Eksportfinans

Pillar III Report 2011

Contents

1. INTRODUCTION

1.1 Background

On November 18, 2011, the Norwegian government announced assuming responsibility for the government supported export financing scheme managed by Eksportfinans since 1978

As the Company's business model was based on this scheme, the decision had a detrimental impact on the Company. Outstanding debt was downgraded by Moody's and S & P to Ba1 and BB- respectively. The rating from Moody's is on "review for further downgrade", and the rating from S & P is on "negative outlook".

The government's decision made Eksportfinans postphone its ICAAP filing until May 2012. In its ICAAP filed to Finanstilsynet the Company did conservative calculations and assessment indicating that the Company is well capitalized both relative to the risk based capital requirement and large exposure regulations.

Total assets will decrease in the years ahead and Eksportfinans currently plans no new loans and has since the government's decision had no need for any new funding. Eksportfinans will manage the scheme until a permanent solution is to be in place by the government by July 1st. In parallel, Eksportfinans will continue its other business. The Company's current situation and the Norwegian government's decision to take over the 108 scheme is further outlined in Eksportfinans annual report and 20F filing.

1.2 Overview of risk- and capital management in Eksportfinans

Eksportfinans actively takes and manages risk in connection with its business and as such the following risk principles underpin the Company's risk management:

- The Board frequently oversees the risk and capital profile and revises risk guidelines annually. The managing directors have the day to day responsibility for the overall risk and capital management of the Company.

- Eksportfinans manages market-, credit-, operational-, business-, liquidity-, strategic- and reputation risk as well as capital on a holistic basis.

- The risk management function, the legal function and the economics department are closely aligned with the business units, yet independent.

- The Company's rating objective is short term to stabilize today's rating and mid-long term to re-obtain a long term foreign currency investment grade rating from Moody's Investors Service and Standard & Poor's.

Risk management is to support the strategic development of the company and ensure the Company adheres to all external guidelines and regulations. Eksportfinans' risk profile shall be conservative. In order to achieve this, the Company has estimated a required risk based capital of NOK 3.4 billion. In addition the company capitalizes another NOK 2.2 billion to meet EU regulations regarding large exposures. The Company will support the risk based capital requirement with core capital, while the large exposure NOK 2.2 billion capital add-on may also be covered by total capital.

1.3 Structure of the Pillar 3 disclosure

The Pillar III report contain information about risk, risk management and capital adequacy in accordance with the capital adequacy regulation, Basel II. The information requirements of Pillar III include a description of the Company's capital requirements based on the applied methods for market risk, credit risk and operational risk (Pillar I) as well as information on internal processes regarding the Company's own assessment of capital (Pillar II).

The Pillar I minimum capital may be calculated using the different methods shown in table 1.

***Tablel 1** – Pillar I capital calculation methods*

Credit Risk	MARKET RISK	OPERATIONAL RISK
Standard method	Standard method	Basic indicator approach
Foundation IRB-method*)	Internal methods*)	Standardized approach
Advanced IRB-method*)		AMA method*) **)

*)Needs special approval from financial authoroties, **) AMA=advanced measurement approach

Eksportfinans calculates minimum capital under Pillar I using the standard methods for credit risk and market risk and the basic indicator approach for operational risk.

In our own risk assessment under Pillar II we have used our current financial projections for interest income and net results. Expected financial results were then adjusted in accordance to qualified assessments of impacts from an adverse scenario for market-, credit-, operational and business / strategic risk. These risk categories are the significant ones for the Company.

This Pillar III report is structured as follows:

- Chapter 2 (Risk- and capital management) describes Eksportfinans' overall risk- and capital management procedures. The chapter also shows how the Company formulates its capital requirement, capital objective and actual capitalization.

- Chapter 3 (Capital and capital adequacy) provides information on terms and conditions that apply to the items included in Eksportfinans capital base. The chapter also gives a capital adequacy analysis as well as information on compliance to large exposure regulations. Finally the chapter also discusses impact on capital from new regulation on "leverage ratio" and OTC derivatives clearing.

- Chapter 4 (ICAAP and Economic capital) describes Eksportfinans' internal capital adequacy assessment process and the methods that apply to the items included in Eksportfinans capital base.

- Chapter 5 (own assessment of capital requirements) contains information on how Eksportfinans identifies and analyzes 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 AND CAPITAL MANAGEMENT

2.1 Objective

Risk and capital management in Eksportfinans is to support the strategic development and objectives and ensure financial stability.

- Overall risk management contains principles for managing, monitoring, controlling and reporting both total risk and risk per business unit. This overall management is to secure that the company fulfills its main objectives.

2.2 Organisational setup, roles and responsibilities

Risk management and control is conducted by the Board, The Board's Audit Committee, The Internal Control Committee, The Group of Managing Directors as well as operational units. The below table shows Eksportfinans committee structure, roles and members as of December 31st 2011.

Committee	Tasks	Members
The Board	- External reporting of accounts and risk information - External reporting according to Basel II (this Pillar III document)	Seven external members, where three are from owner banks in addition to one member elected by the employees
The Board's Audit Committee	- Prepare the Boards monitoring av account statement reporting - Monitor risk- internal control systems and the internal audit.	Four external members including two from owner banks
The Board's Control Committee	- Ensure that the Company functions in accordance with rules, regulations and suggestions from the Norwegian FSA	Three external members and one deputy member
Asset/liability group	- Discuss the Company's liquidity in light of market expectations incl. stress scenarios as well as projections for loan payments and amortisation - Pose liquidity actions for the ALM Committee	Members from Capital Markets, the Lending Department, Risk Management and the Economics department
ALM Committee	- Makes decisions in asset/liability management questions	All members of the Company's group of managing directors
Investment Commitee	- Oversee development and strategy for the liquidity reserve portfolio within limits set forth by the Board	Members from Capital Markets, the Economics department and Risk Management
Credit Commitee	- Make decisions in credit limit cases that are not directly covered by general mandates	CEO, operating responsible for the particular case, directors for Risk Management, Economics, Lending and Legal&Compliance
New product approval forum	- Forum gathering to discuss approval or not for potential new products. There is a clear definition as to when this forum has to meet.	Members from risk management, department of Economics, back office, IT + the department/unit suggesting the new product.

