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DNB  
NÆRINGSKREDITT AS

– a company in the DNB Group

First quarter report 2014  
(Unaudited)

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# Key figures

## DNB Næringskreditt AS

<b>Statement of comprehensive income</b>	1st quarter	1st quarter	Full year	Full year
<i>Amounts in NOK 1000</i>	2014	2013	2013	2012
Net interest income	85 523	78 334	317 385	335 262
Net other operating income	5 374	54	(10 015)	1 000
Operating expenses	25 405	24 472	89 903	77 307
Impairments on loans and commitments	1 697	(890)	2 098	(3 222)
Pre-tax operating profit	63 795	54 805	215 369	262 177
Taxes	17 234	15 345	60 408	73 409
<b>Profit for the period</b>	<b>46 561</b>	<b>39 460</b>	<b>154 962</b>	<b>188 767</b>

<b>Balance sheet</b>	31 March	31 March	31 Dec.	31 Dec.
<i>Amounts in NOK million</i>	2014	2013	2013	2012
Total assets	24 533	21 135	23 742	21 452
Loans to customers	24 389	20 885	23 165	21 294
Debt securities issued	4 453	2 414	4 417	2 415
Total equity	5 568	5 594	5 521	5 555

<b>Key figures</b>	1st quarter	1st quarter	Full year	Full year
<i>Per cent</i>	2014	2013	2013	2012
Average lending spread <sup>1)</sup>	0.86	0.76	0.77	0.59
Return on equity, annualised <sup>2)</sup>	3.4	2.8	3.7	3.2
Tier 1 capital ratio at end of period	27.4	32.3	28.8	31.5
Capital ratio at end of period	27.4	32.3	28.8	31.5
Net non-performing and impaired loans, per cent of net loans	0.00	0.00	0.00	(0.01)

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

2) Average equity is calculated on the basis of recorded equity.

# First quarter report 2014

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# 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. The company has completed three bond issues totalling NOK 4.4 billion, of which NOK 2.0 billion was issued in 2013. The rating agencies' assessments are of significance to the company's funding terms. In 2013, an agreement was signed with Moody's on the rating of the company's bond issues, which were rated Aa1.

## Financial accounts

DNB Næringskreditt recorded a profit of NOK 47 million in the first quarter of 2014, compared with a profit of NOK 39 million in the first quarter of 2013.

### Total income

Income totalled NOK 91 million in the first quarter of 2014, up from NOK 78 million in the year-earlier period.

Amounts in NOK million	1st quarter 2014	Change	1st quarter 2013
Total income	91	13	78
Net interest income		8	
Net gains (losses) on financial instruments at fair value		5	

The improvement in net interest income was mainly due to wider interest rate spreads.

The recorded gains on financial instruments reflect the effects of unrealised changes in the market value of covered bonds and interest rate swaps.

Interest rate spreads stabilised at a higher level than in the first quarter of 2013. In addition, average net loans to customers increased slightly and the net effect was thus an increase in net interest income.

### 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 23 million in the first quarter of 2014, up from NOK 21 million in the first quarter the year before.

Thus far, the company has recorded no individual impairment losses. Collective impairment losses of NOK 1.7 million were recorded in the first quarter of 2014. The Board of Directors considers the level of impairment to be satisfactory relative to the high quality of the loan portfolio.

## Funding, liquidity and balance sheet

### Balance sheet

At end-March 2014, DNB Næringskreditt had total assets of NOK 24.5 billion under management, an increase of NOK 3.4 billion or 16.1 per cent from end-March 2013.

Amounts in NOK million	31 March 2014	Change	31 March 2013
Total assets	24 533	3 398	21 135
Loans to customers		3 504	
Financial derivatives		27	
Other assets		(133)	
Total liabilities	18 965	3 424	15 540
Due to credit institutions		1 396	
Debt securities issued		2 039	
Other liabilities		(11)	

The increase in loans to customers originates from the acquisition of commercial mortgage portfolios from DNB Bank and the sale of new loans through the bank's distribution network.

Debt securities issued increased by a net NOK 2.0 billion from end-March 2013. Total debt securities issued amounted to NOK 4.4 billion as at 31 March 2014.

## 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 the 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 of commercial properties will be to supply DNB Næringskreditt with more substitute collateral. The Board of Directors considers the company's total risk exposure to be low.

As at 31 March 2014, the company's equity totalled NOK 5.6 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 27.4 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.

