Eksportfinans – Annual Report 2010

Main features

2010 has been a good year for Eksportfinans. Profits from the underlying business operations remain strong, and disbursements of export credits have been record high throughout the year. Despite the volatility in the financial markets caused by the sovereign European debt crisis, Eksportfinans experienced strong access to funding globally and the company successfully launched three public benchmark transactions in 2010.

Eksportfinans experienced an increase of 20 percent in new lending to export related sectors in 2010 compared to 2009. In all, Eksportfinans disbursed NOK 33.7 billion in new export related loans in 2010, compared to NOK 28.1 billion in 2009.

The Norwegian maritime sector is subject to strong international competition, but overall the market conditions for the sector improved during 2010. The market for ships built at Norwegian shipyards improved, with new yard contracts of NOK 15 billion in 2010, compared to NOK 3 billion in 2009. Also within maritime equipment and the oil and gas sector, the Norwegian export industry was awarded substantial new contracts throughout the year. Eksportfinans has been requested to finance a large portion of these contracts.

Renewable energy and climate change technologies have become a booming sector worldwide, and global project investments have more than quadrupled since 2004. In 2010, Eksportfinans expanded its scope of business to include financing of renewable energy, infrastructure and environmental projects. A new business area was established to support the new focus, and this business area accounted for 7-8 percent of total new lending disbursements in 2010.

Eksportfinans has only indirectly, and to a limited degree, been affected by the sovereign European debt crisis, and experienced the situation in 2010 as volatile but within manageable levels. Throughout 2010, Eksportfinans was able to raise NOK 72.2 billion in new funding in the international capital markets, and had good access to all major funding sources. Marketing efforts were focused on key markets for private placements in Asia and the USA, as well as on large benchmark investors in Europe, Asia, the Middle East and USA.

One area of focus in Eksportfinans throughout 2010 has been to further develop risk management functions and to reduce operational risk. A key achievement during 2010 in this respect has been the implementation of the company's new structured bond and swap model framework where all trades now float two ways between the main trading system, the back office transaction system and the structured models system. Efforts to ensure cross-organizational information flow and treatment of issues and risks relating to the company’s balance sheet profile and security holdings respectively have also been a focus area for the company in 2010.

Net interest income amounted to NOK 1.4 billion in 2010 compared to NOK 1.5 billion in 2009. Total comprehensive income for 2010 was positive 448 million, compared to negative NOK 1,462 million for 2009. The total comprehensive income in 2010 was primarily caused by high net interest income, but offset by the reversal of the previously recognized gains on Eksportfinans’ own debt, net of derivatives, which is measured at fair value in the financial statements.

Net profit excluding unrealized gains and losses on financial instruments amounted to NOK 859 million in 2010, compared to NOK 1,041 million in 2009. Total assets decreased by four percent in 2010, from NOK 225.3 billion at December 31, 2009 to NOK 215.5 billion at December 31, 2010. This was mainly due to the repayment of funding to Kommunal Landspensjonskasse (KLP), the buyer of KLP Kreditt AS (formerly Eksportfinans' subsidiary Kommunekreditt Norge AS), and the reduction of the liquidity portfolio guaranteed by Eksportfinans' owners (PHA), see the section "Securities" on page X.

Lending

Export financing

Disbursements of new loans from Eksportfinans amounted to a record high NOK 33.7 billion in 2010, compared to NOK 28.1 billion in 2009. Eksportfinans' total outstanding export related loans increased from NOK 81.4 billion at year-end 2009 to NOK 99.8 billion at December 31, 2010. The main reason for the increase was the high volume of new loan disbursements during 2010. The increase in the volume of new loan disbursements was related to contract financing in connection with shipbuilding, ship equipment and offshore oil and gas projects as well as corporate loans to Norwegian export companies. The high volume of new disbursements within contract financing during 2010 was primarily a result of supply contracts entered into in 2009 and 2008.

In general, the market conditions for the maritime industry in Norway improved during 2010. However, the volume of the probability adjusted order book for export-related loans was approximately NOK 20.5 billion at year-end 2010, compared to NOK 27 billion at the same time in 2009. The decline of the order book was due to the high volume of new loan disbursements and a lower inflow of new contracts in the maritime sector in 2009.

