

EKSPORTFINANS

CAPITAL AND RISK MANAGEMENT

PILLAR 3 DISCLOSURE

2018

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1 INTRODUCTION

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

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

Eksportfinans continues to operate and manage its existing loan portfolio and other commitments with the objective of maintaining company value. The overall focus is to ensure that the company has sufficient funds to meet its obligations.

Eksportfinans' risk profile is conservative. Capital adequacy is above the internally set risk capital level. Through the ICAAP-process, the board has decided that the company's risk capital level should be NOK 3.1 billion including additional capital to comply with large exposure regulations.

At year-end 2018, Eksportfinans had a core capital ratio of 113.9 percent. At year-end 2017, the core capital ratio was 94.2 percent. The increase in capital ratio is due to a reduction of risk weighted assets. Leverage ratio was 32.5 percent at December 31, 2018 compared to 31.1 percent at December 31, 2017.

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

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

1.1 Structure of the Pillar 3 disclosure

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

Pillar 1 capital calculation methods:

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

In the company's own risk assessment under Pillar 2, expected financial results are considered adjusted in accordance with qualified impact assessments from an adverse scenario for risk categories that are identified as significant for the company.

This Pillar 3 report is structured as follows:

- Chapter 2 (risk management and control) describes Eksportfinans' overall risk and capital management procedures.
- Chapter 3 (capital adequacy) provides information on items included in Eksportfinans' capital base. The chapter also gives a capital adequacy analysis.
- Chapter 4 (ICAAP and internal capital requirement) describes Eksportfinans' internal capital adequacy assessment process and the methods which apply to items included in Eksportfinans' capital base.
- Chapter 5 (own assessment of capital requirements) contains information on how Eksportfinans identifies and analyses credit risk, market risk, operational risk, concentration risk. For all important risk categories, the chapter describes risk management, risk control and capital requirements.
- Chapter 6 (liquidity risk and ILAAP) provides information about liquidity risk and regulations.

2 RISK MANAGEMENT AND CONTROL

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

2.1 Principles and control

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

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

The first line is the responsibility where the risk is taken. Each business unit must perform day-to-day activities within set limits and according to internal control. Each business unit is responsible for monitoring market movements that could cause a potential breach of limits and to make sure that risk reducing actions are taken, if necessary.

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

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

2.1.1 The Board

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

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

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

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

The Audit Committee evaluates the company's reporting of financial results.

The Remuneration committee is responsible for preparing proposals for the Board on remuneration related issues.

2.1.2 Responsibilities of the CEO and the Management Team

The CEO has the overall responsibility for risk management including setting guidelines, approving risk within set limits, monitoring all exposures, ensuring adequate controls, and reporting on limit excesses and loss events.

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

2.1.3 Responsibility of Risk Management

Risk Management is responsible for ensuring compliance with risk management policies, procedures and guidelines such as counterparty credit quality and risk limits, as well as risk pricing, asset and liability projections, sensitivity analysis and mark to market calculations for external reporting.

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

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

The company's risk policy and guidelines are reviewed and updated at least annually.

3 CAPITAL ADEQUACY

Eksportfinans had a core capital ratio of 113.9 percent at year-end 2018 (increased from 94.2 percent at year-end 2017). As of December 31, 2018 minimum capital requirements calculated for credit risk, market risk and operational risk were NOK 427 million (8 percent of the risk-weighted assets).

In addition, the company shall have NOK 400 million (7.5 percent of risk-weighted assets) to comply with the buffer requirements (capital conservation buffer, systemic risk buffer and counter-cyclical buffer).

Leverage ratio was 32.5 percent at December 31, 2018 compared to 31.1 percent at December 31, 2017.

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

Eksportfinans complies with regulatory capital requirements at all times.

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

3.1 Capital base

The tables below provide information on regulatory capital, including core capital and supplementary capital. All tables are linked to regulatory reporting and are based on figures as of December 31, 2018.

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

NOK million	31 Dec.18	31 Dec.17
Credit risk	287	392
Government	0	0
Local and regional authorities	57	64
Government owned corporations	0	0
Multilateral development banks	0	0
Institutions	230	328
Enterprises	0	0
Security for property	0	0
Other commitments	0	0
Securitisation	0	0
Market risk	36	54
Operational risk	32	39
CVA	72	67
Total minimum capital requirements	427	553

Specification of risk-weighted assets:

The table below gives an overview of the company's assets as of December 31, 2018 and the assets secured by guarantees. Credit loss only occurs if both the borrower and the guarantor are in breach of their obligations.

