 1 below shows developments in capital adequacy and core capital adequacy for the last few years. The figures have been calculated on the basis of the capital adequacy regulations that applied for the year in question. The capital target is only shown for those years where such a target has been calculated in the Company's ICAAP.

***Figure 1** – Capital adequacy and core capital adequacy 2005 – 2010*



(Blue line: core capital, red line: total capital, green line: capital target)

Equity and subordinated loan capital

The tables below contain information on equity and subordinated loan capital, including core capital and additional capital.

All tables are related to regulatory reporting and are based on the figures as at 31 December 2010.

***Table 3** – Specification of minimum requirements for subordinated loan capital (Pillar I)*

RISK FACTORS	CAPITAL REQUIREMENTS NOK mln
Credit risk	1 935
o Of which:	
o State	0
o Local and regional authorities	33
o Government-owned enterprises	0
o Multilateral development banks	0
o Institutions	1 591
o Enterprises	0
o Security for property	2
o Other engagements	16
o Securitisation	293
Market risk	418
Operational risk	206
Total minimum requirement for subordinated loan capital	**2 559**

***Table 4** - Capital composition*

CAPITAL COMPOSITION	In NOK mill	**In percent of subordinated capital**
Share capital	2 771	49%
Profit reserve	177	3%
Fund for unrealised currency profits	71	1%
Other equity	2 137	38%
Total equity	***5 156***	***91%***
Provisions for dividend	500	9%
Capital contribution securities	453	8%
Deductions*)	1 038	18%
Additions	6	0%
Total core capital	***4 077***	***72%***
Subordinated loan capital	1 519	27%
Capital contribution securities	0	
Deductions	0	
Additions	46	1%
Total additional capital	***1 565***	***28%***
TOTAL SUBORDINATED LOAN CAPITAL	***5 642***	***100%***

*) The deduction to the core capital includes unrealized profit due to reduced value of debt, as a result of the credit spread premium of the Eksportfinans bonds issued having increased. This profit is NOK 900 million after tax.

Capital management

The primary goal of the Company's capital management is to maintain a sound capital base, and to maintain the Company's high credit rating given by the international credit rating agencies and to comply with the externally imposed capital adequacy rules. This objective must provide the basis for the activities, and yield a return to the shareholders and benefits to other stakeholders.

Eksportfinans maintains a capital base to cover inherent risk in the activities. Eksportfinans' capital adequacy is monitored not least through the use of rules and target figures set by the Basel Committee for Banking Supervision ("BIS rules/ratios"), and approved by the Financial Supervisory Authority of Norway.

Because of the financial crisis, significant international work is currently being carried out to regulate financial institutions. The objective is to avoid this type of crisis in the future, and supervisory authorities in key countries agree that banks have too low capitalisation at present. The work of preparing specific provisions concerning capital and liquidity has come a long way in the course of 2010. The plan is that the new provisions will be implemented gradually during the period up to 2018. Some work is still remaining on the details of the new regulations and their implementation in each country.

Compared to the proposed capital levels, Eksportfinans and Norwegian institutions are in general fairly well capitalised. Eksportfinans might face a special challenge if a proposed “Leverage Ratio” of 3% should be introduced. In this area the Basel reports allow for a potential exemption for the Eksportfinans type of institutions, and no decision has been reached on this question yet.

The proposed liquidity requirements aim to make the banks’ access to liquidity more robust and less dependent on the central banks. In this area, too, some specification remains to be done. A conservative liquidity management is an important element in the risk management at Eksportfinans.

Effective from 1 January 2011, the Ministry of Finance has introduced new rules for how to calculate large exposures, based on a new EU directive. The consequence of this directive for Eksportfinans would have been that the ceiling for the largest engagement with today’s equity would have been reduced from around NOK 6.8 billion to around NOK 1.4 billion. Such a change might again have consequences for the role which Eksportfinans plays in relation to key segments of Norwegian industry. Eksportfinans has received an exemption from the Ministry of Finance until the end of 2011, and we have applied for adjustments that will create a better long-term foundation for our activities.

Subordinated loan capital and capital contribution securities

***Table 5** – Specification of subordinated loans*

SUBORDINATED LOANS	Principal NOK mln
JPY 15 billion Due in 2015 (3 months Libor + margin). Non-call.	1 079 280
USD 60 million Due in 2016 (3 months Libor + margin). May be called in 2011	351 384
USD 15 million Due in 2016 (3 months Libor + margin). May be called in 2011	87 846
TOTAL SUBORDINATED LOANS	***1 518 510***

***Table 6** – Specification of capital contribution security*

CAPITAL CONTRIBUTION SECURITY	Principal NOK mln
Loan taken up in February 2003 – GBP 50 million. (3 months LIBOR + margin). The loan is perpetual, but Eksportfinans may recall the loan quarterly from February 2013.	453
TOTAL CAPITAL CONTRIBUTION SECURITY	***453***

Capital adequacy

The table below shows the development of capital adequacy during the past three years.

