

NOTE 21

RISK MANAGEMENT - INVESTMENT ACTIVITIES

There have been no significant changes concerning the Group's risk management in the area during the period. Risk management concerning operations, primarily Elopak, is accounted for in [note 26](#).

CAPITAL ALLOCATION AND IMPAIRMENT RISK

The capital allocation in Ferd is decided by the Board each year. The allocation of capital is one of the Board's most important responsibilities, as the return and risk to a high degree is determined by the classes of assets Ferd is investing in, and the allocation between these classes. A structured capital allocation secures a conscious relationship to the diversification and use of Ferd's capital base and ability to manage risk. Ferd's management is, on a regular basis, assessing Ferd's available risk capacity and whether the distribution of the funds at all times is in line with the assumptions and requirements that are the basis for the allocation.

Ferd's overall strategic allocation aims at maintaining a balance between industrial and financial investments.

The allocation shall be in line with the owner's willingness and ability to take risk. One measure of this risk willingness is the size of the decline in value in kroner or percent the owner accepts if any of the markets Ferd is exposed to should experience very heavy and quick downfalls. This has an impact on how much equity that can be invested in assets with a high risk of decline in value and is measured and followed up by stress tests.

The loss risk is assessed as a potential total impairment expressed in kroner and as a percentage of equity. Ferd's long-term strategy contributes to the fact that the owner can accept large fluctuations in net asset value.

CATEGORIES OF FINANCIAL RISK

Liquidity risk

Ferd has a strong focus on liquidity and is of the opinion that the return from financial investments shall contribute to cover current interest costs. Hence, it is important that Ferd's balance sheet is liquid, and that the possibility to realise assets corresponds well with when Ferd's debt is due. The Group has determined that under normal market conditions, at least 4 billion kroner of the financial investments shall comprise assets that can be realised within a quarter of a year. This is primarily managed by investments in listed shares and hedge funds.

Currency risk

Ferd has defined intervals for exposure in Norwegian kroner, euro, USD and Swedish kroner. As long as the exposure is within these intervals, Ferd is not making any currency adjustments. If Ferd's exposure exceeds these intervals, steps are taken to adjust the exposure to the established currency curve.

SENSITIVITY ANALYSIS, IMPAIRMENT RISK IN INVESTMENT ACTIVITIES

The stress test is based on a classification of the Group's equity in different asset classes, exposed for impairment as follows:

- The Norwegian stock markets decline by 30 percent
- International stock markets decline by 20 percent
- The market value of property declines by 10 percent
- The interest rate curve shifts by 1 percentage point
- The Norwegian krone appreciates by 10 percent

In order to refine the calculations, it is considered whether Ferd's investments will decline more or less than the market. As an example, it is assumed that private investments in a stress test scenario have an impairment loss of 1.5 - 2 times the market (30-60 percent in Norway and 20-40 percent abroad).

The impairment risk is presented as an impairment expressed in NOK and as a percentage of equity. The table below shows the estimated impairment risk in 201 and 2012.

NOK 1 000	2012	2011
Price risk: Norwegian shares decline by 30 percent	-4 400 000	-4 100 000
Price risk: International shares decline by 20 percent	-1 100 000	- 700 000
Price risk: The market value of property declines by 10 percent	- 200 000	- 200 000
Interest rate risk: The interest rate curve increases by 1 percentage point		
Currency risk: The Norwegian krone appreciates 10 percent	- 600 000	- 500 000
Total impairment in value-adjusted equity	-6 300 000	-5 500 000

Impairment as a % of net asset value

32 %

34 %

In the sensitivity analyses, Ferd's exposure in Aibel in 2012 is reduced to 49 % compared to 2011, when it amounted to appr. 80 %, as a consequence of the transaction with Ratos made in December 2012. Ferd's exposure in Pronova will not be reduced until 2013, as the sale of shares transaction takes place in the new year.