The Company's CEO tasks include:

- Have ownership of and follow up:
  - The Company's risk status, the big risk picture, evolution of risk relative to stated risk strategic measures and business strategy
  - That it is esteblished a strong risk management function from guidelines given by the Board
  - That risk management is documented, conducted and monitored adequately
  - That the reporting to the Board complies with rules, regulations, decisions and principles set forth in the Boards Risk Policy Guidelines
- Make a hollistic assessment of the Company's risk which is to be presented to and acted upon by the Board. The Board may decide that if compliance with the "Internal Control Regulation" is ensured, the treatment and reporting of significant risks may be covered by the ICAAP report.
- Ensure that the internal audit function at least annually reports to the Board of Directors on the status and quality of the established internal control.
- When there is a change in existing products or new products is being introduced, ensure that risk assessments, internal control and documentation exist before the change is implemented. The Board of Directors shall be informed on significant changes in the quality assurance process of the Company.

The members of the Group of Managing Directors tasks include:

- Conduct good risk management in business affairs according to set guidelines.
- Approve credit risks within set limits
- Monitor all exposures
- Do timely, frequent and independent controls
- Report according to internal control guidelines on the practice of controls, weaknesses and risk assessments
- Report on loss events

Risk management department

- Risk Management monitors the Company's risk management including overseeing market- and credit risk against set limits. The department also has responsibility for calculation methodology and calculations for fair values used in official accounts under the Company's IFRS accounting, and model use and model data for balance- and liquidity management.
- Risk Management produce periodic information to adhere to and ensure that:

- relevant risk management systems are established, function, are followed up and maintained in accordance to relevant regulations, rules and routines.
- the risk management process works smoothly and effectively in accordance with regulations and guidelines set by the Board and that these seek to be best practice or close to this

- the Company's risk status and risk development relative to risk strategic measures and business strategy

- external risk regulation is adhered to

All employees

- Shall have sufficient knowledge about the risk management process, routines, instructions, mandates and risk/compliance models used in their own division

- Shall have responsibility for communicating significant breaches in the risk management process to senior managers

Internal audit

- The internal auditor reports to the Board and the group of managing directors results from audited projects in accordance with approved audit plan annually at a minimum.

- Gives objective suggestions to the Board and the Group of Managing Directors regarding risk management, development of- and compliance with controls, established routines, procedures and guidelines.

- Annually analyses significant risk categories and risk adjusted capital requirements.

- Is to have sufficient competence and experience, methodology and working tools to be able to assess whether all areas with significant risk is covered by the Company's risk management.

2.3 Risk management and control

Risk Management

Eksportfinans extensive loan and investment activity in several markets requires identification, aggregation and management of the total risk in a prudent manner. The Company manages its risk through different frameworks, organizational segregation, delegation, calculations, 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 actions
- Reporting
- Monitoring

For each element there is a set of principles making constituting the framework for risk management:

Control environment

The control environment includes the organisation of the company, guidelines for the group of managing directors, management style as well as the integrity of all employees. Eksportfinans puts emphasis on the following principles:

- Values and ethical guidelines: The Company's ethical guidelines shall underpin the Company's strategy and be known in all parts of the organization.

- Social responsibility: The Company's policy consists of guidelines for ethics, alerts, corruption and environment. Since 2010, the Company has adhered to a set of voluntary guidelines for environmental and social aspects of project financing known as the Equator principles.[1] Also the Company put in place guidelines for environment and social aspects of corporate loans. The Company is to have an active view on social responsibility with regards to its business activities.

- Structure of controls and management: Management and control include all processes and control actions conducted by the group of managing directors to ensure an efficient business and implementation of the Company's strategy. There is an emphasis on a control and management structure that is clearly understandable and independent. The Company is Sarbanes Oxley compliant meaning excessive use of routine descriptions, control evidence and clearity regarding operational risk concerneing official accounts statements. The SOX framework also makes auditing month end processes and reporting easier and more transparent. Also there is established internal forums for assessments and approval of new products, asset/liability mix as well as credit cases besides the external control environments.

[1] The Equator Principles (EPs) is a credit risk management framework for determining, assessing and managing environmental and social risk in Project Finance transactions. Project Finance is often used to fund the development and construction of major infrastructure and industrial projects. Currently 77 adopting financial institutions (75 EPFIs and 2 Associates) in 29 countries have officially adopted the EPs, covering over 70 percent of international Project Finance debt in emerging markets.

Risk identification

The Board and the Group of Managing Directors have assessed the Company's overall risk picture, set limits for desired risk exposure and chosen objective oriented risk management strategies to control and manage the risk level with regards to limits and objectives. The Company has country limits and single counterparty limits mainly based on long term foreign currency credit ratings from Fitchratings, Moody's and Standard and Poor's.

Risk identification shall be conducted minimum yearly or when special situations suggests it and cover all significant risks the Company faces. The following processes are at all times to be adhered to:

- The Board and the Group of Managing Directors are responsible for identifying strategic risks as part of the ICAAP- and strategy process and incorporate these in future planning.

- Identify key risks i corporate processes through an annual internal control reporting, and an annual risk workshop. All managing directors assess and produces a written summary of the risk level in the division of their responsibility. Employees acting as owners of any process or operational responsibility report risk situation of to their managing director and these sub reports form part of each managing director's risk confirmation reports.

- A dedicated new product approval forum is responsible for assessing and advising the group of managing directors regarding approval of new products or changes in existing products, or routines for investments or lending.

- An asset liability committee meets monthly to review and discuss the evolution of the company's assets and liabilities. This committee analyses perceived changes in prepayment rates and requests from borrowers on amortization plans as well as evolution of expected maturities for liabilities with uncertain end dates.

