RISK MANAGEMENT AND INTERNAL CONTROL

MONITORING AND MANAGING RISK is an integral part of financial operations. In DnB NOR, sound risk management is a strategic tool to enhance value generation. Internal control should ensure effective operations and prudent management of risks that could prevent the Group from attaining its business targets.

A description of risk management and internal control in the Group is given below. The Board of Directors’ reporting of the main features of internal control relating to financial reporting is described in the Annual Report 2010, in the “Corporate governance” chapter, section 10.

BOARDS OF DIRECTORS
Organisation and responsibilities
The Board of Directors of DnB NOR ASA, the holding company board, has principal responsibility for the Group’s business operations, which includes ensuring that operations, financial reporting and asset management are subject to adequate control. The Board of Directors carries out a review of developments within the Group’s most significant risk areas every four months and makes an annual review of its internal control system.

The profitability of DnB NOR will depend on the Group’s ability to identify, manage and accurately price risk arising in connection with financial services. The Board of Directors of DnB NOR ASA has a clearly stated goal to maintain a low risk profile. The banking group aims to maintain an AA level rating for ordinary long-term debt.

The Group’s risk is measured in the form of risk-adjusted capital requirements, calculated for main risk categories and for all of the Group’s business areas. Cf. further description under “Capital management and risk categories”. In addition, risk is followed up through supplementary risk measures adapted to operations in the various business areas, for example monitoring of exposure relative to limits, key figures and portfolio risk targets.

The holding company board carries responsibility for ensuring that the Group is adequately capitalised relative to the risk and scope of operations and that capital requirements stipulated in laws and regulations are met. Rules have also been worked out for internal control and operational risk management at group level.

Internal and external reporting shall be of high quality, and the Group shall comply with relevant laws, regulations and internal guidelines, including the Group’s values and rules governing ethics and corporate social responsibility. The organisational structure of DnB NOR aims to ensure independent risk reporting.

The board has approved rules governing ethics and corporate social responsibility which should help raise awareness of and ensure compliance with the ethical standards required in the Group. According to the Group’s code of ethics, employees must promptly inform their immediate superior or the group executive vice president, Group Audit, if they obtain knowledge about circumstances that are contrary to prevailing regulations issued by the authorities or about major breaches of internal regulations.

The Group’s credit policy is laid down in a joint meeting of the Boards of Directors of the holding company and DnB NOR Bank ASA. The bank’s Board of Directors determines credit strategies and annual limits for liquidity risk and market risk for the banking group. Market risk reflects equity, currency, interest rate and commodity exposure.

The Boards of Directors of the other operative companies in the Group, e.g. Vital, set limits for relevant risks pertaining to their operations.

Implementation and monitoring
The holding company board annually reviews the Group’s principal risk areas and internal control. The review, which is based on reporting from the group chief executive, aims to document the quality of the work performed in key risk areas and to identify any weaknesses and needs for improvement. The review should ensure that changes in the risk situation are identified, so that the necessary improvement measures can be implemented.

The Audit Committee monitors the Group’s internal control and risk management systems and makes sure that they function effectively. The Audit Committee also evaluates the quality of the work performed by the internal auditors. The Boards of Directors of DnB NOR Bank ASA, Vital and other significant subsidiaries annually evaluate the companies’ key risk areas and internal control.

Every four months, the Audit Committee and the Boards of Directors of the holding company and the bank receive a report on developments in the Group’s defined risk categories. The Board of Directors of Vital receives periodic reports analysing the company’s risk situation.

Information about the Group’s risk situation is made available to the market, shareholders and the authorities through quarterly reports. In addition, information is released about DnB NOR’s adaptation to and compliance with the capital adequacy regulations, including information on processes and models and quantitative information about the various risk categories. Information is made available on the Group’s website, dnbnor.no.

The holding company board has approved a capitalisation policy to ensure that the Group’s equity is adapted to the scope and risk profile of operations,
based on the authorities’ capital adequacy requirements and DnB NOR’s internal estimated capital requirements. The Board of Directors continually monitors the Group’s capital situation.

**GROUP CHIEF EXECUTIVE AND EXECUTIVE BODIES**

**Organisation and responsibilities**
The group chief executive is responsible for implementing risk management measures that help achieve targets for operations set by the holding company board, including the development of effective management systems and internal control.

The group management meeting is the group chief executive’s collegiate body for management at group level. All important decisions concerning risk and capital management will generally be made in consultation with the group management team.

