DNB Næringskreditt AS

A company in the DNB Group

DNB

THIRD QUARTER REPORT 2017

(Unaudited)

Financial highlights

Income statement

DNB Næringskreditt AS

Amounts in NOK million	3rd quarter 2017	3rd quarter 2016	January-September 2017	January-September 2016	Full year 2016
Net interest income	82	86	259	262	351
Net other operating income	(19)	(8)	(32)	(11)	(14)
Total operating expenses	(26)	(16)	(83)	(64)	(86)
Impairment of loans and commitments	(0)	0	1	1	1
Pre-tax operating profit	36	62	146	188	253
Tax expense	(9)	(16)	(36)	(47)	(63)
Profit for the period	**27**	**47**	**109**	**141**	**190**

Balance sheet

Amounts in NOK million	30 Sept. 2017	31 Dec. 2016	30 Sept. 2016
Total assets	23 919	25 470	27 186
Loans to customers	23 778	25 251	26 907
Debt securities issued	292	2 100	2 159
Total equity	5 509	5 589	5 541

Key figures

	3rd quarter 2017	3rd quarter 2016	January-September 2017	January-September 2016	Full year 2016
Total average spread for lending (%) [1]	0.98	0.91	1.01	0.95	0.94
Return on equity, annualised (%)	2.0	3.4	2.6	3.4	3.4
Common equity Tier 1 capital ratio, transitional rules (%)	28.6	25.1	28.6	25.1	26.8
Capital ratio, transitional rules (%)	28.6	25.1	28.6	25.1	26.8
Common equity Tier 1 capital (NOK million)	5 366	5 364	5 366	5 364	5 376
Risk-weighted volume, transitional rules (NOK million)	18 753	21 357	18 753	21 357	20 029

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

Third quarter report 2017

Accounts

Additional information

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

Directors' report

DNB Næringskreditt AS is the DNB Group's vehicle for the issue of covered bonds based on commercial mortgages. The company's offices are located in Oslo. DNB Næringskreditt is a wholly-owned subsidiary of DNB Bank ASA and is reported partly under the Corporate Banking Norway business area and partly under the Large Corporates and International business area in the consolidated accounts of DNB Bank ASA. The rating agencies' assessments are of significance to the company's funding terms. In 2013, an agreement was signed with Moody's on the rating of the company's bond issues. DNB Næringskreditt's covered bonds are rated Aaa by Moody's.

Financial accounts

DNB Næringskreditt recorded a profit of NOK 27 million in the third quarter of 2017, compared with a profit of NOK 47 million in the third quarter of 2016.

Total income

Income totalled NOK 63 million in the third quarter of 2017, compared with NOK 78 million in the year-earlier period.

Amounts in NOK million	3rd quarter 2017	Change	3rd quarter 2016
Total income	63	(15)	78
Net interest income		(4)	
Net commission and fee income			
Net gains/(losses) on financial instruments at fair value		(11)	

Net interest income was reduced by NOK 4 million from the third quarter of 2016 to the third quarter of 2017, while net losses on financial instruments increased from NOK 8 million to NOK 19 million in the same period. The loss in the third quarter of 2017 was due to the repurchase of own covered bonds.

Operating expenses and impairment of loans

Operating expenses are volatile due to the management fee paid to DNB Bank. The cooperation with DNB Bank is formalised through an extensive servicing agreement that ensures DNB Næringskreditt sound competence in key areas and cost-effective operations. The management fee calculation is based primarily on lending volume and the spreads achieved. The size of the management fee is related to net interest income. The fee amounted to NOK 22 million in the third quarter of 2017, up from NOK 14 million in the third quarter of 2016.

The company has recorded no individual impairment losses in previous years, which was also the case in the third quarter of 2017. The Board of Directors considers the quality of the loan portfolio to be satisfactory.

Funding, liquidity and balance sheet

Balance sheet

At end-September 2017, DNB Næringskreditt had total assets of NOK 23.9 billion, a decrease of NOK 3.3 billion, or 12.0 per cent, from end-September 2016.