- An investment committee reviews the strategy and development of the liquidity reserve and PHA portfolios relative to limits set by the Board.

Risk assessments

Assessments of changes in portfolios and regulations form the basis for the Company's understanding and management of identified risk types. This includes:

- That all significant risks are quantified based on well known methods and procedures to measure risk combined with own assessments.

- That sensitivity- and stress tests for different scenarios are produced

- Ensuring that a qualified and structured assessment and documentation of implemented control and management actions are done. Ensure that these actions are sufficiently adequately followed

- Ensuring that for all key risks, objectives for risk profile relative to risk appetite based on current and future exposure are in place.

- As part of the annual ICAAP process, expected and unexpected losses from security investments and credit exposure from lending, is estimated. The Company's capital target is changed from "minimum 10 %" last year to " capital sufficient to cover for intrinsic present and future risk including adherence to large exposures requirements"

- Business leaders are responsible for adjusting and updating their areas defined risk profiles to fit into the overall risk strategy of the Company. The risk assessments including an identified risk profile and a suggested risk acceptance for risk types and risk categories are to be presented and approved by the Group of Managing Directors before final approval by the Board.

Regulations, instructions and routines

The Board is to evaluate the Company's risk policy and guidelines at least annually.

The Board decides on guidelines for:

- Overall risk management
- ICAAP in Eksportfinans
- Credit risk
- Liquidity risk
- Market risk including
  - General interest rate risk
  - Currency risk
  - Credit spread risk
  - Basis risk
- Operational risk
- Lending activity
- Investment activity

Also the following instructions and mandates apply

- Instruction for control committees in financial institution
- Instruction for the Board of Directors in Eksportfinans ASA
- Instruction for the Chief Executive Officer in Eksportfinans ASA
- The CEO's mandates
- Instruction for internal audit in Eksportfinans ASA

Several routines are in place covering work tasks in the different company divisions. These routines include new funding, a complete lending handbook, market risk mitigation as well as new product approvals.

Employees that enter into binding external agreements, for example trade securities have in their job descriptions all specified allowed products and limits covered by the agreement which they may enter into. A mandate matrix gives managing directors and other employees an easy overview.

2.4 Capitalisation strategy, capital target and risk tolerence

Every year the Board has a strategy meeting discussing market developments, future key focus areas and capital requirements. The capital strategy defines how the capital management supports the business areas. A key objective is to balance required return on owners capital with financial stability requirements from the Government, bond investors, counterparties, other market participants and rating agencies. Eksportfinans' Board of Directors approves the capitalization strategy.

Autumn 2011 there was significant uncertainty surrounding future limits for the Company's business. Eksportfinans therefore asked the Norwegian FSA (Finanstilsynet) to postphone the ICAAP to 2012. The Board filed the ICAAP in May 2012.

The Government decided on November 18th to establish a governmental body for loans supported under the 108-C.I.R.R. arrangement. This posed detrimental changes in future businesses for the Company.

Changed business environment for Eksportfinans' business resulted in significant rating downgrades from Moody's and S&P to Ba1 and BB+ respectively. The outlook is negative from both agencies so the first rating objective for the Board is to stabilize the ratings. The Company will then assess the possibility to obtain investment grade ratings from both agencies.

The Company has a large liquidity reserve portfolio and back up borrowing facilities and hence is well capitalized also relative to levels adhering to large exposure requirements in CRD IV despite the ratings are significant lower than historically.

The capital assessment in this Pillar III is based on an expected balance sheet development for the period 2012-2014.

In calculation of required capital we start with minimum requirements under Pillar I (credit risk, market risk and operational risk) and assess to what extent the minimum requirements are sufficient. Then an internal expert judgment on all other key risks based on both qualitative and quantitative input is conducted. As from this year the Company capitalizes additionally for concentration risk, basis risk and strategic/business risk. This follows the significantly reduced borrowing possibility following the multi notch rating downgrades. Reduced funding possibilities reduce the ability to manage concentrations. Also the developments in basis swap spreads have introduced a capital charge for basis risk.

The Company is in a special situation as the rating is so low that funding at acceptable terms is presumed not available. This has lead to additional capital requirements under Pilar II than in a normal situation.

Eksportfinans calculates Pillar I capital for credit- and market risk using the standard method. For operational risk the basic indicator approach is used. Credit risk capital constitutes the major part. Close to the entire loan portfolio is either guaranteed by governments or by banks. This portfolio hence is regarded to have a low risk profile. As described in chapter 3, the Company assesses credit risk capital under Pillar I to sufficiently cover credit risk, while we hold additional capital under Pillar II for market risk and operational risk as the Pillar I calculation methodologies don't cover all risks adequately.

At the same time the Company shall hold a solid capital base for other risk factors significant for our business situation. We estimate an additional capital requirement for business/strategic risk and concentration risk. In total these calculations determine a risk based capital requirement for the company. This capital requirement is to be covered by core capital and be sufficient to cater for expected future changes in regulations.

In a normal business situation the Company would set a capital target higher than the required capital level to have a buffer. The capital target has had two objectives: ensuring the Company's capital adequately supports the business strategy, and ensuring that capital is always above minimum levels set by the government - also in periods of adverse business development. The capital targets have previously been set from a total assessment based on the Company's risk situation, regulatory requirements and expectations from the market and rating agencies.

In this year's ICAAP process however, no capital target directly linked to Pillar I and II assessments was set. This is due to the large exposure regulations which for a period going forward – 3 to 5 years estimated – demands a higher capitalization than the risk based approach under Pillar I and Pillar II determines.

The Company aims in its capital assessment process to hold sufficient capital for large exposures taking conservative assumptions into account. Both core and non-core capital may be used to cover capital needs for large exposure regulations. The risk based capital requirement under Pilar I and II is to be covered by core capital only.