In April 2010, the Norwegian government launched its support program for Norwegian shipyards. The program was designed to support this sector after a period of challenging market conditions with a decline in new orders following the financial crisis. Eksportfinans took part in the dialogue between representatives of the industry, the government and financial institutions in order to explore different solutions that might strengthen and improve the situation for the industry.

The government support program included several efforts of support, of which two in particular were related to Eksportfinans providing government supported financing. First, the required Norwegian content in projects financed with government supported export credits was reduced from 50 to 30 percent. The Norwegian export industry competes for very large contracts, and even smaller portions of such projects can lead to large deliveries for the Norwegian export industry. Secondly, the government opened up for projects where national interest could be considered, meaning deliveries from subsidiaries of Norwegian companies abroad.

Disbursements under the public lending scheme were substantially lower in 2010 compared to 2009 due to market interest rates being more competitive than the fixed interest rate on government-supported export credits, the CIRR interest rate. New loans under the government lending scheme in 2010 amounted to NOK 2.7 billion, compared to NOK 14.4 billion in 2009. As a result of this, total amounts outstanding under the scheme decreased from NOK 38.8 billion to NOK 35.3 billion in the course of the year. The reduction in new loans under the government-supported lending scheme was by and large substituted by new loans on market terms.

At the end of 2009, Eksportfinans decided to re-enter the market for corporate loans to Norwegian export companies. These loans are fully enhanced by bank guarantees. The volume of new corporate loans was 7.7 billion in 2010 compared to zero in 2009.

A new business area was established in Eksportfinans during 2010. The new business area supports Eksportfinans' new focus on financing of renewable energy, infrastructure and environmental projects. Ivar Slengesol was appointed EVP and Director of Business Development in April 2010, and leads Eksportfinans' efforts related to these sectors. Europe has been a driving force behind the recent growth in renewable energy and climate change technologies globally. The trend of rapid growth within green industries is being further asserted through the European Union's Renewable Energy Directive, which aims for a 20 percent share of energy from renewable sources by 2020, up from 8.5 percent in 2005. The involvement of Norwegian companies in these sectors is limited but growing. In 2010, Eksportfinans has participated in the financing of several projects within these sectors, one example being long-term financing of seven solar parks in the Czech Republic through the Norwegian developer Scatec Solar.

In its annual letter to Eksportfinans regarding the management of the government supported export financing scheme for 2010, the Ministry of Trade and Industry requested Eksportfinans to monitor innovative projects and to support the Norwegian export industry in renewable energy projects specifically.

Eksportfinans has close commercial cooperation with GIEK (The Norwegian Guarantee Institute for Export Credits), Eksportfinans' owner banks and other banks that support Norwegian industry and commerce. Together, GIEK, the banks and Eksportfinans offer complementary products in combination to provide customers with favorable financing.

Most of Eksportfinans' borrowers are based within the OECD-area, and as in 2009, Norwegian borrowers represented a major part of the new lending volume in 2010. A reason for this was the fact that the public lending and guarantee scheme for export credits is also available to Norwegian borrowers if the financing is used for ships, ship equipment and drilling vessels, or if the borrowers' income stems from other offshore activities. Eksportfinans' objective is to offer competitive financing to the supplier industry in the export markets in cooperation with GIEK as well as Norwegian and foreign banks.

Local government lending

On June 24, 2009, Kommunekreditt Norge AS was sold to Kommunal Landspensjonskasse (KLP). At the same time, NOK 11 billion of loans from Kommunekreditt to Norwegian municipalities were transferred to Eksportfinans ASA at market value. Eksportfinans ASA expects to hold this portfolio of municipal loans to maturity.

As part of the sale, Eksportfinans has provided financing to KLP Kreditt AS (formerly Kommunekreditt Norge AS) through a loan of NOK 34.4 billion, with security in the underlying lending portfolio. This loan is contractually set to be repaid in eight equal, quarterly amounts. The first installment was paid in December 2009, and the last installment is scheduled for payment in September 2011. Eksportfinans' total involvement in local government lending (both direct lending to municipalities and the credit provided to KLP Kreditt AS) totaled 23.5 billion at year-end 2010, compared to NOK 40.8 billion at December 31, 2009.

