

# DNB Næringskreditt AS

A company in the DNB Group

DNB

**FOURTH QUARTER  
REPORT 2017**  
(Preliminary and unaudited)

# Financial highlights

## Income statement

	DNB Næringskreditt AS			
<i>Amounts in NOK million</i>	4th quarter 2017	4th quarter 2016	Full year 2017	Full year 2016
Net interest income	74	89	333	351
Net other operating income	0	(2)	(32)	(14)
Total operating expenses	(19)	(22)	(102)	(86)
Impairment of loans and commitments	(0)	0	1	1
Pre-tax operating profit	55	65	200	253
Tax expense	(12)	(16)	(48)	(63)
<b>Profit for the period</b>	<b>43</b>	<b>49</b>	<b>152</b>	<b>190</b>

## Balance sheet

<i>Amounts in NOK million</i>	31 Dec. 2017	31 Dec. 2016
Total assets	20 712	25 470
Loans to customers	20 578	25 251
Debt securities issued	283	2 100
Total equity	5 552	5 589

## Key figures

	4th quarter 2017	4th quarter 2016	Full year 2017	Full year 2016
Total average spread for lending (%) <sup>1)</sup>	0.89	0.93	0.98	0.94
Return on equity, annualised (%)	3.1	3.5	2.8	3.4
Common equity Tier 1 capital ratio, transitional rules (%)	33.2	26.8	33.2	26.8
Capital ratio, transitional rules (%)	33.2	26.8	33.2	26.8
Common equity Tier 1 capital (NOK million)	5 373	5 375	5 373	5 375
Risk-weighted volume, transitional rules (NOK million)	16 188	20 029	16 188	20 029

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

# Fourth quarter report 2017

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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 43 million in the fourth quarter of 2017, compared with a profit of NOK 49 million in the fourth quarter of 2016.

### Total income

Income totalled NOK 74 million in the fourth quarter of 2017, compared with NOK 87 million in the year-earlier period.

Amounts in NOK million	4th quarter		4th quarter
	2017	Change	2016
Total income	74	(13)	87
Net interest income		(15)	
Net commission and fee income			
Net gains/(losses) on financial instruments at fair value		2	

Net interest income was reduced by NOK 15 million from the fourth quarter of 2016 to the fourth quarter of 2017, while net losses on financial instruments were down NOK 2 million in the same period. The decline in net interest income was due to a reduction in loans customers.

### 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 17 million in the fourth quarter of 2017, up from NOK 19 million in the fourth quarter of 2016.

The company has recorded no individual impairment losses in previous years, which was also the case in the fourth 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-December 2017, DNB Næringskreditt had total assets of NOK 20.7 billion, a decrease of NOK 4.7 billion, or 18.5 per cent, from end-December 2016.

Amounts in NOK million	31 Dec.		31 Dec.
	2017	Change	2016
Total assets	20 712	(4 758)	25 470
Loans to customers		(4 673)	
Financial derivatives		(80)	
Other assets		(5)	
Total liabilities	15 160	(4 721)	19 881
Due to credit institutions		(2 878)	
Debt securities issued		(1 817)	
Other liabilities		(26)	

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-December 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-December 2017, the company's equity totalled NOK 5.6 billion, of which NOK 5.4 billion represented Tier 1 capital. The company has no primary capital in excess of equity. The company's capital adequacy and Tier 1 capital ratios were both 33.2 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

### International agreement on changes in banks' capital adequacy standards

In December 2017, the Basel Committee adopted changes in several parts of the Basel III standards for capital adequacy assessments, aiming, among other things, to ensure greater consistency between banks' reported capital adequacy figures and capital requirements. The changes include adjustments to the standardised approach and the IRB approach, and the introduction of a new capital floor. The new capital floor requirement will reduce differences in risk weights and result in more harmonised capital requirements across national borders. However, the changes to Basel III are not planned to take effect until 1 January 2022, with a five-year phase-in period. The EU is expected to adopt the recommendations by amending its legislation. This legislation will also be applicable in Norway through the EEA agreement.