It is, as a central part of the ICAAP process, carried out an assessment of a three year period with a serious setback. The calculations made in this report are for the company's assessment made on conservative assumptions. The calculation shows that Eksportfinans has sufficient capital to handle a severe recession in three years without coming into conflict with the risk-based capital measure calculated under Pillar 2

In the period 2012-2014 the outstanding balance of assets and liabilities will decrease. In this year's capitalization process the limit of large exposures defines the minimum capital level. Simultaneously, the reduced balance over time provides a reduced capital requirement based on Pillar 1 and Pillar 2 analyzes which are expected to reduce capital requirements.

Over time, the distance between the required capitalization based on large capital investments based on Pillar 1 and Pillar 2 is expected to increase.

2.5 Meetings, owners and process through the year

Eksportfinans is owned 40% of DnB, 23% of Nordea, 8% of Danske Bank, 15% of the Norwegian government and 13% of members of the association of Norwegian savings banks. Throughout the year, Eksportfinans normally holds 5-10 meetings and at all meetings representatives of the owners are present. The company's capital position relative to the risks is discussed regularly throughout the year.

3. Capital base and capital adequacy

Eksportfinans had a core capital ratio of 16.1% and total capital ratio of 19.4% based on Basel 2 Pillar 1 methods at year end 2011.

Capital adequacy assessments (ICAAP) are conducted at least annually and Eksportfinans capital strategy will be based on an assessment of the risk level in the organization supplemented by the effect of various stress scenarios.

Export shall at all times comply with regulatory capital requirements.

Capital is intended as a buffer against risk which the Company is exposed to from its business situation. Capital consists of equity capital and supplementary capital. The supplementary capital consists of capital contribution securities, subordinated debt and various adjustments.

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. 31. December 2011.

Table 2: Capital Composition 31 December 2011[2]

Capital composition	NOK mln.	Share of total capital
Share capital	2 771	48 %
Profit reserves	176	3 %
Fund for unrealised currency profits	71	1 %
Other equity	31 676	550 %
Total equity	***34 694***	***602 %***
Capital contribution securities	464	8 %
Deductions[3]	30 379	527 %
Additions	7	0 %
Total core capital	***4 786***	***83 %***
Subordinated loan capital	929	16 %
Capital contribution securities	0	0 %
Deductions	0	0 %
Additions	46	1 %
Total additional capital	***975***	***17 %***
TOTAL SUBORDINATED LOAN CAPITAL	***5 761***	***100 %***

[2] Credit spreads on own debt affects core capital and constitutes the major part of "Other equity". This effect is subtracted and forms the major part of "Deductions". This effect was unusually large in 2011 as a consequence of the multi notch downgrade of the Company after the Government's decision to take over 108-susidised lending.

[3] In the deductions from core capital there is included an unrealized profit of NOK 3.028 billion after tax. This amount is the unrealized gain on own debt following significant spread widening after the mentioned downgrades.

Table 3 *– Specification of minimum requirement for subordinated loan capital*

RISK CATEGORY	**Capital requirement** **NOK mln.**
Credit risk	2 039
Split into:	
o *Governments*	0
o *Local and regional authorities*	32
o *Government owned corporations*	0
o *Multilateral development banks*	0
o *Institusjoner*	1 630
o *Enterprises*	0
o *Security for property*	2
o *Other commitments*	16
o *Securitisation*	359
Market risk	144
Operational risk	194
deductions	4
Total minimum requirement for subordinated loan capital	**2 373**

Subordinated loan capital and capital contribution securities

Table 4 *– Specification of subordinated loans*

SUBORDINATED LOANS	**Principal, mln NOK**
JPY 15 billion due in 2015 (3 months Libor + margin). Non-call.	1 161
TOTAL SUBORDINATED LOANS	***1 161***

Table 5 *– Specification of capital contribution security*

CAPITAL CONTRIBUTION SECURITY	**Principal, mln NOK**
Loan issued in February 2003 – GBP 50 million. (3 months LIBOR + margin). The loan is perpetual, but recallable by Eksportfinans from February 2013.	464
TOTAL CAPITAL CONTRIBUTION SECURITY	***464***

Capital adequacy

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

Table 6 *– Capital adequacy 2009 - 2011*

	2011 I NOK mill	2010 I NOK mill	2009 I NOK mill
Core capital	4 786	4 077	3 819
Additional capital	975	1 565	1 418
Total capital	5 761	5 642	5 237
Core capital in percent	16,10 %	12,70 %	9,70 %
Total capital in percent	19,40 %	17,60 %	13,30 %
Total risk-weighted assets (incl. ”off-balance” elements, operational risk and trading portfolio)	29 661	31 985	39 280
Total balance	***213 929***	***215 549***	***225 254***

Table 7 gives an overview of the company’s assets as of 31 December 2011, 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 7 *– Specification of risk weighted balance as per December 31st 2012*

ASSET TYPE	BOOK VALUE	RISK WEIGHT	BOOK VALUE SPLIT	RISK-WEIGHTED VALUE	GUARANTEED	REMARKS
Loans from Eksportfinans	122 165	0 %	46 777	46 777	44 001	Guarantee from GIEK
		0 %		0	2 776	Guarantee from other states
		20 %	73 200	14 640	61 237	Guarantee from banks
		20 %	2 015	403		Municipal security
		35 %	58	20		
		100 %	116	116		
Securities	51 908	0 %	23 374	4 484		Securitisation
		20 %	28 535	1 802		Trading portfolio
Financial derivatives and Cash Collaterals	24 059			2 354		
Other	15 796			3 114		includes NOK 1bln deposits
”Off-balance” items				304		
Operational risk				2 424		
Foreign exchange risk				0		
TOTAL	**213 928**			**29 961**		
Total risk-weighted assets / Total assets				13,90 %		

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.

Fair value and amortized cost

The company measures a major 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 recorded the fall in value in the portfolio.

Financial assets and liabilities measured at fair value

Financial assets and liabilities that are measured at fair value, with a value change via 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.

Loans and claims at amortized cost

Lending and receivables measured at amortized cost consist of lending and receivables as agreed with the authorities, based on Proposition number108 to the Norwegian Parliament, (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.