Securities

Eksportfinans' securities portfolio consists of two different portfolios. One is the subject of a Portfolio Hedge Agreement with Eksportfinans shareholders since February 29, 2008 (the PHA portfolio), and the other portfolio is maintained for the purpose of liquidity (referred to herein as the "liquidity reserve portfolio"). The total securities portfolio was NOK 67.9 billion at December 31, 2010, compared to NOK 76.1 billion at December 31, 2009.

The fair value of the PHA portfolio was NOK 36.0 billion at December 31, 2010, compared to NOK 52.2 billion at year-end 2009. The PHA portfolio is no longer actively managed by Eksportfinans and will be run off to maturity. See Note 13 to the accompanying financial statements for further information about and description of the Portfolio Hedge Agreement.

The uncertainty in the international capital markets has led to relatively high credit spreads in 2010. This has also led to relatively high net interest income from the liquidity reserve portfolio in 2010. Eksportfinans expects this situation to be temporary. The fair value of the liquidity reserve portfolio was NOK 31.9 billion at December 31, 2010, compared to NOK 23.9 billion at December 31, 2009.

Funding

Eksportfinans is one of Norway's largest international issuers of bonds, and has a global investor base. Total new borrowings in 2010 amounted to NOK 72.2 billion, compared to NOK 69.3 billion in 2009. Despite volatility caused by the European sovereign debt crisis in 2010, Eksportfinans experienced favorable markets that provided the opportunity to issue three benchmark bond issues. A benchmark bond issue is a large bond issue available for public sale to investors in specified regions. The pricing of these transactions forms the benchmark price for Eksportfinans in the market.

Two of these benchmark bond transactions were issued in USD with tenors of 3 years and 5 years. They were sold to investors globally through the company's global debt issuance shelf. In June 2010, Eksportfinans made its inaugural fixed rate Samurai bond issue in Japan with a successful JPY 30 billion 5-year transaction. A Samurai bond is sold by a foreign issuer into Japanese domestic investors under Japanese law and documentation. Eksportfinans also funds itself through the issue of private placements to individual investors and is recognized as one of the most active issuers of structured notes in this market. In 2010 key private placement markets were Asia and the USA and a total of 721 individual bonds were issued in seven currencies.

Marketing efforts were focused on key markets for private placements in Asia and the USA, as well as on large benchmark investors in Europe, Asia, the Middle East and USA. Eksportfinans holds special status in Japan as a quasi sovereign borrower. In 2010, the institution was one of the largest international borrowers in this market where it has had a presence for over 25 years and is well known for its strong credit and flexible approach to meeting investor requirements. The proprietary web-based platform for the issuance and documentation of structured bond transactions, eFunding, continued to be integral to the institution's funding strategy in 2010. At year-end 2010, Eksportfinans' bank intermediaries had themselves used the system to generate 7,500 individual price quotes for potential new Eksportfinans bond issues.

In November 2008 Eksportfinans entered into an agreement with the Norwegian government giving the company the option to borrow directly from the government over two years in order to finance export credits. Eksportfinans did not need to utilize this facility.

Results

Net interest income

Net interest income was NOK 1,419 million in 2010. This was NOK 51 million lower than in 2009. The main reason for the lower net interest income in 2010 was the calculation of preference share dividends to the Norwegian government as part of the borrowing agreement between Eksportfinans and the Norwegian government entered into in 2008. According to IFRS (International Financial Reporting Standards) the preference share is booked as a financial liability, and the dividends are correspondingly booked as interest expenses. The return on assets was 0.59 percent in 2010, which was 0.03 percentage points higher than in 2009.

Net other operating income

The reversal of the net gains booked in 2008 on the fair value of Eksportfinans own debt has continued into 2010. While Eksportfinans booked unrealized losses of NOK 3.8 billion on its own debt, net of derivatives, for the year 2009, the corresponding figure for the year 2010 was an unrealized loss of NOK 390 million. This unrealized loss does not in any material way affect the core capital of the company.

