DNB Næringskreditt AS

A company in the DNB Group

Annual report

2018

DNB

Financial highlights

Statement of comprehensive income

DNB Næringskreditt AS

Amounts in NOK million	2018	2017	2016	2015	2014
Net interest income	257	333	351	329	364
Net other operating income	(3)	(32)	(14)	45	(8)
Operating expenses	(69)	(102)	(86)	(108)	(116)
Impairment of financial instruments	0	1	1	1	(0)
Pre-tax operating profit	186	200	253	266	240
Tax expense	(43)	(48)	(63)	(71)	(65)
Profit for the year	**143**	**152**	**190**	**195**	**175**

Balance sheet

Amounts in NOK million	31 Dec. 2018	31 Dec. 2017	31 Dec. 2016	31 Dec. 2015	31 Dec. 2014
Total assets	15 334	20 712	25 470	26 807	26 088
Loans to customers	15 283	20 578	25 251	26 659	25 905
Debt securities issued		283	2 100	2 102	4 561
Total equity	5 546	5 552	5 589	5 562	5 541

Key figures

Per cent	2018	2017	2016	2015	2014
Return on equity, annualised (%)	2.6	2.8	3.4	3.5	3.2
Total average spread for lending (%) 1)	0.82	0.98	0.94	0.86	0.90
Common equity Tier 1 capital ratio, transitional rules (%)	44.6	33.2	26.8	25.4	25.9
Capital ratio, transitional rules (%)	44.6	33.2	26.8	25.4	25.9

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

Contents

Directors' report 2018

In accordance with the provisions of the Norwegian Accounting Act, the Board of Directors confirms that the accounts have been prepared on a going concern basis, and that the going concern assumption applies. Pursuant to Section 3-9 of the Norwegian Accounting Act, DNB Næringskreditt prepares annual accounts in accordance with IFRS, International Financial Reporting Standards, approved by the EU.

DNB Næringskreditt AS is the DNB Group's vehicle for the issue of covered bonds based on commercial mortgages. The company's offices are located in Oslo. DNB Næringskreditt is a wholly-owned subsidiary of DNB Bank ASA and is reported partly under the Corporate Banking Norway business area, and partly under the Large Corporates and International business area in the consolidated accounts of DNB Bank ASA.

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.

Operations in 2018

DNB Næringskreditt recorded a profit of NOK 143 million in 2018, compared with a profit of NOK 152 million in 2017.

Loans to customers decreased by NOK 5.3 billion in 2018, while interest rate spreads were stable.

The company's commercial mortgage portfolio totaled NOK 15.3 billion at year-end 2018, down 25.8 per cent over the preceding 12 months. At year-end 2018 the company had no debt securities issued (NOK 0.3 billion at year-end 2017).

Strategy

DNB Næringskreditt was established to offer commercial mortgages on competitive terms, with the issue of covered bonds secured by the company's cover pool to contribute to favorable funding for the banking group.

In December 2018 the Board of Directors in DNB Næringskreditt and DNB Bank signed a joint merger plan for the merger of the two companies. The final merger resolution was adopted by the two boards on 6th February 2019. The merger provides that all of the company's assets, rights and obligations will be transferred to DNB Bank without consideration and DNB Næringskreditt will be dissolved. The Norwegian Financial Authorities has approved the merger. As soon as any objections from creditors have been clarified pursuant to the Public Limited Companies Act, the merger will enter into force. This is expected to take place in the first half year of 2019.

As per end-December 2018 the company had no debt securities issued and the company does not intend to issue new debt securities.

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

Corporate governance and internal control

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

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

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

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

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

Review of the annual accounts

DNB Næringskreditt recorded a profit of NOK 143 million in 2018, compared with a profit of NOK 152 million in 2017.

Total income

Income totaled NOK 254 million in 2018, down from NOK 301 million in 2017.

Amounts in NOK million	2018	Change	2017
Total income	254	(47)	301
Net interest income		(76)	
Net commission and fee income		0	
Net gains on financial instruments at fair value		29	

Interest rate spreads were stable in 2018, but average net loans to customers decreased resulting in a reduction in net interest income.

There was a negative effect from financial instruments in both 2018 and 2017, reflecting unrealised changes in the market value of the company's covered bonds, but less negative in 2018 compared to 2017.

