

IMPAIRMENT RISK AND CAPITAL ALLOCATION

Ferd's allocation of capital shall be in line with the owner's risk tolerance. One measure of this risk tolerance is the size of the decline in value in kroner or percent that the owner accepts if any of the markets Ferd is exposed to should experience very heavy and quick downfalls. Ferd's total portfolio shall have maximum 35 per cent impairment risk, given certain assumptions. The impairment risk regulates how large part of equity that can be invested in assets with high risk for impairment. This is measured and followed up by stress tests. The loss risk is assessed as a possible total impairment expressed in kroner or as a percentage of equity. Due to Ferd's long-term approach, the owner can accept significant fluctuations in value-adjusted equity.

CATEGORIES OF FINANCIAL RISK**Liquidity risk**

Ferd strongly emphasises liquidity and assumes 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 the term of the debt. Ferd 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. [Note 16](#) has more information about Ferd's loan facilities, including an overview of due dates of the debt.

Foreign 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 ANALYSE, IMPAIRMENT RISK IN INVESTMENT ACTIVITIES

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

- The Norwegian stock market declines by 30 percent
- International stock markets decline by 20 percent
- Property declines by 10 percent
- 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).

NOK 1 000	2013	2012
Price risk: Norwegian shares decline by 30 percent	-4 500 000	-4 400 000
Price risk: International shares decline by 20 percent	-1 600 000	-1 100 000
Price risk: Property declines by 10 percent	- 200 000	- 200 000
Currency risk: The Norwegian krone appreciates 10 percent	- 1 100	- 600 000
Total impairment in value-adjusted equity	-7 400 000	-6 300 000

Impairment as a percentage of value-adjusted equity	31%	32%
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Included in the basis for the value impairment risk for 2013 is Ferd Capital's acquisition of 24 percent of Interwell in January 2014.