NOK million		Nominal exposure	Risk weight (%)	Risk-weighted assets
		31 Dec.18		31 Dec.18
Loans	Guarantees from GIEK and Governments	3.806	0	0
	Guarantees from banks	1.266	20	253
	Guarantees from banks	2.917	50	1.459
	Direct to banks	671	50	336
	Direct to or guarantees from municipalities	30	20	6
	Loans to employees	5	35	2
Securities	Securitisation	0		0
	Trading portfolio	7.607		451
Financial derivatives and		2.064		743
Other	NOK 3 bill. deposits	859		791
Off-balance transactions				0
Operational risk				403
Currency risk				0
CVA				894
Total		19.225		5.336
Total risk-weighted assets / Total assets				27,8 %

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

Risk-weighted assets

NOK million

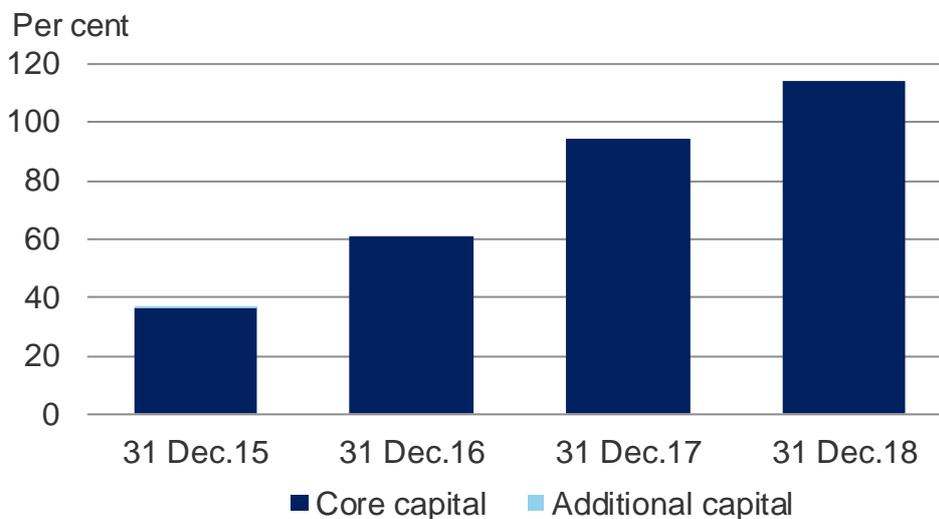


Eksportfinans' risk-weighted assets have decreased over the past four years due to the reduced size of the balance sheet.

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

Capital adequacy 2015-2018:

NOK million	31 Dec. 18	31 Dec. 17	31 Dec.16	31 Dec.15
Share capital	2.771	2.771	2.771	2.771
Share premium reserve	0	0	0	0
Reserve for unrealized gains	322	138	81	566
Other equity	3.328	3.894	4.213	4.072
Total equity	6.421	6.803	7.065	7.409
Declared dividends	0	0	0	0
Capital contribution securities	0	0	0	0
Deductions	(341)	(286)	(620)	(1.225)
Additions			0	0
Total core capital	6.080	6.517	6.445	6.184
Subordinated debt	0	0	0	0
Additions	0	0	0	0
Additional capital	0	0	0	0
Total risk capital	6.080	6.517	6.445	6.184
Risk weighted assets	5.336	6.919	10.561	16.962
Core capital adequacy (%)	113,9 %	94,2 %	61,0 %	36,5 %
Capital adequacy (%)	113,9 %	94,2 %	61,0 %	36,5 %

Capital adequacy ratio

At year-end 2018, Eksportfinans' core capital ratio was 113.9 percent, which is an increase from 94.2 percent at year-end 2017. The increase in capital ratio is mainly due to a decreased balance sheet.

4 ICAAP AND ECONOMIC CAPITAL

4.1 Internal capital adequacy assessment process (ICAAP)

According to Pillar 2 of the capital adequacy regulations institutions are required to use their own process of self-assessment of capital requirements and capital (internal capital adequacy assessment process, ICAAP). This requires an overall and total risk estimation and evaluation. From this, capital requirements, including robustness of a three-year adverse scenario are determined. In connection with this process, the liquidity process is reviewed in the internal liquidity adequacy assessment process (ILAAP). The ICAAP document, which includes ILAAP, is reviewed and approved by the Board every year. The report is submitted to the Norwegian FSA every third year.

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

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

Liquidity risk is controlled by limits and guidelines through active management and frequent ALM committee meetings. The liquidity is analysed under different stress conditions and complies with LCR requirements. The company does not calculate capital for liquidity risk.

4.2 Capitalisation strategy, capital target and risk tolerance

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

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

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

Pillar 1 (credit risk, market risk and operational risk) has a set of minimum requirements. The company performs an assessment process to determine the level of capital and to what extent these minimum requirements are sufficient. In the internal assessment of other key risks, both qualitative and quantitative methods are taken into account. The majority of the capital required is to cover credit risk. Since a large part of the loan portfolio is guaranteed by governments and banks, the portfolio is considered to have a low risk profile. The company evaluates that capital allocated to credit risk under Pillar 1 is sufficient to cover total credit risk.

