

DNB Næringskreditt AS

A company in the DNB Group

Q1

First quarter report 2018
(Unaudited)

DNB

Financial highlights

Income statement

	DNB Næringskreditt AS		
<i>Amounts in NOK million</i>	1st quarter 2018	1st quarter 2017	Full year 2017
Net interest income	65	90	333
Net other operating income	(1)	(10)	(32)
Total operating expenses	(14)	(28)	(102)
Impairment of financial instruments	0		1
Pre-tax operating profit	50	52	200
Tax expense	(11)	(13)	(48)
Profit for the period	38	39	152

Balance sheet

<i>Amounts in NOK million</i>	31 March 2018	31 Dec. 2017	31 March 2017
Total assets	19 645	20 712	26 282
Loans to customers	19 573	20 578	26 056
Debt securities issued	281	283	2 118
Total equity	5 593	5 552	5 629

Key figures

	1st quarter 2018	1st quarter 2017	Full year 2017
Total average spread for lending (%) ¹⁾	0.80	1.03	0.98
Return on equity, annualised (%)	2.8	2.8	2.8
Common equity Tier 1 capital ratio, transitional rules (%)	34.8	26.0	33.2
Capital ratio, transitional rules (%)	34.8	26.0	33.2
Common equity Tier 1 capital (NOK million)	5 383	5 373	5 380
Risk-weighted volume, transitional rules (NOK million)	15 473	20 655	16 188

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

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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.

Implementation of IFRS 9

The new accounting rules for financial instruments (IFRS 9) are applicable as of 1 January 2018. The new standard introduces a business model-oriented approach for the classification of financial assets and an expected loss model for impairment which replaces the former incurred loss model.

Financial accounts

DNB Næringskreditt recorded a profit of NOK 38 million in the first quarter of 2018, compared with a profit of NOK 39 million in the first quarter of 2017.

Total income

Income totalled NOK 64 million in the first quarter of 2018, compared with NOK 80 million in the year-earlier period.

Amounts in NOK million	1st quarter		1st quarter	
	2018	Change	2017	
Total income	64	(16)	80	
Net interest income		(25)		
Net commission and fee income				
Net gains/(losses) on financial instruments at fair value		9		

Net interest income was down NOK 25 million from the first quarter of 2017 to the first quarter of 2018, while net gains on financial instruments were up NOK 9 million in the same period. The decline in net interest income was due to a reduction in loans to 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 13 million in the first quarter of 2018, up from NOK 25 million in the first quarter of 2017.

The company has recorded no individual impairment losses in previous years, which was also the case in the first quarter of 2018. The Board of Directors considers the quality of the loan portfolio to be satisfactory.

Funding, liquidity and balance sheet

Balance sheet

At end-March 2018, DNB Næringskreditt had total assets of NOK 19.6 billion, a decrease of NOK 6.6 billion, or 25.3 per cent, from end-March 2017.

Amounts in NOK million	31 March		31 March	
	2018	Change	2017	
Total assets	19 645	(6 637)	26 282	
Loans to customers		(6 483)		
Financial derivatives		(92)		
Other assets		(62)		
Total liabilities	14 052	(6 602)	20 654	
Due to credit institutions		(4 739)		
Debt securities issued		(1 837)		
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 did not issue or repurchase any covered bonds in the first quarter of 2018. Total debt securities issued amounted to NOK 0.3 billion at end-March 2018.

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-March 2018, 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 34.8 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

New Act on deposit guarantees and crisis management for banks

On 16 March 2018, the Norwegian government approved the Act on deposit guarantees and crisis management for banks. The Act will enter into force on 1 January 2019. The Act will implement the EU's Bank Recovery and Resolution Directive, BRRD. Among other things, new rules will be introduced on emergency preparedness and crisis plans, the possibility of writing down or converting loan capital into equity ("bail-in"), and the establishment of a new, national resolution fund in addition to the deposit guarantee fund. The Ministry of Finance has asked Finanstilsynet to work out a proposal for supplementary provisions.