The unrealized gain on Eksportfinans' own debt, net of derivatives, accumulated in the balance sheet, was NOK 1.4 billion as of December 31, 2010. These remaining unrealized gains on own debt will continue to be reversed as unrealized losses in future periods, either as Eksportfinans credit spreads declines, or through passage of time. The reversal of the previously recognized unrealized gains on Eksportfinans' own debt along with unrealized losses on loans and securities, all net of derivatives, led to a negative net other operating income of NOK 602 million in 2010. In the year 2009 there was a negative net other operating income of NOK 3.8 billion. Unrealized losses due to the increase in fair value on own debt are included in the line item Net gains/(losses) on financial instruments at fair value in the table. This line item includes an unrealized loss on Eksportfinans' own debt of NOK 390 million. See Note 5 and Note 31.4 to the accompanying financial statements for a breakdown of this line item.

Total operating expenses

Total operating expenses amounted to NOK 194 million in 2010, up NOK 7 million from 2009. The increase was mainly due to increased IT related expenses and inflationary effects. The key ratio, Net operating expenses in relation to average assets, was 0.09 percent in 2010, compared to 0.07 percent in 2009.

Profit for the year

Due to the positive net interest income, combined with the negative net operating income resulting from the circumstances in the international capital markets discussed above, Eksportfinans experienced a positive total comprehensive income for the period of NOK 448 million in 2010, compared to a negative NOK 1,462 million in 2009.

Return on equity was 8.5 percent in 2010, up from negative 23.8 percent in 2009. Profit excluding unrealized gains and losses on financial instruments (see separate table), amounted to NOK 859 million in 2010, down from NOK 1,041 million in 2009. This was mainly due to the preference share dividends described above, and recognized gains related to Icelandic banks in 2009.

(NOK thousands)	2010	2009
Comprehensive income for the period in accordance with IFRS	447,994	(1,462,444)
Loss/(profit) for the period from discontinued operations	0	(339,356)
Net unrealized losses/(gains) [1)]	553,900	3,857,530
Unrealized gains/(losses) related to the Icelandic bank exposure	16,811	91,255
Tax-effect [2)]	(159,799)	(1,105,660)
Profit for the period excluding unrealized gains/(losses) on financial instruments at fair value	858,906	1,041,325
Return on equity based on profit for the period excluding unrealized gains/(losses) on financial instruments at fair value	17.7 %	24.1 %

1) See note 5 to the accompanying financial statements. The amount includes the fair value increase of NOK 17 million (at exchange rates applicable at December 31, 2010) and the fair value increase of NOK 91 million (at exchange rates applicable at December 31, 2009) related to the Icelandic Bank exposure.
2) 28 percent of the unrealized items above

In conformity with Section 3-3 of the Norwegian Accounting Act, it is confirmed that the annual accounts have been prepared on the basis of the going concern assumption.

Balance sheet

Total assets amounted to NOK 215.5 billion at year-end 2010, compared to NOK 225.3 billion at year-end 2009. The reduction in total assets was mainly due to the reduction of the municipal lending portfolio and the reduction of the liquidity portfolio.

Total lending from Eksportfinans amounted to NOK 123.4 billion at the end of 2010, compared to NOK 122.2 billion at the end of 2009. Liquidity placed in commercial paper and bonds amounted to NOK 67.9 billion at year-end 2010. The corresponding volume at year-end 2009 was NOK 76.1 billion. Debts incurred by issuing commercial paper and bonds came to NOK 186.4 billion at year-end 2010. The corresponding figure at year-end

2009 was NOK 197.6 billion. Eksportfinans' distributable equity (in accordance with section 8-1(1) of the Norwegian Public Limited Companies Act) amounted to NOK 2,073 million at December 31, 2010, calculated as below:

(NOK thousands)	Dec. 31, 2010
Other equity	2,137,289
Deferred tax assets	(43,729)
Intangible assets	(20,209)
Distributable equity	2,073,351

The final distribution also has to be compatible with prudent and sound business practice (in accordance with section 8-1(4) of the Norwegian Public Limited Companies Act). Especially, capital adequacy effects have to be thoroughly assessed, and may limit the board's dividend proposal significantly.

