Annual report 2014

# DNB NÆRINGSKREDITT AS

– a company in the DNB Group

DNB

# Key figures

## Statement of comprehensive income

**DNB Næringskreditt AS**

| *Amounts in NOK 1000* | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Net interest income | 364 041 | 317 385 | 335 262 | 320 093 | 257 199 |
| Net other operating income | (7 784) | (10 015) | 1 000 | 877 | 409 |
| Operating expenses | 116 365 | 89 903 | 77 307 | 64 684 | 41 657 |
| Impairments on loans and commitments | 215 | 2 098 | (3 222) | 2 029 | 200 |
| Pre-tax operating profit | 239 678 | 215 369 | 262 177 | 254 256 | 215 750 |
| Taxes | 64 723 | 60 408 | 73 409 | 71 192 | 60 410 |
| **Profit for the period** | **174 955** | **154 962** | **188 767** | **183 065** | **155 340** |

## Balance sheet

| *Amounts in NOK million* | 31 Dec. 2014 | 31 Dec. 2013 | 31 Dec. 2012 | 31 Dec. 2011 | 31 Dec. 2010 |
|---|---|---|---|---|---|
| Total assets | 26 088 | 23 742 | 21 452 | 23 035 | 18 136 |
| Loans to customers | 25 905 | 23 165 | 21 294 | 22 559 | 17 347 |
| Debt securities issued | 4 561 | 4 417 | 2 415 | 2 421 | 2 418 |
| Total equity | 5 541 | 5 521 | 5 555 | 5 549 | 5 366 |

## Key figures

| *Per cent* | 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|
| Combined average lending spreads for loans [1)] | 0.90 | 0.77 | 0.59 | 0.38 | 0.29 |
| Return on equity | 3.2 | 3.7 | 3.2 | 3.4 | 2.9 |
| | | | | | |
| Tier 1 capital ratio at end of period | 25.9 | 28.8 | 31.5 | 23.1 | 30.2 |
| Capital ratio at end of period | 25.9 | 28.8 | 31.5 | 23.1 | 30.2 |
| | | | | | |
| Net non-performing and impaired loans, per cent of net loans | 0.00 | 0.00 | (0.02) | 0.01 | 0.00 |

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

# Contents

# Directors' report 2014

*In accordance with the provisions of the Norwegian Accounting Act, the Board of Directors comfirms that the accounts have been prepared on a going concern basis, and that the going concern assumption applies.*

*Pursuant to Section 3-9 of the Norwegian Accounting Act, DNB Næringskreditt prepares annual accounts in accordance with IFRS, International Financial Reporting Standars, approved by the EU.*

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. 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. On 13 March 2014, Moody's upgraded the company's bonds from Aa1 to Aaa.

## Operations in 2014

DNB Næringskreditt recorded a profit of NOK 175 million in 2014, compared with a profit of NOK 155 million in 2013. Interest rate spreads were stable in 2014, and the improvement in net interest income was mainly due to an increase in loans to customers.

The company's commercial mortgage portfolio totalled NOK 25.9 billion at year-end 2014, rising by NOK 2.7 billion or 11.8 per cent over the preceding 12 months. Debt securities issued in the form of covered bonds increased from NOK 4.4 billion in 2013 to NOK 4.6 billion at year-end 2014 due to market value increases.

## Strategy

DNB Næringskreditt is a tool for DNB Bank to offer commercial mortgages on competitive terms. The issue of covered bonds secured by the company's cover pool will contribute to favourable funding for the banking group. The bonds are offered in Norwegian kroner primarily for the national market.

DNB Næringskreditt's assets comprise loans secured by commercial property within 60 per cent of the property's appraised value. New mortgages are provided through the bank's distribution channels. The bank is responsible for customer relations and all customer contact, marketing and product development. The company follows the bank's credit policy, credit strategy and credit process.

The quality and risk profile of the mortgages included in the cover pool shall ensure that the company's Aaa rating target for its covered bonds is met.

The target group for covered bonds is national and international financial institutions and other investors.

## Corporate governance and internal control

DNB Næringskreditt's corporate governance principles are based on the DNB Group's corporate governance policy. The Group's policy follows the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance.

DNB's policy for corporate social responsibility sets the standards for all of the Group's work on both the observance and the further development of corporate social responsibility. In addition, the Group has guidelines, business models and fora that aim to ensure that corporate social responsibility is an integral part of daily operations. Read more about DNB's corporate social responsibility on dnb.no/en/about-us/corporate-social-responsibility.

The Board of Directors of DNB Næringskreditt reviews the financial reporting process. The company follows the DNB Group's policy for financial governance, which includes requirements for quality assurance of financial reporting processes to ensure relevant, timely and uniform reporting to internal stakeholders, regulators and capital market participants.

DNB Næringskreditt has no employees, but purchases administrative services from DNB Boligkreditt. DNB Boligkreditt has a management team which is adapted to its organisation and operations. The team reviews the process of internal control over financial reporting, and implements adequate and effective internal processes in accordance with established requirements. This encompasses DNB Næringskreditt. Processes include control measures to ensure that the financial reporting is of high quality. Every year, the team makes an evaluation of compliance with external and internal regulations and prepares a plan to implement any required improvements.

The Board of Directors approves management's proposed annual accounts for DNB Næringskreditt.

## Review of the annual accounts

DNB Næringskreditt recorded a profit of NOK 175 million in 2014, compared with a profit of NOK 155 million in 2013.

### Total income

Income totalled NOK 356 million in 2014, up from NOK 307 million in 2013.

| *Amounts in NOK* million | 2014 | Change | 2013 |
|---|---|---|---|
| Total income | 356 | 49 | 307 |
| Net interest income | | 47 | |
| Net commission and fee income | | 1 | |
| Net gains (losses) on financial instruments at fair value | | 2 | |

Interest rate spreads were stable in 2014. Average net loans to cutomers increased during the year, and the net effect was thus an increase in net interest income.

The effect from financial instruments was negative in both 2013 and 2014, though it was less negative in 2014.

### 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 management fee for 2014 was NOK 107 million, up from NOK 77 million in 2013.

The company has recorded no individual impairment losses in previous years, though collective impairment losses of NOK 0.2 million were recorded in 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 year-end 2014, DNB Næringskreditt had total assets of NOK 26.1 billion under management, an increase of NOK 2.3 billion or 9.9 per cent from year-end 2013.

| *Amounts in NOK* million | 31 Dec. 2014 | Change | 31 Dec. 2013 |
|---|---|---|---|
| Total assets | 26 088 | 2 346 | 23 742 |
| Loans to customers | | 2 741 | |
| Financial derivatives | | 118 | |
| Other assets | | (513) | |
| Total liabilities | 20 546 | 2 325 | 18 221 |
| Due to credit institutions | | 2 198 | |
| Financial derivatives | | (17) | |
| Debt securities issued | | 143 | |
| 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 note issue covered bonds in 2014. Total debt securities issued amounted to NOK 4.6 billion at year-end 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.

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 commercial property 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.

As at year-end 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 25.9 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 new EU capital requirements regulations, called the CRR/CRD IV regulations, entered into force on 1 January 2014. The CRR/CRD IV regulations entail significantly higher own funds requirements and new requirements for long-term funding and liquidity reserves. The regulations are intended to apply to all banks and investment firms within the EEA and will be implemented gradually up to 2019. The new regulations present significant challenges for banks, requiring them to increase earnings to build equity.

Due to a stipulation in the Norwegian Constitution on limited access to yield sovereignty, it has not been possible to incorporate the EU regulations establishing the European supervisory authorities, CRR/CRD IV and a number of other EU legislative acts in the area of financial services into the EEA agreement. In the autumn of 2014, Norway and the EU agreed on a solution. The Norwegian government will probably present a proposition about this matter during the first half of 2015. Not until this proposition has been approved can CRR/CRD IV be incorporated in the EEA agreement and Norwegian legislation. Nevertheless, Norway introduced new capital requirements as of 1 July 2013 as the first step in the adaptation to CRR/CRD IV. The capital requirements in Norway imply a gradual increase in capital requirements up till 1 July 2016.

Just like the EU, the Norwegian authorities have chosen to retain the so-called Basel I floor. In the capital adequacy regulations, the Ministry of Finance has specified that the Basel I floor in Norway is a floor for calculating risk-weighted assets. In the EU regulation, however, the Basel I floor is unambiguously defined as a minimum level of own funds, which is also reflected in the European Commission's common reporting standard for banks in the EU/EEA. This supervisory practice implies that Norwegian banks appear more weakly capitalised than if the EU's version of the Basel I floor definition had been used.

For systemic risk reasons, the Norwegian authorities have increased capital requirements for home mortgages when these are calculated according to internal models. With effect from the first quarter of 2014, the minimum requirement for the model parameter "loss given default", LGD, was increased from 10 to 20 per cent in the capital adequacy regulations. The minimum requirement applies to the average home mortgage portfolio. On 1 July 2014, Finanstilsynet announced additional calibration requirements for the home mortgage models of IRB banks. Among other things, the minimum requirement for banks' probability of default, PD, estimates for individual loans increases to 0.2 per cent. In addition, the average long-term PD level increases. The banks completed the recalibration in the second half of 2014 and report capital adequacy figures according to the recalibrated model as from the first quarter of 2015.