Implementation of the EU's General Data Protection Regulation in Norway could be delayed

The EU's General Data Protection Regulation (GDPR) will have direct applicability in the 25 EU Member States as of 25 May 2018. The purpose of the GDPR is to strengthen and harmonise privacy protection when processing personal data. In addition, the free flow of digital services in the European market will be facilitated, and information processing will generally be more transparent and predictable for consumers. The new Act implies major changes for almost everyone engaged in business operations. DNB is well prepared, as the bank and its subsidiaries has long experience in safeguarding large amounts of information about its customers.

Before the GDPR can be implemented in Norwegian law, it must be incorporated in the EEA Agreement and implemented by a national legislative enactment. The Ministry of Justice and Public Security presented a proposition about a new Personal Data Act in March 2018, whereby the Act can enter into force at the same time as in the EU. There is, however, some uncertainty about whether the GDPR will be formally incorporated in the EEA agreement within 25 May 2018 and thus enable the Act to enter into force at this time.

Macroeconomic developments

Global GDP growth rose to 3.5 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. Global growth is expected to increase to 3.7 per cent in 2018, primarily due to a higher level of growth in emerging economies.

US GDP growth is estimated to rise from 2.3 per cent in 2017 to 2.5 per cent in 2018. An expansionary fiscal policy in the form of tax cuts and increased public spending is expected to help boost growth this year and next year. There has been a prolonged recovery in the US, and unemployment has declined to a low level. The Federal Reserve has raised its benchmark rate by a total of 1.5 percentage points from its lowest level. The most recent rate hike was in March this year, and the Federal Reserve is expected to further raise its interest rate three times in 2018 and four times in 2019, although price pressures remain modest.

GDP growth in the euro area is estimated at 2.4 per cent in 2018, which is well above the normal level for this area. The recovery is broad-based across countries and sectors, with strong growth in large member countries such as Germany and Spain. The high growth is expected to result in lower unemployment, and price inflation is also assumed to increase somewhat in step with 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 in September 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 stood at 1.8 per cent in 2017, but is expected to decline in consequence of lower consumption and investment due to the uncertainty surrounding Brexit. The Bank of England is

nevertheless expected to raise its benchmark rate in May this year as a result of temporarily high inflation, reflecting the weakening of the pound in 2016. Uncertainty regarding the process around Brexit and the results thereof makes future prospects more unpredictable than normal.

The growth in the mainland economy picked up last year as a result of higher growth in consumption and exports, a sharp rise in housing investment and a less negative effect from oil investments. Growth ended at 1.8 per cent, close to what is considered normal for the Norwegian economy. Housing investment peaked last year and is expected to slow down in the coming years. Oil investment, on the other hand, has bottomed out and will, along with corporate investment, once again make a positive contribution to growth in the 2018-2020 period. There will be continued brisk growth in consumption and exports, while public sector demand will have a neutral effect on the economy. Growth is estimated to total just over 2 per cent in 2018-2020.

Higher manufacturing growth has been reflected in lower unemployment and higher employment growth. The unemployment rate is expected to further decline somewhat and to reach a normal level towards the end of the year. Wage growth is expected to pick up, but moderate wage growth among trading partners will contribute to curbing wage growth in Norway. Wage growth is estimated at 2.7 per cent this year, rising to 3.2 per cent in 2020. Core inflation is expected to remain at approximately 1.5 per cent, slightly lower than Norges Bank's new inflation target of 2.0 per cent. Norges Bank is nevertheless expected to increase its key policy rate in September, which it signalled through its most recent interest rate path, and to further raise the rate twice in both 2019 and 2020.

2017 was a good year for the property sector. The generally falling yield trend contributed to growth in values. However, since the autumn of 2017 long interest rates have shown a rising trend, particularly in the first quarter of 2018. We expect that commercial property will hold up in comparison with other investments because interest rates, in spite of increases, will be at low levels.