According to Section 5–5 of the Securities Trading Act the board of directors and the President and CEO shall jointly give a statement that the financial report represents a complete and final report on the financial position of the company. The report is provided separately.

Capital adequacy ratio

The capital adequacy ratio was 17.6 percent at year-end 2010, compared to 13.3 percent at year-end 2009. The core capital adequacy ratio was 12.7 percent at year-end 2010, compared to 9.7 percent at year-end 2009. The positive profit excluding unrealized gains and losses combined with the reduced lending and liquidity placement balances, significantly improved the capital adequacy ratios. The board of directors has proposed a dividend payment of NOK 500 million to be paid in 2011, and this was also included as a deduction in the calculations of the capital adequacy ratios as per December 31, 2010.

Risk management

Eksportfinans' business model is based on a combination of a conservative risk profile, relatively low margins and comparatively high leverage. This requires effective identification, measurement, aggregation and management of risks, as well as appropriate allocation of capital to the different business areas.

Risk and capital are managed through a framework of principles, organizational structures as well as measurement and monitoring processes that are closely aligned with the activities of the business areas. The importance of a strong focus on risk management and the continuous need to refine risk management practice became particularly evident during the recent financial crisis. While Eksportfinans' risk and capital management continuously evolves and improves, there can be no assurance that all market developments, in particular those of an extreme nature, can be fully anticipated at all times.

Objectives and strategies for risk management:

The following key principles form the approach to risk and capital management in Eksportfinans:

- The management team provides overall risk and capital management supervision. Eksportfinans' board regularly monitors and yearly revises the risk and capital profile.
- Eksportfinans manages market-, credit-, operational-, business-, legal and reputational risks as well as capital allocation in a coordinated manner. This also holds true for complex funding which is typically managed with a focus on liquidity risk as maturities may be uncertain.
- The structure of the integrated legal, risk and capital function is closely aligned with the structure of the business areas.
- The legal, risk and capital functions are independent of the business areas.

Regulatory risk reporting:

In May 2010, Eksportfinans' second Pillar III required by Basel II regulations was published on the company's website (www.eksportfinans.no). Pillar III reports on the company's overall risk strategy, assessments of the capital adequacy as well as controls and routines for managing the types of risk that Eksportfinans faces, such as market risk, credit risk and operational risk. This enables analysts and investors to evaluate the institution's risk profile and capitalization, as well as management and control.

The third ICAAP (Internal Capital Adequacy Assessment Process) report was filed with Finanstilsynet (the Norwegian FSA) in December 2010, following a strategic planning and budgeting process utilizing forward looking inputs and integrating this reporting process more closely with the internal critical risk and planning processes in the company.

Regulatory Framework

With effect from January 1, 2011, new regulations concerning calculation of exposures to one single client were introduced. The single most important change was that risk weighting for exposures to banks was discontinued. The maximum allowed exposure, equaling 25 percent of the institutions own funds, applies under the new provisions. Under the previous rules for calculating and reporting large exposures, Eksportfinans risk weighted engagements with borrowers that were secured by on demand guarantees with 20 percent. Eksportfinans reported exposures to borrowers up to the maximum 25 percent and excess exposures, if any, were reported as exposures towards the guaranteeing bank. That meant that maximum exposure to a single client (borrower and guaranteeing bank) equaled NOK 7.1 billion. The new provisions for large exposures equal the prevailing provisions applicable in the European Union (Directive 2006/48/EU) and entail that the maximum exposure to borrower and guaranteeing banks are approximately NOK 1.4 billion and leaves little or no authority for Norwegian supervisory authorities to make exeptions. The new provisions are detrimental to Eksportfinans' business concept.

Eksportfinans was granted a transitional period ending December 31, 2011, during which it can use the 2010 reporting standards for large exposures. During the transitional period the Norwegian Ministry of Finance will consider how Eksportfinans shall adopt the new provisions. Eksportfinans is in dialog with the authorities for a sustainable solution. There is no guarantee that the result of the Ministry of Finance's consideration will not be disadvantageous to Eksportfinans' business activities.