## Employees and working environment

DNB Næringskreditt has no employees and purchases administrative services from DNB Boligkreditt. In the opinion of the Board of Directors, the company's activities do not pollute the external environment.

The Board of Directors has five members, including two women.

## Macroeconomic trends

Overall economic growth for Norway's trading partners slowed in 2014. However, there were significant differences between the various countries. In the US and the United Kingdom, growth held up well. The eurozone countries, on the other hand, experienced a virtual stagnation. In Japan, GDP declined in the second quarter in consequence of the VAT increase in April. There was a mixed picture among emerging economies, with brisk growth in China and India and a near economic standstill in Russia and Brazil.

During the second half of 2014, oil prices, expressed in US dollars, were more than halved. This has had different consequences. The fall in oil prices has resulted in a transfer of income from oil producers to oil consumers, and will contribute to slightly higher global economic growth. Other effects include cheaper energy prices and lower inflation. Consumer prices were down in the eurozone in 2014. In other countries, there was virtually no inflation.

The Norwegian mainland economy grew by approximately 2.5 per cent in 2014. Most macroeconomic indicators point to a slowdown in the growth rate. This trend could be reinforced by falling oil prices and reduced oil investments. Reduced oil prices are reflected in a lower level of activity on the Norwegian Continental Shelf, with spillover effects on the mainland economy. The fall in oil prices has already caused a depreciation of the Norwegian krone relative to other currencies. This reduces household purchasing power, but strengthens the competitive power of exporters and

Norwegian producers in the home market.

Housing prices continued to rise in the autumn of 2014 and were 8 per cent higher at end-December 2014 than a year earlier. The strong trend reflected high population growth, a stable unemployment rate, high construction costs, lower interest rates and a housing shortage in some areas. Despite a rather high office vacancy rate, acitivity levels in the commercial property rental market are rising, with strong growth in office rents. Underlying growth in property prices has been weaker.

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

## Future prospects

Economic forecasts for 2015 indicate global economic growth, especially in emerging economies. This is also the case for Norway, in spite of the sharp fall in oil prices and the depreciation of the Norwegian krone. The pace of growth in the Norwegian economy will probably subside in 2015 as a result of declining oil investments and their spillover effects on the mainland economy.

Stable weighted spreads are anticipated in the markets for personal customers and small and medium-sized enterprises, while 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 further transfers of loans from DNB Bank ASA. Overall, there is conditional optimism with respect to commercial property in Norway.

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.

## Dividends and the allocation of profits

The profit for 2014 was NOK 175 million. The Board of Directors proposes that the entire amount be allocated as a group contributions to DNB Bank ASA.

Oslo, 12 March 2015
The Board of Directors of DNB Næringskreditt AS

Bjørn Erik Næss
(chairman)

Reidar Bolme

Elisabeth Ege

Jørn E. Pedersen

Eva-Lill Strandskogen

Per Sagbakken
(chief executive officer)

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

We hereby confirm that the annual accounts for the company for 2014 to the best of our knowledge have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole.

The directors' report gives a true and fair view of the development and performance of the business and the company, as well as a description of the principal risks and uncertainties facing the company.

Oslo, 12 March 2015
The Board of Directors of DNB Næringskreditt AS

Bjørn Erik Næss
(chairman)

Reidar Bolme

Elisabeth Ege

Jørn E. Pedersen

Eva-Lill Strandskogen

Per Sagbakken
(chief executive officer)

# Comprehensive income statement

| | | DNB Næringskreditt AS | |
|---|---|---|---|
| *Amounts in NOK 1 000* | Note | 2014 | 2013 |
| Total interest income | 7 | 862 978 | 757 570 |
| Total interest expenses | 7 | 498 937 | 440 184 |
| **Net interest income** | 7 | **364 041** | **317 385** |
| Commission and fee income | | 793 | 221 |
| Commission and fee expenses | | 101 | 81 |
| Net gains on financial instruments at fair value | 8 | (8 475) | (10 156) |
| **Net other operating income** | | **(7 784)** | **(10 015)** |
| **Total income** | | **356 258** | **307 370** |
| Other expenses | 17 | 116 365 | 89 903 |
| **Total operating expenses** | | **116 365** | **89 903** |
| Impairments of loans and commitments | 11 | 215 | 2 098 |
| **Pre-tax operating profit** | | **239 678** | **215 369** |
| Tax expense | 9 | 64 723 | 60 408 |
| **Profit for the period** | | **174 955** | **154 962** |
| Other comprehensive income | | | - |
| **Total comprehensive income for the period** | | **174 955** | **154 962** |

# Balance sheet

| | | DNB Næringskreditt AS | |
|---|---|---|---|
| | | 31 Dec. | 31 Dec. |
| *Amounts in NOK 1 000* | Note | 2014 | 2013 |
| **Assets** | | | |
| Due from credit institutions | 10, 15 | 56 147 | 571 517 |
| Loans to customers | 10, 11, 15 | 25 905 361 | 23 164 541 |
| Financial derivatives | 10, 12, 14, 17 | 119 826 | 1 864 |
| Deferred tax assets | 9 | 5 285 | 2 818 |
| Other assets | | 960 | 960 |
| **Total assets** | | **26 087 579** | **23 741 700** |
| **Liabilities and equity** | | | |
| Due to credit institutions | 10, 15, 17 | 15 907 941 | 13 709 979 |
| Financial derivatives | 10, 12, 14, 17 | 0 | 15 962 |
| Debt securities issued | 10, 13, 14, 15, 17 | 4 560 848 | 4 417 224 |
| Payable taxes | | 67 189 | 63 128 |
| Other liabilities | | 10 309 | 14 269 |
| **Total liabilities** | | **20 546 286** | **18 220 563** |
| | | | |
| Share capital | | 550 000 | 550 000 |
| Share premium | | 4 604 100 | 4 604 100 |
| Other equity | | 387 192 | 367 037 |
| **Total equity** | | **5 541 292** | **5 521 137** |
| **Total liabilities and equity** | | **26 087 579** | **23 741 700** |

Oslo, 12 March 2015
The Board of Directors of DNB Næringskreditt AS

Bjørn Erik Næss
(chairman)

Reidar Bolme

Elisabeth Ege

Jørn E. Pedersen

Eva-Lill Strandskogen

Per Sagbakken
(chief executive officer)

# Statement of changes in equity

| | | | DNB Næringskreditt AS | |
|---|---|---|---|---|
| | Share | Share | Other | Total |
| *Amounts in NOK 1000* | capital | premium | equity | equity |
| **Balance sheet as at 1 January 2013** | **550 000** | **4 604 100** | **400 780** | **5 554 880** |
| Profit for the period | | | 154 962 | 154 962 |
| Other comprehensive income | | | 0 | 0 |
| **Total comprehensive income for the period** | | | **154 962** | **154 962** |
| Group contribution paid | | | (188 704) | (188 704) |
| **Balance sheet as at 31 December 2013** | **550 000** | **4 604 100** | **367 037** | **5 521 137** |
| | | | | |
| **Balance sheet as at 1 January 2014** | **550 000** | **4 604 100** | **367 037** | **5 521 137** |
| Profit for the period | | | 174 955 | 174 955 |
| Other comprehensive income | | | 0 | 0 |
| **Total comprehensive income for the period** | | | **174 955** | **174 955** |
| Group contribution paid | | | (154 800) | (154 800) |
| **Balance sheet as at 31 December 2014** | **550 000** | **4 604 100** | **387 192** | **5 541 292** |

**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).

# Cash flow statement

| | DNB Næringskreditt AS | |
|---|---|---|
| *Amounts in NOK 1 000* | 2014 | 2013 |
| **Operating activities** | | |
| Net receipts/payments on loans to customers | 3 739 497 | 1 894 346 |
| Net receipts/payments on loans to/from credit institutions | 2 699 271 | (109 693) |
| Interest received from credit institutions | 6 830 | 6 919 |
| Interest paid to credit institutions | (389 723) | (381 613) |
| Payments for operating expenses | (120 952) | (84 526) |
| **Net cash flow from operating activities** | **6 779 729** | **2 071 151** |
| **Investing activities** | | |
| Net purchase of loan portfolio | (6 469 192) | (3 761 709) |
| **Net cash flow relating to investing activities** | **(6 469 192)** | **(3 761 709)** |
| **Financing activities** | | |
| Receipts on issued bonds and commercial paper | - | 2 000 000 |
| Interest payments on issued bonds and commercial paper | (102 455) | (56 816) |
| Group contribution paid | (215 000) | (262 089) |
| **Net cash flow from financing activities** | **(317 455)** | **1 681 095** |
| **Net cash flow** | **(6 917)** | **(9 462)** |
| Cash at beginning of period | 11 364 | 20 826 |
| Net receipts/payments of cash | (6 917) | (9 462) |
| Cash at end of period | 4 446 | 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.