Operating expenses and impairment of loans

Operating expenses are volatile due to the management fee paid to DNB Bank. The cooperation with DNB Bank is formalised through an extensive servicing agreement that ensures DNB Næringskreditt sound competence in key areas and cost-effective operations. The management fee calculation is based primarily on lending volume and the spreads achieved. The size of the management fee is related to net interest income. The management fee for 2018 was NOK 58 million, down from NOK 88 million in 2017.

The company has recorded no individual impairment losses in previous years. Net reversals on collective impairment losses of NOK 1 million were recorded in 2017. The Board of Directors considers the level of impairment to be satisfactory relative to the high quality of the loan portfolio.

Funding, liquidity and balance sheet

Balance sheet

At year-end 2018, DNB Næringskreditt had total assets of NOK 15.3 billion, a decrease of NOK 5.4 billion or 26.0 per cent from year-end 2017.

Amounts in NOK million	31 Dec. 2018	Change	31 Dec. 2017
Total assets	15 334	(5 378)	20 712
Loans to customers		(5 295)	
Financial derivatives		(24)	
Other assets		(59)	
Total liabilities	9 788	(5 372)	15 160
Due to credit institutions		(5 080)	
Debt securities issued		(283)	
Other liabilities		(9)	

The company did not issue any covered bonds in 2018. Total debt securities issued were reduced by NOK 0.3 billion during the year. At year-end 2018 the company had no debt securities issued.

Risk and capital adequacy

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

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

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

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

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

At year-end 2018, the company's equity totaled 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 44.6 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.

Capital adequacy requirements

At year-end 2018, the common equity Tier 1 capital requirement was 16.25 per cent for DNB Næringskreditt. This included a counter-cyclical capital buffer of 2.0 per cent, as well as a Pillar 2 buffer requirement of 0.75 per cent.

There is a need to have a margin over the total common equity Tier 1 capital requirement to take into account fluctuations in the market value of financial instruments used for hedging purposes. This means that DNB Næringskreditt needed to have a common equity Tier 1 capital ratio of approximately 16.75 per cent at year-end 2018, which is 0.50 per cent above the minimum common equity Tier 1 requirement.

Non-risk based capital requirement, leverage ratio

As a supplement to the risk-weighted capital requirements and as a measure to counter adjustments and gaps in the regulations, a non-risk based capital requirement, "leverage ratio", has been introduced. The Ministry of Finance has set a minimum requirement of 3 per cent, but all banks must have a buffer on top of the requirement of minimum 2 per cent. Systemically important banks must have an additional buffer of minimum 1 per cent. As a systemically important bank in Norway, the total requirement for DNB is then 6 per cent. The additional buffer requirements do not apply to DNB Næringskreditt, which means that 3 per cent will be the effective requirement.

New regulatory framework

Incorporation of CRD IV and CRR into the EEA Agreement

The EU's capital requirements legislation CRD IV and CRR is expected to be incorporated into the EEA Agreement during the first half of 2019. The regulatory framework has for the most part already been implemented in Norwegian law, but the Norwegian Ministry of Finance has underlined that provisions that are not in line with the EU legislation, including the Basel I floor for IRB banks and the exception from the SME supporting factor, will not be continued.

Increased counter-cyclical capital buffer requirement

The Ministry of Finance has decided that the counter-cyclical capital buffer requirement will be increased by 0.5 percentage points to 2.5 percent with effect from 31 December 2019.

New Personal Data Act

The Norwegian Parliament (Stortinget) has adopted a new Personal Data Act, which implements the EU General Data Protection Regulation (GDPR) in Norway. The new Act entered into force on 20 July 2018. New Personal Data Regulations and separate transitional Regulations have also been adopted.

New anti-money laundering legislation entered into force in October 2018

The new Money Laundering Act and Anti-Money Laundering Regulations entered into force on 15 October 2018. The new legislation implements the EU's fourth Anti-Money Laundering Directive in Norwegian law and involves, among other things, stricter requirements for customer due diligence and more responsibilities for the management and Board of Directors. Administrative sanctions for companies and individuals who do not abide by the law have also been introduced.