The new regulatory framework known as Basel III, comprising regulations regarding capital and liquidity in financial institutions is still being developed. The progress of the development of the framework is being monitored continuously, and all necessary measures in order to comply with the right regulations at any given time are being taken.

Categories of risk:

Market risk

Spread risk on Eksportfinans' bond issues was relatively flat throughout the year with end-of-year 2010 spreads at about the same level as end-of-year 2009 both for structured and plain vanilla funding. Credit spreads for the liquidity reserve portfolio almost doubled during the first half of 2010, and then declined until November before almost returning back to the levels at the beginning of the year in December. The spread risk on export loans increased about 10 basis points during the first half of the year, mainly due to higher interest rates on new loans. For the rest of 2010 the spreads remained relatively stable. In sum, credit spreads remained almost constant in portfolios both on the asset and on the liability side of the company's balance sheet. Other market risks for the company were currency and interest rate risk controlled through defined limits monitored daily. The interest rate positions and currency exposure are presented in Note 31.

All interest rate risk, foreign exchange risk and liquidity risk on lending and borrowing associated with the public export financing scheme managed by Eksportfinans, are fully covered through the agreement with the Ministry of Trade and Industry.

Credit risk

Eksportfinans' credit policy is based on dealing with counterparties with a high credit quality. The exposure is mainly towards supranationals and sound financial institutions and states within the EU and OECD. The counterparties either have high ratings or the exposure is covered by different government guarantee programs.

The sale of Kommunekreditt Norge AS to KLP in 2009 strengthened Eksportfinans' liquidity situation and reduced liquidity risk. However, net results are expected to be somewhat more fluctuating and more closely related to the developments in the export lending industry going forward. The PHA agreement was established to hedge the credit risk in the PHA portfolio (see the section “Securities” above). Investments in the liquidity reserve portfolio are limited on a portfolio basis by stop loss limits and covenants on issuer/guarantor rating.

Credit counterparty risk from derivatives has been reduced further as the move to more frequent exchange of collateral has continued in 2010. Exchange for the majority of transactions are now monitored daily.

Operational risk

The board's guidelines for operational risk are updated annually, and supplemented with administrative routines and management systems.

In order to handle operational risk, Eksportfinans has invested in new IT-solutions, automation and formal written routines, and also taken measures to maintain good competence within risk management and other key positions.

A key achievement during 2010 in reducing operational risk was the implementation of the company's new structured bond and swap model framework, Numerix, where all trades now float between the main trading system, the back office transaction system and the structured models system. As Eksportfinans is subject to section 404 of the Sarbanes-Oxley Act, the company's internal auditors have been involved in the new simplified registration routines ensuring Sarbanes Oxley compliance.

In all processes regarding estimation of fair values and risk control there is a clearly defined separation of responsibility between the business units and the control and follow-up units. These processes are subject to regular audit.

In addition, the Pillar II requirements in Basel II, ICAAP (Internal Capital Adequacy Assessment Process), maintain focus on operational risk, which has a separate chapter in the company’s risk policy document.

Liquidity risk

In 2009, an Asset & Liability Management Group and an Asset & Liability Committee were established. This was supplemented in 2010 by an Investment Committee, consisting of senior members from Capital Markets, Risk Management and Financial Control. These committees ensure cross-organizational information flow and treatment of issues and risks relating to the company’s balance sheet profile and security holdings respectively.

A proportion of assets with short maturities are held in a liquidity reserve portfolio. The maturity profile of these securities is such that they are expected to cover the company’s liquidity need through redemption. A portion of the assets in this portfolio and the PHA portfolio also qualify for repo through the company’s committed repo-facilities, thus securing additional access to liquidity if required. The performance of the portfolio is monitored closely and the risk mandate is defined in Eksportfinans’ risk policy document which is approved by the board annually.

Liquidity capacity and future need for refinancing under both normal and stressed conditions are monitored regularly. In a normal situation the maturities on the liability side will be met by new borrowings. However, in a stressed conditions scenario, access to the wholesale funding market is assumed closed. The need for refinancing over the next 12 months under stressed conditions has continued to decline throughout 2010.The situation after 12 months in a stressed scenario shows positive liquidity capacity when committed and uncommitted repo-facilities are taken into account.