# Accounting principles

**Corporate information**
DNB Næringskreditt AS is a wholly owned subsidiary of DNB Bank ASA. The ultimate parent of the group is DNB ASA. Both the group's and DNB Næringskreditt AS' registered offices, are in Oslo, Norway.

DNB Næringskreditt is the DNB Group's vehicle for the issue of covered bonds based on commercial mortgages.

The annual financial statements for the year ended 31 December 2014 were authorised for issue by the Board of Directors on 12 March 2015.

**Basis for preparation**
The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU).

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments and financial assets and liabilities designated as at fair value through profit or loss, which have all been measured at fair value. The carrying values of liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to reflect changes in fair value attributable to the risk that are being hedged.

DNB Næringskreditt AS' functional currency and presentation currency is Norwegian kroner. Unless otherwise specified all values are rounded to the nearest NOK thousands.

The balance sheet is presented mainly in order of liquidity of the balance sheet items.

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet only when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis.

No new or amended accounting standards or interpretations have entered into force in 2014 that are of significance to the company.

**Conversion of transactions in foreign currency**
All transactions in foreign currencies are initially recognised in the statement of comprehensive income or the balance sheet at the transaction date and translated into Norwegian kroner at the foreign exchange rate from that date. All monetary items nominated in foreign currencies are translated to Norwegian kroner based on the reporting date foreign exchange rate. Movements in the exchange rates between transaction date and reporting date or settlement date, are recognised in the statement of comprehensive income.

**Recognition of income and expenses**
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Expenses are recognised as they incur, normally when the services are rendered or the goods purchased are delivered.

Interest income and expenses are recognised using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. The calculation of the effective interest includes fees or incremental costs that are directly attributable to the financial instrument.

Interest income and expenses are recognised in the statement of comprehensive income as "Total interest income" and "Total interest expenses" respectively. This applies to interest related to all loans and borrowings, both those carried at amortised cost and those carried at fair value.

Interest on loans that have been written down due to impairment losses, are recognised using the interest rate used to discount the future cash flows for the purpose of measuring the impairment. For fixed rate loans, this will be the originally calculated effective interest rate. For floating rate loans this will be the effective interest rate applied at the time of calculating the impairment loss.

Commissions are recognised in the statement of comprehensive income when earned as income or incurred as expenses.

Fees for services are recognised as income as rendered.

## Financial instruments

**Recognition and derecognition of assets and liabilities:**
Assets and liabilities are recognised in the balance sheet on trade date, i.e. the date that the company becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the rights to receive cash flows from the asset have expired. Financial liabilities are derecognised when the obligation under the liability is settled or expired.

**Initial measurement**
The classification of financial instruments at initial recognition depends on the purpose and the management's intentions for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value. Fair value at initial recognition is the transaction price i.e. the consideration paid to or received from the other party, unless a different value can be justified based on observable market transactions. The company has not recorded any such "day 1" adjustments in the financial statements of 2014 or 2013.

**Classification and presentation of financial instruments**
On initial recognition financial assets and liabilities are classified in one of the following categories:

- Financial derivatives
- Financial derivatives classified as hedging instruments
- Financial assets and financial liabilities designated as at fair value through profit or loss
- Loans and receivables
- Other financial liabilities

**Financial derivatives**
The company uses derivatives such as interest rate swaps and these derivatives are accounting for as trading instruments.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fair value changes from changes in interest rates are recognised in the statement of comprehensive income as "Total interest expenses". Other fair value changes are recognised as "Net gains/(losses) on financial instruments".

**Financial assets and financial liabilities designated as at fair value through profit or loss**
Issued bonds with fixed interest rate and nominated in Norwegian kroner, are on initial recognition designated as at fair value through profit or loss (fair value option). The bonds are issued at fixed interest rates, but swapped to floating rates by the use of interest rate swaps. To reduce measurement inconsistency that would have arisen from measuring bonds at amortised cost while the derivatives are measured at fair value, the bonds are designated as at fair value through profit or loss.

The interest income and expenses are calculated and recognised as described under “Recognition of income and expenses” above. The fair value adjustments are presented in the statement of comprehensive income within the line item "Net gains / (losses) on financial instruments.

The loans are recognised in the balance sheet as “Loans to customers” and the bonds as “Debt securities issued”.

**Loans and receivables**

Loans and bonds with floating interest rates are carried at amortised cost. Amortised cost is the present value of contractual cash flows discounted by the effective interest rate. The effective interest rate method is described under “Recognition of income and expenses” above.

At the end of each reporting period, the company considers whether any objective evidence of impairment exists. If an impairment loss is calculated, the book value of the loan is reduced and the impairment amount is recognised in the statement of comprehensive income as “Impairment on loans and commitments”.

Impairment of loans is described below.

Loans are presented in the balance sheet within the line item “Loans to customers”.

**Other financial liabilities**

This category comprises balances due to banks and short term payables. Other financial liabilities are carried at amortised cost and interest is recognised using the effective interest rate method. The effective interest rate method is described under “Recognition of income and expenses” above.

**Subsequent measurement of financial instruments measured at fair value**

Fair value is the price that would be received by selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date..

With respect to instruments traded in an active market (level 1), quoted prices are used. A market is considered active if it is possible to obtain external, observable prices, exchange rates or interest rates and these prices represent actual and frequent market transactions. DNB Næringskreditt has currently no financial instrument traded in active markets.

Fair values of financial instruments not traded in active markets are determined by using valuation techniques. As far as practicable, the input to the valuations is based on observable market data. The extent of observable market data included in the valuation, places the valuations in the valuation hierarchy either in level 2 or level 3. In all valuations of financial instruments in DNB Næringskreditt, observable market data input are used to some degree. If a valuation includes one or more input parameters that are based on unobservable inputs and these inputs may significantly change the value of the instrument, the valuation is presented in level 3 in the valuation hierarchy.

For financial instruments with input significantly based on observable market data (level 2), fair values are mainly determined based on;

- recently observed transactions in the relevant instrument between informed, willing and independent parties;
- quoted prices for instruments traded in an active market which are substantially similar to the instrument that is valued
- other valuation techniques where key parameters are based on observable market data

For financial instruments whose valuations include significant unobservable input (level 3), fair values are determined based on discounted estimated cash flows. DNB Næringskreditt has no financial instruments in this category.

**Impairment of loans carried at amortised cost**

At the end of each reporting period, the company considers whether any objective evidence of impairment exists. Objective evidences that indicate a loss event include significant financial difficulties of the borrower, breaches of contract such as defaulted payments of interest or principal, renegotiations of terms due to financial difficulties, it is becoming probable that the borrower will enter bankruptcy or financial renegotiations or national or local events that indicate that certain groups of borrowers will enter financial difficulties.

If objective evidence of a loss event exists, the impairment loss is calculated as the difference between the value of the loan recognised in the balance sheet and the present value of estimated future cash flows discounted by the effective interest rate.

The effective interest rate used is the loan’s effective interest rate at the time objective evidence of impairment was identified. The effective interest rate is not adjusted to reflect changes in the credit risk and terms of the loan due to objective indications of impairment being identified.

All individually significant loans are assessed individually for impairment. All other loans, including individually significant loans to which there are not recognised any impairment adjustment, are collectively assessed for impairment. The collective assessment is done for groups of loans with similar characteristics related to sector, risk classification and credit risk. The impairment amount is calculated per group based on estimates of the general economic situation and historical loss experiences for each group. As for individual impairment calculations, collective impairments are based on discounted future cash flows. The cash flows are discounted on the basis of statistics derived from the individual impairment calculations.

The estimated impairment loss reduces the value of the loans recognised in the balance sheet. The change in impairment for the period is recognised in the statement of comprehensive income within the line item “Impairment on loans and commitments”.

## Income taxes

Taxes for the year comprise payable taxes for the financial year, any payable taxes for previous years and changes in deferred taxes. Deferred taxes are calculated on temporary differences. Temporary differences are differences between the recognised value of an asset or liability and the taxable value of the asset or liability. Deferred taxes are calculated on the basis of tax rates and tax rules that apply on the balance sheet date or are highly likely to be approved and are expected to be applicable when the deferred tax asset is realised or the deferred tax liability settled. The most significant temporary differences refer to financial derivatives and revaluations of certain financial assets and liabilities.

Deferred tax assets are recognised in the balance sheet to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred taxes and deferred tax assets are recognised net in the company's balance sheet.

## Cash flow statements

The cash flows are presented as operating activities, investment activities or funding activities. Cash is defined as cash, deposits with banks and deposits with credit institutions with no agreed period of notice. The cash flow statement has been prepared in accordance with the direct method.

## Approved standards and interpretations that have not entered into force

The IASB has published a number of amendments to current regulations which have not entered into force. Below is a description of the amendments which may affect the company's future reporting.

**IFRS 9 Financial Instruments**

In July 2014, the IASB issued the new standard for financial instruments IFRS 9 Financial Instruments which will replace the current IAS 39. The new standard introduces a business model oriented approach for classification of financial assets, an expected-losses model for impairment and a new general hedge accounting model

IASB is still working on a new requirements related to macro hedge accounting. This work has been established as a separate project and is expected to be finalized as a new standard at a later point in time.