Amounts in NOK million	30 Sept. 2017	Change	30 Sept. 2016
Total assets	23 919	(3 267)	27 186
Loans to customers		(3 129)	
Financial derivatives		(133)	
Other assets		(5)	
Total liabilities	18 410	(3 235)	21 645
Due to credit institutions		(1 361)	
Debt securities issued		(1 867)	
Other liabilities		(7)	

The reduction in loans to customers is due to the fact that DNB Næringskreditt has acquired fewer commercial mortgages from DNB Bank.

The company repurchased own covered bonds for a total of NOK 1.9 billion in the third quarter of 2017. Total debt securities issued amounted to NOK 0.3 billion at end-September 2017.

Risk and capital adequacy

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

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

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

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

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

At end-September 2017, 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 both 28.6 per cent. The Board of Directors considers the company to be adequately capitalised relative to the risk level in the loan portfolios and other operations.

New regulatory framework

Substantial changes in the Financial Contracts Act

The Ministry of Justice and Public Security has circulated a draft for a new Financial Contracts Act for consultation. The draft will implement in Norwegian law the EU Mortgage Credit Directive (MCD), the Consumer Credit Directive (CCD), the Payment Accounts Directive (PAD) and the contractual parts of the Revised Payment Services Directive (PSD2). The new Act is expected to be of limited importance to DNB Næringskreditt.

New Personal Data Act will strengthen consumer rights

The Ministry of Justice and Public Security has circulated a draft for a new Personal Data Act for consultation.The Act will implement the EU's General Data Protection Regulation (GDPR) in Norwegian law. The purpose of GDPR is to strengthen and harmonise data protection across the EEA.). This Act is also expected to be of limited importance to DNB Næringskreditt.

Macroeconomic developments

Global GDP growth is expected to rise from 2.9 per cent in 2016 to 3.3 per cent in 2017, reflecting higher growth in both industrialised countries and emerging economies. Persistent strong growth in demand from China and widespread optimism have contributed to a synchronous boost in growth across countries and sectors. The growth in the industrialised countries is expected to remain higher than normal in the period ahead, resulting in a further decline in unemployment. Parallel to this, wage growth is restrained by national and global factors in a number of countries. This puts a damper on inflation and limits the rise in interest rates.

Chinese GDP rose by 6.7 per cent in 2016 and is expected to grow by 6.8 per cent in 2017. The strong momentum in China is driven by increasing growth in the corporate sector along with persistently high growth in the household sector. In turn, this reflects low interest rates and a growth-promoting fiscal policy. A gentle, policy-driven cool-down is expected from 2018. The risk of a crisis in China further ahead in time seems to have decreased in light of smaller imbalances in the real estate market and fewer business liquidations. Japanese GDP rose by 1.6 per cent in 2017, which was significantly higher than the potential growth rate. We expect growth to decline to a level closer to the potential rate over the next few years.

The cyclical upturn in the US has lasted for eight years, and there are no clear signs of a slowdown. While growth was weak in the first quarter, it picked up in the second quarter. GDP growth is estimated to be around 2 per cent over the coming years. Since this is somewhat higher than the potential economic growth rate, the unemployment rate will probably decline further. The core rate of inflation is down since February this year, in spite of a strong labour market. The unexpectedly low inflation suggests a gradual rise in interest rates. The Federal Reserve is expected to raise its policy rate in December this year, twice next year and twice in 2019. In September, the Federal Reserve announced that it will start to scale down its balance sheet as from October this year by reducing reinvestments in Treasury bills and mortgage-backed securities.

In the eurozone, the increase in GDP was 1.8 per cent in 2016 and is likely to pick up to 2.1 per cent in 2017. So far this year all of the major member states have experienced higher growth. Business investment is up and will probably represent a higher share of GDP in the period ahead. Confidence indexes for households and businesses also indicate a further recovery in the eurozone, but the cool-down in China is expected to dampen the upturn from next year. Growth will nevertheless be higher than normal. This is expected to lead to lower unemployment. Wage and price growth is also expected to increase somewhat in reflection of less slack in the economy. As a consequence, the European Central Bank will begin to gradually depart from its expansionary policy by scaling down its asset purchases and eliminating the negative deposit rate by the end of next year.