In addition to the minimum capital requirements the company shall have additional capital to comply with the buffer requirements.

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

Large exposure: Finally, an additional assessment of capital to comply with external rules and regulations is conducted. To meet the EU's CRD large exposures regulations, which set a limit of maximum 25 percent of regulatory capital per single client, the company currently holds another capital buffer.

Total capital calculations determine a risk based capital requirement for the company. Capital adequacy is currently above the internally set risk capital level. Through the ICAAP-process, the Board has decided that the company's risk capital level is NOK 4.4 billion, including capital to cover large exposure regulations, future economic downturns and possible future capital regulations.

5 ASSESSMENT OF CAPITAL REQUIREMENT

5.1 Credit risk

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

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

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

5.1.1 Portfolio information

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

Aggregated credit exposure per rating class as of December 31, 2018:

NOK million

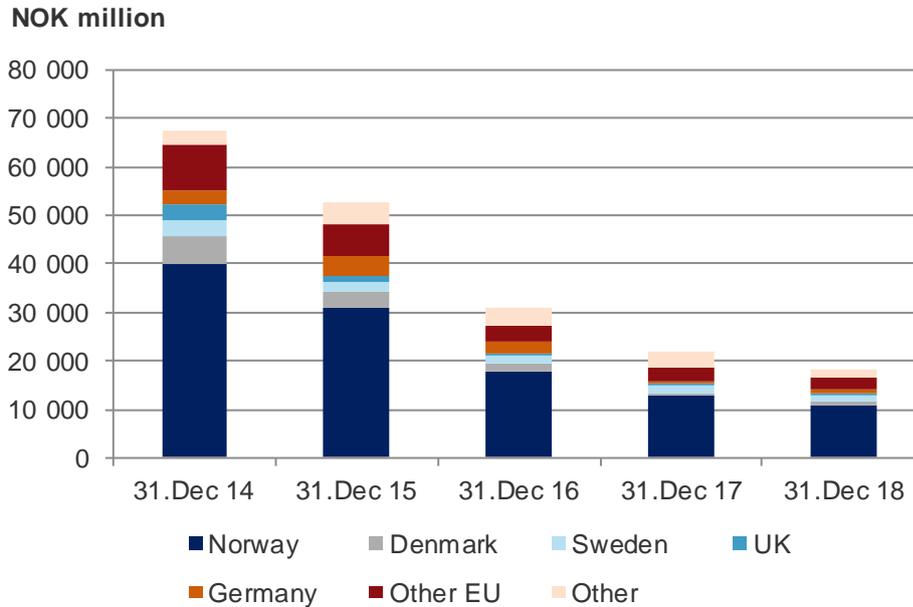
Rating	Loans unsecured	Loans guaranteed	Total Loans	Liquidity reserve portfolio	Total
AAA	28	3 752	3 780	3 322	7 102
AA+/AA/AA-	0	1 102	1 102	1 495	2 597
A+/A/A-	550	2 968	3 518	2 590	6 108
BBB+/BBB/BBB-	0	77	77	0	77
BB+/BB/BB-	0	1	1	0	1
No international rating	150	0	150	246	396
Total	728	7 900	8 628	7 653	16 281

Most of the loan portfolio is guaranteed either by GIEK (44 percent) or Norwegian banks (38 percent). The majority of guarantees from Norwegian banks is provided by DNB Bank ASA, which guaranteed 25 percent of outstanding loans as of December 31, 2017.

Eksportfinans holds a portfolio of securities that consists of senior unsecured and covered bonds with short maturities and has an average rating of AA.

Total credit exposure split by geography:

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



Total credit exposure split by maturity:

The following table shows the total credit exposure split by maturity as of December 31, 2018.

NOK million	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
Loans	248	463	1 834	5 004	1 082	8 631
Securities	-	2 496	3 371	1 675	0	7 542

Total loans outstanding at year-end:

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

NOK million	2018	2017	2016	2015
Export-related Loans				
of which Ships (1)	3.491	6.085	9.114	12.872
of which Capital goods (2)	2.843	3.664	6.033	8.146
of which Other export-related and international activities (3)	1.017	1.105	1.581	5.402
Direct loans to Norwegian local government	580	621	849	1.074
Municipal-related loans to other credit institutions	700	700	700	700
Loans to employees	5	10	12	21
Total	8.636	12.185	18.289	28.215