IFRS 9 is effective from 1 January 2018 but earlier application is permitted. The standard has not yet been adopted by the EU but it is expected that this will be done during 2015. DNB Næringskreditt AS does not currently intend to utilise the opportunity for early adoption.

The preliminary expectation is that the implementation of IFRS 9 will result in an increase in impairment losses due to the change from an incurred loss model to an expected loss model. DNB Næringskreditt AS has started working with the implementation process, but it is still too early to give an estimate of the expected impact DNB Næringskreditt AS's financial statements.

# Note 1 Important accounting estimates, judgments and assumptions

When preparing the consolidated financial statements, management makes estimates, judgment 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.

## Impairment of loans

If objective evidence of impairment exists, impairment losses on loans are recognised individually or collectively. The impairment loss is calculated as the difference between the carrying amount of the loan and the net present value of estimated future cash flows discounted with the effective interest rate. Estimates of future cash flows are based on empirical data and management's judgement of future macroeconomic developments and developments in the performance of the actual loans, based on the situation at the balance sheet date. Expected future cash flows include amounts that may result from restructuring or settlement of the pledged asset. When considering impairment of loans, there will be serveral elements of uncertainty with respect to the identification of impaired loans, the estimation of amounts and the timing of future cash flows, including the valuation of collateral.

### Individual impairment

When estimating impairment on individual loans both the current and the future financial position of the customer is considered. This includes the probability of potential restructuring, refinancing and settlement of the pledged asset. An overall assessment of these factors forms the basis for estimating future cash flows. The discount period is estimated on an individual basis or based on empirical data about the period it normally takes to reach a solution to the problems that caused the impairment.

### Collective impairment

Loans, which are not individually impaired, are assessed collectively for impairment. The loans are divided into groups of loans with similar characteristics related to sector, risk classification and credit risk. The expected future cash flow is estimated on the basis of expected losses and the anticipated economic situation for the respective group of loans. Expected losses are based on historical loss experiences for the relevant group. The economic situation is assessed by means of economic indicators for each customer group based on external information about the markets. Various parameters are used depending on the customer group in question. Key parameters are house prices and production gaps, which give an indication of capacity utilisation in the economy and housing prices.

## Fair value of financial derivatives and bonds

The fair value of financial instruments that are not traded in an active market is determined by using different valuation techniques. The company considers and chooses techniques and assumptions that as far as possible are based on observable market data representing the market conditions on the balance sheet date. When measuring financial instruments for which observable market data are not available, the company makes assumptions regarding what market participants would use as the basis for valuing similar financial instruments. The valuations require application of significant judgment when calculating liquidity risk, credit risk and volatility among others. Changes in these factors would affect the estimated fair value of the companys financial instruments. For more information see note 14 Financial instruments at fair value.

# Note 2 Capitalisation policy and capital adequacy

DNB Næringskreditt is the DNB Group's vehicle for the issue of covered bonds based on commercial mortgages. The primary objectives of the company's capital management policy are to ensure that the company complies with externally imposed capital ratios and that the company maintains strong credit ratings and healthy capital ratios in order to support its business. The new EU capital requirements regulations, called the CRR/CRD IV regulations, entered into force on 1 January 2014. The CRR/CRD IV regulations entail significantly higher own funds requirements and new requirements for long-term funding and liquidity reserves. The regulations are intended to apply to all banks and investment firms within the EEA and will be implemented gradually up to 2019.

From 9 October 2012, the company has been granted permission to use the Internal Ratings Based ("IRB") approach for credit risk to calculate the total risk-weighted assets. However, as long as Norwegian transitional rules relating to full implementation of the IRB approach remain in force, the total risk-weighted assets cannot be reduced below 80 per cent of the Basel I requirements.

The new legislation requires a common equity Tier 1 capital ratio of 11.5 per cent and a capital adequacy ratio of 13.5 per cent from 1 July 2014. The requirement of the Tier 1 capital ratio will be increased to 13.5 per cent by 1 July 2015, while the capital adequacy requirement will be increased to 15.5 per cent. From 1 July 2016 the requirement will be further increased to 14.5 per cent Tier 1 capital ratio and 16.5 per cent capital adequacy. On 12 March 2015, the Board of Directors approved a new capitalisation policy. The policy sets forth that, upon full implementation of the IRB system in 2016, the common Tier 1 capital ratio shall be minimum 15.0 per cent, calculated as the minimum regulatory requirement (as of 1 July 2016 14.5 per cent, including 1.5 per cent of hybrid capital) plus a buffer of minimum 0.5 per cent.

DNB Næringskreditt, based on its current capital structure, is expected to be well prepared to meet the new capital ratio requirements. The Board of Directors will, on an ongoing basis, evaluate the company's capitalization needs in light of the international development.

The company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. The main source of capital is the issuing of covered bonds which is part of the long-term plan of financing the DNB Group. In order to maintain or adjust the capital structure within DNB Næringskreditt in the short run, the company may adjust group contributions and dividends paid to the DNB Group and issue new shares to the parent.

| **Primary capital** | **DNB Næringskreditt AS** | |
|---|---|---|
| | 31 Dec. | 31 Dec. |
| *Amounts in NOK 1 000* | 2014 | 2013 |
| Share capital | 550 000 | 550 000 |
| Other equity | 4 991 192 | 4 971 137 |
| Total equity | 5 541 192 | 5 521 137 |
| Deductions | | |
| Expected losses exceeding actual losses, IRB portfolios | (6 530) | (4 078) |
| Value adjustments due to the requirements for prudent valuation | (53) | - |
| Adjustments for deferred tax assets | (5 285) | (2 818) |
| Allocated group contributions for payment | (174 955) | (154 800) |
| Common equity Tier 1 capital | 5 354 369 | 5 359 441 |
| Total eligible primary capital | 5 354 369 | 5 359 441 |
| Risk-weighted volume | 20 709 580 | 18 624 555 |
| Minimum capital requirement | 1 656 766 | 1 489 964 |
| Common equity Tier 1 capital ratio (%) | 25.9 | 28.8 |
| Capital ratio (%) | 25.9 | 28.8 |

DNB Næringskreditt AS complies with the Basel III 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, as per 31 December 2014, is reported according to the transitional rules.

## Note 2 Capitalisation policy and capital adequacy (continued)

**Specification of risk-weighted volume and capital requirements** — **DNB Næringskreditt AS**

| *Amounts in NOK 1 000* | Exposure 31 Dec. 2014 | EAD 31 Dec. 2014 | Risk-weighted volume 31 Dec. 2014 | Capital requirements 31 Dec. 2014 |
|---|---|---|---|---|
| IRB approach | | | | |
| Corporate | 12 962 098 | 12 962 098 | 4 064 247 | 325 140 |
| Total credit-risk, IRB approach | 12 962 098 | 12 962 098 | 4 064 247 | 325 140 |
| Standardised approach | | | | |
| Institutions | 193 147 | 193 147 | 96 574 | 7 726 |
| Corporate | 12 951 633 | 12 951 633 | 12 951 633 | 1 036 131 |
| Other assets | 960 | 960 | 960 | 77 |
| Total credit-risk, standardised approach | 13 145 740 | 13 145 740 | 13 049 167 | 1 043 933 |
| Total credit-risk | 26 107 838 | 26 107 838 | 17 113 414 | 1 369 073 |
| Credit value adjustment risk (CVA) | | | 232 088 | 18 567 |
| Operational risk | | | 622 913 | 49 833 |
| Deductions | | | 0 | 0 |
| Total risk-weighted volume and capital requirements before transitional rule | | | 17 968 415 | 1 437 473 |
| Additional capital requirements according to transitional rules | | | 2 741 165 | 219 293 |
| Capital requirements | | | 20 709 580 | 1 656 766 |

## Note 3 Risk management

### Risk management in DNB Næringskreditt AS

The Board of Directors of DNB ASA has a clearly stated goal to maintain a low risk profile. DNB Næringskreditt AS is part of the DNB Group and a wholly owned subsidiary of DNB Bank ASA. The profitability of DNB will depend on the Group's ability to identify, manage and accurately price risk arising in connection with financial services.

**Organisation and authorisation structure**

- *Board of Directors*. The Board of Directors of DNB Næringskreditt sets long-term targets for the company's risk profile which are harmonised with the Group's risk targets. The risk profile is operationalised through the risk management framework, including the establishment of authorisations.
- *Authorisations*. Authorisations must be in place for the extension of credit and for position and trading limits in all critical financial areas. All authorisations are personal. Authorisations and company limits are determined by the Board of Directors and can be delegated in the organisation. According to the management agreement dated 9 July 2009, credit authorisations have been granted to DNB Bank.
- *Annual review of limits*. Risk limits are reviewed at least annually in connection with budget and planning processes.
- *Independent risk management functions*. Risk management functions and the development of risk management tools are undertaken by units that are independent of operations in the individual business areas in DNB Bank.

