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DNB  
NÆRINGSKREDITT AS

– a company in the DNB Group

Second quarter and  
first half report 2014  
(Unaudited)

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# Key figures

## DNB Næringskreditt AS

<b>Statement of comprehensive income</b>	2nd quarter	2nd quarter	1st half	1st half	Full year
<i>Amounts in NOK 1000</i>	2014	2013	2014	2013	2013
Net interest income	89 273	75 001	174 796	153 335	317 385
Net other operating income	(9 151)	71	(3 778)	125	(10 015)
Operating expenses	27 654	15 365	53 059	39 837	89 903
Impairments on loans and commitments	(1 381)	(32)	316	(921)	2 098
Pre-tax operating profit	53 848	59 739	117 643	114 544	215 369
Taxes	14 539	16 700	31 773	32 046	60 408
<b>Profit for the period</b>	<b>39 309</b>	<b>43 038</b>	<b>85 870</b>	<b>82 498</b>	<b>154 962</b>

<b>Balance sheet</b>	30 June	31 Dec.	30 June
<i>Amount in NOK million</i>	2014	2013	2013
Total assets	26 258	23 742	21 092
Loans to customers	25 959	23 165	20 763
Debt securities issues	4 503	4 417	2 414
Total equity	5 452	5 521	5 449

<b>Key figures</b>	2nd quarter	2nd quarter	1st half	1st half	Full year
<i>Per cent</i>	2014	2013	2014	2013	2013
Average lending spread <sup>1)</sup>	0.90	0.68	0.88	0.72	0.77
Return on equity, annualised <sup>2)</sup>	3.1	3.1	3.0	3.0	3.7
Tier 1 capital ratio at end of period	25.7	32.1	25.7	32.1	28.8
Capital ratio at end of period	25.7	32.1	25.7	32.1	28.8
Net non-performing and impaired loans, per cent of net loans	0.00	0.00	0.00	0.00	0.00

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

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

# Second quarter and first half 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 the fourth quarter of 2013. The rating agencies' assessments are of significance to the company's funding terms. In the second quarter of 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 39 million in the second quarter of 2014, compared with a profit of NOK 43 million in the second quarter of 2013. The profit for the first half of 2014 was NOK 86 million, compared with a profit of NOK 82 million in 2013.

### Total income

Income totalled NOK 80 million in the second quarter of 2014, up from NOK 75 million in the year-earlier period.

<i>Amounts in NOK million</i>	2nd quarter 2014	Change	2nd quarter 2013
Total income	80	5	75
Net interest income		14	
Net commission and fee income		0	
Net gains (losses) on financial instruments at fair value		(9)	

The improvement in net interest income was due to an increase in loans to customers, as well as wider interest rate spreads.

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

<i>Amounts in NOK million</i>	1st half 2014	Change	1st half 2013
Total income	171	18	153
Net interest income		22	
Net commission and fee income		0	
Net gains (losses) on financial instruments at fair value		(4)	

Interest rate spreads stabilised at a higher level than in 2013. At the same time, average net loans to customers increased during the first half of 2014 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 26 million in the second quarter of 2014, up from NOK 12 million in the second quarter the year before. The management fee for the first half of 2014 was NOK 49 million.

The company has recorded no individual impairment losses in previous years, though collective impairment losses of NOK 0.3 million were recorded in the first half 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-June 2014, DNB Næringskreditt had total assets of NOK 26.3 billion under management, an increase of NOK 5.2 billion or 24.5 per cent from end-June 2013.

<i>Amounts in NOK million</i>	30 June 2014	Change	30 June 2013
Total assets	26 258	5 166	21 092
Loans to customers		5 196	
Financial derivatives		66	
Other assets		(96)	
Total liabilities	20 806	5 162	15 644
Due to credit institutions		3 072	
Financial derivatives		0	
Debt securities issued		2 089	
Other liabilities		1	

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.