### Basel I floor to be replaced by new floor requirement

Norwegian legislation does not fully reflect the requirements in the EU's capital requirements regulations, CRR and CRD IV. The Norwegian Ministry of Finance has therefore given Finanstilsynet (the Financial Supervisory Authority of Norway) a mandate to propose how the remaining regulations should be implemented in Norway. As part of this process, Finanstilsynet will also consider a new capital floor based on the Basel Committee's proposed new standardised approach. The new floor requirement will probably replace the so-called Basel I floor, but it is unclear how it will be designed and coordinated with the EU regulations. Finanstilsynet has been given a deadline in mid-April 2018 to present its recommendations.

### Macroeconomic developments

Global GDP growth is expected to be 3.5 per cent in 2017, up from 3.0 per cent in 2016, 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. Global growth is expected to increase further in 2018 due to a higher level of growth in emerging economies. In China, however, growth is expected to slow down somewhat as a result of retrenchment measures implemented by the authorities. Economic growth in industrialised countries is expected to remain at around 2 per cent. This is higher than the normal growth rate and will contribute to 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.

The upturn in the US has lasted for nine years, and there are still no clear signs of a slowdown. GDP growth is assumed to be 2.3 per cent in 2017 and 2.4 per cent in 2018. The US tax reform is expected to have a limited effect on consumption, as it primarily affects high-income groups. Although it will probably contribute to a certain rise in corporate investment, the effect is expected to be moderate. The unemployment rate has dropped to 4.1 per cent and is expected to decline further in 2018. As a consequence, the Federal Reserve is likely to raise interest rates an additional three times in 2018, in spite of the fact that inflation is somewhat lower than the 2 per cent target. In addition, the Federal Reserve will probably start to scale down its balance sheet by reducing reinvestments in Treasury bills and mortgage-backed securities (MBS).

In the eurozone, GDP growth is estimated at 2.3 per cent in 2017 and is expected to remain at 2.3 per cent in 2018. The recovery is broad-based across countries and sectors, with strong growth in large member countries such as Germany and Spain. Confidence indexes for households and businesses indicate a further recovery in the eurozone, but the cool-down in China is expected to dampen the upturn from the second half of 2018. Growth will nevertheless be higher than normal, which is expected to lead to lower unemployment. Wage and price growth is also assumed to increase somewhat, reflecting less slack in the economy. In consequence of this, the European Central Bank will begin to gradually depart from its expansionary policy by finalising its asset purchases by the end of the year and gradually increasing interest rates from the second quarter of 2019.

The British 'No' to further EU membership had fewer negative consequences than expected in the short term. Growth slowed down, however, from 1.8 per cent in 2016 to an estimated 1.5 per cent in 2017, and is expected to decline to 1.1 per cent in 2018, reflecting a reduction in consumption and

investment due to the uncertainty surrounding Brexit. A significant weakening of the British pound has caused a temporary increase in inflation, which made the Bank of England raise its key policy rate to 0.5 per cent in November 2017. Inflation is expected to decline due to weaker growth and higher unemployment, and the key policy rate is therefore expected to remain at 0.5 per cent over the coming years. Uncertainty regarding the process around Brexit and the results thereof makes future prospects more unpredictable than normal.

GDP for Mainland Norway was up by an estimated 1.8 per cent in 2017, after increasing by only 1.0 per cent in 2016. The rise was due to a less negative effect of oil investments, higher consumption and a marked increase in housing investment. Growth is anticipated to rise further to 2 per cent in 2018, driven by corporate and petroleum investment. 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. Throughout 2017, employment growth 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 certain reduction in the unemployment rate.

The seasonally adjusted housing price index fell after reaching a peak in March, and annual growth rates in December 2017 were negative at -1.1 per cent for Norway and -10.5 per cent for Oslo. 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 2019.

Inflation, in terms of annual growth in the consumer price index, declined more than expected in 2017. The core inflation rate ended at 1.4 per cent, while total inflation was 1.8 per cent. In 2018, core inflation is expected to be 1.5 per cent, which is well below Norges Bank's inflation target. In light of continued low inflation and a weak housing market, Norges Bank is not expected to raise its key policy rate until September 2019. In its monetary policy report from December 2017, the central bank indicated that the policy rate hike may be implemented in December 2018.