**Monitoring and use**

- *Accountability*. All executives are responsible for risk within their own area of responsibility and must consequently be fully updated on the risk situation at all times.
- *Risk reporting*. Risk reporting in the DNB Group ensures that all executives have the necessary information about current risk levels and future developments. To ensure high-quality, independent risk reports, responsibility for reporting is assigned to units that are independent of the operational units.
- *Capital assessment*. A summary and analysis of the company's capital and risk situation is presented in a special risk report to the Board of Directors of DNB Næringskreditt.
- *Use of risk information*. Risk is an integral part of the management and monitoring of business operations.

### Risk categories in DNB Næringskreditt AS

For risk management purposes, DNB Næringskreditt distinguishes between the following risk categories:

- *Credit risk* is the risk of losses due to failure on the part of the company's counterparties/customers to meet their payment obligations. Credit risk refers to all claims against counterparties/customers, mainly loans. The company's credit risk is considered to be low as all loans in the cover pool, cf. requirements in the Financial Institutions Act, are commercial mortgages secured within 60 per cent of appraised value. Note 4 contains an assessment of the company's credit risk at year-end 2013 and 2014.
- *Market risk* arises as a consequence of open positions in interest rate. Note 5 contains an assessment of the company's market risk at year-end 2013 and 2014.
- *Liquidity risk* is the risk that the company will be unable to meet its payment obligations. The company's liquidity risk is considered to be insignificant and well within legal requirements and requirements set by the rating agencies. Note 6 contains an assessment of the company's liquidity risk at year-end 2013 and 2014.
- *Operational risk* is the risk of losses due to deficiencies or errors in processes and systems, errors made by employees or external events.

## Note 3 Risk management (continued)

- *Business risk* is the risk of losses due to external factors such as the market situation or government regulations. This risk category also includes reputational risk. Decline in the prices of commercial properties is a business risk related to the commercial mortgage portfolio, as well as stricter rules from the Financial Supervisory Authority for loan-to-value ratios.

The DNB Group uses a total risk model to quantify risk and calculates risk-adjusted capital requirements for individual risk categories and for the Group's overall risk in the business areas, including the individual group subsidiaries. Risk-adjusted capital requirements should cover unexpected losses which may occur in operations in exceptional circumstances. Quantifications are based on statistical probability calculations for the various risk categories, using historical data.

DNB Næringskreditt uses financial derivatives as part of risk management to handle interest rate risk. The company uses interest rate swaps as hedging instruments. Interest rate flows relating to both borrowings and loans are swapped to short-term fixed interest. The total interest rate risk is insignificant.

## Note 4 Credit risk

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 loan commitments 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 loan commitments represent credit risk. The maximum exposure of loan commitments 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. Collateral are taken to manage credit risk in the loan portfolios. According to the “Agreement relating to transfer of loan portfolio between DNB Bank ASA and DNB Næringskreditt AS”, the day-to-day monitoring of the loans is managed by DNB Bank on behalf of DNB Næringskreditt.

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's risk classification [1)]**

| | Probability of default (per cent) | | External rating | |
|---|---|---|---|---|
| Risk class | As from | Up to | Moody's | Standard & Poor's |
| 1 | 0.01 | 0.10 | Aaa - A3 | AAA - A- |
| 2 | 0.10 | 0.25 | Baa1 - Baa2 | BBB+ - BBB |
| 3 | 0.25 | 0.50 | Baa3 | BBB- |
| 4 | 0.50 | 0.75 | Ba1 | BB+ |
| 5 | 0.75 | 1.25 | Ba2 | BB |
| 6 | 1.25 | 2.00 | | |
| 7 | 2.00 | 3.00 | Ba3 | BB- |
| 8 | 3.00 | 5.00 | B1 | B+ |
| 9 | 5.00 | 8.00 | B2 | B |
| 10 | 8.00 | impaired | B3, Caa/C | B-, CCC/C |

*1) DNB's risk classification system, where 1 represents the lowest risk and 10 the highest risk.*

## Note 4 Credit risk (continued)

### Loans and commitments according to risk classification

**DNB Næringskreditt AS**

| *Amounts in NOK 1000* | Gross loans | Undrawn limits (committed) | Total loans and commitments |
|---|---|---|---|
| Risk category based on probability of default | | | |
| 1 - 4 | 17 149 109 | - | 17 149 109 |
| 5 - 6 | 5 618 042 | - | 5 618 042 |
| 7 - 10 | 291 200 | - | 291 200 |
| Non-performing and impaired loans and commitments | - | - | 0 |
| Total loans and commitments as at 31 December 2013 [1)] | 23 058 352 | 0 | 23 058 352 |
| Risk category based on probability of default | | | |
| 1 - 4 | 21 287 680 | - | 21 287 680 |
| 5 - 6 | 3 894 366 | - | 3 894 366 |
| 7 - 10 | 606 000 | - | 606 000 |
| Non-performing and impaired loans and commitments | - | - | 0 |
| Total loans and commitments as at 31 December 2014 [1)] | 25 788 046 | 0 | 25 788 046 |

| **Loan-loss level** [2)] | 2014 | 2013 |
|---|---|---|
| Normalised losses including loss of interest income in per cent of net lending | 0.09 | 0.12 |

1) *If timely payment is not made, the loans are reclassified to the category non-performing and impaired loans (based on DNB's definition). The relevant loans will be monitored, and the need for individual impairment will be estimated based on the collateral backing the loan and the customer's solvency and willingness to pay.*
2) *The calculation of the loan-loss level is based on an evaluation of the probability of future losses (default frequency), exposure at default and the size of the estimated loss (loss ratio). Calculations are based on a certain level of discretion and estimation.*

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. Only loans that qualify as collateral for the issue of covered bonds according to the Financial Institutions Act are accepted by the company. For all these loans, a mortgage over the property is taken and the value of the total loan balance per property should not exceed 60 per cent of the property's appraised value. The collateral value is monitored on an ongoing basis.

As a result, the collateral value per 31 December 2014 exceeds the total loan balance per property with a margin. Total loan balance by year-end 2014 was NOK 25 905 million.

## Note 5 Market risk

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.

The table below shows net changes in market value (reflected in the statement of comprehensive income) in Norwegian kroner for each 1 percentage point (100 basis points) interest rate adjustment in the company's portfolios of loans, derivatives, bonds and other funding. The sensitivity analysis shows expected effects in the income statement in connection with a 1 percentage point parallel change in interest rates on the entire interest curve.

# Note 5 Market risk (continued)

**Interest rate risk** — **DNB Næringskreditt AS**

| | Change in interest rate levels in basis points | Effect on pre-tax profits (NOK 1 000) |
|---|---|---|
| 2014 | +100 | (909) |
| | -100 | 909 |
| 2013 | +100 | (1 739) |
| | -100 | 1 739 |

Relative to the company's primary capital of NOK 5.4 billion, 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

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. In a situation where the net cash flow from the lending and funding activities is negative, the company has a long-term overdraft facility in DNB Bank ASA with a limit of NOK 25 billion by end December 2014.

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 at year-end 2014 can be characterised as sound.

**Residual maturity as at 31 December 2014** — **DNB Næringskreditt AS**

| *Amounts in NOK 1 000* | Up to 1 month | From 1 month to 3 months | From 3 months to 1 year | From 1 year to 5 years | Over 5 years | No fixed maturity | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Loans to and deposits with credit institutions | 56 147 | | | | | | - |
| Loans to customers | 396 143 | 84 397 | 1 864 987 | 11 618 774 | 11 949 430 | (7 321) | 25 906 410 |
| Other assets | | 960 | | | | | 960 |
| Total | 452 290 | 85 357 | 1 864 987 | 11 618 774 | 11 949 430 | (7 321) | 25 907 370 |
| **Liabilities** | | | | | | | |
| Due to credit institutions | 15 907 941 | | | - | | | 15 907 941 |
| Debt securities issued[1] | - | 20 788 | 2 400 000 | 1 000 000 | 1 000 000 | - | 4 420 788 |
| Other liabilities | - | 11 193 | | | | | 11 193 |
| Total | 15 907 941 | 31 981 | 2 400 000 | 1 000 000 | 1 000 000 | 0 | 20 339 922 |
| **Financial derivatives** | | | | | | | |
| Financial derivatives, gross settlement | | | | | | | |
| Incoming cashflows | | | | | | | |
| Outgoing cashflows | | | | | | | |
| Financial derivatives, net settlement | | (6 033) | 20 402 | 57 478 | 57 478 | | 129 325 |
| Total financial derivatives | | (6 033) | 20 402 | 57 478 | 57 478 | 0 | 129 325 |

*1) Nominal future interest payments in excess of accrued interest are not included on the balance sheet date*