The company did not issue covered bonds in the first half of 2014. Total debt securities issued amounted to NOK 4.4 billion as at end-June 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 the value of 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 end-June 2014, the company's equity totalled NOK 5.5 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 25.7 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, will enter 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 common equity Tier 1 capital requirement will be increased to 10.0 per cent as of 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 (SIFI) of 2.0 per cent common equity Tier 1 capital, as well as a counter-cyclical capital buffer of maximum 2.5 per cent. On 12 June 2014, the Ministry of Finance concluded that the SIFI buffer will apply also to DNB Næringskreditt, with effect from 1 July 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

The positive trend in international economy through 2013 continued in the first six months of 2014. The level of activity increased in practically all eurozone countries, though high unemployment and the need to reduce debt levels in both the private and public sector curb further growth. In the US, growth also picked up parallel to a positive trend in the labour market and healthy growth in consumer demand. In China, growth slowed at the start of 2014, mainly due to a sluggish property investment activity. Over the coming years, increased credit supply, a less restrictive fiscal policy and a continued expansionary monetary policy will probably result in higher growth in most industrialised countries.

In Norway, there has been a moderate decline in economic activity over the past year and a half. However, household consumption showed a positive trend during the January through June period of 2014 and companies in Norges Bank's regional network have reported increasing production growth in traditional manufacturing industries and industries supplying goods and services to the household sector.

The recent rise in housing prices in Norway, along with continued income growth in the household sector and low real interest rates, will probably result in a renewed increase in housing investments.

Despite a rather high office vacancy, the activity levels in the commercial property rental market are rising, with higher rents for the best properties. The reduced growth in the Norwegian economy has thus far not had noticeable effect on the rents. The tenant's requirements for standard have increased, and they are now more often willing to pay for upgraded locations. In particular we have experienced increased rents for commercial premises located in the central district of Oslo, and nearby Oslo Central Station.

The market remained attractive for covered bond issuers with strong credit ratings in the first half of 2014. Lower returns in other asset classes seemed to have a positive impact on the demand for covered bonds from highly rated issuers, especially covered bond issues with a long term to maturity. However, the volume of covered bonds issued in the first half of 2014 were low compared to 2013.

## Future prospects

According to current economic forecasts, a recovery is expected in international economy. In Norway, there are also indications of an economic upturn and housing prices are expected to be stable. Overall, there is conditional optimism with respect to commercial property in Norway.

DNB Næringskreditt expects interest rate spreads to remain relatively stable in the coming period. The loan portfolio is expected to increase in the period ahead as a result of IRB approval of the loan portfolio and further transfer 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, 9 July 2014

The Board of Directors of DNB Næringskreditt AS

Bjørn Erik Næss  
(chairman)

Eva-Lill Strandskogen

Reidar Bolme

Elisabeth Ege

Jørn E. Pedersen

Øyvind Birkeland  
(chief executive officer)

# Statement pursuant to Section 5-6 of the Securities Trading Act

We hereby confirm that the half-yearly financial statements for the company for the period 1 January through 30 June 2014 to the best of our knowledge have been prepared in accordance with IAS 34 Interim Financial Reporting, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole.

To the best of our knowledge, the half-yearly report gives a true and fair:

- overview of important events that occurred during the accounting period and their impact on the half-yearly financial statements
- description of the principal risks and uncertainties facing the company over the next accounting period
- description of major transactions with related parties.

Oslo, 9 July 2014

The Board of Directors of DNB Næringskreditt AS

Bjørn Erik Næss  
(chairman)

Eva-Lill Strandskogen

Reidar Bolme

Elisabeth Ege

Jørn E. Pedersen

Øyvind Birkeland  
(chief executive officer)

# Statement of comprehensive income

## DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	Note	2nd quarter 2014	2nd quarter 2013	1st half 2014	1st half 2013	Full year 2013
Total interest income	7	214 152	185 661	412 875	370 805	757 570
Total interest expenses	7	124 879	110 659	238 079	217 470	440 184
<b>Net interest income</b>	7	<b>89 273</b>	<b>75 001</b>	<b>174 796</b>	<b>153 335</b>	<b>317 385</b>
Commission and fee income		205	84	263	151	221
Commission and fee expenses		25	13	49	26	81
Net gains (losses) on financial instruments at fair value	8	(9 332)	-	(3 991)	-	(10 156)
<b>Net other operating income</b>		<b>(9 151)</b>	<b>71</b>	<b>(3 778)</b>	<b>125</b>	<b>(10 015)</b>
<b>Total income</b>		<b>80 121</b>	<b>75 073</b>	<b>171 018</b>	<b>153 460</b>	<b>307 370</b>
Other expenses	13	27 654	15 365	53 059	39 837	89 903
<b>Total operating expenses</b>		<b>27 654</b>	<b>15 365</b>	<b>53 059</b>	<b>39 837</b>	<b>89 903</b>
Impairments on loans and commitments	9	(1 381)	(32)	316	(921)	2 098
<b>Pre-tax operating profit</b>		<b>53 848</b>	<b>59 739</b>	<b>117 643</b>	<b>114 544</b>	<b>215 369</b>
Taxes		14 539	16 700	31 773	32 046	60 408
<b>Profit for the period</b>		<b>39 309</b>	<b>43 038</b>	<b>85 870</b>	<b>82 498</b>	<b>154 962</b>
Other comprehensive income		-	-	-	-	-
<b>Total comprehensive income for the period</b>		<b>39 309</b>	<b>43 038</b>	<b>85 870</b>	<b>82 498</b>	<b>154 962</b>