The British 'No' to further EU membership had fewer negative consequences than expected in the short term. There will probably be weaker growth in the period ahead as a result of uncertainty about the exit agreement with the EU and new trade agreements. This is expected to result in a decline in consumption and investments, and the unemployment rate is assumed to rise slightly in the coming years. The depreciation of the British pound in the aftermath of the Brexit vote has given a temporary rise in inflation. As a consequence, the Bank of England is likely to raise its policy rate in the course of the autumn, though weaker growth prospects and higher unemployment will probably prevent further interest rate hikes. Uncertainty regarding the process around Brexit and the results thereof makes future prospects more unpredictable than normal.

The growth in GDP for Mainland Norway in the first and second quarter of the year was significantly stronger than throughout last year and also showed signs of being more broadly based. Growth is estimated to be 2 per cent this year. A smaller drop in oil investments and higher growth in private consumption and corporate investment than last year, will contribute to a higher growth rate. Over the next few years, the upswing in the Norwegian economy will probably be curbed by lower housing investment and a more neutral contribution from fiscal policy.

Higher manufacturing growth has also been reflected in lower unemployment. The unemployment rate has declined gradually since the summer of 2016, mainly due to a lower labour force participation rate. Over the last few quarters, employment growth has also picked up and contributed to a further drop in the unemployment rate. A slight rise in employment is expected in the period ahead, resulting in a reduction in the unemployment rate.

There was a steep rise in housing prices in 2016, especially in Oslo. In February this year, the average annual increase was 13 per cent for the entire country and 24 per cent in Oslo. At the time, housing prices were expected to level off. There was also a risk of a major turnaround with potential significant price reductions after many years of strong housing price growth and a tightening of the home mortgage lending regulation. Seasonally adjusted, housing prices have fallen over the past five months. Many unsold homes, particularly in Oslo, indicate that the decline in prices will continue for another few quarters. Low interest rates and a more positive situation in the Norwegian economy, with falling unemployment and rising income growth, will nevertheless limit the downward trend in housing prices, which are expected to show modest growth from the middle of 2018.

In 2016, consumer price growth was helped by strong increases in import prices as a result of the depreciation of the Norwegian krone through 2014 and 2015. Consumer price growth ended at 3.6 per cent last year, while core inflation was slightly lower at 3.1 per cent. DNB estimates that core inflation will be 1.6 per cent this year and 1.5 per cent next year. In 2019, there are prospects of even lower inflation before a new increase to 1.4 per cent in 2020. A stronger krone and continued low wage growth are the main factors behind the low core inflation. Due to a rise in interest rates among Norway's principal trading partners, Norges Bank is also expected to raise its key policy rate in the autumn of 2019, despite the fact that the inflation rate will remain below the target of 2.5 per cent.

Future prospects

The prospects for commercial property are considered to be good for 2018. The loan portfolio of DNB Næringskreditt is, however, expected to be somewhat lower in the period ahead.

Covered bonds have gained a leading position as a funding vehicle for Norwegian banks. Norwegian covered bonds still seem attractive, with relatively low credit and market risk.

Oslo, 25 October 2017
The Board of Directors of DNB Næringskreditt AS

Reidar Bolme (chairman)	Jørn E. Pedersen	Eva-Lill Strandskogen

Per Sagbakken
(chief executive officer)

Comprehensive income statement

		DNB Næringskreditt AS				
		3rd quarter	3rd quarter	January-September		Full year
Amounts in NOK million	Note	2017	2016	2017	2016	2016
Total interest income	6	157	182	507	545	733
Total interest expenses	6	(76)	(96)	(248)	(282)	(382)
Net interest income	**6**	**82**	**86**	**259**	**262**	**351**
Commission and fee income		0	0	0	0	1
Commission and fee expenses		(0)	(0)	(0)	(0)	(0)
Net gains on financial instruments at fair value	7	(19)	(8)	(32)	(12)	(14)
Net other operating income		**(19)**	**(8)**	**(32)**	**(11)**	**(14)**
Total income		**63**	**78**	**227**	**251**	**338**
Other expenses	12	(26)	(16)	(83)	(64)	(86)
Total operating expenses		**(26)**	**(16)**	**(83)**	**(64)**	**(86)**
Impairment of loans and commitments	8	(0)	0	1	1	1
Pre-tax operating profit		**36**	**62**	**146**	**188**	**253**
Tax expense		(9)	(16)	(36)	(47)	(63)
Profit for the period		**27**	**47**	**109**	**141**	**190**
Total comprehensive income for the period		**27**	**47**	**109**	**141**	**190**

