

DNB Næringskreditt AS

A company in the DNB Group

Q4

Fourth quarter report 2018
(Preliminary and unaudited)

DNB

Financial highlights

Income statement

	DNB Næringskreditt AS			
<i>Amounts in NOK million</i>	4th quarter 2018	4th quarter 2017	Full year 2018	Full year 2017
Net interest income	60	74	257	333
Net other operating income	(1)	0	(3)	(32)
Total operating expenses	(17)	(19)	(69)	(102)
Impairment of financial instruments	1	(0)	0	1
Pre-tax operating profit	43	55	186	200
Tax expense	(10)	(12)	(43)	(48)
Profit for the period	33	43	143	152

Balance sheet

<i>Amounts in NOK million</i>	31 Dec. 2018	31 Dec. 2017
Total assets	15 334	20 712
Loans to customers	15 283	20 578
Debt securities issued		283
Total equity	5 546	5 552

Key figures

	4th quarter 2018	4th quarter 2017	Full year 2018	Full year 2017
Total average spread for lending (%) ¹⁾	0.76	0.89	0.82	0.98
Return on equity, annualised (%)	2.4	3.1	2.6	2.8
Common equity Tier 1 capital ratio, transitional rules (%)	44.6	33.2	44.6	33.2
Capital ratio, transitional rules (%)	44.6	33.2	44.6	33.2
Common equity Tier 1 capital (NOK million)	5 388	5 380	5 388	5 380
Risk-weighted assets, transitional rules (NOK million)	12 077	16 188	12 077	16 188

1) Based on nominal values excluding impaired loans, measured against actual funding cost.

Fourth quarter report 2018

Directors' report	2
--------------------------------	---

Accounts

Comprehensive income statement	5
Balance sheet	5
Statement of changes in equity.....	6
Cash flow statement.....	6
Note 1 Basis for preparation.....	7
Note 2 Capital adequacy	7
Note 3 Development in accumulated impairment of financial instruments	8
Note 4 Debt securities issued	8
Note 5 Information on related parties.....	9

Additional information

Contact information	10
---------------------------	----

There has been no full or partial external audit of the quarterly directors' report and accounts.

Directors' report

DNB Næringskreditt AS is the DNB Group's vehicle for the issue of covered bonds based on commercial mortgages. The company's offices are located in Oslo. DNB Næringskreditt is a wholly-owned subsidiary of DNB Bank ASA and is reported partly under the Corporate Banking Norway business area and partly under the Large Corporates and International business area in the consolidated accounts of DNB Bank ASA.

In December 2018 the Board of Directors in DNB Næringskreditt and DNB Bank signed a joint merger plan for the merger of the two companies. The final merger resolution was adopted by the two boards on 6th February 2019. The merger provides that all of the company's assets, rights and obligations will be transferred to DNB Bank without consideration and DNB Næringskreditt will be dissolved. Completion of the merger will be conditional upon the approval from the Norwegian Ministry of Finance or the Norwegian Financial Authorities and that any objections from creditors have been clarified pursuant to the Public Limited Companies Act. The merger is expected to enter into force prior to 31 December 2019. As per end-December 2018 the company had no debt securities issued and the company does not intend to issue new debt securities.

Implementation of IFRS 9

The new accounting rules for financial instruments (IFRS 9) are applicable as of 1 January 2018. The new standard introduces a business model-oriented approach for the classification of financial assets and an expected loss model for impairment which replaces the former incurred loss model.

Financial accounts

DNB Næringskreditt recorded a profit of NOK 33 million in the fourth quarter of 2018, compared with a profit of NOK 43 million in the fourth quarter of 2017.

Total income

Income totalled NOK 59 million in the fourth quarter of 2018, compared with NOK 74 million in the year-earlier period.

Amounts in NOK million	4th quarter		4th quarter
	2018	Change	2017
Total income	59	(15)	74
Net interest income		(14)	
Net commission and fee income			
Net gains/(losses) on financial instruments at fair value		(1)	

Net interest income was down NOK 14 million from the fourth quarter of 2017 to the fourth quarter of 2018, while net results from financial instruments were down NOK 1 million in the same period. The decline in net interest income was due to a reduction in loans to customers.

Operating expenses and impairment of loans

Operating expenses are volatile due to the management fee paid to DNB Bank. The cooperation with DNB Bank is formalised through an extensive servicing agreement that ensures DNB Næringskreditt sound competence in key areas and cost-effective operations. The management fee calculation is based primarily on lending volume and the spreads achieved. The size of the management fee is related to net interest income. The fee amounted to NOK 14 million in the fourth quarter of 2018, down from NOK 17 million in the fourth quarter of 2017.