Government proposal for an adjustment of the financial activities tax

The financial activities tax was introduced in 2017 and implies a 5 percentage point increase in employer's national insurance contributions and a 2 percentage point increase in the corporate income tax rate for the financial services industry. The Norwegian Parliament has decided to reduce the corporate income tax rate from 23 to 22 per cent in 2019. However, this reduction does not include companies that are liable to financial activities tax. The tax rate for the financial services industry will thus increase from 2 to 3 percentage points above the rate in other sectors. The Ministry of Finance is examining a new amendment in the financial activities tax from 2020 where salary costs and taxable profit will be combined into one common tax base with one tax rate.

Dividends and the allocation of profits

The profit for 2018 was NOK 143 million. The Board of Directors proposes that NOK 143 million be allocated as dividends payable to DNB Bank ASA.

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Oslo, 7 March 2019
The Board of Directors of DNB Næringskreditt AS

Reidar Bolme
(chair of the board)

Jørn E. Pedersen

Toril Steinmo

Per Sagbakken
(chief executive officer)

Comprehensive income statement

		DNB Næringskreditt AS	
Amounts in NOK million	Note	2018	2017
Interest income, amortised cost	12	503	611
Other interest income	12		43
Interest expenses, amortised cost	12	(243)	(306)
Other interest expenses	12	(3)	(14)
Net interest income	12	**257**	**333**
Commission and fee income		0	0
Commission and fee expenses		(0)	(0)
Net gains on financial instruments at fair value	13	(3)	(32)
Net other operating income		**(3)**	**(32)**
Total income		**254**	**301**
Other expenses	19	(69)	(102)
Total operating expenses		**(69)**	**(102)**
Impairment of financial instruments	6, 8	0	1
Pre-tax operating profit		**186**	**200**
Tax expense	14	(43)	(48)
Profit for the year		**143**	**152**
Comprehensive income for the year		**143**	**152**

Balance sheet

		DNB Næringskreditt	
Amounts in NOK million	Note	31 Dec. 2018	31 Dec. 2017
Assets			
Due from credit institutions	7, 8, 11, 15, 16, 19	50	109
Loans to customers	5, 7, 8, 15, 16, 11	15 283	20 578
Financial derivatives	10, 11, 15, 19		24
Deferred tax assets	14	0	0
Other assets		0	
Total assets		**15 334**	**20 712**
Liabilities and equity			
Due to credit institutions	11, 15, 16, 19	9 741	14 821
Debt securities issued	11, 15, 17		283
Payable taxes	14	42	51
Other liabilities	11, 15, 19	5	4
Total liabilities		**9 788**	**15 160**
Share capital		550	550
Share premium		4 604	4 604
Other equity		392	398
Total equity		**5 546**	**5 552**
Total liabilities and equity		**15 334**	**20 712**

Oslo, 7 March 2019
The Board of Directors of DNB Næringskreditt AS

Reidar Bolme
(chair of the board)

Jørn E. Pedersen

Toril Steinmo

Per Sagbakken
(chief executive officer)

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 2016	**550**	**4 604**	**435**	**5 589**
Profit for the year			152	152
Total comprehensive income for the year			152	152
Group contribution paid			(190)	(190)
Balance sheet as at 31 December 2017	**550**	**4 604**	**398**	**5 552**
Implementation IFRS 9			3	3
Balance sheet as at 1 January 2018	**550**	**4 604**	**401**	**5 555**
Profit for the year			143	143
Total comprehensive income for the year			143	143
Group contribution paid			(152)	(152)
Balance sheet as at 31 December 2018	**550**	**4 604**	**392**	**5 546**

Share capital

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

Cash flow statement

Amounts in NOK million	DNB Næringskreditt AS 2018	2017
Operating activities		
Net receipts on loans to customers	5 281	6 549
Interest received from customers	521	684
Net payments on loans to credit institutions	(5 022)	(2 874)
Interest received from credit institutions	0	0
Interest paid to credit institutions	(238)	(295)
Net receipts on the sale of financial assets for investment or trading	(5)	70
Payments for operating expenses	(70)	(109)
Taxes paid	(51)	(3)
Net cash flow relating to operating activities	**416**	**4 022**
Investment activities		
Net purchase of loan portfolio		(1 906)
Net cash flow from investment activities		**(1 906)**
Funding activities		
Payments on redeemed bonds and commercial paper	(257)	(1 835)
Interest payments on issued bonds and commercial paper	(8)	(29)
Group contribution paid	(152)	(253)
Net cash flow from funding activities	**(417)**	**(2 117)**
Net cash flow	**(1)**	**(1)**
Cash at beginning of period	1	2
Net receipts/payments of cash	(1)	(1)
Cash at end of year	0	1