Balance sheet

		DNB Næringskreditt AS		
		30 Sept.	31 Dec.	30 Sept.
Amounts in NOK million	Note	2017	2016	2016
Assets				
Due from credit institutions	10, 11	109	113	112
Loans to customers	8, 11	23 778	25 251	26 907
Financial derivatives	10	33	104	166
Other assets		0	1	1
Total assets		**23 919**	**25 470**	**27 186**
Liabilities and equity				
Due to credit institutions	11	18 069	17 699	19 430
Debt securities issued	9, 10, 11	292	2 100	2 159
Payable taxes		40	67	44
Deferred taxes		3	3	6
Other liabilities		6	13	5
Total liabilities		**18 410**	**19 881**	**21 645**
Share capital		550	550	550
Share premium		4 604	4 604	4 604
Other equity		355	435	387
Total equity		**5 509**	**5 589**	**5 541**
Total liabilities and equity		**23 919**	**25 470**	**27 186**

Statement of changes in equity

DNB Næringskreditt AS

Amounts in NOK million	Share capital	Share premium	Other equity	Total equity
Balance sheet as at 31 December 2015	**550**	**4 604**	**408**	**5 562**
Profit for the period			141	141
Total comprehensive income for the period			**141**	**141**
Group contribution paid			(162)	(162)
Balance sheet as at 30 September 2016	**550**	**4 604**	**387**	**5 541**
Balance sheet as at 31 December 2016	**550**	**4 604**	**435**	**5 589**
Profit for the period			109	109
Total comprehensive income for the period			**109**	**109**
Group contribution paid			(190)	(190)
Balance sheet as at 30 September 2017	**550**	**4 604**	**355**	**5 509**

Share capital

All of the company's shares and voting rights are held by DNB Bank ASA. Share capital at the beginning of 2017 was NOK 550 million (550 000 shares at NOK 1 000).

Cash flow statement

Amounts in NOK million	January-September 2017	January-September 2016	Full year 2016
Operating activities			
Net receipts on loans to customers	3 353	4 855	8 629
Interest received from customers	535	534	723
Net receipts/payments on loans to/from credit institutions	374	314	(1 418)
Interest received from credit institutions	0	1	1
Interest paid to credit institutions	(224)	(293)	(383)
Net receipts/payments on the sale of financial assets for investment or trading	70		
Payments for operating expenses	(88)	(68)	(83)
Taxes paid		(3)	
Net cash flow relating to operating activities	**4 021**	**5 341**	**7 470**
Investing activities			
Net purchase of loan portfolio	(1 906)	(5 093)	(7 212)
Net cash flow relating to investing activities	**(1 906)**	**(5 093)**	**(7 212)**
Financing activities			
Payments on redeemed bonds and commercial paper	(1 835)		
Interest payments on issued bonds and commercial paper	(28)	(26)	(35)
Group contribution paid	(253)	(222)	(222)
Net cash flow from financing activities	**(2 116)**	**(248)**	**(256)**
Net cash flow	**(1)**	**(0)**	**1**
Cash as at 1 January	2	0	0
Net receipts/payments of cash	(1)	(0)	1
Cash at end of period	1	0	2

Note 1 Basis for preparation

The quarterly financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board and as adopted by the European Union. When preparing the financial statements, management makes estimates, judgments and assumptions that affect the application of the accounting principles and the carrying amount of assets, liabilities, income and expenses. Estimates and assumptions are subject to continual evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be probable on the balance sheet date. A description of the accounting policies, significant estimates and areas where judgment is applied can be found in note 1 Accounting principles in the annual report for 2016.