### Future prospects

DNB Næringskreditt is well-positioned for new regulatory requirements resulting from the implementation of IFRS 9 and the revised Basel regulations. The latter is expected to have minimal effects for the company.

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. Average impairment losses are expected to be at normalised levels in 2018.

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, 31 January 2018  
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			
<i>Amounts in NOK million</i>	Note	4th quarter 2017	4th quarter 2016	Full year 2017	Full year 2016
Total interest income	6	146	188	653	733
Total interest expenses	6	(72)	(99)	(320)	(382)
<b>Net interest income</b>	<b>6</b>	<b>74</b>	<b>89</b>	<b>333</b>	<b>351</b>
Commission and fee income		0	0	0	1
Commission and fee expenses		(0)	(0)	(0)	(0)
Net gains on financial instruments at fair value	7	0	(2)	(32)	(14)
<b>Net other operating income</b>		<b>0</b>	<b>(2)</b>	<b>(32)</b>	<b>(14)</b>
<b>Total income</b>		<b>74</b>	<b>87</b>	<b>301</b>	<b>338</b>
Other expenses	12	(19)	(22)	(102)	(86)
<b>Total operating expenses</b>		<b>(19)</b>	<b>(22)</b>	<b>(102)</b>	<b>(86)</b>
Impairment of loans and commitments	8	(0)	0	1	1
<b>Pre-tax operating profit</b>		<b>55</b>	<b>65</b>	<b>200</b>	<b>253</b>
Tax expense		(12)	(16)	(48)	(63)
<b>Profit for the period</b>		<b>43</b>	<b>49</b>	<b>152</b>	<b>190</b>
<b>Total comprehensive income for the period</b>		<b>43</b>	<b>49</b>	<b>152</b>	<b>190</b>

# Balance sheet

		DNB Næringskreditt AS	
<i>Amounts in NOK million</i>	Note	31 Dec. 2017	31 Dec. 2016
<b>Assets</b>			
Due from credit institutions	10, 11	109	113
Loans to customers	8, 11	20 578	25 251
Financial derivatives	10	24	104
Other assets			1
<b>Total assets</b>		<b>20 712</b>	<b>25 470</b>
<b>Liabilities and equity</b>			
Due to credit institutions	11	14 821	17 699
Debt securities issued	9, 10, 11	283	2 100
Payable taxes		51	67
Deferred taxes			3
Other liabilities		4	13
<b>Total liabilities</b>		<b>15 160</b>	<b>19 881</b>
Share capital		550	550
Share premium		4 604	4 604
Other equity		398	435
<b>Total equity</b>		<b>5 552</b>	<b>5 589</b>
<b>Total liabilities and equity</b>		<b>20 712</b>	<b>25 470</b>

# Statement of changes in equity

## DNB Næringskreditt AS

<i>Amounts in NOK million</i>	Share capital	Share premium	Other equity	Total equity
<b>Balance sheet as at 31 December 2015</b>	<b>550</b>	<b>4 604</b>	<b>408</b>	<b>5 562</b>
Profit for the period			190	190
<b>Total comprehensive income for the period</b>			<b>190</b>	<b>190</b>
Group contribution paid			(162)	(162)
<b>Balance sheet as at 31 December 2016</b>	<b>550</b>	<b>4 604</b>	<b>435</b>	<b>5 589</b>
Profit for the period			152	152
<b>Total comprehensive income for the period</b>			<b>152</b>	<b>152</b>
Group contribution paid			(190)	(190)
<b>Balance sheet as at 31 December 2017</b>	<b>550</b>	<b>4 604</b>	<b>398</b>	<b>5 552</b>