Note 1 Accounting principles

Corporate information

DNB Næringskreditt AS is a wholly owned subsidiary of DNB Bank ASA. The ultimate parent of the Group is DNB ASA. Both the Group's and DNB Næringskreditt AS' registered offices, are in Oslo, Norway. DNB Næringskreditt is the DNB Group's vehicle for the issue of covered bonds based on commercial mortgages.

The annual financial statements for the year ended 31 December 2018 were authorised for issue by the Board of Directors on 7 March 2019.

Basis for preparation

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

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments and financial assets and liabilities designated as at fair value through profit or loss, which have all been measured at fair value.

DNB Næringskreditt AS' functional currency and presentation currency is Norwegian kroner. Unless otherwise specified values are rounded to the nearest NOK thousands.The balance sheet is presented mainly in order of liquidity of the assets and liabilities.

Changes in accounting principles

In July 2014, the IASB issued the new standard for financial instruments IFRS 9 Financial Instruments. The new standard is effective from 1 January 2018 and replaces the current IAS 39. Comparative information has not been restated. The implementation effect has been recognised as an increase in "Other equity". The accounting principles for financial instruments for the year 2017 as well as disclosures related to the line item Loans to customers in the balance sheet and the line item Impairment of loans and commitments in the income statement for 2017 can be found in note 18 Additional financial instruments disclosures from 2017.

<u>Changes to classification and measurement</u>

Under IFRS 9 the Group classifies its financial assets based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The IAS 39 measurement categories of financial assets were replaced by three main measurement categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss. Classification of financial liabilities remains unchanged.

DNB Næringskreditt's classification and measurement of financial assets and liabilities is explained under Financial Instruments. The transition disclosures are presented under Transition to IFRS 9.

<u>Changes to impairment</u>

The IFRS 9 expected credit loss model replaces the incurred loss model from IAS 39.

The measurement of the provision for expected credit losses on financial assets under IFRS 9 depends on whether the credit risk has increased significantly since initial recognition. In this assessment, a three-stage approach is introduced. At initial recognition, as well as if the credit risk has not increased significantly since initial recognition, the provision should equal 12-month expected credit losses ("stage 1"). If the credit risk has increased significantly, the provision should equal lifetime expected credit losses ("stage 2"). This dual approach replaced the collective impairment model. For credit impaired financial assets there is no significant changes in the rules compared to the IAS 39 rules. Credit impaired financial assets is from now on referred to as the third stage ("stage 3").

Conversion of transactions in foreign currency

All transactions in foreign currencies are initially recognised in the statement of comprehensive income or the balance sheet at the transaction date and translated into Norwegian kroner at the foreign exchange rate from that date. Subsequently all monetary items nominated in foreign currencies are translated into Norwegian kroner based on the reporting date foreign exchange rate. Movements in the exchange rates between transaction date and reporting date or settlement date, are recognised within the line item "Net gains on financial instruments at fair value" in the statement of comprehensive income.

Recognition of income and expenses

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

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

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

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

Fees that are not included in the effective interest rate calculation, as well as commissions, are recognised in the statement of comprehensive income over time when the services are rendered or at point in time when the transactions are completed.

Note 1 Accounting principles (continued)

Financial instruments

Initial recognition

Financial assets are recognised in the balance sheet either on the trade date or the settlement date. Trade date accounting is applied for financial assets measured at fair value through profit or loss, while settlement date accounting is applied for financial assets measured at amortised cost.

Financial liabilities are recognised in the balance sheet on the date when DNB Næringskreditt becomes a party to the contractual provisions of the instrument.

Derecognition

Financial assets are derecognised when the rights to receive and retain cash flows from the asset have expired.

Financial liabilities are derecognised when the contractual obligations have been discharged, cancelled or have expired.

