Fourth quarter report 2006

Preliminary and unaudited

DnB NOR Bank ASA

Fourth quarter report 2006

The accounts for DnB NOR Bank and the DnB NOR Bank Group [1)] are based on Norwegian generally accepted accounting principles and the accounting regulations for banks. DnB NOR Bank implemented regulations from the Ministry of Finance on the accounting treatment of loans and guarantees in the accounts of DnB NOR Bank and the banking group effective 1 January 2006. For the time being, it is not permissible for Norwegian banks and finance companies to prepare accounts according to IFRS.

Fourth quarter performance 2006

The banking group showed sound financial performance in the fourth quarter of 2006, with a high level of customer activity in all business areas. Total income rose by 13 per cent compared with the fourth quarter of 2005, while ordinary operating expenses increased by 18.5 per cent. The increase can be partly ascribed to the fact that DnB NORD was not included in the 2005 figures. In addition, pension expenses were very low in 2005 due to the one-off effect resulting from the restructuring of the pension scheme. Relatively low risk in the loan portfolios resulted in very low write-downs on loans and guarantees in the fourth quarter of 2006.

The banking group's pre-tax operating profits came to NOK 3 051 million in the fourth quarter of 2006, up from NOK 2 845 million in the year-earlier period. After taxes, profits totalled NOK 2 056 million, an increase from NOK 1 823 million a year earlier.

Return on equity was 15.7 per cent for the October through December period, down from 16.8 per cent in the fourth quarter of 2005. The ratio of ordinary expenses to income was 51.8 per cent in the fourth quarter of 2006.

Group chief executive Svein Aaser retired on 31 December 2006, and Rune Bjerke assumed the position as new group chief executive for DnB NOR on 1 January 2007.

In the fourth quarter of 2006, DnB NOR Bank's wholly-owned subsidiary DnB NOR Hypotek was merged into the bank. The purpose of the merger is to strengthen marketing initiatives relating to commercial property financing by bringing together expertise in this field in DnB NOR Bank.

During the fourth quarter of 2006, DnB NOR Bank entered into an agreement to acquire 76.3 per cent of BISE Bank in Poland through its partially owned subsidiary DnB NORD.

The core capital ratio for the banking group was 6.8 per cent as at 31 December 2006. The Board of Directors considers the banking group to be well capitalised relative to the risk level of the loan portfolios and other operations.

Income

Income totalled NOK 6 598 million for the October through December period in 2006, an increase of NOK 761 million or 13 per cent from the fourth quarter of 2005.

Net interest income

Net interest income was NOK 4 093 million in the fourth quarter of 2006, up NOK 611 million compared with the year-earlier period.

Due to brisk growth in loans and deposits in the fourth quarter of 2006 compared with the year-earlier period, there was an increase in net interest income which more than compensated for narrower spreads.

The table below specifies changes from 2005 according to main items:

Changes in net interest income

Amounts in NOK million	4th quarter 2006	Change	4th quarter 2005
Net interest income	4 093	611	3 482
DnB NORD	220	220	
DnB NOR Monchebank	9	9	
Net interest income, adjusted		382	
Lending and deposit volumes		424	
Lending and deposit spreads		(284)	
Non-interest earning items including equity		175	
Other		68	

Net other operating income

Net other operating income amounted to NOK 2 505 million in the fourth quarter of 2006, up NOK 150 million from the corresponding period in 2005. The increase in other income mainly reflected gains on the banking group's positions in the interest rate and currency markets. Net other operating income represented 38 per cent of total income in the fourth quarter of 2006, as against 40.3 per cent in the year-earlier period.

[1)] DnB NOR Bank ASA is a subsidiary of DnB NOR ASA and part of the DnB NOR Group. The DnB NOR Bank Group, hereinafter called "the banking group", comprises the bank and the bank's subsidiaries. Other companies owned by DnB NOR ASA, including Vital Forsikring and DnB NOR Kapitalforvaltning, are not part of the banking group. Operations in DnB NOR ASA and the total DnB NOR Group are not covered in this report but described in a separate report and presentation.