## Note 6 Liquidity risk (continued)

**Residual maturity as at 31 December 2013** **DNB Næringskreditt AS**

| *Amounts in NOK 1 000* | Up to 1 month | From 1 month to 3 months | From 3 months to 1 year | From 1 year to 5 years | Over 5 years | No fixed maturity | Total |
|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | |
| Loans to and deposits with credit institutions | | 571 517 | | | | | 571 517 |
| Loans to customers | 674 185 | 487 324 | 507 025 | 7 336 494 | 14 167 509 | (7 106) | 23 165 431 |
| Other assets | 960 | | | | | 2 818 | 3 778 |
| Total | 675 145 | 1 058 841 | 507 025 | 7 336 494 | 14 167 509 | (4 288) | 23 740 726 |
| **Liabilities** | | | | | | | |
| Due to credit institutions | | | | 13 709 979 | | | 13 709 979 |
| Debt securities issued[1)] | | 21 164 | | 3 400 000 | 1 000 000 | | 4 421 164 |
| Other liabilities | 14 269 | | 63 128 | | | | 77 397 |
| Total | 14 269 | 21 164 | 63 128 | 17 109 979 | 1 000 000 | 0 | 18 208 540 |
| **Financial derivatives** | | | | | | | |
| Financial derivatives, gross settlement | | | | | | | |
| Incoming cashflows | | | | | | | |
| Outgoing cashflows | | | | | | | |
| Financial derivatives, net settlement | | (6) | 21 | 59 | 74 | | 148 |
| Total financial derivatives | 0 | (6) | 21 | 59 | 74 | 0 | 148 |

1) *Nominal future interest payments in excess of accrued interest are not included on the balance sheet date.*

## Note 7 Net interest income

**DNB Næringskreditt AS**

| | 2014 | | | 2013 | | |
|---|---|---|---|---|---|---|
| *Amounts in NOK 1 000* | Recorded at fair value | Recorded at amortised cost | Total | Recorded at fair value | Recorded at amortised cost | Total |
| Interest on amounts due from credit institutions | - | 6 830 | 6 830 | - | 6 919 | 6 919 |
| Interest on loans to customers | - | 856 083 | 856 083 | - | 749 962 | 749 962 |
| Other interest income | - | 65 | 65 | - | 688 | 688 |
| **Total interest income** | **0** | **862 978** | **862 978** | **0** | **757 570** | **757 570** |
| Interest on amounts due to credit institutions | - | 383 645 | 383 645 | - | 377 188 | 377 188 |
| Interest on debt securities issued | 38 500 | 76 792 | 115 292 | 4 919 | 58 076 | 62 995 |
| **Total interest expenses** | **38 500** | **460 437** | **498 937** | **4 919** | **435 265** | **440 184** |
| **Net interest income** | **(38 500)** | **402 541** | **364 041** | **(4 919)** | **322 305** | **317 385** |

## Note 8 Net gains on financial instruments at fair value

**DNB Næringskreditt AS**

| *Amounts in NOK 1 000* | 2014 | 2013 |
|---|---|---|
| Net gains on financial liabilities, designated as at fair value [1)] | (144 000) | 3 940 |
| Net gains on financial derivatives, trading [2)] | 135 525 | (14 096) |
| **Net gains (losses) on financial instruments at fair value** | **(8 475)** | **(10 156)** |

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 Næringskreditt AS 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 Taxes

| Tax expense on pre-tax operating profit | DNB Næringskreditt AS | |
|---|---|---|
| *Amounts in NOK 1 000* | 2014 | 2013 |
| Current taxes | 67 190 | 63 128 |
| Changes in deferred taxes | (2 467) | (2 720) |
| **Tax expense** | **64 723** | **60 408** |

### Reconciliation of tax expense against nominal tax rate

| *Amounts in NOK 1 000* | 2014 | 2013 |
|---|---|---|
| Pre-tax operating profit | 239 678 | 215 369 |
| Estimated tax expense at nominal tax rate 27 per cent (28 per cent in 2013) | 64 713 | 60 303 |
| Tax effect of other tax-exempt income and non-deductible expenses | 10 | 0 |
| Tax effect of changed tax rate for deferred taxes recognised in the balance sheet | 0 | 105 |
| **Tax expense** | **64 723** | **60 408** |

### Deferred tax assets/(deferred taxes)

27 per cent deferred tax calculation on all temporary differences (Norway)

| *Amounts in NOK 1 000* | 2014 | 2013 |
|---|---|---|
| **The year's changes in deferred tax assets/(deferred taxes)** | | |
| Deferred tax assets/(deferred taxes) as at 1 January | 2 818 | 97 |
| Changes recorded against profits | 2 467 | 2 720 |
| **Deferred tax assets/(deferred taxes) as at 31 December** | **5 285** | **2 818** |

### Deferred tax assets and deferred taxes in the balance sheet relates to the following temporary differences

| | 31 Dec. | 31 Dec. |
|---|---|---|
| *Amounts in NOK 1 000* | 2014 | 2013 |
| **Deferred tax assets** | | |
| Debt securities issued | 37 816 | (1 064) |
| Financial derivatives | (32 592) | 3 806 |
| Net other tax-deductable temporary differences | 60 | 75 |
| **Total deferred tax assets** | **5 285** | **2 818** |

### Deferred taxes in the income statement relate to the following temporary differences

| *Amounts in NOK 1 000* | 2014 | 2013 |
|---|---|---|
| Debt securities issued | 38 880 | (1 064) |
| Financial derivatives | (36 398) | 3 806 |
| Other temporary differences | (15) | (22) |
| **Deferred tax expense** | **2 467** | **2 720** |

Group contributions, with effect on payable taxes, is paid in both 2013 and 2014. Allocated pre-tax group contributions for 2014 is NOK 239 million (NOK 215 million in 2013). The effect of group contributions on payable taxes is NOK 65 million in 2014 (NOK 60 million in 2013).

## Note 10 Classification of financial instruments

**As at 31 December 2014** **DNB Næringskreditt AS**

| Amounts in NOK 1 000 | Financial instruments at fair value through profit and loss: Trading | Financial instruments at fair value through profit and loss: Designated as at fair value | Financial derivatives designated as hedging instruments | Financial assets and liabilities carried at amortised cost [1)] | Total |
|---|---|---|---|---|---|
| Due from credit institutions | - | - | - | 56 147 | 56 147 |
| Loans to customers | - | - | - | 25 905 361 | 25 905 361 |
| Financial derivatives | 119 826 | - | - | - | 119 826 |
| Other assets | - | - | - | 960 | 960 |
| **Total financial assets** | **119 826** | **0** | **0** | **25 962 468** | **26 082 294** |
| Due to credit institutions | - | - | - | 15 907 941 | 15 907 941 |
| Financial derivatives | - | - | - | - | - |
| Debt securities issued | - | 1 144 979 | - | 3 415 868 | 4 560 848 |
| Other liabilities | - | - | - | 10 309 | 10 309 |
| **Total financial liabilities** | **0** | **1 144 979** | **0** | **19 334 118** | **20 479 097** |

**As at 31 December 2013** **DNB Næringskreditt AS**

| Amounts in NOK 1 000 | Financial instruments at fair value through profit and loss: Trading | Financial instruments at fair value through profit and loss: Designated as at fair value | Financial derivatives designated as hedging instruments | Financial assets and liabilities carried at amortised cost [1)] | Total |
|---|---|---|---|---|---|
| Due from credit institutions | - | - | - | 571 517 | 571 517 |
| Loans to customers | - | - | - | 23 164 541 | 23 164 541 |
| Financial derivatives | 1 864 | - | - | - | 1 864 |
| Other assets | - | - | - | 960 | 960 |
| **Total financial assets** | **1 864** | **0** | **0** | **23 737 018** | **23 738 882** |
| Due to credit institutions | - | - | - | 13 709 979 | 13 709 979 |
| Financial derivatives | 15 962 | - | - | - | 15 962 |
| Debt securities issued | - | 1 000 979 | - | 3 416 245 | 4 417 224 |
| Other liabilities | - | - | - | 14 269 | 14 269 |
| **Total financial liabilities** | **15 962** | **1 000 979** | **0** | **17 140 493** | **18 157 434** |

*1) Debt securities issued which are subject to hedge accounting are classified as liabilities carried at amortised cost.*

## Note 11 Loans to customers

Loans to customers, including accrued interest, totalled NOK 25.9 billion at end-December 2014 (NOK 23.2 billion as at 31 December 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 2014, collective impairments increased by NOK 0.2 million.