Modifications

An assessment of whether or not a modification of a financial asset leads to de-recognition and recognition of new asset is based on the following considerations:

- differentiate between modifications to cash flows or other significant items in line with terms in the contract and modifications outside of the contract
- an assessment of whether or not a modification is substantial. A substantial modification is defined as a full credit process, a pricing decision and the signing of a new contract
- an assessment of whether the modification is caused by distress or made on commercial terms.

Reverse repurchase agreements

Reverse repurchase agreements are presented in the balance sheet as “Due from credit institutions”.

Securities purchased under agreements to resell are generally not recognised in the financial statements as the risk and returns are normally not taken over by the company. This is done irrespective of whether the company has the right to sell or repledge the securities. Upon the sale of securities received, the company recognises an obligation in the balance sheet.

Classification and presentation

Financial assets are classified in one of the following measurement categories:

- amortised cost
- fair value through other comprehensive income
- fair value through profit or loss (FVTPL).

The classification of financial assets depends on two factors:

- the business model of the portfolio to which the financial asset belongs
- the contractual cash flow characteristics of the financial asset.

When determining the business model DNB Næringskreditt assesses at portfolio level how the business is managed, sales activities, risk management and how information is provided to executive management.

A contractual cash flow characteristics test is performed on initial recognition of financial assets. Financial assets with cash flows that are solely payments of principal and interest pass the test if the interest only compensates for the time value of money, credit risk, liquidity risk, servicing and administrative costs and a profit margin.

Financial liabilities are classified at amortised cost, except for financial liabilities that are required to be measured at fair value through profit or loss or designated at fair value through profit or loss.

Financial assets may irrevocably be designated at fair value through profit or loss on initial recognition if the following criterion is met:

- The classification eliminates or significantly reduces measurement or recognition inconsistency that otherwise would arise from measuring financial assets or recognising the gains and losses on them on different bases.

Financial liabilities may also irrevocably be designated at fair value through profit or loss on initial recognition if the criterion above is fulfilled or one of the following:

- The financial instruments are part of a portfolio that is managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
- The host contract contains one or more embedded derivatives.

<u>Financial assets measured at amortised cost</u>

Investments in debt instruments, which are not designated at fair value through profit or loss, are measured at amortised cost if both of the following conditions are met:

- The assets are held within a business model whose objective is to hold the asset and collect the contractual cash flows
- The contractual cash flows represent solely payment of principal and interest.

Debt instruments are initially recognised at fair value plus any directly attributable transaction costs. Subsequent measurement follows the effective interest method, less impairment. Impairment losses and reversals are measured based on a three-stage expected credit loss model.

Note 1 Accounting principles (continued)

This model is described under Expected credit loss measurement.

A change in expected credit loss allowance for debt instruments measured at amortised cost on the balance sheet date is presented under "Impairment of financial instruments" in the income statement.

Interest income on financial instruments classified in this category is presented under "Interest income, amortised cost" using the effective interest method.

This category mainly comprises loans to customers and reverse repurchase agreements.

Financial liabilities measured at amortised cost
Financial liabilities measured at amortised cost are initially recognised at fair value minus any directly attributable transaction costs. Interest expenses on such instruments are presented under "Interest expense, amortised cost" using the effective interest method.

This category includes due to credit institutions and debt securities issued.

Financial instruments measured at fair value through profit or loss
The following instruments are recognised in this category:

- derivatives
- financial instruments designated at fair value through profit or loss on initial recognition
- debt instruments with contractual cash flows that do not represent solely payment of principal and interest.

Instruments in this category are initially recognised at fair value, with transaction costs recognised in profit or loss as they occur. Subsequent measurement is fair value with gains and losses recognised in the income statement.

Changes in the fair value of the financial instruments are presented under "Net gains on financial instruments at fair value" in the income statement. Financial derivatives are presented as an asset if the fair value is positive and as a liability if the fair value is negative.
Interest income and interest expenses from interest-bearing financial instruments including financial derivatives are presented under "Net interest income".

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

At year end there are no financial assets or financial liabilities measured at fair value through profit or loss in the balance sheet.

Reclassifications
Debt instruments are only reclassified when there is a significant change in the business model for those assets. Such changes are expected to be very infrequent. Financial liabilities are not reclassified.