The newly established government entity "Eksportkreditt Norge" takes over new 108-qualifying loan applications.

Other financial liabilities at amortized cost

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

3.2 Capital requirement process

Eksportfinans has calculated Pillar I capital for credit risk and market risk using the standard method and used the basic indicator approach for operational risk. Total capital requirement is deducted using a three step procedure:

1. Minimum capital requirements are calculated using the described chosen methods. This defines a minimum capital requirement of NOK 2.4 billion.

2. Then an in house expert assessment is done for the Pillar I risk categories as well as for all other risk of significance for the Company. This judgment is both qualitative

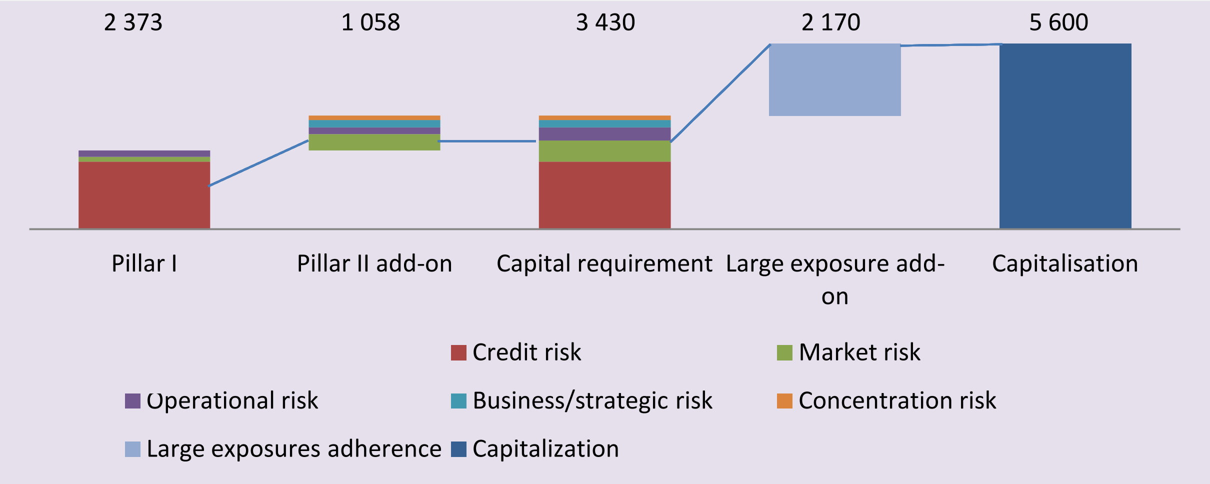
and quantitative. This is the Pillar II assessment which shall cover a significant negative business development for the Company. This estimated required capital is also tested against an adverse three year scenario. In this analysis the Company has capitalized another NOK 1 billion for credit risks (concentration risk towards single names and sectors), market risk (credit spread risk, currency risk and basis spread risk), operational risk and business risk.

3. Then an additional assessment of capital to comply with external rules and regulations is done. To adhere to CRD large exposures regulations the Company currently holds another NOK 2.2 billion in capital in addition to the risk based capital requirement of 3.4 billion NOK.

Hence the Company's risk based capital requirement is NOK 3.4 billion which the Company will cover through core capital, while total capitalization is NOK 5.6 billion which also may be covered by additional capital.

The below figure summarizes the steps in the capitalization process.

Figure 2: *Pillar I capital plus Pillar II and large exposure add-ons gives total capitalisation*



In chapter 5 the significant risk categories for the Company are defined and discussed. The management and control of each risk is evaluated.

3.3 Large exposures

Limits for large exposures prevents an institution from being hit by big losses from a single counterparty (or group of interconnected counterparties) due to unforeseen events. Eksportfinans must through Norway's EEC membership adhere to EU directives for financial institutions. Until 31/12/2012, the company has temporary exemption from the large exposure directive. The company has an exemption until the exposure is expected to be below the limits of the five loans that currently expected to be in breach of regulations by the end of the year. A large exposure is defined as an exposure that is more than 10% of a company's total capital. The largest exposure rule sets maximum limits for exposure to a single counterparty or group of connected counterparties to 25% of the total capital.

To ensure that the company has adequate capital in a stressful financial situation, Chapter 4 below discusses the robustness of capital in a three-year adverse scenario.

3.4 Effect on capital from 'leverage ratio' regulation

In addition to risk-based and rules-based capital adequacy requirements, Basel 3 introduce a minimum equity requirement in relation to total assets regardless of the risk weighting of assets, the so-called "leverage ratio". A financial institution must have a core capital of more than 3% of the sum of total assets and liabilities off balance sheet. Unlike conventional capital, this goal defines an upper limit on the proportion of the balance sheet as a financial institution can finance with debt. This is a step back from the risk-sensitive regulation of Basel 2 in the direction of the more granular view from Basel I. The reason for the introduction of the rule is that there is concern that the risk-based capitalization will lead to a too low capital because the risk will be underestimated in good times.

The transitional period for the "leverage ratio" began on 1 January 2011. The transitional period will include a monitoring period from the authorities and a period of parallel run. The monitoring period began 1 January 2011, while the parallel period beginning 1 January 2013 and lasts until 1 January 2017. During this period, the leverage ratio and components of this calculation are followed, including developments in relation to the development of risk-based capital requirements. Investment objective of the leverage ratio should be based on new definition of core capital as defined in Basel 3 framework. The Basel committee will also collect data during the transition period to measure the effect of using total assets to equity. Publication of figures for the leverage ratio and components of the leverage ratio for banks are due to commence on 1st of January 2015. Based on the results from the parallel course, final adjustments to the definition and calibration of the leverage ratio are made in the first half of 2017. The goal is to include the measure in Pillar 1 calculations from 1 January 2018 based on sufficient review and calibration.