# Balance sheet

## DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	Note	30 June 2014	31 Dec. 2013	30 June 2013
<b>Assets</b>				
Due from credit institutions	12, 13	229 100	571 517	329 127
Loans to customers	9, 11, 12	25 958 888	23 164 541	20 763 004
Financial derivatives	11, 13	66 058	1 864	-
Deferred tax assets		2 818	2 818	97
Other assets		960	960	-
<b>Total assets</b>		<b>26 257 824</b>	<b>23 741 700</b>	<b>21 092 228</b>
<b>Liabilities and equity</b>				
Due to credit institutions	12, 13	16 259 989	13 709 979	13 187 644
Financial derivatives	11, 13	-	15 962	-
Debt securities issued	10, 11, 12, 13	4 502 594	4 417 224	2 414 280
Payable taxes		34 702	63 128	32 046
Other liabilities		8 333	14 269	9 585
<b>Total liabilities</b>		<b>20 805 617</b>	<b>18 220 563</b>	<b>15 643 555</b>
Share capital		550 000	550 000	550 000
Share premium		4 604 100	4 604 100	4 694 100
Other equity		298 107	367 037	204 573
<b>Total equity</b>		<b>5 452 207</b>	<b>5 521 137</b>	<b>5 448 673</b>
<b>Total liabilities and equity</b>		<b>26 257 824</b>	<b>23 741 700</b>	<b>21 092 228</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	-	-	82 498	82 498
Other comprehensive income	-	-	-	0
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>82 498</b>	<b>82 498</b>
Group contribution paid	-	-	(188 704)	(188 704)
<b>Balance sheet as at 30 June 2013</b>	<b>550 000</b>	<b>4 604 100</b>	<b>294 574</b>	<b>5 448 673</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	-	-	85 870	85 870
Other comprehensive income	-	-	-	0
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>85 870</b>	<b>85 870</b>
Group contribution paid	-	-	(154 800)	(154 800)
<b>Balance sheet as at 30 June 2014</b>	<b>550 000</b>	<b>4 604 100</b>	<b>298 107</b>	<b>5 452 207</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>	2nd quarter 2014	2nd quarter 2013	Full year 2013
<b>OPERATING ACTIVITIES</b>			
Net receipts/payments on loans to customers	291 094	838 299	1 894 346
Interest received from customers	392 960	373 992	745 718
Net receipts/payments on loans to/from credit institutions	2 882 237	(385 566)	(109 693)
Interest received from credit institutions	2 721	3 440	6 919
Interest paid to credit institutions	(179 105)	(194 996)	(381 613)
Payments for operating expenses	(57 984)	(38 199)	(84 526)
<b>Net cash flow from operating activities</b>	<b>3 331 923</b>	<b>596 971</b>	<b>2 071 151</b>
<b>Investing activities</b>			
Net purchase of loan portfolio	(3 068 563)	(312 667)	(3 761 709)
<b>Net cash flow relating to investing activities</b>	<b>(3 068 563)</b>	<b>(312 667)</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	(50 538)	(15 149)	(56 816)
Group contribution paid	(215 000)	-	(262 089)
<b>Net cash flow from financing activities</b>	<b>(265 538)</b>	<b>(15 149)</b>	<b>1 681 095</b>
<b>Net cash flow</b>	<b>(2 179)</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	(2 179)	(3 241)	(9 462)
Cash at end of period	9 185	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 second 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 second quarter of 2014 that have had effect on the interim report.