Expected credit loss measurement (ECL)

The IFRS 9 expected credit loss model replaces the incurred loss model from IAS 39. The ECL model estimates impairment on the following instruments that are not measured at fair value through profit and loss:

- financial assets that are debt instruments
- financial guarantee contracts issued
- loan commitments.

DNB Næringskreditt measures ECL at each reporting date for these instruments, reflecting

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- the time value of money
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

DNB Næringskreditt measures a loss allowance at an amount reflecting lifetime ECL for all instruments that have been subject to a significant increase in credit risk since initial recognition. Instruments for which there has been no significant change in risk, a 12-month expected credit loss is recognised.

Please refer to note 4 Measurement of expected credit loss for more information on the methodology for estimating expected credit loss.

Note 1 Accounting principles (continued)

Income taxes

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

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

Cash flow statements

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

Important accounting estimates, judgments and assumptions

When preparing the financial statements, management makes estimates, judgment and assumptions that affect the application of the accounting principles and the carrying amount of assets, liabilities, income and expenses. Estimates and assumptions are subject to continual evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be probable on the balance sheet date.

Impairment of financial instruments

See note 3 Credit risk management for information about the management and follow-up of credit risk and note 4 Measurement of expected credit loss for information about methodology for estimating impairment including an assessment of measurement uncertainty.

Transition to IFRS 9

The application of the accounting policies under IFRS 9 has resulted in the reclassifications set out in the tables below upon transition to the new standard.

In the table below, the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for DNB Næringskreditt's financial assets are shown as at 1 January 2018.

Financial assets as at 1 January 2018 — **DNB Næringskreditt**

Amounts in NOK million	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount IAS 39	New carrying amount IFRS 9
Due from credit institutions	FVTPL (held for trading)	Amortised cost	108	108
	Amortised cost	Amortised cost	1	1
Loans to customers	Amortised cost	Amortised cost	20 578	20 582
Financial derivatives	FVTPL (held for trading)	FVTPL (held for trading)	24	24
Total			**20 712**	**20 715**

As a result of the business model assessment reverse repurchase agreements, presented as due from credit institutions, have been reclassified. These instruments were classified as held for trading under IAS 39, but have been reclassified to amortised cost under IFRS 9. Based on an assessment of the sales activities in the portfolio the business model is hold to collect.

Note 1 Accounting principles (continued)

In the table below, reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 upon transition is shown.

Financial assets — **DNB Næringskreditt**

Amounts in NOK million	IAS 39 carrying amount 31 Dec. 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 Jan. 2018
Amortised cost				
Due from credit institutions, opening balance	1			
From FVTPL		108		
Closing balance				109
Loans to customers, opening balance	20 578		3	
Closing balance				20 582
Total amortised cost	**20 579**	**108**	**3**	**20 691**
Fair value through profit and loss (FVTPL)				
Due from credit institutions, opening balance	108			
To amortised cost		(108)	0	
Closing balance				0
Financial derivatives	24			24
Total FVTPL	**132**	**(108)**	**0**	**24**

DNB Næringskreditt's long-term borrowings in Norwegian kroner are designated at fair value through profit or loss using the fair value option. Presentation of changes in credit risk in other comprehensive income neither creates nor enlarges an accounting mismatch.

Accumulated impairments

In the table below, the effect of reclassification and remeasurment of accumulated impairment following the implementation of IFRS 9 is presented.

DNB Næringskreditt

	Balance as at 31 December 2017			Balance as at 1 January 2018			
Amounts in NOK million	IAS 39 and IAS 37	Reclassi-fication	Remeasure-ment	IFRS 9	Stage 1	Stage 2	Stage 3
Accumulated impairment loans to customers	(4)		3	(1)	(1)	(0)	
Total accumulated impairments	(4)		3	(1)	(1)	(0)	

Note 2 Capitalisation policy and capital adequacy

DNB Næringskreditt is the DNB Group's vehicle for the issue of covered bonds based on commercial mortgages. The primary objectives of the company's capital management policy are to ensure that the company complies with externally imposed capital ratios and that the company maintains strong credit ratings and healthy capital ratios in order to support its business.