To monitor Eksportfinans' operations in relation to the new leverage requirement of at least 3% (which is assumed to be introduced in 2018) the Company has since 2011 been involved in a "beta group" of institutions that calculates and reports the leverage ratio. Eksportfinans expects to satisfy the leverage ratio requirement by a wide margin when these rules are implemented.

3.5 Effect on capital from new OTC derivatives regulation

Within the EU and EEA will the implementation of stricter rules that the G20 countries agreed in September 2009, mainly happen through the proposed European Market Infrastructure Regulation (EMIR) and the detailed provisions of ESMA regulations. In the U.S., new rules will be implemented by the Frank Dodd reform. OTC rules for Europe are expected to be completed by 1 July 2012, while commissioning the Dodd Frank is expected in late 2012 or early 2013. The new rules will have a limited impact Eksportfinans since the company uses derivatives extensively to hedge exposure, but the rules largely do not apply for already entered transactions. Rule change is expected to produce higher margin requirements for the future both cleared and non-cleared transactions, but it is however uncertainty about the final effect. The projected capital requirements are not substantially different from the current capital requirements for derivatives and the Company is from conservative estimates well-capitalized w.r.t. anticipated regulatory changes.

4. ICAAP AND ECONOMIC CAPITAL

4.1 International capital adequacy assessment process (ICAAP)

In Basel Pillar 2, institutions set up and use their own process of self-assessment of capital requirements and capital (internal capital adequacy assessment, ICAAP). This requires an overall and total risk estimation and evaluation. From this, capital requirements, including robustness of a three-year adverse scenario is determined. In the ICAAP document, Eksportfinans also communicates analyzes and assessments to the Norwegian FSA, "Finanstilsynet". As part of the strategy process, the Board of Directors establishes the company's risk appetite and objectives for level and composition of the capital.

The risk-related internal capital process and the formulation of Eksportfinans business strategy, risk management framework and a comprehensive internal system for monitoring and management constitutes a holistic system for monitoring and managing of risks.

The Company's ICAAP combines risk appetite and strategy as well as reduce operational losses. The ICAAP process should also help the company to take advantage of favorable opportunities by having a focus on different scenarios. Analyzing different scenarios for the capitalization through a recession will improve the ability to see and proactively pursue business opportunities. Finally, the ICAAP process also improves the allocation of capital by highlighting the capital per risk category.

In order to calculate capital requirements under Pillar 2, other methods than for the calculation of the minimum requirement under Pillar 1 is used. Eksportfinans analyze all material risk categories for the company and calculate capital requirements per risk category. For categories for which there is calculated a regulatory minimum capital (market risk, credit risk and operational risk), Pillar 2 calculations are compared to these. If Pillar 2 assesses a higher capital requirement than Pillar I then the difference is added as the Pillar II add-on. Pillar 2 assessments provide additional capital for credit, market, operational and business risk as shown in the figure below. Liquidity risk is controlled through active management and frequent assets / liabilities meetings where liquidity under different stress conditions is analysed. The company does not calculate capital for liquidity risk.

Regulatory capital	**Add-on capital (Pillar II ICAAP assessments)**	**Risk management**
Credit risk	Credit risk (concentration)	Liquidity risk
Market risk	Market risk (currency risk, spread risk and basis risk)	
Operational risk	Operational risk	
	Business risk	

4.2 Capital planning

Eksportfinans considers future capital needs annually and based on the current financial plan. After the state's decision to take over the 108-system itself, Eksportfinans designed an updated balance sheet forecast that replaced the financial plan.

Risk-based capital requirements are assessed based on current expectations about development portfolios specified in this forecast and tested against a severe downturn scenario is expected in only one of 25 years. The company has a contingency plan that specifies actions to take if capital falls below various thresholds.

A scenario analysis shows that the company is very well capitalized relative to risk-based capital requirements from operations, and well-capitalized also in a conservative three-year scenario.

5. ASSESSMENT OF CAPITAL REQUREMENT

5.1 Credit risk

Eksportfinans credit risk coming from defaults on loan contracts for direct loans, defaults of interest and principal payments for investments, breach of warranty contract in case the borrower defaults on guaranteed loans, and defaults related to settlements of derivatives.

The company's credit portfolio is of high credit rating, but with a relatively high concentration of certain companies and sectors as a result of the mandate to support the Norwegian export industry. Loans are generally guaranteed by governments or government supported units or banks. This gives a high exposure to certain countries and particularly Norway. Eksportfinans is mainly exposed to credit risks through loans to the export industry, but the company also has credit risk towards issuers of liquidity papers that the company has invested in, and to counterparties in swap agreements. The company places high demands on the credit quality of the borrower (direct loans) and to the guarantors to maintain the company's conservative risk profiles.

Capital for credit risk is calculated from the Basel 2 standardized approach in Pillar 1 Eksportfinans is exposed to financial institutions through direct exposure, warranty exposure and exposures from investments in the liquidity reserve portfolio.

The company also undertakes the credit exposure on counterparties in derivative agreements. These are mitigated using the ISDA regulated agreements for exchange of collateral, known as Credit Support Annex / CSA agreements. Eksportfinans uses only cash as collateral in the CSA agreements.

5.1.1 Management and monitoring

Eksportfinans uses ratings from FitchRatings, Moody's Investor Services and Standard & Poor's. For Norwegian institutions not rated by these three agencies, shadow ratings from DNB may be used.
Control of credit is done through close monitoring of credit exposure versus credit limits to counterparties. Daily exposure lists are prepared so that any limit breach is captured quickly and action can be taken. The company measures and manages its own concentration risk and counterparty credit quality and report the status and development to the group of managing directors and the board each month.

The Company uses various techniques to manage credit risk:

- The company sets high requirements for counterparty credit quality to maintain a conservative risk profile. The lending business has been based on that all loans are guaranteed by GIEK, financial institutions and / or have warranty from governments with an acceptable rating. A small portion of the balance sheet comprises unsecured loans to banks and municipalities. Municipal lending consists of loans purchased from Kommunekreditt when this former subsidiary was sold from Eksportfinans to KLP in 2009.