***Table 7** – Capital adequacy 2008 – 2010*

	2010 NOK mln	2009 NOK mln	2008 NOK mln
Core capital	4 077	3 819	3 486
Additional capital	1 565	1 418	1 674
Total capital	5 642	5 237	5 160
Core capital in percent	12.7%	9.7%	7.2%
Total capital in percent	17.6%	13.3%	10.7%
Total risk-weighted assets (incl. ”off-balance” elements, operational risk and trading portfolio)	31 985	39 280	48 145
Total balance	***215 549***	***225 254***	***296 514***

Table 8 gives an overview of the Company’s assets as of 31 December 2010, and the assets that are secured with guarantees, so that credit loss only occurs if both the borrower and the guarantor breach their obligations.

Table 8 *– Specification of risk-weighted balance sheet as of 31 December 2010*

Type of Assets	Book value	Weight	Book value	Weighted value	Double default	Comments
Loans	123 706	0 %	40 577	0	37 188	Guarantees from GIEK
					3 389	Guarantees from other Government
		20 %	68 023	13 605	55 154	Guarantees from banks
		20 %	12 882	2 576		Loans to KLP Kreditt AS
		20 %	2 052	410		Direct to or guarantees from municipalities
		35 %	52	18		
		100 %	120	120		
Securities	67 921	0 %	649	0		Banking portfolio
		20 %	18 282	3 656		Banking portfolio
			49 244	5 228		Trading portfolio
Financial derivatives and Cash Collaterals	18 356			2 344		
Other	5 567			1 090		Of which 4bln are deposits
Off-balance transactions				358		
Operational risk				2 577		
Currency risk				0		
TOTAL	**215 549**			**31 985**		
Total risk-weighted Assets / Total Assets				14,8 %		

ASSESSMENT OF CAPITAL REQUREMENTS – PILLAR II

A summary

Under Pillar II, Eksportfinans calculates financial capital for all significant types of risk which the Company incurs through its activity by means of a three-stage procedure:

- first, the minimum requirement is calculated using Eksportfinans’ chosen methods for calculation of the Pillar I requirements
- then capital for Pillar II is calculated by assessing the different types of risk which the Company is exposed to, what losses or earning effects might arise based on these, and how much capital this might draw
- finally, it is assessed whether the Pillar I addition is sufficient to cover the risk, or whether the Pillar II calculation has uncovered a need for additional provisions corresponding to some or all of the Pillar II calculation.

The financial capital is to cover major unexpected losses that might occur, and the capital must therefore ensure that Eksportfinans has the necessary solidity even in the face of major unexpected losses. Eksportfinans assesses its capital requirements through scenarios for unfavourable market developments. The capital mark-up for Pillar II is mainly assessed through analysis of risks in the form of market events, credit events and other events that might affect the Company’s income and capital base, and which are considered not unlikely to hit the Company.
Eksportfinans calculates risk-adjusted capital for the following risk categories: credit risk, market risk, operational risk and business risk. Risk-adjusted capital is calculated separately for each risk category.

In the calculations of additional capital under Pillar II, focus is on an adverse three year scenario. A core capital target of at least 10% is calculated. In addition the Company sets forth to have an extra buffer on top.

For each of the following five risk types, the Company has assessed the effect of a three-year adverse scenario on our income statement and capital adequacy, and the sum total of these effects have been included in the overall assessment of Eksportfinans’ capital target.

Market risk

Management and control

Eksportfinans aims to manage and reduce the market risk through interest rate and currency swap agreements for all borrowing, and through frameworks for interest risk and foreign exchange risk. The Company also has frameworks for credit spread risk in the liquidity reserve portfolio.

The sensitivity of the account results to credit spread changes is calculated per area of activity, and reported to the Group Management and Board on a monthly basis.

In addition to using market information for trading, quantitative targets are also used to control Eksportfinans' exposure to market risk. This includes:

- Risk limits for currency risk per currency and in total. Upper limits have been set for net exposure in foreign currencies. It these limits are breached, the Company will have to exchange some currency to Norwegian kroner to reduce the currency risk.

- Correspondingly, an upper risk limit has been set for interest rate risk up to one year per basic point of change in international interest rate levels. If the limits are breached, adjustments must be considered, and in principle interest rate exposure is to be derisked to be within limits.