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

**DNB Næringskreditt AS**

| Amounts in NOK 1 000 | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Loans to customers at amortised cost, nominal amount | 25 788 046 | 23 058 352 |
| – Individual impairments | 0 | 0 |
| Loans to customers, net of impairment allowances | 25 788 046 | 23 058 352 |
| + Accrued interest and amortisation | 124 636 | 113 295 |
| – Individual impairment of accrued interest | 0 | 0 |
| Loans to customers, at amortised cost | 25 912 682 | 23 171 647 |
| – Collective impairments | 7 321 | 7 106 |
| **Total loans to customers** | **25 905 361** | **23 164 541** |

## Note 11 Loans to customers (continued)

| | DNB Næringskreditt AS | |
|---|---|---|
| *Amounts in NOK 1 000* | 31 Dec. 2014 | 31 Dec. 2013 |
| Impairments as per 1 January | 7 106 | 5 008 |
| Changes in individual impairments | 0 | 0 |
| Changes in collective impairments | 215 | 2 098 |
| Impairments at end of period | 7 321 | 7 106 |
| *Of which: Individual impairments* | *0* | *0* |
| *Individual impairment of accrued interest and amortisations* | *0* | *0* |
| *Collective impairments* | *7 321* | *7 106* |

In the table below loans to customers, at nominal value, are listed based on customer address.

| | DNB Næringskreditt AS | |
|---|---|---|
| *Amounts in NOK 1 000* | 31 Dec. 2014 | 31 Dec. 2013 |
| **Loans according to geographical location:[1)]** | | |
| Østfold | 95 500 | 95 500 |
| Akershus | 3 795 007 | 2 689 605 |
| Oslo | 13 429 687 | 14 453 756 |
| Hedmark | 171 000 | 171 000 |
| Oppland | 121 817 | 177 711 |
| Buskerud | 257 252 | 190 921 |
| Vestfold | 714 362 | 494 608 |
| Aust-Agder | 180 000 | 27 000 |
| Vest-Agder | 181 061 | 182 496 |
| Rogaland | 639 350 | 642 000 |
| Hordaland | 2 994 932 | 1 560 269 |
| Møre og Romsdal | 1 109 763 | 1 040 900 |
| Sør-Trøndelag | 513 840 | 113 840 |
| Troms | 1 494 475 | 1 128 746 |
| Abroad | 90 000 | 90 000 |
| **Total** | **25 788 046** | **23 058 352** |

1) *The allocation is based on definitions given by Norges Bank and Finanstilsynet (The Financial Supervisory Authority of Norway).*

## Note 12 Financial derivatives

Financial derivatives are contracts stipulating financial values in the form of interest rate terms, exchange rates and the value of equity instruments for a specific periods of time or at specific dates. DNB Næringskreditt uses derivatives to manage liquidity and market risk arising from the company's ordinary operations, hereunder to achieve desired interest rates according to the risk management strategy.

DNB Næringskreditt uses interest rate swaps to eliminate risk associated with fixed interest rate funding. Swaps are contracts in which the parties exchange cash flows for a fixed amount over the contractual period. The swaps used by DNB Næringskreditt are tailor-made to hedge the company's risk. DNB Bank acts as counterparty for all swap contracts. The total interest rate risk is insignificant.

The table below show nominal values on financial derivatives according to type of derivative as well as positive and negative market values. Positive market values are recognised as assets in the balance sheet, whereas negative market values are recognised as liabilities.

| | DNB Næringskreditt AS | | | | | |
|---|---|---|---|---|---|---|
| | 31 Dec. 2014 | | | 31 Dec. 2013 | | |
| *Amounts in NOK million* | Total nominal values | Positive market value | Negative market value | Total nominal values | Positive market value | Negative market value |
| **Interest rate contracts** | | | | | | |
| Swaps | 1 000 | 120 | 0 | 1 000 | 0 | 16 |
| **Total interest rate contracts** | **1 000** | **120** | **0** | **1 000** | **0** | **16** |

## Note 13 Debt securities issued

**Private placements** — **DNB Næringskreditt AS**

| *Amounts in NOK 1 000* ISIN Code | Currency | Nominal value | Interest | Issued | Maturity | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|---|---|---|---|---|
| NO 0010543192 | NOK | 2 400 000 | Floating | 2009 | 2015 | 2 400 000 | 2 400 000 |
| NO 0010694425 | NOK | 1 000 000 | Floating | 2013 | 2018 | 1 000 000 | 1 000 000 |
| NO 0010694474 | NOK | 1 000 000 | Fixed | 2013 | 2023 | 1 140 060 | 996 060 |
| Accrued interest | | | | | | 20 788 | 21 164 |
| **Total debt securities issued** | | | | | | **4 560 848** | **4 417 224** |

Debt securities issued with a floating interest rate are classified as liabilities carried at amortised cost. Debt securities issued with a fixed interest rate are classified as liabilities at fair value.

**Changes in debt securities issued** — **DNB Næringskreditt AS**

| *Amounts in NOK 1 000* | Balance sheet 31 Dec. 2014 | Issued 2014 | Matured/ redeemed 2014 | Exchange rate movements 2014 | Changes in adjustments 2014 | Balance sheet 31 Dec. 2013 |
|---|---|---|---|---|---|---|
| Bond debt, nominal amount | 4 400 000 | - | - | - | - | 4 400 000 |
| Total adjustments | 160 847 | - | - | - | 143 623 | 17 224 |
| **Total debt securities issued** | **4 560 847** | **0** | **0** | **0** | **143 623** | **4 417 224** |

**Cover pool** — **DNB Næringskreditt AS**

| *Amounts in NOK 1 000* | 31 Dec. 2014 | 31 Dec. 2013 |
|---|---|---|
| Pool of eligible loans | 20 950 379 | 20 981 617 |
| Market value of eligible derivatives | 120 710 | - |
| Supplementary assets | - | 560 153 |
| **Total collateralised assets** | **21 071 089** | **21 541 770** |
| | | |
| Debt securities issued, carrying value | 4 543 366 | 4 417 224 |
| Market value of eligible derivatives | - | 14 098 |
| Less valuation changes attributable to changes in credit risk on debt carried at fair value | (17 482) | - |
| **Debt securities issued, valued according to regulation [1)]** | **4 525 884** | **4 431 322** |
| | | |
| Collateralisation (per cent) | 465.6 | 486.0 |

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 Section 2-28 of the Financial Institutions Act with appurtenant regulations.*

## Note 14 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 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 instrument in this category.

## Note 14 Financial instruments at fair value (continued)

| **As at 31 December 2014** *Amounts in NOK 1 000* | 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 [1] | **DNB Næringskreditt AS** Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Loans to customers | - | - | - | - | 0 |
| Financial derivatives | - | 119 826 | - | - | 119 826 |
| **Liabilities** | | | | | |
| Debt securities issued | - | 1 140 060 | - | 4 919 | 1 144 979 |
| Financial derivatives | - | - | - | - | 0 |

| **As at 31 December 2013** *Amounts in NOK 1 000* | 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 [1] | **DNB Næringskreditt AS** Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Loans to customers | - | - | - | - | - |
| Financial derivatives | - | 1 864 | - | - | 1 864 |
| **Liabilities** | | | | | |
| Debt securities issued | - | 996 060 | - | 4 919 | 1 000 979 |
| Financial derivatives | - | 15 962 | - | - | 15 962 |

*1) For financial derivatives accrued interest is included in the level 2 amounts.*

## Note 15 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 14. Based on these valuation techniques, the balance sheet items due from credit institutions, loans to credit institutions and debt securities issued are measured based on level 2 techniques, while loans to customers are based on level 3 techniques.

| **Fair value of financial instruments at amortised cost** | 31 December 2014 | | **DNB Næringskreditt AS** 31 December 2013 | |
|---|---|---|---|---|
| *Amounts in NOK 1 000* | Carrying amount | Fair value | Carrying amount | Fair value |
| Due from credit institutions | 56 147 | 56 147 | 571 517 | 571 517 |
| Loans to customers | 25 905 361 | 25 905 361 | 23 164 541 | 23 164 541 |
| **Total financial assets** | **25 961 508** | **25 961 508** | **23 736 058** | **23 736 058** |
| Due to credit institutions | 15 907 941 | 15 907 941 | 13 709 979 | 13 709 979 |
| Debt securities issued | 3 415 868 | 3 427 027 | 3 416 245 | 3 416 245 |
| **Total financial liabilities** | **19 323 809** | **19 334 968** | **17 126 224** | **17 126 224** |

## Note 15 Fair value of financial instruments at amortised cost (continued)

**DNB Næringskreditt AS**

| *Amounts in NOK 1 000* | 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 |
|---|---|---|---|---|---|
| **Assets as at 31 December 2014** | | | | | |
| Due from credit institutions | - | 56 147 | - | - | 56 147 |
| Loans to customers | - | - | 25 905 361 | - | 25 905 361 |
| **Liabilities as at 31 December 2014** | | | | | |
| Due to credit institutions | - | 15 907 941 | - | - | 15 907 941 |
| Debt securities issued | - | 3 411 159 | - | 15 868 | 3 427 027 |