Note 2 Capital adequacy

Primary capital

Amounts in NOK million	DNB Næringskreditt AS 30 Sept. 2017	 31 Dec. 2016
Share capital	550	550
Other equity	4 850	5 039
Total equity	5 400	5 589
Deductions		
Expected losses exceeding actual losses, IRB-portfolios	(29)	(19)
Value adjustments due to the requirements for prudent valuation (AVA)	(0)	(0)
Adjustments for deferred tax assets		
Adjustment for unrealised losses/(gains) on debt recorded at fair value	(4)	(4)
Allocated group contributions for payment		(190)
Tier 1 capital	5 366	5 375
Total eligible primary capital	5 366	5 375
Risk-weighted volume, transitional rules	18 753	20 029
Minimum capital requirement, transitional rules	1 500	1 602
Tier 1 capital ratio, transitional rules (%)	28.6	26.8
Capital ratio, transitional rules (%)	28.6	26.8

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

Specification of risk-weighted volume and capital requirements

DNB Næringskreditt AS

Amounts in NOK million	Nominal exposure 30 Sept. 2017	EAD [1] 30 Sept. 2017	Risk-weighted volume 30 Sept. 2017	Capital require-ments 30 Sept. 2017	Capital require-ments 31 Dec. 2016
IRB approach					
Corporate	23 260	23 260	6 148	492	503
Total credit risk, IRB approach	23 260	23 260	6 148	492	503
Standardised approach					
Institutions	146	38	37	3	2
Corporate	522	522	522	42	124
Other assets					0
Total credit risk, standardised approach	668	560	559	45	126
Total credit risk	23 928	23 820	6 707	537	629
Credit value adjustment (CVA)			45	4	13
Operational risk			667	53	53
Total risk-weighted volume and capital requirements before transitional rules			7 419	594	695
Additional capital requirements according to transitional rules			11 334	907	907
Total risk-weighted volume and capital requirements			18 753	1 500	1 602

1) *EAD, exposure at default.*

Note 3 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 committed loan facilities as well as from derivatives. The maximum exposure to credit risk, according to IFRS, is the gross carrying amount of the assets, net of any amounts offset in accordance with the standards and net of any recognised impairment losses. In addition, certain off-balance sheet items such as committed loan facilities represent credit risk. The maximum exposure of committed loan facilities is the irrevocable amount that may be drawn upon in the future.

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

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

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

Note 4 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 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 companys'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 5 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 11-12 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 total limit of NOK 30 billion.

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.

From 2016 Q2 DNB Næringskreditt, as a subsidiary of a systemic important institution in Norway, has a regulatory LCR requirement of 100%, which is fulfilled.

Note 6 Net interest income

Amounts in NOK million	3rd quarter 2017	3rd quarter 2016	January-September 2017	January-September 2016	Full year 2016
	DNB Næringskreditt AS				
Interest on amounts due from credit institutions	0	0	0	1	1
Interest on loans to customers	157	181	507	544	732
Other interest income	0	0	0	(0)	0
Total interest income	**157**	**182**	**507**	**545**	**733**
Interest on amounts due to credit institutions	(63)	(82)	(208)	(241)	(327)
Interest on debt securities issued	(13)	(14)	(41)	(41)	(55)
Total interest expenses	**(76)**	**(96)**	**(248)**	**(282)**	**(382)**
Net interest income	**82**	**86**	**259**	**262**	**351**

Note 7 Net gains on financial instruments at fair value

Amounts in NOK million	3rd quarter 2017	3rd quarter 2016	January-September 2017	January-September 2016	Full year 2016
	DNB Næringskreditt AS				
Net gains on financial liabilities, designated as at fair value [1]	(17)	10	(26)	(28)	2
Net gains on financial derivatives, trading [2]	(2)	(18)	(7)	17	(16)
Net gains on financial instruments at fair value	**(19)**	**(8)**	**(32)**	**(12)**	**(14)**

1) *DNB Næringskreditt's fixed-rate bonds, issued in Norwegian kroner, are carried at fair value. The floating-rate bonds carried at amortised cost are redeemed at 30 September 2017. 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 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 8 Loans to customers

Loans to customers, including accrued interest, totaled NOK 23.8 billion at end-September 2017 (NOK 26.9 billion as at end-September 2016). 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. At end-September 2017, there were net reversals on collective impairment losses with NOK 0.4 million.