- For the liquidity reserve portfolio, a limit has been set for the sensitivity of credit spread changes. A stop loss limit has also been set in relation to the portfolio's market value. If the decline in market value (during the last month or in total since the portfolio was established) breaches this limit, the securities must be replaced with securities of higher liquidity and/or lower spread duration until the end of the year and for a minimum of three months.

- The limits for interest rate, currency and credit spread sensitivity reflect the Company's tolerance for market risk.

- The PHA portfolio has been hedged against all market risk, spread exit and currency risk, in the portfolio hedging agreement with the owner banks, (see Eksportfinans' annual report for a further description of the PHA portfolio).

The Company's system for management and control of market risk will be regularly evaluated by internal and independent control functions. In Eksportfinans' case, the external control will be performed by the Company's internal auditor.

Credit risk

Eksportfinans is mainly exposed to credit risk through loans to the export industry, but the Company also carries credit risk for the issuer of liquidity papers in which the Company has invested, and to counter-parties in swap agreements. The Company makes high demands on a borrower's credit quality (direct loans) and on the guarantor to maintain the Company's conservative risk profile.

Credit risk is calculated exclusively through the Basel II Standard method in Pillar I. Eksportfinans is exposed vis-à-vis financial institutions through direct exposure, guarantee exposure and liquidity reserve exposure.

The Company also incurs credit exposure vis-à-vis counter-parties in derivatives agreements. These are uncovered by means of ISDA-regulated agreements on the swapping of security, so-called Credit Support Annex / CSA agreements. Eksportfinans uses cash only as security in our CSA agreements.

Management and control

Eksportfinans determines a framework based on credit assessments from the three leading rating agencies. For banks with no credit rating from these agencies, DnB NOR, Danske Bank and Nordea's own rating systems are used.

Credit risk is controlled through close follow-up of the credit exposure on our counter-parties and by monitoring the framework. Daily exposure lists are prepared, so that any breaches of the limits are identified rapidly and measures can be implemented. The

Company measures and manages its own concentration risk and its counterparties' credit quality, and reports status and development to the Group Management and the Board every month.

Portfolio information

As will be seen from the table below, our Company's portfolio is of a high credit quality. The average rating for those engagements that have an international rating, is AA-.

Table 9 *– The Company's aggregated exposure per rating category as of 31 December 2010*

(NOK mill)	Loans			Liquidity management			Loans to KLP Kreditt	Total
Rating group	Direct	Guaranteed	Total	Liq reserve pf	PHA pf	Tot liq placements	Muni loan as pledge	
AAA	1.937	40.735	42.672	11.627	13.501	25.128	12.882	**80.682**
AA+/AA/AA-		10.556	10.556	2.505	5.284	7.789		**18.344**
A+/A/A-	5.363	42.880	48.243	14.804	11.116	25.920		**74.164**
BBB+/BBB/BBB-	939	732	1.670	227	2.427	2.655		**4.325**
BB+/BB/BB-		7	7		397	397		**403**
B+/B/B-			0		417	417		**417**
CCC+/CCC/CCC-			0		57	57		**57**
No Fitch, Moody, S&P rating	6.656	822	7.478	1.809	2.574	4.382		**11.860**
Total	***14.895***	***95.731***	***110.626***	***30.972***	***35.772***	***66.744***	***12.882***	***190.252***

Most of the Eksportfinans lending portfolio has been guaranteed for, either by GIEK (the Norwegian Guarantee Institute for Export Credits) or by banks (se Table 9). The annual payments from the guarantors are an expression of defaults in the lending portfolio for export lending. Since 1998, annual payments from the bank guarantors and GIEK have amounted to less than 0.2% of the guaranteed lending portfolio.

Capital needs for the credit risk in Eksportfinans

Eksportfinans uses the standard method for calculation of capital for credit risk under Pillar I. The Company considers the regulatory risk-weights used for the portfolio in this method to be fairly conservative. In practice, Eksportfinans takes little credit risk due to the high proportion of lending guaranteed by highly credit-worthy counter-party banks (double security).
In the Company's view, the total Pillar I calculation provides a good robustness against the actual credit risk, even in the case of a downturn scenario. For this reason, no further capital beyond Pillar I is allocated for credit risk.

Operational risk

Management and control

The Company conducts many large and to some extent complex transactions. Good handling of the operational risk is crucial to maintain a low total risk level. Losses that are due to operational risk have historically been low at Eksportfinans.