### 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

## DNB Næringskreditt AS

<i>Amounts in NOK million</i>	Full year 2017	Full year 2016
<b>Operating activities</b>		
Net receipts on loans to customers	6 549	8 629
Interest received from customers	684	723
Net payments on loans to/from credit institutions	(2 874)	(1 418)
Interest received from credit institutions	0	1
Interest paid to credit institutions	(295)	(383)
Net receipts on the sale of financial assets for investment or trading	70	
Payments for operating expenses	(109)	(83)
Taxes paid	(3)	
<b>Net cash flow relating to operating activities</b>	<b>4 022</b>	<b>7 470</b>
<b>Investing activities</b>		
Net purchase of loan portfolio	(1 906)	(7 212)
<b>Net cash flow relating to investing activities</b>	<b>(1 906)</b>	<b>(7 212)</b>
<b>Financing activities</b>		
Payments on redeemed bonds and commercial paper	(1 835)	
Interest payments on issued bonds and commercial paper	(29)	(35)
Group contribution paid	(253)	(222)
<b>Net cash flow from financing activities</b>	<b>(2 117)</b>	<b>(256)</b>
<b>Net cash flow</b>	<b>(1)</b>	<b>1</b>
Cash as at 1 January	2	0
Net receipts/payments of cash	(1)	1
Cash at end of period	1	2



## Note 1 Basis for preparation

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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.

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

#### IFRS 9 Financial Instruments

The new rules are applicable from 1 January 2018. See note 1 Accounting principles in the annual report for 2016 for a more detailed description.

#### *Impact for DNB Næringskreditt*

##### *Classification and measurement*

The business model assessment and the contractual cash flow analysis are completed for Næringskreditt. The company has a "Hold to collect" business model and all financial assets, except derivatives, pass the contractual cash flow test. They will be measured at amortised cost as under the current IAS 39 rules, while the derivatives are measured at fair value through profit and loss.

##### *Impairment*

The implementation impact calculated on 1 January 2018 is immaterial. The impact will be recognised as a change in the collective impairment provision in the balance sheet with the offsetting entry recognised directly in equity, hence there will be no impact on the income statement. A separate disclosure with transition information will be included in the annual report for 2017.

## Note 2 Capital adequacy

Primary capital	DNB Næringskreditt AS	
	31 Dec. 2017	31 Dec. 2016
<i>Amounts in NOK million</i>		
Share capital	550	550
Other equity	5 003	5 039
Total equity	5 553	5 589
Deductions		
Expected losses exceeding actual losses, IRB-portfolios	(28)	(19)
Value adjustments due to the requirements for prudent valuation (AVA)	(0)	
Adjustments for deferred tax assets		
Adjustment for unrealised losses/(gains) on debt recorded at fair value	1	(4)
Allocated group contributions for payment	(153)	(190)
Tier 1 capital	5 373	5 375
Total eligible primary capital	5 373	5 375
Risk-weighted volume, transitional rules	16 188	20 029
Minimum capital requirement, transitional rules	1 295	1 602
Tier 1 capital ratio, transitional rules (%)	33.2	26.8
Capital ratio, transitional rules (%)	33.2	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				
	Nominal exposure 31 Dec. 2017	EAD <sup>1)</sup> 31 Dec. 2017	Risk- weighted volume 31 Dec. 2017	Capital require- ments 31 Dec. 2017	Capital require- ments 31 Dec. 2016
<i>Amounts in NOK million</i>					
IRB approach					
Corporate	20 001	20 001	5 508	441	503
Total credit risk, IRB approach	20 001	20 001	5 508	441	503
Standardised approach					
Institutions	137	29	6	0	2
Corporate	582	582	582	47	124
Other assets					
Total credit risk, standardised approach	719	611	588	47	126
Total credit risk	20 720	20 612	6 096	488	629
Credit value adjustment (CVA)			43	3	13
Operational risk			633	51	53
Total risk-weighted volume and capital requirements before transitional rules			6 772	542	695
Additional capital requirements according to transitional rules			9 415	753	907
Total risk-weighted volume and capital requirements			16 188	1 295	1 602

1) EAD, exposure at default.