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

Amounts in NOK million	30 Sept. 2017	31 Dec. 2016	30 Sept. 2016
	DNB Næringskreditt AS		
Loans to customers, nominal amount	23 703	25 149	26 805
Accrued interest	79	107	108
Collective impairment	(4)	(5)	(6)
Total loans to customers	**23 778**	**25 251**	**26 907**

Amounts in NOK million	30 Sept. 2017	31 Dec. 2016	30 Sept. 2016
	DNB Næringskreditt AS		
Impairment as per 1 January	(5)	(6)	(6)
Changes in collective impairment	1	1	1
Impairment at end of period	(4)	(5)	(6)

Note 9 Debt securities issued

Amounts in NOK million ISIN Code	Currency	Nominal value	Interest	Issued	Matured	DNB Næringskreditt AS 30 Sept. 2017	31 Dec. 2016	30 Sept. 2016
NO 0010694425	NOK	1 000	Floating	2013	2 017		1 000	1 000
NO 0010694474	NOK	1 000	Fixed	2013	2 023	283	1 093	1 123
Accrued interest						9	7	36
Total debt securities issued						**292**	**2 100**	**2 159**

Cover pool

Amounts in NOK million	DNB Næringskreditt AS 30 Sept. 2017	31 Dec. 2016	30 Sept. 2016
Pool of eligible loans	22 450	23 864	26 219
Market value of eligible derivatives	33	104	166
Total collateralised assets	**22 483**	**23 968**	**26 385**
Debt securities issued, carrying value	292	2 100	2 159
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(1)	6	6
Debt securities issued, valued according to regulation [1)]	**291**	**2 106**	**2 165**
Collateralisation (per cent)	7 736	1 138	1 219

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

Note 10 Financial instruments at fair value

Amounts in NOK million	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	DNB Næringskreditt AS Total
Assets as at 30 September 2017				
Due from credit institutions		108		108
Financial derivatives		33		33
Liabilities as at 30 September 2017				
Debt securities issued		292		292

Amounts in NOK million	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	DNB Næringskreditt AS Total
Assets as at 30 September 2016				
Due from credit institutions		112		112
Financial derivatives		166		166
Liabilities as at 30 September 2016				
Debt securities issued		1 157		1 157

In the second quarter of 2016 DNB Næringskreditt entered into repurchase agreements (repos) with the bank as counterparty. The fair value of the repos is presented in level 2 and amounted to NOK 108 million as at 30 September 2017. For a further description of the instruments and valuation techniques, see the annual report for 2016.

Note 11 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. For a further description of valuation methods, see the annual report for 2016.

Fair value of financial instruments at amortised cost

DNB Næringskreditt AS

	30 September 2017		30 September 2016	
Amounts in NOK million	Carrying amount	Fair value	Carrying amount	Fair value
Due from credit institutions	1	1	0	0
Loans to customers	23 778	23 778	26 907	26 907
Total financial assets	23 779	23 779	26 908	26 908
Due to credit institutions	18 069	18 069	19 430	19 430
Debt securities issued			1 002	1 006
Total financial liabilities	18 069	18 069	20 432	20 437

DNB Næringskreditt AS

Amounts in NOK million	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	Total
Assets as at 30 September 2017				
Due from credit institutions		1		1
Loans to customers			23 778	23 778
Liabilities as at 30 September 2017				
Due to credit institutions		18 069		18 069
Debt securities issued				

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. All debt securities carried at amortised cost are redeemed at 30 September 2017. 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 12 Information on related parties

DNB Bank ASA

In the first three quarters of 2017, portfolios of NOK 1.9 billion were transferred from the bank to DNB Næringskreditt in accordance with the ”Agreement relating to transfer of loan portfolio between DNB Bank ASA and DNB Næringskreditt AS”.

The management fee paid to the bank for purchased services is recognised as “Other expenses” in the statement of comprehensive income and amounted to NOK 71 million for the first three quarters of 2017 (NOK 55 million for the first three quarters of 2016).