The company has recorded no individual impairment losses in previous years, which was also the case in the fourth quarter of 2018. The Board of Directors considers the quality of the loan portfolio to be satisfactory.

Funding, liquidity and balance sheet

Balance sheet

At end-December 2018, DNB Næringskreditt had total assets of NOK 15.3 billion, a decrease of NOK 5.4 billion, or 18.5 per cent, from end-December 2017.

Amounts in NOK million	31 Dec.		31 Dec.
	2018	Change	2017
Total assets	15 334	(5 378)	20 712
Loans to customers		(5 295)	
Financial derivatives		(24)	
Other assets		(59)	
Total liabilities	9 788	(5 372)	15 160
Due to credit institutions		(5 081)	
Debt securities issued		(283)	
Other liabilities		(8)	

The reduction in loans to customers is due to the fact that DNB Næringskreditt has acquired fewer commercial mortgages from DNB Bank. The company did not issue any covered bonds in the fourth quarter of 2018 and at end-December all debt securities issued in prior periods had been settled.

Risk and capital adequacy

The company has established guidelines and limits for management and control of the different types of risk.

The company is not exposed to currency risk. Interest rate and liquidity risk is managed in accordance with stipulations concerning covered bonds in the Financial Institutions Act and guidelines and limits approved by the Board of Directors. The company's overall financial risk is considered to be low.

Changes in the market values of the company's bonds due to credit risk are monitored on a daily basis.

The servicing agreement with DNB Bank comprises administration, bank production, IT operations and financial and liquidity management. The fee structure in the servicing agreement shall ensure a stable return on equity, but does not take the effects of unrealised gains or losses on financial instruments into consideration. Operational risk is assessed to be low.

DNB Næringskreditt's assets comprise loans secured by commercial property within 60 per cent of the property's appraised value, plus bank deposits. Negative developments in the commercial property market affect the company. A decline in prices of commercial properties will reduce the value of the company's cover pool relative to the statutory asset coverage requirement. Quarterly stress tests are carried out to estimate the effects of a negative development in commercial property prices. A short-term measure to meet a significant fall in prices will be to supply DNB Næringskreditt with more substitute collateral. The Board of Directors considers the company's total risk exposure to be low.

At end-December 2018, the company's equity totalled NOK 5.4 billion of which NOK 5.4 billion represented Tier 1 capital. The company has no primary capital in excess of equity. The company's capital adequacy and Tier 1 capital ratios were both 44.6 per cent. The Board of Directors considers the company to be adequately capitalised relative to the risk level in the loan portfolios and other operations.

Oslo, 6 February 2019
The Board of Directors of DNB Næringskreditt AS



Reidar Bolme
(chair of the board)



Jørn E. Pedersen



Toril Steinmo



Per Sagbakken
(chief executive officer)

Comprehensive income statement

		DNB Næringskreditt AS			
<i>Amounts in NOK million</i>	Note	4th quarter 2018	4th quarter 2017	Full year 2018	Full year 2017
Interest income, amortised cost		116	136	503	611
Other interest income			10		43
Interest expenses, amortised cost		(56)	(71)	(243)	(306)
Other interest expenses			(1)	(3)	(14)
Net interest income		60	74	257	333
Commission and fee income		0	0	0	0
Commission and fee expenses		(0)	(0)	(0)	(0)
Net gains on financial instruments at fair value		(1)	0	(3)	(32)
Net other operating income		(1)	0	(3)	(32)
Total income		59	74	254	301
Other expenses	5	(17)	(19)	(69)	(102)
Total operating expenses		(17)	(19)	(69)	(102)
Impairment of financial instruments		1	(0)	0	1
Pre-tax operating profit		43	55	186	200
Tax expense		(10)	(12)	(43)	(48)
Profit for the period		33	43	143	152
Total comprehensive income for the period		33	43	143	152

Balance sheet

		DNB Næringskreditt AS	
<i>Amounts in NOK million</i>	Note	31 Dec. 2018	31 Dec. 2017
Assets			
Due from credit institutions		50	109
Loans to customers	3	15 283	20 578
Financial derivatives			24
Deferred tax assets		0	0
Other assets		0	
Total assets		15 334	20 712
Liabilities and equity			
Due to credit institutions		9 741	14 821
Debt securities issued	4		283
Payable taxes		42	51
Other liabilities		5	4
Total liabilities		9 788	15 160
Share capital		550	550
Share premium		4 604	4 604
Other equity		392	398
Total equity		5 546	5 552
Total liabilities and equity		15 334	20 712