## Note 3 Credit risk

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

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

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

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

## Note 4 Market risk

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

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

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

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

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

## Note 5 Liquidity risk

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

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

According to Section 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

<i>Amounts in NOK million</i>	DNB Næringskreditt AS			
	4th quarter 2017	4th quarter 2016	Full year 2017	Full year 2016
Interest on amounts due from credit institutions	0	0	1	1
Interest on loans to customers	146	188	653	732
Other interest income	0	0	0	0
<b>Total interest income</b>	<b>146</b>	<b>188</b>	<b>653</b>	<b>733</b>
Interest on amounts due to credit institutions	(70)	(86)	(277)	(327)
Interest on debt securities issued	(2)	(14)	(43)	(55)
<b>Total interest expenses</b>	<b>(72)</b>	<b>(99)</b>	<b>(320)</b>	<b>(382)</b>
<b>Net interest income</b>	<b>74</b>	<b>89</b>	<b>333</b>	<b>351</b>

## Note 7 Net gains on financial instruments at fair value

<i>Amounts in NOK million</i>	DNB Næringskreditt AS			
	4th quarter 2017	4th quarter 2016	Full year 2017	Full year 2016
Net gains on financial liabilities, designated as at fair value <sup>1)</sup>	1	30	(24)	2
Net gains on financial derivatives, trading <sup>2)</sup>	(1)	(33)	(8)	(16)
<b>Net gains on financial instruments at fair value</b>	<b>0</b>	<b>(2)</b>	<b>(32)</b>	<b>(14)</b>

- 1) DNB Næringskreditt's fixed-rate bonds, issued in Norwegian kroner, are carried at fair value. The floating-rate bonds carried at amortised cost were redeemed in 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 20.6 billion at end-December 2017 (NOK 25.3 billion as at end-December 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-December 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.

<i>Amounts in NOK million</i>	DNB Næringskreditt AS	
	31 Dec. 2017	31 Dec. 2016
Loans to customers, nominal amount	20 506	25 149
Accrued interest	77	107
Collective impairment	(4)	(5)
<b>Total loans to customers</b>	<b>20 578</b>	<b>25 251</b>

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

## Note 9 Debt securities issued

Amounts in NOK million ISIN Code	Currency	Nominal value	Interest	Issued	Matured	DNB Næringskreditt AS	
						31 Dec. 2017	31 Dec. 2016
NO 0010694425	NOK	1 000	Floating	2013	2 017		1 000
NO 0010694474	NOK	1 000	Fixed	2013	2 023	282	1 093
Accrued interest						1	7
<b>Total debt securities issued</b>						<b>283</b>	<b>2 100</b>

### Cover pool

Amounts in NOK million	DNB Næringskreditt AS	
	31 Dec. 2017	31 Dec. 2016
Pool of eligible loans	18 722	23 864
Market value of eligible derivatives	24	104
<b>Total collateralised assets</b>	<b>18 747</b>	<b>23 968</b>

Debt securities issued, carrying value	283	2 100
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(1)	6
<b>Debt securities issued, valued according to regulation <sup>1)</sup></b>	<b>282</b>	<b>2 106</b>

Collateralisation (per cent)	6 646	1 138
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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	DNB Næringskreditt AS			Total
	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	
<b>Assets as at 31 December 2017</b>				
Due from credit institutions		108		108
Financial derivatives		24		24
<b>Liabilities as at 31 December 2017</b>				
Debt securities issued		283		283

Amounts in NOK million	DNB Næringskreditt AS			Total
	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	
<b>Assets as at 31 December 2016</b>				
Due from credit institutions		112		112
Financial derivatives		104		104
<b>Liabilities as at 31 December 2016</b>				
Debt securities issued		1 098		1 098

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 31 December 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

<i>Amounts in NOK million</i>	31 December 2017		DNB Næringskreditt AS 31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Due from credit institutions	1	1	2	2
Loans to customers	20 578	20 578	25 251	25 251
<b>Total financial assets</b>	<b>20 579</b>	<b>20 579</b>	<b>25 253</b>	<b>25 253</b>
Due to credit institutions	14 821	14 821	17 699	17 699
Debt securities issued			1 002	1 006
<b>Total financial liabilities</b>	<b>14 821</b>	<b>14 821</b>	<b>18 701</b>	<b>18 704</b>