In the first three quarters of 2017 DNB Næringskreditt entered into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The value of the repos amounted to NOK 108 million at end-September 2017.

The company has a long-term overdraft facility in DNB Bank ASA with a limit of NOK 30 billion.

DNB Boligkreditt AS

DNB Næringskreditt has no employees and purchases administrative services from DNB Boligkreditt. On an annual basis, DNB Næringskreditt hires staff representing 1.5 full-time equivalents. The management fee amounted to NOK 3.4 million in the first three quarters of 2017.

Profit and balance sheet trends

Comprehensive income statement					**DNB Næringskreditt AS**
Amounts in NOK million	3rd quarter 2017	2nd quarter 2017	1st quarter 2017	4th quarter 2016	3rd quarter 2016
Total interest income	157	171	179	188	182
Total interest expenses	(76)	(83)	(89)	(99)	(96)
Net interest income	**82**	**87**	**90**	**89**	**86**
Commission and fee income	0	0	0	0	0
Commission and fee expenses	(0)	(0)	(0)	(0)	(0)
Net gains on financial instruments at fair value	(19)	(4)	(10)	(2)	(8)
Net other operating income	**(19)**	**(4)**	**(10)**	**(2)**	**(8)**
Total income	**63**	**83**	**80**	**87**	**78**
Other expenses	(26)	(28)	(28)	(22)	(16)
Total operating expenses	**(26)**	**(28)**	**(28)**	**(22)**	**(16)**
Impairment of loans and commitments	(0)	2	0	0	0
Pre-tax operating profit	**36**	**57**	**52**	**65**	**62**
Tax expense	(9)	(14)	(13)	(16)	(16)
Profit for the period	**27**	**43**	**39**	**49**	**47**
Total comprehensive income for the period	**27**	**43**	**39**	**49**	**47**

Balance sheet					**DNB Næringskreditt AS**
Amounts in NOK million	30 Sept. 2017	30 June 2017	31 March 2017	31 Dec. 2016	30 Sept. 2016
Assets					
Due from credit institutions	109	109	113	113	112
Loans to customers	23 778	24 927	26 056	25 251	26 907
Financial derivatives	33	119	113	104	166
Other assets	0	0	0	1	1
Total assets	**23 919**	**25 155**	**26 282**	**25 470**	**27 186**
Liabilities and equity					
Due to credit institutions	18 069	17 504	18 443	17 699	19 430
Debt securities issued	292	2 128	2 118	2 100	2 159
Payable taxes	40	31	80	67	44
Deferred taxes	3	3	3	3	6
Other liabilities	6	8	10	13	5
Total liabilities	**18 410**	**19 673**	**20 654**	**19 881**	**21 645**
Share capital	550	550	550	550	550
Share premium	4 604	4 604	4 604	4 604	4 604
Other equity	355	328	474	435	387
Total equity	**5 509**	**5 482**	**5 629**	**5 589**	**5 541**
Total liabilities and equity	**23 919**	**25 155**	**26 282**	**25 470**	**27 186**

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 03 000
Internet	dnb.no
Organisation number	NO 846 069 062 MVA

Chief executive officer

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

Financial reporting

Roar Sørensen
Tel: +47 934 79 616
roar.sorensen@dnb.no

Rating and investor information

Håkon Røsand
Tel: +47 906 16 892
hakon.rosand@dnb.no

DNB ASA

Mailing address	P.O.Box 1600 Sentrum, NO-0021 Oslo
Visiting address	Dronning Eufemias gate 30, Oslo
Telephone	+47 915 03 000
Internet	dnb.no
Organisation number	NO 981 276 957 MVA

DNB Bank ASA

Mailing address	P.O.Box 1600 Sentrum, NO-0021 Oslo
Visiting address	Dronning Eufemias gate 30, Oslo
Telephone	+47 915 03 000
Internet	dnb.no
Organisation number	NO 984 851 006 MVA

Other sources of information

Annual and quarterly reports

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

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

Visiting address:
Dronning Eufemias gate 30
Bjørvika, Oslo

dnb.no