The accounts for the second quarter were approved by the Board of Directors on the 9<sup>th</sup> of July 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 86 million in the first half 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	
	30 June 2014	31 Dec. 2013
<i>Amounts in NOK 1 000</i>		
Share capital	550 000	550 000
Other equity	4 816 337	4 971 137
Total equity	5 366 337	5 521 137
Deductions		
100 per cent of expected losses, IRB portfolios	(5 676)	(4 078)
Adjustments for deferred tax assets	(2 818)	(2 818)
Allocated group contributions for payment	-	(154 800)
Tier 1 capital	5 357 843	5 359 441
Total eligible primary capital	5 357 843	5 359 441
Risk-weighted volume, transitional rules	20 840 546	18 624 555
Minimum capital requirement	1 667 244	1 489 964
Tier 1 capital ratio, transitional rules (%)	25.7	28.8
Capital ratio, transitional rules (%)	25.7	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 second 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>	30 June 2014	31 Dec. 2013
Risk-weighted volume, Basel II	18 440 870	16 739 734
Minimum capital requirement, Basel II	1 475 270	1 339 179
Tier 1 capital ratio (%)	29.0	32.0
Capital ratio (%)	29.0	32.0

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

### DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	Exposure 30 June 2014	EAD 30 June 2014	Risk-weighted volume 30 June 2014	Capital requirements 30 June 2014
IRB approach				
Corporate	11 457 406	11 457 406	3 268 778	261 502
Retail - residential property	-	-	-	-
Total credit-risk, IRB approach	11 457 406	11 457 406	3 268 778	261 502
Standardised approach				
Institutions	295 158	295 158	59 032	4 723
Corporate	14 510 495	14 510 495	14 510 495	1 160 840
Retail - residential property	-	-	-	-
Total credit-risk, standardised approach	14 805 653	14 805 653	14 569 527	1 165 562
Total credit-risk	26 263 060	26 263 060	17 838 305	1 427 064
Other assets			963	77
Market-risk, standardised approach			-	-
Operational risk			601 605	48 128
Deductions			-	-
Total risk-weighted volume and capital requirements before transitional rule			18 440 873	1 475 270
Additional capital requirements according to transitional rules				191 974
Capital requirements				1 667 244

## 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 second quarter of 2014 can be characterised as sound.

## Note 7 Net interest income

DNB Næringskreditt AS					
	2nd quarter	2nd quarter	1st half	1st half	Full year
<i>Amounts in NOK 1 000</i>	2014	2013	2014	2013	2013
Interest on amounts due from credit institutions	2 431	2 373	2 720	3 440	6 919
Interest on loans to customers	211 710	183 065	410 137	366 920	749 963
Other interest income	10	224	17	445	688
<b>Total interest income</b>	<b>214 152</b>	<b>185 661</b>	<b>412 875</b>	<b>370 805</b>	<b>757 570</b>
Interest on amounts due to credit institutions	95 860	96 225	180 744	189 045	377 189
Interest on debt securities issued	29 019	14 435	57 335	28 425	62 996
<b>Total interest expenses</b>	<b>124 879</b>	<b>110 659</b>	<b>238 079</b>	<b>217 470</b>	<b>440 184</b>
<b>Net interest income</b>	<b>89 273</b>	<b>75 001</b>	<b>174 796</b>	<b>153 335</b>	<b>317 385</b>

## Note 8 Net gains on financial instruments

DNB Næringskreditt AS					
	2nd quarter	2nd quarter	1st half	1st half	Full year
<i>Amounts in NOK 1 000</i>	2014	2013	2014	2013	2013
Net gains on financial liabilities, designated as at fair value <sup>1)</sup>	(39 600)	0	(65 890)	-	3 940
Net gains on financial derivatives, trading <sup>2)</sup>	30 268	0	61 899	-	(14 096)
<b>Net gains (losses) on financial instruments at fair value</b>	<b>(9 332)</b>	<b>0</b>	<b>(3 991)</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 26.0 billion at end-June 2014 (NOK 20.8 billion as at end-June 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.