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 has 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, 25 April 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	1st quarter 2018	1st quarter 2017	Full year 2017
Interest income, amortised cost		130	167	611
Other interest income			12	43
Interest expenses, amortised cost		(64)	(84)	(306)
Other interest expenses		(1)	(5)	(14)
Net interest income		65	90	333
Commission and fee income		0	0	0
Commission and fee expenses		(0)	(0)	(0)
Net gains on financial instruments at fair value		(1)	(10)	(32)
Net other operating income		(1)	(10)	(32)
Total income		64	80	301
Other expenses	6	(14)	(28)	(102)
Total operating expenses		(14)	(28)	(102)
Impairment of financial instruments		0	0	1
Pre-tax operating profit		50	52	200
Tax expense		(11)	(13)	(48)
Profit for the period		38	39	152
Total comprehensive income for the period		38	39	152

Balance sheet

		DNB Næringskreditt AS		
<i>Amounts in NOK million</i>	Note	31 March 2018	31 Dec. 2017	31 March 2017
Assets				
Due from credit institutions		50	109	113
Loans to customers	3	19 573	20 578	26 056
Financial derivatives	5	21	24	113
Other assets				0
Total assets		19 645	20 712	26 282
Liabilities and equity				
Due to credit institutions		13 704	14 821	18 443
Debt securities issued	4, 5	281	283	2 118
Payable taxes		60	51	80
Deferred taxes				3
Other liabilities		7	4	10
Total liabilities		14 052	15 160	20 654
Share capital		550	550	550
Share premium		4 604	4 604	4 604
Other equity		439	398	474
Total equity		5 593	5 552	5 629
Total liabilities and equity		19 645	20 712	26 282

Statement of changes in equity

DNB Næringskreditt AS

<i>Amounts in NOK million</i>	Share capital	Share premium	Other equity	Total equity
Balance sheet as at 31 Dec. 2016	550	4 604	435	5 589
Profit for the period			39	39
Comprehensive income for the period			39	39
Balance sheet as at 31 March 17	550	4 604	474	5 629
Balance sheet as at 31 Dec. 17	550	4 604	398	5 552
Implementation of IFRS 9			3	3
Balance sheet as at 1 Jan. 2018	550	4 604	401	5 555
Profit for the period			38	38
Comprehensive income for the period			38	38
Balance sheet as at 31 March 18	550	4 604	439	5 593

Share capital

All of the company's shares and voting rights are held by DNB Bank ASA. Share capital at the beginning of 2018 was NOK 550 million (550 000 shares at NOK 1 000).

Cash flow statement

DNB Næringskreditt AS

<i>Amounts in NOK million</i>	January-March		Full year
	2018	2017	2017
Operating activities			
Net receipts on loans to customers	1 001	771	6 549
Interest received from customers	137	188	684
Net receipts/payments on loans to/from credit institutions	(1 058)	744	(2 874)
Interest received from credit institutions		0	0
Interest paid to credit institutions	(63)	(80)	(295)
Net receipts on the sale of financial assets for investment or trading			70
Payments for operating expenses	(13)	(31)	(109)
Taxes paid	(2)		(3)
Net cash flow relating to operating activities	3	1 593	4 022
Investing activities			
Net purchase of loan portfolio		(1 585)	(1 906)
Net cash flow relating to investing activities		(1 585)	(1 906)
Financing activities			
Payments on redeemed bonds and commercial paper			(1 835)
Interest payments on issued bonds and commercial paper	(2)	(9)	(29)
Group contribution paid			(253)
Net cash flow from financing activities	(2)	(9)	(2 117)
Net cash flow	1	(1)	(1)
Cash as at 1 January	1	2	2
Net receipts/payments of cash	1	(1)	(1)
Cash at end of period	2	1	1

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 and 18 Transition to IFRS 9 in the annual report for 2017.

IFRS 9 Financial Instruments

IFRS 9 entered into force during the first quarter of 2018 and is the new standard for financial instruments that replaces IAS 39. DNB Næringskreditt AS applied the standard as of 1 January 2018. Comparative information has not been restated. For additional information on IFRS 9 adoption, see note 18 Transition to IFRS 9 in the annual report for 2017. Disclosures related to the line item Loans to customers in the balance sheet and the line item Impairment of loans and commitments in the comprehensive income statement for the first quarter of 2017 can be found in note 8 Loans to customers in the report for the first quarter of 2017.

