

## Differences between Norwegian General Accepted Principles vs International Financial Reporting Standards as adopted by the European Union (IFRS-EU) for banking institutions.

The table below gives a brief overview of major differences between the two accounting standards for credit institutions. The overview focuses on recognition and measurement only. Disclosure requirements are not listed, but in general the notes to the financial statements are a lot more extensive under IFRS than under NGAAP. IFRS has several options for recognition and measurement of the items described, and the use of these options will typically affect the differences and the effects on the financial statements.

Item	NGAAP	IFRS-EU	Differences
Derivative financial instruments and hedge accounting	<p><u>Hedging</u></p> <ul style="list-style-type: none"> <li>- Most credit institutions use hedge accounting when derivative financial instruments are used for hedging.</li> <li>- Hedge accounting is done by measuring the hedging instrument (i.e the derivative) at the same basis as the hedged item</li> <li>- As most hedged items for credit institutions are carried at cost or amortized cost, the hedging instrument is amortized to match the hedged risk</li> <li>- The fair value of financial instruments is not recognized in the balance sheet, but shown in notes to the financial statements</li> <li>- Most institutions book foreign currency items at the exchange rates as of the balance sheet date, which means that the component of the derivative financial instruments relating to currency risk is adjusted to the exchange rate at the balance sheet date to reflect the currency hedge. Changes in currency rates are booked through profit and loss (P&amp;L)</li> </ul> <p>Hedge accounting as applied under NGAAP does not meet the extensive requirements as under IFRS</p>	<p><u>General</u></p> <p>All derivative financial instruments are measured at fair value with fair value adjustments through profit and loss (FVTPL)</p> <p><u>Hedge accounting</u></p> <ul style="list-style-type: none"> <li>- The most relevant hedging category for credit institutions is fair value hedging (FVH). Macro hedging or portfolio hedging is a variety of FVH that has been applied by several institutions</li> <li>- Under FVH the hedging instrument (the derivative instrument) is measured at FVTPL, and the hedged item is measured as the same basis (i.e. FVTPL). Any hedge inefficiencies are therefore booked through profit and loss</li> <li>- There are extensive requirements for hedging relationships to qualify as accounting hedges, and the effectiveness of the hedge effectiveness should be measured and documented at inception and throughout the hedging period</li> </ul>	<ul style="list-style-type: none"> <li>- Under NGAAP both the hedging instrument and the hedged item are measured at cost/amortised cost when hedge accounting is applied</li> <li>- Under IFRS both the hedging instrument and the hedged item are, for all practical purposes, measured at FVTPL when fair value hedging is applied.</li> </ul>

Item	NGAAP	IFRS-EU	Difference
Derivative financial instruments and hedge accounting cont.	<u>Non hedging items</u> <ul style="list-style-type: none"> <li>- Derivate financial instruments that are not used for hedging are carried at fair value with fair value adjustments through profit and loss if they qualify for this treatment (restricted to active trading)</li> <li>- Other non hedging financial instruments are carried at lower or cost or market, meaning that losses will be booked but not gains</li> </ul>	<u>Fair Value Option (FVO)</u> <ul style="list-style-type: none"> <li>- IFRS allows all financial instruments (not only derivatives) to be measured at FVTPL if they are initially designated to this category of financial instruments, and FVO significantly reduces accounting mismatches</li> <li>- FVO is by many credit institutions seen as an alternative to hedge accounting</li> </ul>	<ul style="list-style-type: none"> <li>- IFRS allows the use of Fair Value Option</li> </ul>
Loans and receivables due from customers and credit institutions	<ul style="list-style-type: none"> <li>- Carried at amortised cost</li> <li>- Loan impairment when objective criteria for loan impairment have incurred</li> </ul>	<ul style="list-style-type: none"> <li>- Classified as “Loans and receivables” (IAS 39.9)</li> <li>- Carried at amortised cost</li> <li>- Loan impairment when objective criteria for loan impairment have incurred</li> <li>- Fair Value Option allows measurement at FVTPL</li> </ul>	<ul style="list-style-type: none"> <li>- Normally no major differences between NGAAP and IFRS when classified as “Loans and receivables” under IFRS</li> <li>- Different measurement basis if FVO is applied</li> </ul>
Bonds and certificates classified as “Held for trading	<ul style="list-style-type: none"> <li>- Carried at fair value with fair value adjustments through profit and loss</li> </ul>	<ul style="list-style-type: none"> <li>- Carried at fair value with fair value adjustments through profit and loss</li> </ul>	<ul style="list-style-type: none"> <li>- No major differences</li> </ul>
Bonds and certificates not held for trading	<ul style="list-style-type: none"> <li>- Carried at cost/amortised cost – use of lower of cost or market price (LOCOM)</li> <li>- If hedged, the hedging relationship is accounted for as described above</li> </ul>	<ul style="list-style-type: none"> <li>- Carried at amortized cost if classified as “Held to maturity investments”</li> <li>- Carried at FVTPL if designated as fair value under Fair Value Option</li> <li>- If hedged the hedging relationship is accounted for as described above</li> </ul>	<ul style="list-style-type: none"> <li>- No major differences if classified as “Held to maturity investments”</li> <li>- If designated as fair value under FVO any increase in value is reflected in the balance sheet, equity and profit and loss</li> </ul>

Item	NGAAP	IFRS-EU	Difference
Investments (long-term) in the form of shares	- Carried at cost - use of lower of cost or market price (impairment is considered)	- Classified as "Available for sale financial assets". - Carried at fair value, gain/losses recognized in statement of changes in equity (not P&L) - Fair Value Option allows measurement at FVTPL	- Under NGAAP increase in value is not reflected in the balance sheet, equity and profit and loss
Accrued interest receivables	- Interest is recognized as earned	- Interest is recognized as earned	- No major differences
Deposits by credit institutions and borrowings through the issue of bonds	- Carried at cost/amortized cost – normally use of higher of cost or market price (HOCOM) - If hedged the hedging relationship is accounted for as described above	- Carried at amortized cost if no specific designation - Carried at FVTPL if designated as fair value under Fair Value Option or hedged under FVH - If hedged the hedging relationship is accounted for as described above	- Normally no major difference if carried at cost/amortized cost - Use of FVO or FVH will cause measurement differences for both the balance sheet and the profit and loss
Accrued interest payable	- Interest is recognized as incur	- Interest is recognized as incur	- No major differences
Subordinated debt	- Carried at cost/amortized cost – normally use of higher of cost or market price (HOCOM) - If hedged the hedging relationship is accounted for as described above	- Carried at amortised cost if no specific designation - Carried at FVTPL if designated as fair value under - Fair Value Option or hedged under FVH - If hedged the hedging relationship is accounted for as described above	- Normally no major difference if carried at cost/amortised cost - Use of FVO or FVH will cause measurement differences for both the balance sheet and the profit and loss
Dividends	- Proposed dividend is classified as short term debt	- Proposed dividend is classified as part of equity until the dividend is approved by the annual general meeting.	- Different classification