<i>Amounts in NOK million</i>	Valuation based on quoted prices in an active market	Valuation based on observable market data	Valuation based on other than observable market data	Total
	Level 1	Level 2	Level 3	
<b>Assets as at 31 December 2017</b>				
Due from credit institutions		1		1
Loans to customers			20 578	20 578
<b>Liabilities as at 31 December 2017</b>				
Due to credit institutions		14 821		14 821
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 31 December 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**

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### **DNB Bank ASA**

In 2017, loan portfolios with a total value of NOK 1.9 billion had been 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 88 million in 2017 (NOK 74 million in 2016).

In 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-December 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 3.5 million in 2017.

# Profit and balance sheet trends

## Comprehensive income statement

<i>Amounts in NOK million</i>	DNB Næringskreditt AS				
	4th quarter 2017	3rd quarter 2017	2nd quarter 2017	1st quarter 2017	4th quarter 2016
Total interest income	146	157	171	179	188
Total interest expenses	(72)	(76)	(83)	(89)	(99)
<b>Net interest income</b>	<b>74</b>	<b>82</b>	<b>87</b>	<b>90</b>	<b>89</b>
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	0	(19)	(4)	(10)	(2)
<b>Net other operating income</b>	<b>0</b>	<b>(19)</b>	<b>(4)</b>	<b>(10)</b>	<b>(2)</b>
<b>Total income</b>	<b>74</b>	<b>63</b>	<b>83</b>	<b>80</b>	<b>87</b>
Other expenses	(19)	(26)	(28)	(28)	(22)
<b>Total operating expenses</b>	<b>(19)</b>	<b>(26)</b>	<b>(28)</b>	<b>(28)</b>	<b>(22)</b>
Impairment of loans and commitments	(0)	(0)	2	0	0
<b>Pre-tax operating profit</b>	<b>55</b>	<b>36</b>	<b>57</b>	<b>52</b>	<b>65</b>
Tax expense	(12)	(9)	(14)	(13)	(16)
<b>Profit for the period</b>	<b>43</b>	<b>27</b>	<b>43</b>	<b>39</b>	<b>49</b>
<b>Total comprehensive income for the period</b>	<b>43</b>	<b>27</b>	<b>43</b>	<b>39</b>	<b>49</b>

## Balance sheet

<i>Amounts in NOK million</i>	DNB Næringskreditt AS				
	31 Dec. 2017	30 Sept. 2017	30 June 2017	31 March 2017	31 Dec. 2016
<b>Assets</b>					
Due from credit institutions	109	109	109	113	113
Loans to customers	20 578	23 778	24 927	26 056	25 251
Financial derivatives	24	33	119	113	104
Other assets			0	0	1
<b>Total assets</b>	<b>20 712</b>	<b>23 919</b>	<b>25 155</b>	<b>26 282</b>	<b>25 470</b>
<b>Liabilities and equity</b>					
Due to credit institutions	14 821	18 069	17 504	18 443	17 699
Debt securities issued	283	292	2 128	2 118	2 100
Payable taxes	51	40	31	80	67
Deferred taxes		3	3	3	3
Other liabilities	4	6	8	10	13
<b>Total liabilities</b>	<b>15 160</b>	<b>18 410</b>	<b>19 673</b>	<b>20 654</b>	<b>19 881</b>
Share capital	550	550	550	550	550
Share premium	4 604	4 604	4 604	4 604	4 604
Other equity	398	355	328	474	435
<b>Total equity</b>	<b>5 552</b>	<b>5 509</b>	<b>5 482</b>	<b>5 629</b>	<b>5 589</b>
<b>Total liabilities and equity</b>	<b>20 712</b>	<b>23 919</b>	<b>25 155</b>	<b>26 282</b>	<b>25 470</b>



# 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

## **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](http://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

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So you can stay ahead.



**DNB**

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

Visiting address:  
Dronning Eufemias gate 30  
Bjørvika, Oslo

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