Note 2 Capital adequacy

Primary capital	DNB Næringskreditt AS	
	31 March 2018	31 Dec. 2017
<i>Amounts in NOK million</i>		
Share capital	550	550
Other equity	5 005	5 002
Total equity	5 555	5 552
Deductions		
Expected losses exceeding actual losses, IRB-portfolios	(19)	(20)
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		
Allocated group contributions for payment	(153)	(153)
Tier 1 capital	5 383	5 380
Total eligible primary capital	5 383	5 380
Risk-weighted volume, transitional rules	15 473	16 188
Minimum capital requirement, transitional rules	1 238	1 295
Tier 1 capital ratio, transitional rules (%)	34.8	33.2
Capital ratio, transitional rules (%)	34.8	33.2

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 March 2018	EAD ¹⁾ 31 March 2018	Risk- weighted volume 31 March 2018	Capital require- ments 31 March 2018	Capital require- ments 31 Dec. 2017
<i>Amounts in NOK million</i>					
IRB approach					
Corporate	19 943	19 943	4 969	397	441
Total credit risk, IRB approach	19 943	19 943	4 969	397	441
Standardised approach					
Institutions	74	26	5	0	0
Corporate	631	631	631	51	47
Other assets					
Total credit risk, standardised approach	706	657	637	51	47
Total credit risk	20 648	20 599	5 605	448	488
Credit value adjustment (CVA)			25	2	3
Operational risk			633	51	51
Total risk-weighted volume and capital requirements before transitional rules			6 263	501	542
Additional capital requirements according to transitional rules			9 210	737	753
Total risk-weighted volume and capital requirements			15 473	1 238	1 295

1) EAD, exposure at default.

Note 3 Development in accumulated impairment of financial instruments

Allowance for expected credit losses were stable at a low level as at 31 March 2018.

Note 4 Debt securities issued

						DNB Næringskreditt AS		
<i>Amounts in NOK million</i>						31 March	31 Dec.	31 March
ISIN Code	Currency	Nominal value	Interest	Issued	Matured	2018	2017	2017
NO 0010694425	NOK	1 000	Floating	2013	2 017			1 000
NO 0010694474	NOK	1 000	Fixed	2013	2 023	277	282	1 102
Accrued interest						4	1	17
Total debt securities issued						281	283	2 118

Cover pool

				DNB Næringskreditt AS		
<i>Amounts in NOK million</i>				31 March	31 Dec.	31 March
				2018	2017	2017
Pool of eligible loans				18 019	18 722	24 915
Market value of eligible derivatives				21	24	113
Total collateralised assets				18 040	18 747	25 028

Debt securities issued, carrying value	281	283	2 118
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(2)	(1)	(1)
Debt securities issued, valued according to regulation ¹⁾	279	282	2 117

Collateralisation (per cent)	6 471	6 646	1 182
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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 5 Financial instruments at fair value

				DNB Næringskreditt AS			
<i>Amounts in NOK million</i>				Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	Total
Assets as at 31 March 2018							
Financial derivatives					21		21
Liabilities as at 31 March 2018							
Debt securities issued					281		281

				DNB Næringskreditt AS			
<i>Amounts in NOK million</i>				Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	Total
Assets as at 31 March 2017							
Due from credit institutions					112		112
Financial derivatives					113		113
Liabilities as at 31 March 2017							
Debt securities issued					1 116		1 116

Note 6 Information on related parties

DNB Bank ASA

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 13 million in the first quarter of 2018 (NOK 25 million in the first quarter of 2017).

In the first quarter of 2018 DNB Næringskreditt entered into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The value of the repos amounted to NOK 49 million at end-March 2018.

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 0.7 million in the first quarter of 2018.

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Other sources of information

Annual and quarterly reports

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

We are here.
So you can stay ahead.

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