Symmetrical maturity profiles on the asset and liability sides are also seen as important mitigating factors against liquidity risk. The organization is continuously working towards achieving this.

Rating

Eksportfinans international long-term foreign currency credit ratings at December 31, 2010 were:

- Aa1 with a negative outlook from Moody's Investor Services since May 2009
- AA with a stable outlook from Standard and Poor's since June 2010

After a thorough review of its rating policy, Eksportfinans has decided to have its debt rated by two rating agencies instead of three and has not renewed its contract with Fitch Ratings for 2011. Fitch Ratings affirmed Eksportfinans' AA-rating and withdrew the rating accordingly on December 23, 2010. As of January 1, 2011, the company's debt will be rated by Moody's Investor Services and Standard and Poor's.

Administrative matters

Eksportfinans ASA provides long-term financing to the export industry and their customers. Owners include 24 commercial and savings banks which operate in Norway (85 percent), as well as the Kingdom of Norway (15 percent). Eksportfinans was established in 1962 and its main office is in Oslo.

Governing bodies

The board of directors of Eksportfinans ASA consists of eight members in all, four of which are representatives from the shareholder banks, in addition to three representatives from Norwegian industry elected by the shareholders. In addition, an employee representative holds a place on the board.

Eksportfinans complies with the special Norwegian legal regulation implying that both men and women should constitute at least 40 percent of the elected board.

During 2010, member for the board Live Haukvik Aker replaced Chairperson of the board Geir Bergvoll as Head of the board's audit committee. As of April 2010, the board's audit committee consists of the following members of the board: Live Haukvik Aker, Tone Lunde Bakker and Bodil P. Hollingsæter.

Eksportfinans established a remuneration committee in December 2010. The committee consists of three members of the board, appointed for one year periods. The committee shall ensure that Eksportfinans at any given time practices guidelines and frameworks for a compensation scheme that will apply to the whole company in general and for certain specified categories of employees in particular.

According to Sections 5-6 (3), (4) and 6-16a of the Public Limited Liability Company Act, the board of directors shall disclose its guidelines for remuneration to the general executive management. In addition, the board shall report on its guidelines for remuneration to general executive management for the preceding financial year and the implementation thereof. The amounts are reported in Note 36, and the policy is available in a separate article on page X.

Corporate governance

Eksportfinans aims to ensure a high standard of corporate governance. Eksportfinans insists on compliance with laws, regulations and ethical standards. The shareholders elect independent and well-qualified board members to safeguard these values. The organization complies with the Norwegian code of practice for corporate governance (NUES) to the extent possible, and with § 3-3b of the Norwegian annual accounting act. The corporate policy on corporate governance is available in a separate article on page x

The organization

In April 2010 Ivar Slengesol was appointed EVP and Director of Business Development in Eksportfinans. Ivar Slengesol is responsible for the company's new focus on renewable energy and environment technology and has several years of experience within development of wind power projects in companies such as Shell and OceanWind. Previous working experience also includes different positions at the World Bank in Washington DC and Paris.

Working environment

To ensure a good working environment and cooperation between top management and the employees, Eksportfinans has two cooperation committees: the working environment committee and the liaison committee. Both committees submit an annual report to the board about their activities. In 2010, the committees have discussed issues such as personnel welfare policies, the new strategy for development of human resources, revised regulations for remuneration to the Norwegian financial sector and the use of temporary employment in Eksportfinans.

The institution is committed to diversity, for example with regards to composition of age and gender, education and ethnic background. The annual employee satisfaction survey was conducted in the autumn of 2010. Also this year, the survey showed that the employees perceive the level of discrimination related to age, ethnic background, gender, sexual orientation or physical handicaps to be minimal.

At the end of 2010, Eksportfinans had employees from 11 different nations. All are situated in Oslo, except one local representative in Ålesund. At the same time the gender distribution was 43 percent women and 57 percent men. In management positions 29 percent were women at the end of 2010, compared to 36 percent at the end of 2009. In 2010, seven new employees were recruited, two women and five men.