## New regulatory framework

The EU's new capital adequacy regulations, CRR and CRD IV, entered into force on 1 January 2014. The regulations are based on the Basel Committee's recommendations on new and stricter capital and liquidity standards, Basel III. Norway has chosen to introduce the capital requirements earlier than on the implementation date specified in the international regulations. The new legislation became effective as of 1 July 2013 and requires a common equity Tier 1 capital ratio of minimum 9 per cent and a capital adequacy ratio of 12.5 per cent. The requirement will be increased to 10.0 per cent by 1 July 2014, while the capital adequacy requirement will be increased to 13.5 per cent.

Requirements have also been introduced for a special buffer for systemically important institutions of 2.0 per cent common equity Tier 1 capital, as well as a counter-cyclical capital buffer of maxi-

mum 2.5 per cent. In December 2013, The Ministry of Finance concluded that the initial level of the counter-cyclical buffer should be 1 per cent. This buffer is relevant to DNB Næringskreditt, and will be applied as of 30 June 2015.

In October 2013, the Ministry of Finance also determined rules for the weighting of bank's home mortgages in capital adequacy calculations. At the same time, it was announced that prevailing rules relating to the so-called Basel I floor will be retained. For DNB Næringskreditt, the Basel I floor will represent the actual limit for risk-weighted assets.

## Macroeconomic developments

International economic growth increased somewhat through 2013. However, there were large differences between individual countries and regions. Among Norway's major trading partners, economic growth increased markedly in the US and Great Britain. The Swedish economy experienced an upswing towards the end of 2013, while the Danish economy has shown hardly any growth after the financial crisis. In the eurozone, there was a rise in GDP during the last three quarters of 2013, and unemployment stabilised at approximately 12 per cent. The picture is mixed among emerging economies. In Brazil and Russia, growth has slowed significantly, while growth has rebounded in India and remained stable in China.

In February, companies in Norges Bank's regional network reported moderate growth. Within petroleum-related manufacturing and the building and construction industry, production growth slowed down. However, the depreciation of the Norwegian krone and increased public investment contributed to higher production volumes for other manufacturing and commercial services. Private consumption increased moderately in 2013 parallel to a further rise in the savings rate.

Activity levels in the commercial property rental market are rising, with higher rents for the best properties located around central communication hubs. At the same time, office vacancy is increasing as a consequence of extensive construction activity in 2012 and 2013.

The market remained attractive for covered bond issuers with strong credit ratings in the first quarter of 2014. Lower returns in other asset classes seemed to have a positive impact on the demand for covered bonds from highly rated issuers. The volume of

covered bonds issued in the euro-market increased significantly in the first quarter of 2014 compared to the first quarter of 2013.

## Future prospects

According to current economic forecasts, a cautious recovery is expected in both the Norwegian and the international economy during the remainder of 2014. Various business sentiment indicators show continued economic growth in both the EU and the US. Consumer confidence has picked up in Europe, and the increase in manufacturing output indicates sustained growth in both Europe and the US. This trend is positive for the Norwegian export industry, as these regions represent its key markets. In Norway, wage growth, including local pay increases, is estimated to be 3.3 per cent in 2014. This is below the level for the past few years, but still higher than in most peer countries.

In consequence of the interest rate increases implemented for personal and corporate customers in 2013, the level of interest income has risen. This was a step to meet the new capital requirements that will be gradually introduced. Despite the interest rate reductions that were announced in April 2014, stable weighted spreads are anticipated in the markets for personal customers and medium-sized enterprises. Weighted spreads in the large corporate segments are expected to be stable or to rise marginally. The loan portfolio of DNB Næringskreditt is expected to increase in the period ahead as a result of IRB approval of the loan portfolio and further transfers of loans from DNB Bank ASA.

The particularly strict requirements for Norwegian financial institutions mean that competitors that are not subject to the same capital requirements may be in a better position to increase their market shares at the expense of Norwegian institutions. DNB Næringskreditt, however, is already adequately capitalised to meet the new capital requirements.

Covered bonds have gained a leading position as a funding vehicle for Norwegian banks. Norwegian covered bonds still seem to be regarded as attractive investments with relatively low credit and market risk. The company will continue to arrange bond issues in the market.

Oslo, 8 May 2014

The Board of Directors of DNB Næringskreditt AS

Bjørn Erik Næss  
(chairman)

Eva-Lill Strandskogen

Reidar Bolme

Elisabeth Ege

Jørn Pedersen

Øyvind Birkeland  
(chief executive officer)