- Eksportfinans treasury trades foreign exchange and interest rate swaps for hedging purposes

- Legally binding standard ISDA agreements allows calculation of net derivatives exposure per counterparty.

- Special provisions in the ISDA agreements (CSA annexes) specifiy the transfer of collateral usually on a daily basis eliminating most of the counterparty credit exposure from mtm swap movements.

5.1.2 Portfolio information

As shown in the table below, the company has a portfolio of high credit quality. The average rating for those loans that have rating from Moody's, Fitch or S&P is AA-.

Table 9 *– Aggregated credit exposure per rating class per end of 2011*

NOK mln	Loans			Liquidity investments			Total
Rating	Unsecured	Guaranteed	Total loans	Liquidity reserve portfolio	PHA portfolio	Total liquidity holdings	
AAA	1.903	46.777	48.680	14.639	6.768	21.407	70.087
AA+/AA/AA-		10.167	10.167	3.926	2.712	6.639	16.806
A+/A/A-	5.287	49.257	54.544	9.068	9.656	18.724	73.268
BBB+/BBB/BBB-	911	626	1.537	312	2.346	2.658	4.195
BB+/BB/BB-		5	5		997	997	1.002
B+/B/B-			0		21	21	21
CCC+/C			0		51	51	51
No Moody/Fitch/S&P rating	6.089	1.249	7.338	1.037	545	1.583	8.921
Total	**14.190**	**108.082**	**122.272**	**28.982**	**23.096**	**52.078**	**174.350**

Most of the loan portfolio is guaranteed either by GIEK or banks (see Table 9). Annual payments from underwriters reflect defaults in the loan portfolio for export loans. None of the years since 1998, annual payments from the bank guarantors and GIEK has exceeded 0.2% of the guaranteed loan portfolio.

5.1.3 Capital requirements for credit risk

Eksportfinans uses the standard method for computing capital for credit risk under Pillar 1. The regulatory risk weights used for the portfolio of this method are considered by the company as relatively conservative. The Company assumes little credit risk in practice due to high proportion of loans guaranteed by highly creditworthy counterparty banks (double default).

In total in the Company's view, the Pillar 1 calculation provides a good robustness against actual credit risk also in an adverse scenario. As a consequence the Company does not set aside additional capital for credit risk.

5.2 Market risk

Eksportfinans' market risk arises primarily arises from security specific interest rate risk (credit spread risk) and basis risk. Also market risk comes from general interest rate risk (yield curve risk) and currency risk however these risk sub types are of minor importance as the Company has strict limits and hedging purposes only trading these risks.

5.2.1 Management and monitoring

The company aims to control and reduce market risk through swapping interest rate and currency risk on all loans, within strict exposure limits. The company also has limits on the credit spread risk in the liquidity reserve portfolio.

The sensitivity of credit spread changes to reported results in account statements are calculated per. business area and reported monthly to senior management and the Board.

In addition to using market information from trades, also quantitative measures are used to control Eksportfinans' exposure to market risk. These include:

- Risk Limits for currency risk by currency and in total. It is set upper limits on net exposure in foreign currencies which, if breached causes the company to exchange currency for Norwegian kroner to reduce currency risk.

- Similarly, there is an upper limit of risk to interest rate risk up to one year per basis point change in international interest rates. If the Company comes in breach with these limits then portfolio adjustments shall be considered and generally interest rate exposure shall be reduced.

- For the liquidity portfolio, there is a limit to the sensitivity of credit spread changes. There are also "stop loss" limits in relation to rolling market value changes of the portfolio as well as single securities. If stop loss limits are breached then securities will in general be replaced with securities with higher liquidity and / or lower spread duration for the remaining of the year and for at least 3 months.

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

- 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 control functions. The external controls are most often performed by the company's internal auditor.

5.2.2 Capital requirement for market risk

The Company uses the standard method in calculation of minimum capital requirements. The regulatory risk weights used in this method is in the Company's opinion too low to capture credit spread risk adequately. Therefore additional capital requirements for currency risk, credit spread risk and basis risk, based on high confidence levels, have been conducted. This add-on assessment and calculation has also been tested towards a negative three year scenario. The Company thus capitalizes additionally under Pillar II for credit spread-, currency-, and basis risk under market risk.

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. Operational risk covers all the company's business areas.

5.3.1 Management and monitoring

The company carries out many large and often complex transactions. Good management of operational risk is critical to maintaining a low overall level of risk. Losses due to operational risk have historically in general been low in Eksportfinans.

The company's framework for managing and controlling operational risk includes both internal reporting such as leading confirmations and reviews the quarterly risk report, and control from external parties such as external auditors, internal auditors, regulators and rating agencies. The company has also reduced operational risk and the risk of
loan losses that may arise in connection with for example legal risk, errors in accounting, data loss, embezzlement and fraud, etc. through increased focus on regulations concerning the use of information and communication technology (ICT Regulations), procedure manuals, training programs, ethical guidelines and a separate legal entity (compliance function). The Group of Managing Directors will annually review the company's major risks in a risk workshop facilitated by the internal auditor.

Operational risks arise for example in connection with the trading and settlement of financial transactions, and the large volume and the number of derivatives that Eksportfinans has entered into is a significant source of operational risk. Proper implementation of payments, and the correct settlement, administration and termination of derivative contracts is very important to avoid losses. A significant part of the Company's framework and controls are therefore focused on this area, including in the form of procedures and independent control of transactions.
Management and control of operational risk from legal risk considered enhanced last year through increased experience and closer monitoring.

5.3.2 Capital requirement for operational risk

Eksportfinans uses the basic indicator approach for calculating capital for operational risk under Pillar 1. In a historical perspective, the Pillar 1 allocation is sufficient. Since capital is calculated from historical income without taking into account the special situation Eksportfinans is currently in, we have allocated additional capital for operational risk based on Pillar II assessments.