Short-term absence in 2010 was at the same low level as in 2009 at 0.8 percent. Total absence due to illness decreased to 3.0 percent. In 2009, the total absence due to illness was 3.5 percent. There were no reports of accidents resulting in personal injury or material damage in 2010.

Corporate Responsibility

The activities of Eksportfinans do not have any direct impact on the external environment. However, the projects that Eksportfinans finances might have an adverse effect on the environment. The company therefore has a definite awareness of environmental issues.

In 2010, Eksportfinans formally adopted the Equator Principles, a voluntary set of guidelines for determining, assessing and managing social and environmental risk in project financing. Since its establishment in 2003, more than 60 international banks have adopted the Equator Principles, including the majority of the world’s leading project lenders. The Principles apply to all new project financings with total project capital costs of USD 10 million or more. The adoption of the Equator Principles is consistent with Eksportfinans’ commitment to participating in environmentally and socially sustainable projects, and will be an important tool in further ensuring sustainable project finance.

Eksportfinans adheres to the OECD Common Approaches on Export Credits and the Environment for projects that are financed with government supported export credits. In 2010, there have been no major changes in this framework.

Eksportfinans aims to prevent corruption in its own organization as well as related to all its business activities, and has implemented anti-corruption guidelines. The guidelines are based on a 2006 agreement in OECD’s Export Credit Group that significantly strengthens the fight against corruption in transactions financed by officially supported export credits.

Future Prospects

Entering 2011, the global economy continues to recover from the economical crisis, but the structural economic difficulties in some of the European countries are still causing concerns in the international market place. Eksportfinans has no exposure to Greece and a limited exposure to Spain, Italy and Portugal. This exposure is covered by the company’s Portfolio Hedge Agreement (PHA) with its owners. In addition, Eksportfinans has some exposure to Ireland, covered by the PHA and government guarantees. Eksportfinans will continue to monitor the situation in the international capital markets closely.

In general, the market conditions for the maritime industry in Norway improved during 2010. However, Eksportfinans’ probability adjusted order book for export-related loans was approximately NOK 6.5 billion lower at year-end 2010 compared to year-end 2009. Eksportfinans views this decline in volume as naturally caused by the high volume of new loan disbursements in 2010 as well as a lower inflow of new contracts to the maritime industry in Norway in 2009.

Norwegian ship yards have entered into new contracts for approximately NOK 15 billion in 2010, compared to NOK 3 billion in 2009. Eksportfinans has been approached regarding financing of a large portion of new contracts entered into in 2010, and is well positioned to support a potential growth in the maritime sector in the years to come. In addition, Eksportfinans experiences an increased lending volume to Norwegian companies with international activity due to competitive financing terms. The company has received a large volume of new loan applications for export related projects in 2010. Over the year, Eksportfinans received a total volume of loan applications of NOK 156 billion through 220 applications, compared to NOK 82 billion through 161 applications in 2009. The increase indicates a higher volume of activity among Eksportfinans’ customer base compared to 2009. A large portion of the loan applications are related to oil and gas projects in Brazil, and projects within the Norwegian maritime industry. Although there was a higher volume of new applications in 2010, the volume of actual materialized lending will depend on the number of projects being realized going forward.

Eksportfinans will continue its focus on long-term financing of renewable energy, infrastructure and environmental projects within the new business area established in 2010. The volume estimates for 2011 are uncertain, but Norwegian companies are well-positioned internationally within the areas of solar energy, hydro power and offshore wind power. Eksportfinans’ efforts to become a key supporter for long-term financing within the green industries have been well perceived by the market.

At the beginning of 2011, Eksportfinans still has NOK 1.4 billion in accumulated unrealized gains on its own debt, net of derivatives. Given a more normalized situation in the capital markets, these unrealized gains will be reversed as unrealized losses in Eksportfinans financial statements going forward. The unrealized losses do not affect Eksportfinans’ capital adequacy in any material way. The relatively high margins on lending and liquidity placements which Eksportfinans experienced in 2010 are not expected to continue at the same levels in 2011.

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