# Statement of comprehensive income

## DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	Note	1st quarter 2014	1st quarter 2013	Full year 2013
Total interest income	7	198 723	185 144	757 570
Total interest expenses	7	113 200	106 810	440 184
<b>Net interest income</b>	<b>7</b>	<b>85 523</b>	<b>78 334</b>	<b>317 385</b>
Commission and fee income		58	66	221
Commission and fee expenses		25	13	81
Net gains (losses) on financial instruments at fair value	8	5 341	-	(10 156)
<b>Net other operating income</b>		<b>5 374</b>	<b>54</b>	<b>(10 015)</b>
<b>Total income</b>		<b>90 897</b>	<b>78 388</b>	<b>307 370</b>
Other expenses	13	25 405	24 472	89 903
<b>Total operating expenses</b>		<b>25 405</b>	<b>24 472</b>	<b>89 903</b>
Impairments on loans and commitments	9	1 697	(890)	2 098
<b>Pre-tax operating profit</b>		<b>63 795</b>	<b>54 805</b>	<b>215 369</b>
Taxes		17 234	15 345	60 408
<b>Profit for the period</b>		<b>46 561</b>	<b>39 460</b>	<b>154 962</b>
Other comprehensive income		-	-	-
<b>Total comprehensive income for the period</b>		<b>46 561</b>	<b>39 460</b>	<b>154 962</b>

# Balance sheet

## DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	Note	31 March 2014	31 Dec. 2013	31 March 2013
<b>Assets</b>				
Due from credit institutions	12, 13	113 344	571 517	250 017
Loans to customers	9, 11, 12	24 389 255	23 164 541	20 885 099
Financial derivatives	11, 13	26 561	1 864	-
Deferred tax assets		2 818	2 818	97
Other assets		960	960	-
<b>Total assets</b>		<b>24 532 938</b>	<b>23 741 700</b>	<b>21 135 213</b>
<b>Liabilities and equity</b>				
Due to credit institutions	12, 13	14 423 346	13 709 979	13 027 111
Financial derivatives	11, 13	-	15 962	-
Debt securities issued	10, 11, 12, 13	4 452 540	4 417 224	2 413 825
Payable taxes		80 362	63 128	88 731
Other liabilities		8 991	14 269	11 208
<b>Total liabilities</b>		<b>18 965 240</b>	<b>18 220 563</b>	<b>15 540 874</b>
Share capital		550 000	550 000	550 000
Share premium		4 604 100	4 604 100	4 694 100
Other equity		413 598	367 037	350 239
<b>Total equity</b>		<b>5 567 698</b>	<b>5 521 137</b>	<b>5 594 339</b>
<b>Total liabilities and equity</b>		<b>24 532 938</b>	<b>23 741 700</b>	<b>21 135 213</b>

# Statement of changes in equity

DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	Share capital	Share premium	Other equity	Total equity
<b>Balance sheet as at 1 January 2013</b>	<b>550 000</b>	<b>4 604 100</b>	<b>400 780</b>	<b>5 554 880</b>
Profit for the period	-	-	39 460	39 460
Other comprehensive income	-	-	-	0
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>39 460</b>	<b>39 460</b>
Group contribution paid	-	-	-	0
<b>Balance sheet as at 31 March 2013</b>	<b>550 000</b>	<b>4 604 100</b>	<b>440 240</b>	<b>5 594 339</b>
<b>Balance sheet as at 1 January 2014</b>	<b>550 000</b>	<b>4 604 100</b>	<b>367 037</b>	<b>5 521 137</b>
Profit for the period	-	-	46 561	46 561
Other comprehensive income	-	-	-	0
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>46 561</b>	<b>46 561</b>
Group contribution paid	-	-	-	-
<b>Balance sheet as at 31 March 2014</b>	<b>550 000</b>	<b>4 604 100</b>	<b>413 598</b>	<b>5 567 698</b>

## Share capital

All of the company's shares and voting rights are held by DNB Bank ASA. Share capital at the beginning of 2014 was NOK 550 million (550 000 shares at NOK 1 000).

# Statement of cash flows

DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	1st quarter 2014	1st quarter 2013	Full year 2013
<b>OPERATING ACTIVITIES</b>			
Net receipts/payments on loans to customers	(577 987)	406 938	1 894 346
Interest received from customers	188 559	187 272	745 718
Net receipts/payments on loans to/from credit institutions	1 168 849	(465 054)	(109 693)
Interest received from credit institutions	289	1 068	6 919
Interest paid to credit institutions	(86 587)	(97 098)	(381 613)
Payments for operating expenses	(29 852)	(21 217)	(84 526)
<b>Net cash flow from operating activities</b>	<b>663 271</b>	<b>11 908</b>	<b>2 071 151</b>
<b>Investing activities</b>			
Net purchase of loan portfolio	(638 549)	-	(3 761 709)
<b>Net cash flow relating to investing activities</b>	<b>(638 549)</b>	<b>-</b>	<b>(3 761 709)</b>
<b>Financing activities</b>			
Receipts on issued bonds and commercial paper	-	-	2 000 000
Interest payments on issued bonds and commercial paper	(26 197)	(15 149)	(56 816)
Group contribution paid	-	-	(262 089)
<b>Net cash flow from financing activities</b>	<b>(26 197)</b>	<b>(15 149)</b>	<b>1 681 095</b>
<b>Net cash flow</b>	<b>(1 475)</b>	<b>(3 241)</b>	<b>(9 462)</b>
Cash at beginning of period	11 364	20 826	20 826
Net receipts/payments of cash	(1 475)	(3 241)	(9 462)
Cash at end of period	9 889	17 585	11 364