5.4 Business risk and strategic risk

Business and strategic risk is the risk that losses arising from wrong strategic decisions, loss of reputation or reduced rating, or limitation in the company's business opportunities. Losses can then appear as a result of lack of earnings, the need for an unfavorable sale of assets or early termination of contracts.

5.4.1 Management and monitoring

The Strategy for Eksportfinans for the period 2010-2012 was adopted in 2009. The main objectives of the strategy in terms of margins and size of the loan portfolio were reached in 2011. A long term foreign currency credit rating of at least AA or equivalent was an important factor in the strategy, as this gave the company access to affordable financing in the form of structured bonds. In light of the current rating as a result of the government's decision 18 November is business risk associated with the Company's structured borrowings. This funding is a result of the company's strategic decision to obtain the most favourable funding possible, while accepting an uncertain maturity on a part of the portfolio. Yield and maturity of the structured funding loans are linked to market prices of selected currencies, equities and indices. The Company has entered into derivative contracts to replace the structured market risk with floating interest rate based market risk but where the term is still uncertain about some of the funding and related swaps. To reduce credit risk to counterparties in swap agreements, CSA's are in place to exchange collateral on a daily frequence. The company is following the asset/liability gap closely in the current situation. Changes in expected maturities are analyzed, discussed and managed, and there is close monitoring of the Company's and derivative contracts (see section 2.2).

The company has guidelines for social responsibility, including ethics, environmental responsibility and corruption. There are contingency plans for unexpected events in different areas, and an HR strategy which is frequently discussed in the leader group is in place.

There is established an ALM committee and an Investment Committee of the liquidity reserve composed of leaders across the company. Both committees report to the group of managing directors at regular intervals. The management group has regular weekly meetings where strategic and operational topics discussed.

5.4.2 Capital requirement for business- and strategic risk

Business and strategic risk is not a risk category in Pillar 1. The Company reserves capital for business- and strategic risk related to be having to sell part of its loan portfolio at a loss due to liquidity squeeze.

In total the Company chooses to hold capital for business and strategic risks under Pillar 2 corresponding to the expected losses on the need to realize a significant amount of cash from a forced sale from part of the loan portfolio.

5.5 Liquidity risk

Eksportfinans liquidity risk is to adjust payments and repayments of loans and cash investments to maturity of liabilities. The company is a shorter and more liquid than before the liquidity portfolio to manage liquidity risk in relation to that for the time not be new funding.

5.5.1 Management and monitoring

Eksportfinans had until November 2011 good access to market funding, and this was accompanied by a significant liquidity the most important measures to address liquidity risk. After the Norwegian Government on November 18th 2011 decided to take over the 108-export financing scheme Eksportfinans has not taken up new funding. This has lead to an adjustment of the principles of management and control of liquidity risk. Where previously the focus was on access to diverse funding from several markets in combination with a well-rated liquidity portfolio, the main focus now is to have a sufficiently large and liquid liquidity to meet future payment obligations.

A portion of the funding to Eksportfinans is uncertain due to call and trigger options. In addition, loans and investments sometimes are prepaid. The Company follows the liquidity risk against defined limits and has contingency plans that take effect when the limits are exceeded. The main framework for limiting liquidity risk is a 12-month stress test where the goal is to meet all payments of up to 12 months provided all the funding markets are closed. The stress test is performed monthly, and should at least be positive included the option to repurchase bonds in the PHA and liquidity portfolios. Eksportfinans has since October 2008 passed the stress test by a wide margin.

For liquidity risk from the uncertainty of the maturity profile of balance, Eksportfinans has the following available liquidity buffers:

- Short liquidity portfolio with maturities adapted to maturities of liabilities
- Committed credit lines of $ 2 billion with three of the owner banks.

5.5.2 Capital requirement for liquidity risk

Eksportfinans allocates no capital to liquidity risk. The Company considers liquidity risk as a risk that mainly is conditioned by other types of risk since it is typically caused by credit losses or other problems in their own business. Liquidity risk may also occur in an economic downturn or financial crisis. Despite liquidity risk may arise from the above-mentioned reasons, it is the Company's opinion that the effect of a liquidity crisis or a three-year decline scenario could be handled well. Expected exposure is limited compared to the available liquidity and the company also has a good plan and good risk management focus on liquidity. Therefore, no capital is held for liquidity risk, rather the Company focuses on a conservative and professional liquidity management.

5.6 Summary

Eksportfinans has estimated Pillar 1 capital for credit risk and market risk from the standard method and the capital for operational risk based on the basic indicator approach. Capital requirement under Pillar 1 is estimated to be approximately 2.4 billion. The company set aside additional capital for market-, credit- and operational risk as well as business / strategic risk on a total of NOK 1 billion to cover risk based capital requiments. On top of this the Company holds another 2.2 billion to cover large regulation requirements. The four step capitalisation process is outlined below:

1. The minimum capital for credit risk, market risk and operational risk (Pillar 1) are calculated using the chosen methods of calculating Pillar 1 requirements

2. Then we make an assessment of all risks that the company is exposed to, the types of losses that may occur and how much capital it requires (Pillar 2). Pillar 2 covers "extreme scenarios" having an ex ante very low probability of occurring

3. An assessment of whether the Pillar 1 capital is sufficient to meet the overall risk, or whether Pillar 2 calculations have revealed the need for additional allocations is done. Risk based capital is set to the maximum of Pillar I and II requirements.

4. Finally an assessment of the need for additional capital on top of Pillar 1 and Pillar 2 to ensure compliance with other external regulations. Currently the EU directive regulating large exposures gives additional capital requirements of 2.2 billion totaling a capital requirement of NOK 5.6 billion.

The company's risk-based capital consists of Pillar 1 and Pillar 2 capital to be covered by core capital. The company's actual capitalization will also include funds to adhere to large exposures regulations for financial institutions within the EEC area. This supplement may be covered by total assets.

An overall assessment of all significant risk types that affect our business today or are currently expected to affect the business in the future 3-5 years, stressed for an adverse scenario shows that the Company expectedly will manage to retain a desired capital adequacy over the next three years.

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