The table below specifies changes from 2005 according to main items:

Changes in net other operating income

Amounts in NOK million	4th quarter 2006	Change	4th quarter 2005
Net other operating income	2 505	150	2 355
DnB NORD	93	93	
DnB NOR Monchebank	5	5	
Net other operating income, adjusted		52	
Net commissions and fees		7	
Net gains on foreign exchange and financial instruments		80	
Net gains on the sale of fixed assets		(24)	
Other income		(11)	

Operating expenses

Ordinary operating expenses [2)] totalled NOK 3 420 million in the fourth quarter of 2006, up NOK 533 million from the year-earlier period. Excluding operations in DnB NORD and Monchebank, there was a NOK 294 million rise in expenses.

The table below specifies changes from 2005 according to main items:

Changes in ordinary operating expenses

Amounts in NOK million	4th quarter 2006	Change	4th quarter 2005
Ordinary operating expenses	3 420	533	2 887
DnB NORD	229	229	
DnB NOR Monchebank	9	9	
Ordinary operating expenses, adjusted		294	
Pension expenses		175	
Wage settlements		52	
Performance-based pay		66	
IT development		118	
Synergies		(45)	
Other		(71)	

Write-downs on commitments

Due to healthy earnings in the business sector and sound household finances, the banking group recorded low write-downs on loans in the fourth quarter of 2006. Net reversals on write-downs on loans and guarantees came to NOK 16 million, with individual write-downs of NOK 5 million and reversals on group write-downs of NOK 21 million.

New individual write-downs totalled NOK 225 million, while reversals and recoveries totalled NOK 220 million. In the corresponding period in 2005, new write-downs were NOK 151 million, while reversals and recoveries came to NOK 186 million.

Full year results 2006

The banking group maintained a healthy financial performance in 2006. All of the banking group's business areas recorded strong profits and brisk growth in both domestic and international operations. In spite of fierce competition, group income increased by 15.1 per cent in 2006 compared with 2005, while ordinary operating expenses were up 12.9 per cent. The cost trend in 2006 reflected the banking group's extensive investments in new international operations, product development and new IT systems.

The banking group's profits for the year totalled NOK 8 872 million, an increase of NOK 1 545 million or 21.1 per cent from the previous year. Return on equity was 18.2 per cent in 2006, down from 18.6 per cent in 2005. Due to strong profits in both 2005 and 2006, return on equity exceeded the banking group's long-term target.

Income

Income totalled NOK 24 900 million in 2006, an increase of NOK 3 258 million or 15.1 per cent from 2005.

Net interest income

Net interest income was NOK 15 844 million in 2006, a rise of NOK 2 443 million or 18.2 per cent compared with 2005.

Sound lending and deposit growth in 2006 gave an increase in interest income which more than compensated for narrower spreads. Due to strong competition, the combined spread contracted by 0.07 percentage points in 2006 and was 2.02 per cent in the fourth quarter of the year.

The table below specifies changes from 2005 according to main items:

Changes in net interest income

Amounts in NOK million	2006	Change	2005
Net interest income	15 844	2 443	13 401
DnB NORD	757	757	
DnB NOR Monchebank	30	30	
Net interest income, adjusted		1 656	
Lending and deposit volumes		1 697	
Lending and deposit spreads		(954)	
Not interest bearing items, including equity		593	
Instalment fees, standby fees etc.		104	
Other		216	

Net other operating income

Net other operating income totalled NOK 9 056 million in 2006, up NOK 815 million or 9.9 per cent from 2005. The increase reflected a rise in brokerage fees and credit broking income, brisk sales of savings and pension products, high income from the banking group's corporate finance activity and gains from the sale of fixed assets. The gains were mainly attributable to the sale of bank buildings. Lower gains on foreign exchange and financial instruments can be explained by the realization of gains on the sale of Storebrand shares in 2005.

Net other operating income represented 36.4 per cent of total income in 2006 compared with 38.1 per cent in 2005.

The table below specifies changes from 2005 according to main items:

Changes in net other operating income

Amounts in NOK million	2006	Change	2005
Net other operating income	9 056	815	8 241
DnB NORD	320	320	
DnB NOR Monchebank	21	21	
Net other operating income, adjusted		473	
Net commissions and fees		345	
Net gains on foreign exchange and financial instruments		(119)	
Net gains on the sale of fixed assets		234	
Other income		13	

Operating expenses

Ordinary operating expenses totalled NOK 12 837 million in 2006, an increase of NOK 1 470 million from 2005. Excluding operations in DnB NORD and Monchebank, expenses rose by NOK 707 million or 6.2 per cent.