The statement of cash flows shows receipts and payments of cash and cash equivalents during the year and has been prepared in accordance with the direct method. Cash and cash equivalents are defined as cash and deposits with central banks and deposits with credit institutions with no agreed period of notice.

## Note 1 Accounting principles

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The financial statements for the first quarter of 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting*

The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the company's annual financial statements as at 31 December 2013.

The company's accounting principles and calculation methods are consistent with those applied when preparing the annual financial statements for 2013. No new or amended accounting standards or interpretations have entered into force in the first quarter of 2014 that have had effect on the interim report.

The accounts for the first quarter were approved by the Board of Directors on the 8<sup>th</sup> of May 2014.

### Operating segments

The company has operations within one operating segment only, according to IFRS 8 *Operating segments*. The segment generated a profit of NOK 47 million in the first quarter of 2014. The company uses the information in the statement of comprehensive income and balance sheet also in its internal reporting.

## Note 2 Important accounting estimates and discretionary assessments

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The preparation of financial information in conformity with IFRS requires the use of estimates and discretionary assessments about future conditions that will affect reported income, expenses, assets and liabilities. A more detailed description of important estimates and assumptions is presented in the annual report for 2013, note 1 *Important accounting estimates and discretionary assessments*.

## Note 3 Capital adequacy

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Primary capital	DNB Næringskreditt AS	
	31 March 2014	31 Dec. 2013
<i>Amounts in NOK 1 000</i>		
Share capital	550 000	550 000
Other equity	4 971 137	4 971 137
Total equity	5 521 137	5 521 137
Deductions		
100 per cent of expected losses, IRB portfolios	(3 485)	(4 078)
Adjustments for deferred tax assets	(2 818)	(2 818)
Allocated group contributions for payment	(154 800)	(154 800)
Tier 1 capital	5 360 034	5 359 441
Total eligible primary capital	5 360 034	5 359 441
Risk-weighted volume, transitional rules	19 543 905	18 624 555
Minimum capital requirement	1 563 512	1 489 964
Tier 1 capital ratio, transitional rules (%)	27.4	28.8
Capital ratio, transitional rules (%)	27.4	28.8

DNB Næringskreditt AS complies with the Basel II regulations.

Due to transitional rules, the minimum capital requirement for 2014 cannot be reduced below 80 per cent relative to the Basel I requirements. Capital adequacy for the first quarter is reported according to the transitional rules.



### Note 3 Capital adequacy (continued)

The schedule below shows capital adequacy according to Basel II without regard to the rules of transition.

#### DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	31 March 2014	31 Dec. 2013
Risk-weighted volume, Basel II	16 886 662	16 739 734
Minimum capital requirement, Basel II	1 350 933	1 339 179
Tier 1 capital ratio (%)	31.7	32.0
Capital ratio (%)	31.7	32.0

#### Specification of risk-weighted volume and capital requirements

#### DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	Exposure 31 March 2014	EAD 31 March 2014	Risk-weighted volume 31 March 2014	Capital requirements 31 March 2014
IRB approach				
Corporate	11 355 487	11 355 487	3 213 508	257 081
Retail - residential property	-	-	-	-
Total credit-risk, IRB approach	11 355 487	11 355 487	3 213 508	257 081
Standardised approach				
Institutions	139 905	139 905	27 981	2 238
Corporate	13 043 568	13 043 568	13 043 568	1 043 485
Retail - residential property	-	-	-	-
Total credit-risk, standardised approach	13 183 473	13 183 473	13 071 549	1 045 724
Total credit-risk	24 538 960	24 538 960	16 285 057	1 302 805
Other assets			-	-
Market-risk, standardised approach			-	-
Operational risk			601 605	48 128
Deductions			-	-
Total risk-weighted volume and capital requirements before transitional rule			16 886 662	1 350 933
Additional capital requirements according to transitional rules				212 579
Capital requirements				1 563 512

## Note 4 Credit risk

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Credit risk is the risk that the company will incur a loss because its customers or counterparties fail to meet their contractual obligations. Credit risk arises from loans and committed loan facilities as well as from derivatives. The maximum exposure to credit risk, according to IFRS, is the gross carrying amount of the assets, net of any amounts offset in accordance with the standards and net of any recognised impairment losses. In addition, certain off-balance sheet items such as committed loan facilities represent credit risk. The maximum exposure of committed loan facilities is the irrevocable amount that may be drawn upon in the future.