The loans have been reviewed for collective impairment. During the first half of 2014, collective impairments increased by NOK 0.3 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>	30 June 2014	31 Dec. 2013	30 June 2013
Loans to customers at amortised cost, nominal amount	25 835 821	23 058 352	20 665 357
– Individual impairments	-	-	-
Loans to customers, net of impairment allowances	25 835 821	23 058 352	20 665 357
+ Accrued interest	132 081	114 185	103 317
– Individual impairment of accrued interest	(1 591)	(890)	(1 582)
Loans to customers, at amortised cost	25 966 310	23 171 647	20 767 092
– Collective impairments	7 422	7 106	4 088
<b>Total loans to customers</b>	<b>25 958 888</b>	<b>23 164 541</b>	<b>20 763 004</b>

	DNB Næringskreditt AS	
<i>Amounts in NOK 1 000</i>	30 June 2014	31 Dec. 2013
Impairments as per 1 January	7 106	5 008
Changes in individual impairments	-	-
Changes in collective impairments	316	2 098
Impairments at end of period	7 422	7 106
<i>Of which:</i>		
<i>Individual impairments</i>	-	-
<i>Individual impairment of accrued interest and amortisations</i>	-	-
<i>Collective impairments</i>	7 422	7 106

## Note 10 Debt securities issued

### Private placements

### DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>						30 June	31 Dec.	30 June
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	1 061 950	996 060	-
Accrued interest						40 644	21 164	14 280
<b>Total debt securities issued</b>						<b>4 502 594</b>	<b>4 417 224</b>	<b>2 414 280</b>

### Cover pool

### DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	30 June	31 Dec.	30 June
	2014	2013	2013
Pool of eligible loans	23 329 165	20 981 617	18 056 575
Market value of eligible derivatives	66 058	-	-
Supplementary assets	219 914	560 153	315 660
<b>Total collateralised assets</b>	<b>23 615 137</b>	<b>21 541 770</b>	<b>18 372 235</b>
Debt securities issued, carrying value	4 502 594	4 417 224	2 414 280
Market value of eligible derivatives	-	14 098	-
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(20 217)	-	-
<b>Debt securities issued, valued according to regulation <sup>1)</sup></b>	<b>4 482 377</b>	<b>4 431 322</b>	<b>2 414 280</b>
Collateralisation (per cent)	525	486	761

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 30 June 2014

DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	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
<b>Assets</b>					
Loans to customers	-	-	0	0	0
Financial derivatives	-	66 058	-	-	66 058
<b>Liabilities</b>					
Debt securities issued	-	1 061 950	-	24 169	1 086 119
Financial derivatives	-	0	-	-	0

1) 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	DNB Næringskreditt AS	
	Carrying value 30 June 2014	Fair value 30 June 2014
<i>Amounts in NOK 1 000</i>		
Due from credit institutions	229 100	229 100
Loans to customers	25 958 888	25 958 888
<b>Total financial assets</b>	<b>26 187 988</b>	<b>26 187 988</b>
Due to credit institutions	16 259 989	16 259 989
Debt securities issued	3 416 474	3 429 677
<b>Total financial liabilities</b>	<b>19 676 463</b>	<b>19 676 463</b>

As at 30 June 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	Total
<i>Amounts in NOK 1 000</i>					
<b>Assets</b>					
Lending to and deposits with credit institutions	-	229 100	-	-	229 100
Loans to customers	-	-	25 826 807	132 081	25 958 888
<b>Liabilities</b>					
Loans and deposits from credit institutions	-	16 259 989	-	-	16 259 989
Debt securities issued	-	3 413 203	-	16 474	3 429 677

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 second quarter of 2014, portfolios of NOK 2.5 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 25.8 million for the second quarter of 2014 (NOK 12.1 million for the second 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-June, the bank had invested NOK 3.1 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 0.7 million for the second 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

	2nd quarter 2014	2nd quarter 2013	1st half 2014	1st half 2013	Full year 2013
<b>Rate of return/profitability</b>					
1. Return on equity, annualised (%) <sup>1)</sup>	3.1	3.1	3.0	3.0	3.7
<b>Financial strength</b>					
2. Core (Tier 1) capital ratio at end of period (%)	25.7	32.1	25.7	32.1	28.8
3. Capital adequacy ratio at end of period (%)	25.7	32.1	25.7	32.1	28.8
4. Core capital at end of period (NOK 1 000)	5 357 843	5 446 320	5 357 843	5 446 320	5 359 441
5. Risk-weighted volume at end of period (NOK 1 000)	20 840 546	16 706 025	20 840 546	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

	31 March 2014	31 Dec. 2013	30 Sept. 2013	30 June 2013	31 March 2013
<i>Amounts in NOK 1 000</i>					
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

	31 March 2014	31 Dec. 2013	30 Sept. 2013	30 June 2013	31 March 2013
<i>Amounts in NOK 1 000</i>					
<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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