The group management meetings are attended by the group executive vice presidents in charge of the business areas and staff and support units. A number of advisory bodies have been established to assist in preparing documentation and carrying out follow-ups and controls within various specialist areas:

- The Asset and Liability Committee, ALCO, is an advisory body for the chief financial officer and handles matters relating to the management of market and funding risk, risk modelling, capital structure and return targets.
- The Group has three central credit committees: the Group Advisory Credit Committee, the Advisory Credit Committee for Large Corporates and International, and the Advisory Credit Committee for Retail Banking. The Group Advisory Credit Committee approves credits which affect both business areas according to assigned authorisations and advises the group chief executive and the Board of Directors in connection with large individual credit proposals and other credits of an extraordinary nature. The committee plays a key role in formulating the Group’s credit policy, credit strategies and credit regulations, as well as in assessing portfolio risk. The Credit Committees for Large Corporates and International and for Retail Banking approve credits according to assigned authorisations for the respective business areas.
- The Investment Committee is an advisory body with respect to the Group’s purchases and sales of equity instruments in the bank’s strategic and financial equity portfolios. Decisions on purchases and sales are delegated based on authorised amounts and trading limits. Decisions on transactions in excess of NOK 250 million must be presented to the bank’s Board of Directors.
- The Operational Risk and Compliance Committee helps ensure effective and consistent monitoring and reporting of operational risk throughout the Group. A key task is to make sure that the Group’s routines relating to internal control and quality assurance are designed to provide added value relative to group operations.

**Implementation and monitoring**

The basis for risk management in DnB NOR is that individual managers in the Group are responsible for risk within their own area of responsibility and must therefore have the necessary insight into and understanding of the relevant unit’s risk situation, thus ensuring that the management of such risk is financially and administratively sound.

The group chief executive has issued more detailed guidelines concerning the implementation of the group credit policy and credit strategies. Each business area manages its own credit processes based on such guidelines.

**Risk in Vital** is monitored by measuring the overall decline in value which Vital would be able to cover while meeting statutory minimum capital requirements.

All units carry out an annual risk review which includes:

- comments to the unit’s work on risk management and internal control
- risk assessments
- an evaluation of compliance with external and internal regulations
- planned improvement measures

Reporting takes place at department level and forms the basis for aggregate reports for business areas and support units, which in turn are included in the group chief executive’s reports to the holding company board. Where assessments identify particularly serious risks, these should be reported along with an indication of relevant improvement measures.

**GROUP FINANCE AND RISK MANAGEMENT**

**Organisation and responsibilities**
Group Finance and Risk Management has overall responsibility for risk measurement and management and internal control and for assessing and reporting the Group’s overall risk situation. The Group Risk Management division is organised in Group Finance and Risk Management and is headed by the Group’s chief risk officer. All of the Group’s risk entities are organised in this division.

**Implementation and monitoring**

Group Risk Management prepares periodic reports to the Boards of Directors of the holding company and the bank regarding developments in the various risk categories. The group chief credit officer presents a report to the bank’s Board of Directors regarding the trend in the banking group’s credit risk. The Group’s risk is measured in the form of risk-adjusted capital requirements. Calculations of the business areas’ capital requirements are based on the Group’s internal risk model, see “Capital management and risk categories”. Return on risk-adjusted capital is a factor in product pricing, profit calculations and in monitoring performance in the business areas.

**GROUP COMPLIANCE**

**Organisation and responsibilities**

DnB NOR shall comply with all laws and regulations applicable to the Group’s operations, hereinafter referred to as compliance. The Board of Directors has approved a compliance policy which describes the main principles for compliance and how the compliance function is organised in the Group. The compliance function is an independent function which identifies, evaluates, gives advice on, monitors and reports on the Group’s compliance risk. In all business areas and support units, as well as in large subsidiaries and international entities, compliance officers have been appointed with responsibility for ensuring compliance with relevant regulations.

**Implementation and monitoring**

The group compliance officer is responsible for the Group’s overall control of and reporting of compliance risk and any breach of laws and regulations pertaining to the Group. The group compliance officer is organised in the Group Risk Management division and reports to the Board of Directors through the group chief executive at least once a year. Compliance officers in the business areas and support units issue periodic reports on the current status and on any violations of regulations to the group compliance officer and to the heads of their respective units. The identification, assessment and monitoring of the Group’s financial compliance risk is carried out by Group Financial Reporting on behalf of the chief financial officer.

**AUDIT**

**Organisation and responsibilities**

Independent and effective audits will help ensure satisfactory risk management and internal control as well as reliable financial reporting. Group Audit receives its instructions from the holding company board, which also approves the department’s annual plans and budgets.

**Implementation and monitoring**

As a quality check to ensure compliance with the conditions set by the Board of Directors, Group Audit carries out independent risk assessments of and checks on group activities. The results of the audit activities are reported to the Boards of Directors of the relevant companies in the DnB NOR Group, the holding company board, the Audit Committee and group management. Reports from Group Audit are also presented to the Control Committee and the statutory auditor. Group Audit monitors that the necessary measures are initiated and implemented.