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

The existing legislation requires a common equity Tier 1 capital ratio of 16.25 per cent and a capital adequacy ratio of 18.25 per cent. This includes a counter-cyclical capital buffer requirement of 2.0 per cent and a pillar 2 requirement of 0.75 per cent. On the 8 March 2018, the Board of Directors approved a new capitalisation policy. The policy sets forth that the common Tier 1 capital ratio shall be at least 16.75 per cent, calculated as the regulatory requirement (as of 31 December 2018 16.25 per cent, including 1.5 per cent of hybrid capital) plus a management buffer of 0.5 per cent.

DNB Næringskreditt, based on its current capital structure, is expected to be well capitalized. The Board of Directors will, on an ongoing basis, evaluate the company's capitalisation needs.

As it has been decided by the Board of Directors in both DNB Næringskreditt and in DNB Bank to merge the company with DNB Bank, the company no longer has debt securities issued and its main source of capital is the overdraft facility with DNB Bank. The merger is expected to take place in the first half year of 2019.

Capital adequacy

Capital adequacy is reported in accordance with Norwegian regulations, which are broadly in line with the EU's capital requirements regulations for credit institutions and investment firms (CRD IV/CRR).

Primary capital	**DNB Næringskreditt AS**	
Amounts in NOK million	31 Dec. 2018	31 Dec. 2017
Share capital	550	550
Other equity	4 996	5 002
Total equity	5 546	5 552
Deductions		
Expected losses exceeding actual losses, IRB portfolios	(15)	(20)
Value adjustments due to the requirements for prudent valuation	(0)	(0)
Adjustments for deferred tax assets		(0)
Adjustment for unrealised losses/(gains) on debt measured at fair value		1
Dividends payable	(143)	(153)
Common Equity Tier 1 capital	5 388	5 380
Total eligible primary capital	5 388	5 380
Risk-weighted assets, transitional rules	12 077	16 188
Minimum capital requirement, transitional rules	966	1 295
Common Equity Tier 1 capital ratio, transitional rules (%)	44.6	33.2
Capital ratio, transitional rules (%)	44.6	33.2

Note 2 Capitalisation policy and capital adequacy (continued)

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

Amounts in NOK million	Nominal exposure 31 Dec. 2018	EAD [1] 31 Dec. 2018	Risk-weighted assets 31 Dec. 2018	Capital requirements 31 Dec. 2018	Capital requirements 31 Dec. 2017
IRB approach					
Corporate	14 631	14 631	3 741	299	441
Total credit risk, IRB approach	14 631	14 631	3 741	299	441
Standardised approach					
Institutions	50				0
Corporate	652	652	578	46	47
Total credit risk, standardised approach	702	652	578	46	47
Total credit risk	15 334	15 284	4 319	346	488
Credit value adjustment risk (CVA)					3
Operational risk			558	45	51
Total risk-weighted assets and capital requirements before transitional rules			4 877	390	542
Additional capital requirements according to transitional rules			7 200	576	753
Total risk-weighted assets and capital requirements			12 077	966	1 295

1) EAD, exposure at default

Note 3 Credit risk management

DNB Næringskreditt has adapted the DNB Group's policies for credit risk management.

Credit risk or counterparty risk is the risk of financial losses due to failure by the customers/counterparties to meet their payment obligations towards DNB Næringskreditt. Credit risk refers to all claims against customers/counterparties, mainly loans, but also financial commitments and derivatives. Credit risk also includes residual value risk and concentration risk. Residual value risk is the risk that the value of collateral is lower than expected. Concentration risk includes risk associated with large exposures to a single customer and clusters of commitments in geographical areas or industries, or with homogeneous customer groups.

Credit risk management and measurement is described in detail in the Risk and Capital Management (Pillar 3) report. The group guidelines for credit activity are approved by the Boards of Directors of DNB. The principal objective of credit activity is to ensure that the quality and composition of the loan portfolio provide a good basis for the short and long-term profitability. The quality of the portfolio should be consistent with DNB's aim of maintaining a low risk profile.

The Board of Directors of DNB ASA sets long-term targets for the risk profile through the risk appetite framework. The aim of this framework is to ensure that risk is managed and integrated with the DNB Group's governance processes. The risk appetite framework is operationalised through credit strategies for the individual customer segments. In addition, risk indicators are established and used for monitoring managers on all levels. According to the "Agreement relating to transfer of loan portfolio between DNB Bank ASA and DNB Næringskreditt AS", the day to day monitoring of the loans is managed by DNB Bank on behalf of DNB Næringskreditt.