The cost trend in 2006 reflected rising personnel expenses due to higher pension costs, performance-based pay and the result of the annual wage settlements. In 2005, pension expenses were particularly

[2)] *Excluding allocations to the employee investment fund.*

low due to the one-off effect of the restructuring of the pension scheme. 2006 was a period of investment, product development and international start-ups for the banking group. The investments will ensure a broader income base and lay a more solid platform for future income growth.

In 2006, the banking group recorded systems development expenses totalling NOK 218 million in the balance sheet, a rise from NOK 119 million in 2005. The balance sheet value of IT systems developed in-house and purchased by the banking group is assessed relative to the discounted value of future cash flows. These calculations did not result in any significant write-downs in 2006 or 2005.

The table below shows changes from 2005 according to main items:

Changes in ordinary operating expenses

Amounts in NOK million	2006	Change	2005
Ordinary operating expenses	12 837	1 470	11 367
DnB NORD	729	729	
DnB NOR Monchebank	34	34	
Ordinary operating expenses, adjusted		707	
Pension expenses		399	
Wage settlements		145	
Performance-based pay		254	
IT development		153	
Synergies		(325)	
Other		81	

Net gains on longterm investments in securities

Net gains on longterm investments in securities amounted to NOK 3 million in 2006 compared with NOK 203 million in 2005. The gains in 2005 was mainly attributable to the realisation of equity positions in Brazil.

Write-downs on commitments

Due to strong earnings in the business sector and healthy finances among Norwegian households, the banking group recorded low write-downs on loans in 2006. Net reversals on write-downs on loans and guarantees came to NOK 243 million. Individual write-downs totalled NOK 160 million and group write-downs were reduced by NOK 403 million, reflecting the positive trend in the Norwegian economy. The corresponding figure for 2005 was NOK 42 million in net reversals on write-downs, all of which represented individual write-downs.

After deductions for individual write-downs, net non-performing and impaired commitments came to NOK 3 800 million at end-December 2006, a decline of NOK 1 440 million from 2005. Net non-performing and impaired commitments represented 0.45 per cent of net lending at year-end 2006, down from 0.75 per cent a year earlier. The reduction reflected sound risk management and the healthy financial trend in the business community and among retail customers.

Taxes

The banking group's total tax charge for 2006 was NOK 3 292 million, representing 27.1 per cent of pre-tax operating profits. In 2005 the tax charge was NOK 3 058 million or 29.4 per cent of pre-tax operating profits. The banking group anticipates a future normalised tax level of 27 per cent.

Balance sheet

Total assets in the banking group's balance sheet were NOK 1 103 billion at year-end 2006, as against NOK 860 billion a year earlier.

Net lending to customers rose by NOK 132 billion or 19 per cent during the twelve-month period.

Customer deposits rose by NOK 63 billion or 15 per cent from 2005.

In order to keep the banking group's liquidity risk at a low level, the majority of loans are financed through customer deposits, long-term securities, subordinated loan capital and equity. With respect to short-term funding of the bank, restrictive borrowing limits have been established. The banking group has good access to the European, Asian and US capital markets. The ratio of customer deposits to net lending to customers was maintained at a satisfactory level, standing at 58.3 per cent at end-December 2006, down from 60.4 per cent a year earlier. The Board of Directors considers the banking group's liquidity situation to be sound.

Securities issued by the banking group increased by NOK 115 billion or 48.7 per cent from 2005, totalling NOK 352 billion at end-December 2006. The majority of the securities were issued in international capital markets, and there was a significant increase in the banking group's funding in the US capital market in 2006. In October, DnB NOR Bank launched a bond issue of USD 2 billion with a three-year maturity. The issue was very well received in the US market and helped expand the bank's investor base.

The rating agencies' assessments of DnB NOR determine the banking group's funding terms. In September 2006, the Canadian rating agency Dominion Bond Rating Service assigned a long-term rating of AA to DnB NOR Bank ASA. DnB NOR Bank already has an Aa3 rating from Moody's and an A+ rating from Standard & Poor's.

Risk and capital adequacy

The banking group quantifies risk by measuring risk-adjusted capital. Net risk-adjusted capital increased by NOK 6.4 billion to NOK 39.7 billion at year-end 2006. The increase reflected higher credit volumes.