Statement of changes in equity

DNB Næringskreditt AS

<i>Amounts in NOK million</i>	Share capital	Share premium	Other equity	Total equity
Balance sheet as at 31 Dec. 2016	550	4 604	435	5 589
Profit for the period			152	152
Comprehensive income for the period			152	152
Group contribution paid			(190)	(190)
Balance sheet as at 31 Dec. 2017	550	4 604	398	5 552
Implementation of IFRS 9			3	3
Balance sheet as at 1 Jan. 2018	550	4 604	401	5 555
Profit for the period			143	143
Comprehensive income for the period			143	143
Group contribution paid			(152)	(152)
Balance sheet as at 31 Dec. 2018	550	4 604	392	5 546

Share capital

All of the company's shares and voting rights are held by DNB Bank ASA. Share capital at the beginning of 2018 was NOK 550 million (550 000 shares at NOK 1 000).

Cash flow statement

DNB Næringskreditt AS

<i>Amounts in NOK million</i>	Full year 2018	Full year 2017
Operating activities		
Net receipts on loans to customers	5 281	6 549
Interest received from customers	521	684
Net payments on loans to/from credit institutions	(5 022)	(2 874)
Interest received from credit institutions	0	0
Interest paid to credit institutions	(238)	(295)
Net receipts on the sale of financial assets for investment or trading	(5)	70
Payments for operating expenses	(70)	(109)
Taxes paid	(51)	(3)
Net cash flow relating to operating activities	416	4 022
Investing activities		
Net purchase of loan portfolio		(1 906)
Net cash flow relating to investing activities		(1 906)
Financing activities		
Payments on redeemed bonds and commercial paper	(257)	(1 835)
Interest payments on issued bonds and commercial paper	(8)	(29)
Group contribution paid	(152)	(253)
Net cash flow from financing activities	(417)	(2 117)
Net cash flow	(1)	(1)
Cash as at 1 January	1	2
Net payments of cash	(1)	(1)
Cash at end of period	0	1

Note 1 Basis for preparation

The quarterly financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board and as adopted by the European Union. When preparing the financial statements, management makes estimates, judgments and assumptions that affect the application of the accounting principles and the carrying amount of assets, liabilities, income and expenses. Estimates and assumptions are subject to continual evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be probable on the balance sheet date. A description of the accounting policies, significant estimates and areas where judgment is applied can be found in note 1 Accounting principles and 18 Transition to IFRS 9 in the annual report for 2017.

IFRS 9 Financial Instruments

IFRS 9 entered into force during the first quarter of 2018 and is the new standard for financial instruments that replaces IAS 39. DNB Næringskreditt AS applied the standard as of 1 January 2018. Comparative information has not been restated. For additional information on IFRS 9 adoption, see note 18 Transition to IFRS 9 in the annual report for 2017. Disclosures related to the line item Loans to customers in the balance sheet and the line item Impairment of loans and commitments in the comprehensive income statement for the fourth quarter of 2017 can be found in note 8 Loans to customers in the fourth quarter report of 2017.

Note 2 Capital adequacy

Primary capital	DNB Næringskreditt AS	
	31 Dec. 2018	31 Dec. 2017
<i>Amounts in NOK million</i>		
Share capital	550	550
Other equity	4 996	5 002
Total equity	5 546	5 552
Deductions		
Expected losses exceeding actual losses, IRB-portfolios	(15)	(20)
Value adjustments due to the requirements for prudent valuation (AVA)	(0)	(0)
Adjustments for deferred tax assets		(0)
Adjustment for unrealised losses/(gains) on debt recorded at fair value		1
Dividends payable	(143)	(153)
Tier 1 capital	5 388	5 380
Total eligible primary capital	5 388	5 380
Risk-weighted assets, transitional rules	12 077	16 188
Minimum capital requirement, transitional rules	966	1 295
Tier 1 capital ratio, transitional rules (%)	44.6	33.2
Capital ratio, transitional rules (%)	44.6	33.2

Due to transitional rules, the minimum capital adequacy requirement cannot be reduced below 80 per cent of the corresponding figure calculated according to the Basel I regulations.