DNB Næringskreditt has adopted the credit risk policies of the DNB Group. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, and by monitoring exposures in relation to such limits. In order to manage credit risk in the loan portfolios, the loans are backed by collateral.

DNB's risk classification system is divided into ten risk classes where 1 represents the lowest and 10 the highest risk. The classification system is based on the probability of default (PD), which is an estimate of the likelihood of a counterparty defaulting on its contractual obligations.

DNB Næringskreditt uses commercial property as collateral to reduce the risk related to customers' willingness and capacity to service their debt. As a rule, the physical objects used as collateral must be insured. When approving loans, an objective appraisal of the commercial property must be available. In addition, aspects which may influence collateral value must be taken into account, for example concession terms or encumbrances.

## Note 5 Market risk

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Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

Market risk arises as a consequence of unhedged positions in the interest rate and foreign exchange markets. Changes in interest rates and exchange rates may affect both the company's total comprehensive income for the period and values in the balance sheet.

DNB Næringskreditt is not exposed to market risk arising from its investments in commodities, foreign currencies and equity.

DNB Næringskreditt is exposed to interest rate risk through its ordinary operations. The company's strategy is to swap all interest rate risk exposure to short-term interest. The Board of Directors sets interest rate risk limits for various fixed-rate periods. The positions are monitored on a daily basis, and monthly exposure reports are prepared for the company's management and Board of Directors.

Relative to the company's primary capital, the company's interest rate risk is considered to be insignificant. In the opinion of the company's management, the company does not assume greater interest rate risk than what is considered prudent, cf. the requirements in section 5 in the regulations on mortgage institutions issuing covered bonds of 25 May 2007.

## Note 6 Liquidity risk

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Liquidity risk is defined as the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by cash or other financial assets. Liquidity risk is the risk that the company might be unable to meet its payment obligations when they fall due.

The Board of Directors sets annual limits for the company's liquidity risk, which means preparing liquidity risk limits, contingency plans, organisational aspects and responsibilities, forecasts, stress tests, routines for monitoring limit utilisation and compliance with guidelines, management reporting and independent monitoring of management and control systems.

According to Section 2-32 of the Financial Institutions Act: *"the mortgage institution shall ensure that payment flows from the cover assets at all times enable the mortgage institution to meet its payment obligations to the owners of bonds with preferential rights and counterparties in derivative agreements"*. The company's Board of Directors has decided that the company shall, at all times, have positive cash flows over the next 12 months.

According to Section 6 in the regulations on sound liquidity management, *"the institution shall analyze the liquidity situation by means of stress tests, which must be adapted to the scope, complexity and risk of operations. Experience from the stress tests shall be used when the Board of Directors considers the liquidity strategy and approves liquidity risk limits"*.

As part of its liquidity risk management, the company prepares liquidity stress tests with quarterly reporting to the Board of Directors.

DNB Næringskreditt's liquidity situation for the first quarter of 2014 can be characterised as sound.

## Note 7 Net interest income

### DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	1st quarter 2014	1st quarter 2013	Full year 2013
Interest on amounts due from credit institutions	289	1 068	6 919
Interest on loans to customers	198 427	183 855	749 963
Other interest income	7	221	688
<b>Total interest income</b>	<b>198 723</b>	<b>185 144</b>	<b>757 570</b>
Interest on amounts due to credit institutions	84 884	92 820	377 189
Interest on debt securities issued	28 316	13 989	62 996
<b>Total interest expenses</b>	<b>113 200</b>	<b>106 809</b>	<b>440 184</b>
<b>Net interest income</b>	<b>85 523</b>	<b>78 334</b>	<b>317 385</b>

## Note 8 Net gains on financial instruments

### DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	1st quarter 2014	1st quarter 2013	Full year 2013
Net gains on financial liabilities, designated as at fair value <sup>1)</sup>	(26 290)	-	3 940
Net gains on financial derivatives, trading <sup>2)</sup>	31 631	-	(14 096)
<b>Net gains (losses) on financial instruments at fair value</b>	<b>5 341</b>	<b>0</b>	<b>(10 156)</b>

1) DNB Næringskreditt's fixed-rate bonds, issued in Norwegian kroner, are carried at fair value. The floating-rate bonds are carried at amortised cost. The market value of the fixed-rate bonds, carried at fair value, is impacted by the interest rate, including own credit risk premium. Reduced interest rates, including own credit risk premium, will increase the fair value of already issued Norwegian kroner liabilities. However, new funding issued at lower credit risk premiums will over time lead to decreased interest expenses. The fair value adjustments of the company's Norwegian kroner debt are reversed over the loans' remaining term to maturity.