The table below shows developments in the risk-adjusted capital requirement:

Amounts in NOK billion	31 Dec. 2006	31 Dec. 2005
Credit risk	36.0	31.1
Market risk	2.4	1.9
Operational risk	4.0	3.6
Business risk	2.1	1.4
Gross risk-adjusted capital	44.6	38.0
Diversification effect [1)]	(4.9)	(4.7)
Net risk-adjusted capital	39.7	33.3
Diversification effect in per cent of gross risk-adjusted capital [1)]	11.0	12.3

1) The diversification effect refers to the effect achieved by the banking group in reducing risk by operating within several risk categories where unexpected losses are unlikely to occur at the same time.

There was brisk credit growth in both the retail and corporate markets in 2006. Growth was particularly strong within shipping and offshore, and the banking group syndicated large volumes to other financial institutions. The banking group is a major international syndication arranger in these sectors. Acquisition financing was another growth area in 2006, reflecting the strong dynamics in the corporate sector. Sound corporate earnings, rising housing prices and falling unemployment rates were additional factors in improving portfolio quality in 2006.

The rise in market risk for the banking group mainly reflected a favourable price trend for equity investments. Limits for equity positions in DnB NOR Markets were increased somewhat in 2006, though income from customer business accounted for a rising share of profits.

The successful integration of the account systems of the former DnB and Gjensidige NOR during Easter 2006 had a positive effect on the banking group's operational risk. There was also a reduction in operational disturbances in the banking group's IT systems in 2006. The banking group recorded no major operational losses in 2006.

Risk-weighted volume included in the calculation of the capital adequacy requirement was NOK 787.3 billion at end-December 2006, up 23.8 per cent from 2005. The core capital ratio was 6.8 per cent, compared with 7.7 per cent in 2005, while the capital adequacy ratio was 10.2 per cent at year-end 2006.

New capital adequacy regulations – Basel II

New capital adequacy regulations (Basel II) entered into force on 1 January 2007. On 30 September 2005, the DnB NOR Group sent an application to Kredittilsynet (the Financial Supervisory Authority of Norway) for permission to use the foundation IRB approach (Internal Ratings Based) for credit risk as from 1 January 2007. Kredittilsynet has granted such permission. In June 2006, the Group applied for permission to use the advanced IRB approach for credit risk as from 1 January 2008. The banking group's adaptation to the new capital adequacy regulations is on schedule. Consequently, limitations in transitional rules will determine the impact on risk-weighted volume over the next few years. Primary capital must be minimum 95 per cent of the capital requirement according to previous rules in 2007, 90 per cent in 2008 and 80 per cent in 2009.

Future prospects

The economic climate in Norway was very favourable in 2006. A high level of optimism and low interest rate levels encouraged healthy growth in corporate investments and high credit demand. The demand for housing loans remained at a very high level throughout 2006 despite a gradual rise in interest rate levels.

Continued growth is expected in the Norwegian economy during 2007, despite the warning from Norges Bank that it will tighten its monetary policy. A high level of optimism, healthy income growth and sound corporate and household finances will help maintain good, but somewhat lower future lending growth. Sizeable corporate profits ensured a strong rise in deposits in 2006. The growth is anticipated to be somewhat subdued in 2007. Rising interest rate levels and real wage growth for Norwegian households are expected to lead to an increase in savings and deposits in 2007.

The banking group is determined to exploit in full its size and broad range of products and services. Moreover, productivity and cost awareness will be improved at all levels.

Competition in the housing loan market is expected to become more intense in future, as is competition in the credit card market and within consumer financing. With its wide range of products, extensive distribution network and competence, the banking group is well-equipped to meet the intensifying competition. The banking group aims to enhance customer satisfaction in 2007 and to maintain or increase its market shares in Norway.

The banking group expects robust and targeted international growth in 2007. Operations in Sweden and in DnB NORD will be further strengthened over the next few years. The acquisition of BISE Bank in Poland is part of this expansion. DnB NOR Monchebank has given the banking group an important foothold in North-West Russia, which is an area with sound economic growth. The opening of a branch in China was an important element in DnB NOR Bank's strategy to consolidate its position as one of the world's leading ship finance banks. The banking group's international operations will represent an increasing share of profit growth in 2007.

Oslo, 21 February 2007
The Board of Directors of DnB NOR Bank ASA

Olav Hytta (chairman)	Bent Pedersen (vice-chairman)	Per Hoffmann
Sten Sture Larre	Kari Lotsberg	Heidi M. Petersen
Torill Rambjør	Ingjerd Skjeldrum	Rune Bjerke (group chief executive)

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