Specification of risk-weighted assets and capital requirements

	DNB Næringskreditt AS				
	Nominal exposure	EAD ¹⁾	Risk-weighted assets	Capital requirements	Capital requirements
<i>Amounts in NOK million</i>	31 Dec. 2018	31 Dec. 2018	31 Dec. 2018	31 Dec. 2018	31 Dec. 2017
IRB approach					
Corporate	14 631	14 631	3 741	299	441
Total credit risk, IRB approach	14 631	14 631	3 741	299	441
Standardised approach					
Institutions	50				0
Corporate	652	652	578	46	47
Total credit risk, standardised approach	702	652	578	46	47
Total credit risk	15 334	15 284	4 319	346	488
Credit value adjustment (CVA)					3
Operational risk			558	45	51
Total risk-weighted assets and capital requirements before transitional rules			4 877	390	542
Additional capital requirements according to transitional rules			7 200	576	753
Total risk-weighted assets and capital requirements			12 077	966	1 295

1) EAD, exposure at default.

Note 3 Development in accumulated impairment of financial instruments

Allowance for expected credit losses were stable at a low level as at 31 December 2018.

Note 4 Debt securities issued

						DNB Næringskreditt AS		
<i>Amounts in NOK million</i>						31 Dec.	31 Dec.	
ISIN Code	Currency	Nominal value	Interest	Issued	Matured ¹⁾	2018	2017	
NO 0010694474	NOK	257	Fixed	2013	2023		282	
Accrued interest								1
Total debt securities issued								283

		DNB Næringskreditt AS	
<i>Amounts in NOK million</i>		31 Dec.	31 Dec.
		2018	2017
Pool of eligible loans		13 415	18 722
Market value of eligible derivatives			24
Total collateralised assets		13 415	18 747

Debt securities issued, carrying value	283
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(1)
Debt securities issued, valued according to regulation ²⁾	282

Collateralisation (per cent) 6 646

1) The bond was transferred at market value to DNB Boligkreditt AS in October 2018.

2) The debt securities issued are bonds with preferred rights in the appurtenant cover pool. The composition and calculation of values in the cover pool are defined in Sections 11-8 and 11-11 of the Financial Institutions Act with appurtenant regulations.

Note 5 Information on related parties

DNB Bank ASA

The management fee paid to the bank for purchased services is recognised as "Other expenses" in the statement of comprehensive income and amounted to NOK 58 million at end-December 2018 (NOK 88 million at end-December 2017).

In 2018 DNB Næringskreditt entered into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The value of the repos amounted to NOK 50 million at end-December 2018.

The company has a long-term overdraft facility in DNB Bank ASA with a limit of NOK 20 billion.

DNB Boligkreditt AS

DNB Næringskreditt has no employees and purchases administrative services from DNB Boligkreditt. On an annual basis, DNB Næringskreditt hires staff representing 1.5 full-time equivalents. The management fee amounted to NOK 3.2 million in 2018.

Contact information

DNB Næringskreditt AS

Mailing address P.O.Box 1600 Sentrum,
NO-0021 Oslo
Visiting address Dronning Eufemias gate 30, Oslo
Telephone +47 915 04800
Internet dnb.no
Organisation number NO 846 069 062 MVA

Chief executive officer

Per Sagbakken
Tel: +47 906 61 159
per.sagbakken@dnb.no

Financial reporting

Inger Anne Djupvik Husby
Tel: +47 481 32 321
inger.anne.husby@dnb.no

Other sources of information

Annual and quarterly reports

DNB Næringskreditt AS is part of the DNB Bank Group and the DNB Group. Annual and quarterly reports for DNB Næringskreditt AS, the DNB Bank Group and the DNB Group are available on dnb.no

DNB ASA

Mailing address P.O.Box 1600 Sentrum,
NO-0021 Oslo
Visiting address Dronning Eufemias gate 30, Oslo
Telephone +47 915 04800
Internet dnb.no
Organisation number NO 981 276 957 MVA

DNB Bank ASA

Mailing address P.O.Box 1600 Sentrum,
NO-0021 Oslo
Visiting address Dronning Eufemias gate 30, Oslo
Telephone +47 915 04800
Internet dnb.no
Organisation number NO 984 851 006 MVA

We are here.
So you can stay ahead.

DNB Næringskreditt AS

Mailing address:
P.O.Box 1600 Sentrum
N-0021 Oslo

Visiting address:
Dronning Eufemias gate 30
Bjørsvika, Oslo

dnb.no