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 16 Remunerations

**DNB Næringskreditt AS**

| *Amounts in NOK 1 000* | Fixed annual salary as at 31 Dec. 2014 | Paid remunera-tion in 2014 | Paid salaries 2014 | Bonus earned in 2014 | Benefits in kind and other benefits in 2014 | Total remunera-tion earned in 2014 | Loans as at 31 Dec. 2014 | Accrued pension expenses [1] |
|---|---|---|---|---|---|---|---|---|
| **The Board of Directors** | | | | | | | | |
| Bjørn Erik Næss [2] | 3 688 | - | 3 835 | 1 505 | 204 | 5 545 | 1 367 | 4 168 |
| Eva-Lill Strandskogen | 1 185 | - | 1 204 | 157 | 157 | 1 518 | 6 314 | 212 |
| Reidar Bolme (from 24 April 2014) | 1 053 | - | 3 385 | 20 | 153 | 3 558 | 0 | 122 |
| Rein Øsebak (until 24 April 2014) | - | 54 | - | - | 250 | 303 | 2 | - |
| Elisabeth Ege | - | 172 | - | - | - | 172 | 1 359 | - |
| Stein Ove Steffensen (until 24 April 2014) | - | - | 2 135 | - | 145 | 2 280 | 653 | 245 |
| Jørn E. Pedersen (from 24 April 2014) | - | 118 | - | - | 959 | 1 077 | 4 037 | 34 |
| **Board of Directors, total** | **5 926** | **344** | **10 559** | **1 682** | **1 868** | **14 453** | **13 732** | **4 780** |
| Chief executive officer [3] | 2 339 | - | 2 376 | 346 | 161 | 2 883 | 2 895 | 113 |
| Supervisory Board, total | 10 778 | 88 | 11 412 | 160 | 867 | 12 528 | 27 441 | 2 076 |
| **Total** | **19 043** | **432** | **24 347** | **2 188** | **2 896** | **29 864** | **44 068** | **6 969** |

*1) Accrued pension expenses include pension rights earned during the year (service cost). The calculation of pension entitlements is based on the same economic and actuarial assumptions as those used in note 27 Pensions in the annual report 2014 for the DNB Group.*

*2) Bonus earned in 2014 amounts to NOK 1.5 million and will be paid in 2015.*

*3) Øyvind Birkeland retired as CEO on 1 March 2015. The new CEO did not receive any remuneration from the company in 2014.*

DNB Næringskreditt has no employees and purchases administrative services from DNB Boligkreditt. All remunerations and loans in the table are related to employment in other entities within the DNB Group.

Remunerations to the Supervisory Board members, and members of the Board of Directors that are not employed in the DNB Group, are charged to the account of the company proportionate to the time spent in DNB Boligkreditt and DNB Næringskreditt

DNB Næringskreditt paid no remunerations to the Control Committee in 2014. See annual reports for 2014 for the DNB Bank Group and the DNB Group for information about remunerations etc. to the Control Committee in 2014.

DNB Næringskreditt has no contractual obligations to give the chief executive officer, members of the board or others special compensation in case of changes in conditions of employment. Nor has the company contractual obligations to offer bonuses, profit sharing arrangements or options benefiting the chief executive officer, the Board of Directors or others. For 2014, all of the Group's employees will receive a bonus of NOK 20 000. The bonus will be paid in 2015.

## Note 16 Remunerations (continued)

### Remuneration to the statutory auditor

| | DNB Næringskreditt AS | |
|---|---|---|
| *Amounts in NOK 1 000* | 2014 | 2013 |
| Statutory audit [1] | 323 | 244 |
| Other certification services [1] [2] | 93 | 38 |
| **Total remuneration to the statutory auditor** | **416** | **282** |

1) *All amounts are exclusive of VAT.*
2) *Of this, the remuneration to the independent investigator, pursuant to Section 2-34 of the Financial Institutions Act, represents NOK 93 000.*

## Note 17 Information on related parties

| **Transactions with related parties** | **DNB Næringskreditt AS** | |
|---|---|---|
| *Amounts in NOK 1 000* | 2014 | 2013 |
| **Assets** | | |
| Loans to and deposits with credit institutions | 56 147 | 571 517 |
| Financial derivatives | 119 826 | 1 864 |
| **Liabilities** | | |
| Loans due to credit institutions | 15 907 941 | 13 709 979 |
| Financial derivatives | - | 15 962 |
| Securities issued | 2 982 618 | 3 700 000 |
| Other liabilities | 14 269 | 14 187 |
| **Income and expenses** | | |
| Interest income | 6 829 | 5 182 |
| Interest expenses | 396 901 | 346 758 |
| Net gains on financial instruments at fair value | 136 460 | 186 |
| Fees | 114 889 | 81 349 |

DNB Næringskreditt AS is a subsidiary within the DNB Group. During the year 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 2014, portfolios of NOK 6.5 billion (NOK 3.8 billion in 2013) 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 is recognised as "other expenses" in the statement of comprehensive income and amounted to NOK 107.3 million in 2014 (NOK 76.7 million in 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-December, the bank had invested NOK 3.0 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 4.5 million in 2014 (NOK 6.7 million in 2013). DNB Boligkreditt is a wholly-owned subsidiary of DNB Bank.

### Group contributions

DNB Næringskreditt proposes to provide group contribution of NOK 174.5 million (pre-tax NOK 239.0 million) to DNB Bank ASA. Group contribution will be recognized in DNB Næringskreditt's financial statements in 2015 and is not included in the company's balance sheet at 31 December 2014.

## Note 18 Contingencies and post-balance sheet events

### Contingencies

DNB Næringskreditt is not involved in any legal actions.

### Post-balance sheet events

No information has come to light about important circumstances which had occurred on the balance sheet date on 31 December 2014 and up till the Board of Directors' final consideration of the accounts on 12 March 2015.

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Statsautoriserte revisorer
Ernst & Young AS

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To the Annual Shareholders' Meeting and Supervisory Board of
DNB Næringskreditt AS

# AUDITOR'S REPORT

## Report on the financial statements

We have audited the accompanying financial statements of DNB Næringskreditt AS, which comprise the balance sheet as at 31 December 2014, the statements of comprehensive income, cash flows and changes in equity for the year then ended, a summary of significant accounting policies and other explanatory information.

*The Board of Directors' and Chief Executive Officer's responsibility for the financial statements*

The Board of Directors and Chief Executive Officer are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards as adopted by the EU, and for such internal control as the Board of Directors and Chief Executive Officer determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

*Auditor's responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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*Opinion*

In our opinion, the financial statements of DNB Næringskreditt AS have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2014 and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the EU.

**Report on other legal and regulatory requirements**

*Opinion on the Board of Directors' report*

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report concerning the financial statements, the going concern assumption and the proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

*Opinion on registration and documentation*

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that the Board of Directors and Chief Executive Officer have fulfilled their duty to ensure that the Company's accounting information is properly recorded and documented as required by law and generally accepted bookkeeping practice in Norway.

Oslo, 12 March 2015
ERNST & YOUNG AS

Einar Hersvik
State Authorised Public Accountant (Norway)

# CONTROL COMMITTEE'S REPORT

**TO THE SUPERVISORY BOARD AND THE ANNUAL GENERAL MEETING OF DNB NÆRINGSKREDITT AS**

The Control Committee has carried out supervision of DNB Næringskreditt AS in accordance with law and instructions laid down by the Supervisory Board.

In connection with the closing of the accounts for the 2014 financial year, the Control Committee has examined the Directors' Report, the annual accounts and the Auditor's Report for DNB Næringskreditt AS.

The Committee finds that the Board of Directors gives an adequate description of the financial position of DNB Næringskreditt AS, and recommends the approval of the Directors' Report and annual accounts for the 2014 financial year.

Oslo, 12 March 2015

Frode Hassel
(chairman)

Karl Olav Hovden
(vice-chairman)

Ida Helliesen

Ole Trasti
(deputy)

Ida Miriam Espolin Johnson
(deputy)

# Key figures

| | DNB Næringskreditt AS | |
|---|---|---|
| | 2014 | 2013 |
| 1. Return on equity (%) [1)] | 3.2 | 3.7 |
| 2. Core (Tier 1) capital ratio at end of period (%) | 25.9 | 28.8 |
| 3. Capital adequacy ratio at end of period (%) | 25.9 | 28.8 |
| 4. Core capital at end of period (NOK 1 000) | 5 354 369 | 5 359 441 |
| 5. Risk-weighted volume at end of period (NOK 1 000) | 20 709 580 | 18 624 555 |

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

# Governing bodies

## Supervisory Board

**Members**
Anita Roarsen, Oslo
Eldbjørg Sture, Oslo
Vidar Knudsen, Nesbru
Anders Lægreid, Oslo
Lars Tronsgaard, Drammen
Torild Ressås Aamnes, Nesbru

**Deputies**
Ragnhild Martinsen, Bodø
Jo Teslo, Haslum
Vigdis Tomter, Oslo

## Control Committee

**Members**
Frode Hassel, Trondheim
Karl Olav Hovden, Kolbotn
Ida Helliesen, Oslo

**Deputy**
Ida Espolin Johnson, Oslo
Ole Grøtting Trasti, Oslo

## Board of Directors

**Members**
Bjørn Erik Næss, Oslo
Reidar Bolme, Oslo
Elisabeth Ege, Eiksmarka
Jørn E. Pedersen, Oslo
Eva-Lill Strandskogen, Oslo

**Deputy**
Olav Løvstad, Kongsberg

# 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 03000 |
| Internet | dnb.no |
| Organisation number | 846 069 062 |

### Chief executive officer

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

### Financial reporting

Roar Sørensen
Tel: +47 934 79 616
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### Rating and investor information

Håkon Røsand
Tel: +47 906 16 892
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## DNB ASA

| | |
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| Telephone | +47 915 03000 |
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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.

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# EVERY DAY.
# WHEN IT MATTERS THE MOST.


**DNB Næringskreditt AS**

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