During the past 10 years, there has only been one case (in 2002) of a significant operational error regarding transfers that led to Eksportfinans suffering a loss. The loss was due to an error in notifying the counter-party when cancelling a swap. However, procedures were subsequently changed to prevent the same or similar situations from arising again. The ensuing loss amounted to some NOK 30 million (EUR 3.6 million).

In 2008, a provision was made for bad debts held by a former Icelandic bank, which was an agent bank for loans provided by Eksportfinans. The principal amounts to around NOK 440 million, while the losses recorded in the Eksportfinans IFRS accounts will be adjusted for the market's expected rate of recovery for the claim on the bank. The recorded unrealised loss at the end of 2010 was NOK 349 million. This is an unusual event, on the borderline between operational risk and credit risk. The syndicate share is credit risk, while the rest is a combination of credit risk and operational risk. It is credit risk because the (still unrealised) losses finally occurred because the agent bank went into compulsory liquidation, but it is also operational risk since it was not discovered that the agent bank retained the loan amount which the borrower had already paid in. Eksportfinans has asserted that its claim on the bank is a prioritised claim pursuant to Icelandic law, but if the bank's estate in bankruptcy does not agree, the case will be referred to the Icelandic courts.

The Company complies with the American Sarbanes-Oxley Act, which specifies a number of requirements regarding reporting format, procedure descriptions, password protection, version management, training, assessment of reasonability, etc. to reduce user risk and model risk associated with the value calculations in the accounts.

To reduce the documentation risk associated with loan agreements and guarantees, Eksportfinans uses standardized documentation that has been tested over a long period of time and checked against practice in the market. Norwegian law and dispute forums in Norway apply to the documents. When the borrower is foreign, confirmation will be obtained from a legally competent source that the Receivables and any guarantees are validly and irrevocably established in accordance with local regulation.

Business /strategic risk

Management and control

Eksportfinans has prepared a strategy plan for the period 2010-2012, following the sale of our subsidiary Kommunekreditt to KLP in 2009. The Company will continue its lending policy of working with the export industries, but has expanded its field of operation to also include long-term lending to the sectors of renewable energy, the natural environment and infrastructure. Lending will still be secured against a guarantee from GIEK and/or banks. There is a new policy for the Company's liquidity reserve, which will consist of securities of a fairly short term, with the primary goal of ensuring a good liquidity in case access to new borrowing might be limited at times. We make sure our borrowing is diversified, both in terms of geography and products. The Company's annual targets are specified in balanced score cards. Each area manager must ensure that the score cards for his/her area support the Company's paramount score card. Partial achievements are considered throughout the year, and deviations are addressed.

The Company has guidelines for corporate social responsibility which include ethics, responsibility for the environment and corruption. Preparedness plans are in place for unforeseen events in various areas. And HR strategy has also been established.

An ALM committee (Asset/liability) has been established as well as an investment committee for the liquidity reserve, consisting of leaders from across the Company. Both committees report to the Group Management regularly. The Group Management has regular weekly meetings where strategic and operational topics are considered.

Capital needs for business and strategic risk

Capital is not calculated for business and strategic risks under Pillar I. The business risk outcome which Pillar II allows additional capital provisions for, is considered to be mostly increased financing costs. These may be the result of a liquidity crisis in the market, a down-grading of the Company, a serious loss of reputation, other strategic mistakes that destroy the Company's access to reasonable revolving funding, or that the market for other reasons demands a higher interest for lending to the Company than what was assumed in the financial plan.

Liquidity risk

Management and control

Some of the loans to Eksportfinans have uncertain maturity, due to call options and trigger options. In addition, the lending and investments may generally be terminated ahead of time. The Company monitors liquidity risk against a defined framework and has preparedness plans that come into force if the framework is exceeded. The most important framework that limits liquidity risk is a 12-month stress test, in which the objective is to carry out all disbursements for up to 12 months while all funding markets are closed. This stress test is performed every month, and must be positive when including the CCompany's repurchase agreement for bonds in the PHA and liquidity reserve portfolios. Eksportfinans has since October 2008 passed the stress test comfortably.

For the balance sheet's liquidity risk that is connected with the uncertainty in the maturity profile, Eksportfinans has access to the following liquidity buffers:

- A short-term liquidity reserve portfolio where maturity is adapted to the maturity on the liabilities side when the liquidity securities are purchased.
- A borrowing programme of USD 6 billion, both in USCP and ECP.
- Committed credit lines amounting to USD 3 billion with three of our owner banks plus one US bank.

Pillar III summary/assesment

An overall assessment of all significant risk types that affect our activity at present, adversely stressed over a three year horizon, gives an outcome that still enables us to have the desired capital adequacy for the next three year

Eksportfinans

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