2) DNB Boligkreditt enters into swaps to manage interest-rate risk for the fixed-rate bonds issued in Norwegian kroner. Such derivatives are recorded at fair value.

## Note 9 Loans to customers

Loans to customers, including accrued interest, totalled NOK 24.4 billion at end-March 2014 (NOK 20.9 billion as at 31 March 2013). There was no objective evidence of a decrease in value requiring individual impairment of the loans. Nor were any allocations made for individual impairment in 2013.

The loans have been reviewed for collective impairment. During the first quarter of 2014, collective impairments increased by NOK 1.7 million.

Customer loans are backed by collateral in the form of commercial property within 60 per cent of market value.

	DNB Næringskreditt AS		
<i>Amounts in NOK 1 000</i>	31 March 2014	31 Dec. 2013	31 March 2013
Loans to customers at amortised cost, nominal amount	24 274 888	23 058 352	20 784 051
– Individual impairments	-	-	-
Loans to customers, net of impairment allowances	24 274 888	23 058 352	20 784 051
+ Accrued interest	124 167	114 185	107 158
– Individual impairment of accrued interest	(997)	(890)	(1 992)
Loans to customers, at amortised cost	24 398 058	23 171 647	20 889 218
– Collective impairments	8 803	7 106	4 118
<b>Total loans to customers</b>	<b>24 389 255</b>	<b>23 164 541</b>	<b>20 885 099</b>

	DNB Næringskreditt AS	
<i>Amounts in NOK 1 000</i>	31 March 2014	31 Dec. 2013
Impairments as per 1 January	7 106	5 008
Changes in individual impairments	-	-
Changes in collective impairments	1 697	2 098
Impairments at end of period	8 803	7 106
<i>Of which:</i>		
<i>Individual impairments</i>	-	-
<i>Individual impairment of accrued interest and amortisations</i>	-	-
<i>Collective impairments</i>	8 803	7 106

## Note 10 Debt securities issued

### Private placements

### DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>						31 March	31 Dec.	31 March
ISIN Code	Nominal value	Currency	Interest	Issued	Matured	2014	2013	2013
NO 0010543192	2 400 000	NOK	Floating	2009	2015	2 400 000	2 400 000	2 400 000
NO 0010694425	1 000 000	NOK	Floating	2013	2018	1 000 000	1 000 000	-
NO 0010694474	1 000 000	NOK	Fixed	2013	2023	1 022 350	996 060	-
Accrued interest						30 190	21 164	13 825
<b>Total debt securities issued</b>						<b>4 452 540</b>	<b>4 417 224</b>	<b>2 413 825</b>

### Cover pool

### DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	31 March	31 Dec.	31 March
	2014	2013	2013
Pool of eligible loans	22 061 080	20 981 617	18 176 479
Market value of eligible derivatives	26 561	-	-
Supplementary assets	103 454	560 153	232 874
<b>Total collateralised assets</b>	<b>22 191 095</b>	<b>21 541 770</b>	<b>18 409 353</b>
Debt securities issued, carrying value	4 452 540	4 417 224	2 413 825
Market value of eligible derivatives	-	14 098	-
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(2 435)	-	-
<b>Debt securities issued, valued according to regulation <sup>1)</sup></b>	<b>4 450 106</b>	<b>4 431 322</b>	<b>2 413 825</b>
Collateralisation (per cent)	498	486	763

1) 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 2-28 and 2-31 of the Financial Institutions Act with appurtenant regulations.

## Note 11 Financial instruments at fair value

The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

### Level 1

Valuation based on quoted, unadjusted prices in active markets for identical assets and liabilities. DNB Næringskreditt has no financial instruments in this category.

### Level 2

Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Valuation of interest rate swaps and is based on level 2 techniques. The valuation is based on swap curves that are based on observable market prices. Credit risk is considered to have an insignificant effect on the fair value.

Debt securities issued in Norwegian kroner and at a fixed interest rate, are also measured at fair value based on level 2 techniques. The valuation of the bonds is primarily based on observable market data in the form of interest rate curves and credit margins.

### Level 3

Techniques for which inputs that have a significant effect on the recorded fair value are not based on observable market data. DNB Næringskreditt has no financial instruments in this category.