- (1) "Ships" includes loans made in connection with the financing of ships built in Norway for export or for Norwegian ship owners operating in the offshore oil and gas sector, and loans made to Norwegian ship owning companies, but excludes ship equipment, which is included in capital goods.
- (2) "Capital goods" includes loans made for ships' equipment, telecommunications, energy, oil rig and environmental protection equipment industries, as well as a variety of other businesses.
- (3) "Other export-related and international activities" comprises the following sub-groups, all related to the international expansion of the Norwegian industry and domestic investments in Norway, as specified below:

NOK million	2018	2017	2016	2015
Shipping	970	1.047	1.405	2.476
Renewable energy	-	-	-	-
Infrastructure	-	-	-	790
Banking and finance	-	-	-	747
Real estate	47	58	70	679
Oil and gas	-	-	106	309
Consumer goods	-	-	-	300
Environment	-	-	-	101
Total	1.017	1.105	1.581	5.402

Loans past due or impaired:

The following table sets forth the company's loans that are past due or impaired at year end 2017 and 2018.

NOK million	31 Dec 18	31 Dec 17
Interest and principal installment 1-30 days past due	-	-
Not matured principal on loans with payments 1-30 days past due	-	-
Interest and principal installment 31-90 days past due	-	13
Not matured principal on loans with payments 31-90 days past due	-	3
Interest and principal installment more than 90 days past due	9	11
Not matured principal on loans with payments more than 90 days past due	19	17
Total loans past due	28	44
Relevant collateral or guarantees received	28	44

The Norwegian government, through the Norwegian Export Credit Guarantee Agency (GIEK), guarantees approximately 98 percent of the amounts in default. The remaining two percent are guaranteed by private banks, most of them operating in Norway.

5.1.2 Management and monitoring

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

5.1.3 Capital requirements for credit risk

Under Pillar 1 Eksportfinans uses the standardised method to calculate capital for credit risk. The company considers the regulatory risk weights used for the portfolio as conservative. A high proportion of the total loans are guaranteed by highly rated

banks; credit risk is therefore assumed limited.

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

5.1.4 Counterparty risk for derivatives

The company's credit exposure related to counterparties on derivative agreements is governed by master agreements developed by ISDA (International Swaps and Derivatives Association). The exposure is mitigated by credit support annexes to the ISDA Master Agreements. As of December 31, 2018 the company has daily valuation of collateral with all of its counterparties. These collateral agreements enable Eksportfinans to call for cash collateral if the derivative exposure exceeds set limits.

The table below shows the exposure and risk-weighted assets for counterparty risk of the derivative portfolio as of December 31, 2018. The nominal amount is defined as the contract size (notional) and the financial instruments represent the market value (MTM) of the derivative portfolio. On a portfolio level, there is a positive net amount of financial instruments after netting due to differences in MTM between Eksportfinans and the counterparties, including posted threshold and independent amounts to the counterparties as a result of the company's rating.

NOK million	Nominal amount	Financial instruments (MTM)	Financial collateral	Net financial instruments on balance	Exposure at default (EAD) - discounted	RWA for CVA
Derivative portfolio as of Dec 31, 2018	20.318	137	547	684	623	894

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

5.2 Market risk

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

5.2.1 Management and monitoring

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

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

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

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

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

5.2.2 Capital requirement for market risk

The company uses the standardised method for the calculation of minimum capital requirements. Additional capital requirements are considered for credit spread risk, currency risk and interest rate risk to cover market risk under Pillar 2.

5.3 Operational risk

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

5.3.1 Management and monitoring

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

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

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

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

5.3.2 Capital requirement for operational risk

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

6 Liquidity situation (ILAAP)

As part of the ICAAP process, the liquidity situation is reviewed in the internal liquidity adequacy process (ILAAP).

Liquidity risk is managed by limits and guidelines through active management and frequent ALM committee meetings. The liquidity is analysed under different stress conditions and complies with LCR requirements.

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

6.1 Management and monitoring

Eksportfinans' main focus is to ensure sufficient funds to meet future payment obligations when they become due. The liquidity portfolio consists of short dated, liquid and highly rated securities. The company manages liquidity risk both through matching maturities for assets and liabilities and through stress testing.

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

Eksportfinans has the following available sources of liquidity:

- A liquidity portfolio with highly rated instruments with short maturities.
- Sale and repurchase agreements

6.2 Liquidity regulations

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

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

Eksportfinans meets the minimum requirements on both LCR and NSFR. The requirement for LCR was effective from June 30, 2016. Minimum requirement for NSFR will, according to plan, be implemented in 2019.

6.3 Capital requirement for liquidity risk

Eksportfinans allocates no capital for liquidity risk. The company focuses on conservative and professional liquidity management. Stressed scenarios are implemented in Asset and Liability analyses. The effect of the stressed scenarios show that the company have the ability to meet its obligations even under severe stress.