As at 31 March 2014

DNB Næringskreditt AS

	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	Accrued interest <sup>1)</sup>	Total
<i>Amounts in NOK 1 000</i>					
<b>Assets</b>					
Loans to customers	-	-	0	0	0
Financial derivatives	-	26 561	-	-	26 561
<b>Liabilities</b>					
Debt securities issued	-	1 022 350	-	14 544	1 036 894
Financial derivatives	-	0	-	-	0

<sup>1)</sup> For financial derivatives accrued interest is included in the level 2 amounts.

## Note 12 Fair value of financial instruments at amortised cost

Most assets and liabilities in the DNB Næringskreditt's balance sheet are carried at amortised cost.

Amortised cost is the historical cost of the asset or liability at initial recognition, adjusted for repayments of principal, amortisations based on the effective interest rate method and impairments. The value is not based on current market conditions, but rather accounted for based on the originally agreed terms, so in general there will be a difference between the amortised cost value and market value.

The difference is mainly related to changes in interest rates and credit risk. Fair value includes both positive and negative value changes in interest- and credit risk while amortised cost is not adjusted for positive value changes and only to some extent adjusted for negative value changes through impairment.

The table shows estimated fair values of items carried at amortised cost. Values are measured based on the valuation methods described in note 11.

### Fair value of financial instruments at amortised cost

<i>Amounts in NOK 1 000</i>	DNB Næringskreditt AS	
	Carrying value 31 March 2014	Fair value 31 March 2014
Due from credit institutions	113 344	113 344
Loans to customers	24 389 255	24 389 255
<b>Total financial assets</b>	<b>24 502 599</b>	<b>24 502 599</b>
Due to credit institutions	14 423 346	14 423 346
Debt securities issued	3 415 646	3 427 104
<b>Total financial liabilities</b>	<b>17 838 992</b>	<b>17 838 992</b>

### As at 31 March 2014

<i>Amounts in NOK 1 000</i>	DNB Næringskreditt AS				
	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	Accrued interest	Total
<b>Assets</b>					
Lending to and deposits with credit institutions	-	113 344	-	-	113 344
Loans to customers	-	-	24 265 088	124 167	24 389 255
<b>Liabilities</b>					
Loans and deposits from credit institutions	-	14 423 346	-	-	14 423 346
Debt securities issued	-	3 411 458	-	15 646	3 427 104

For floating rate loans to customers, the interest rates and margins are changed when the market rates change. The customers have to be notified of all changes in advance of the changes being put into effect, so there is a short period of time where the terms of the loans diverge from market rates. However this delay in timing is considered to have an immaterial effect to the total value of the loans hence the carrying value of these loans are considered to be a relevant measure for fair value.

Debt securities issued with a floating interest rate are carried at amortised cost. If measured at fair value, a positive or negative effect of changes in credit risk would have been recorded. Loans due to credit institutions are mainly at floating interest rates and carried at amortised cost, which is considered not to diverge significantly from fair value.

## **Note 13      Related parties**

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DNB Næringskreditt AS is a subsidiary within the DNB Group. During the quarter many transactions, mostly related to the ordinary course of business, take place between DNB Næringskreditt and other group entities. All transactions are at market terms. Major transactions with related parties:

### **DNB Bank ASA**

DNB Bank ASA (the bank) is the parent of DNB Næringskreditt. As part of ordinary business transactions, a large number of banking transactions are entered into between DNB Næringskreditt and the bank. The transactions are regulated in the "Agreement relating to transfer of loan portfolio between DNB Bank ASA and DNB Næringskreditt AS" (the transfer agreement) and the "Contract concerning purchase of management services" (the management agreement).

The transfer agreement regulates the transfer of loan portfolios qualifying as collateral for the issue of covered bonds. During the first quarter of 2014, portfolios of NOK 1.5 billion were transferred from the bank to DNB Næringskreditt. All transactions are carried out at market terms.

Pursuant to the management agreement, DNB Næringskreditt purchases services from the bank, including administration, bank production, distribution, customer contact, IT operations, financial and liquidity management. DNB Næringskreditt pays a management fee for these services based on the lending volume under management and the achieved lending spreads. The management fee amounted to NOK 23.1 million for the first quarter of 2014 (NOK 21.0 million for the first quarter of 2013).

In the balance sheet "Loans to and deposits with credit institutions" and "Due to credit institutions" are solely outstandings with DNB Bank. All derivative contracts are with DNB Bank as counterparty. At end-March, the bank had invested NOK 3.2 billion in covered bonds issued by DNB Næringskreditt.

### **DNB Boligkreditt AS**

DNB Næringskreditt has no employees and purchases administrative services from DNB Boligkreditt. On an annual basis, DNB Næringskreditt hires staff representing 2.3 full-time equivalents. The management fee amounted to NOK 1.4 million for the first quarter of 2014. DNB Boligkreditt is a wholly-owned subsidiary of DNB Bank.

## **Note 14      Contingencies and post balance sheet events**

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DNB Næringskreditt is not involved in any legal actions.



# Key figures

## DNB Næringskreditt AS

	1st quarter 2014	1st quarter 2013	Full year 2013
<b>Rate of return/profitability</b>			
1. Return on equity, annualised (%) <sup>1)</sup>	3.4	2.8	3.7
<b>Financial strength</b>			
2. Core (Tier 1) capital ratio at end of period (%)	27.4	32.3	28.8
3. Capital adequacy ratio at end of period (%)	27.4	32.3	28.8
4. Core capital at end of period (NOK 1 000)	5 360 034	5 403 949	5 359 441
5. Risk-weighted volume at end of period (NOK 1 000)	19 543 905	16 706 025	18 624 555

## Definitions

1) *Average equity is calculated on the basis of recorded equity.*

# Profit and balance sheet trends

## Statement of comprehensive income

DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	31 March 2014	31 Dec. 2013	30 Sept. 2013	30 June 2013	31 March 2013
Total interest income	198 723	194 912	191 853	185 661	185 144
Total interest expenses	113 200	111 220	111 494	110 660	106 810
<b>Net interest income</b>	<b>85 523</b>	<b>83 691</b>	<b>80 358</b>	<b>75 001</b>	<b>78 334</b>
Commission and fee income	58	183	34	84	66
Commission and fee expenses	25	(65)	13	13	13
Net gains (losses) on financial instruments at fair value	5 341	(10 156)	-	-	-
<b>Net other operating income</b>	<b>5 374</b>	<b>(10 015)</b>	<b>21</b>	<b>71</b>	<b>54</b>
<b>Total income</b>	<b>90 897</b>	<b>73 530</b>	<b>80 380</b>	<b>75 073</b>	<b>78 388</b>
Other expenses	25 405	26 020	24 045	15 365	24 472
<b>Total operating expenses</b>	<b>25 405</b>	<b>26 020</b>	<b>24 045</b>	<b>15 365</b>	<b>24 472</b>
Impairments on loans and commitments	1 697	1 021	1 998	(31)	(890)
<b>Pre-tax operating profit</b>	<b>63 795</b>	<b>46 488</b>	<b>54 336</b>	<b>59 738</b>	<b>54 805</b>
Taxes	17 234	12 987	15 375	16 700	15 345
<b>Profit for the period</b>	<b>46 561</b>	<b>33 501</b>	<b>38 963</b>	<b>43 038</b>	<b>39 460</b>
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>46 561</b>	<b>33 501</b>	<b>38 963</b>	<b>43 038</b>	<b>39 460</b>

## Balance sheets

DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	31 March 2014	31 Dec. 2013	30 Sept. 2013	30 June 2013	31 March 2013
<b>Assets</b>					
Due from credit institutions	113 344	571 517	11 376	329 127	250 017
Loans to customers	24 389 255	23 164 541	22 122 310	20 763 004	20 885 099
Financial derivatives	26 561	1 864	-	-	-
Deferred tax assets	2 818	2 818	97	97	97
Other assets	960	960	-	-	-
<b>Total assets</b>	<b>24 532 938</b>	<b>23 741 700</b>	<b>22 133 783</b>	<b>21 092 228</b>	<b>21 135 213</b>
<b>Liabilities and equity</b>					
Due to credit institutions	14 423 346	13 709 979	14 179 528	13 187 644	13 027 111
Financial derivatives	-	15 962	-	-	-
Debt securities issued	4 452 540	4 417 224	2 413 104	2 414 280	2 413 825
Payable taxes	80 362	63 128	47 420	32 046	88 731
Other liabilities	8 991	14 269	6 094	9 585	11 208
<b>Total liabilities</b>	<b>18 965 240</b>	<b>18 220 563</b>	<b>16 646 147</b>	<b>15 643 555</b>	<b>15 540 874</b>
Share capital	550 000	550 000	550 000	550 000	550 000
Share premium	4 604 100	4 604 100	4 694 100	4 694 100	4 694 100
Other Equity	413 598	367 037	243 536	204 573	350 239
<b>Total equity</b>	<b>5 567 698</b>	<b>5 521 137</b>	<b>5 487 636</b>	<b>5 448 673</b>	<b>5 594 339</b>
<b>Total liabilities and equity</b>	<b>24 532 938</b>	<b>23 741 700</b>	<b>22 133 783</b>	<b>21 092 228</b>	<b>21 135 213</b>

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## 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 [www.dnb.no](http://www.dnb.no).

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