Credit risk exposure

The maximum credit risk exposure will be the carrying amount of financial assets plus off-balance sheet exposure. The group's maximum credit risk exposure and related collateral at year end are presented in note 5 Credit risk exposure and collateral.

Classification

DNB's internal models for risk classification of customers are subject to continual improvement and testing. The models are adapted to different industries and segments and are updated if calibrations show that their explanatory power has diminished over time. DNB has been granted permission to use IRB models. The same models are used in calculations of capital requirements and in risk management.

All corporate customers granted credit must be classified according to risk in connection with every significant credit approval and, unless otherwise decided, at least once a year.
The risk classification systems are used for decision support, monitoring and reporting. The risk parameters used in the classification systems are an integrated part of the credit process and ongoing risk monitoring, including the follow-up of credit strategies.

Probability of default, PD, is used to measure credit quality. The group divides its portfolio into ten risk grades based on the PD for each credit commitment. This is presented in the table below. Credit-impaired exposures (exposures in stage 3) are assigned a PD of 100 per cent. The group's portfolio divided into risk grades and IFRS 9 stages is presented in note 5 Credit risk exposure per risk grade.

Note 3 Credit risk management (continued)

DNB's risk classification [1)]

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

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

Guidelines for credit activity

DNB’s guidelines and processes for approving credits are described in the group guidelines for credit activity. The guidelines describe how DNB shall grant and follow up credit exposures in the various segments. Detailed descriptions are given of the assessment of new customers, follow-up of performing credit exposures, customers in financial difficulty and procedures for handling credit-impaired loans.

Note 4 Measurement of expected credit loss

DNB Næringskreditt has adopted the ECL policies as set by DNB Group and applies a three-stage approach when assessing ECL on loans to customers and loan commitments subject to the IFRS 9 impairment rules:

- A financial instrument that is not purchased or originated credit impaired is classified as stage 1 with 12-month ECL.
- If a significant increase in credit risk since initial recognition is identified the financial instrument is moved to stage 2 with lifetime ECL measurement.
- An increase in credit risk reflects both customer-specific circumstances and developments in relevant macro risk drivers for the segment where the customer belongs. The assessment of what is considered to be a significant increase in credit risk is based on a combination of quantitative and qualitative indicators and backstops.
- If credit risk deteriorates further and the financial instrument is assessed to be credit impaired, the financial instrument is moved to stage 3 with lifetime ECL measurement. As opposed to stage 1 and 2, the effective interest rate is calculated on amortised cost instead of the gross carrying amount. For definition of credit impaired see further description below.

The expected credit loss measurement is based on the following principles:

- 12-month ECL is measured at an amount equal to the portion of lifetime ECL that results from possible default events within the next 12 months.
- The loss provision for financial assets in stage 1 and stage 2 is calculated as the present value of exposure at default (EAD) multiplied by the probability of default (PD) multiplied by loss given default (LGD) and discounted by using the effective interest rate (EIR). PD, LGD and EAD use the IRB framework as a starting point, but are converted to be point in time and forward-looking as opposed to through the cycle and conservative.
- Past, present and forward-looking information is used to estimate ECL. For this purpose, DNB Næringskreditt’s loan portfolio primarily consists of customers in the corporate real estate segment. All customers within this segment are exposed to the same risk drivers.
- For stage 3 individual assessments are performed for credit impaired financial instruments.

For stage 1 and 2, a model is used to calculate ECL.

Below is a table summarising key components for the ECL measurement.

IFRS 9 stage	Credit risk development	Customer status	ECL measurement	ECL measurement method	Effective interest calculation
Stage 1	No significant increase	Performing	12-month	ECL model	Gross carrying amount
Stage 2	Significant increase	Performing	Lifetime	ECL model	Gross carrying amount
Stage 3	Defaulted	Credit impeaired	Lifetime	Individual measurement per customer	Amortised cost

Note 4 Measurement of expected credit loss (continued)

Measurement uncertainty

The measurement of the expected credit loss involves increased complexity, and management must apply its professional judgement for many of the key assumptions used as input in the measurement. For stage 1 and 2, estimation uncertainty in the ECL calculation relates to the determination of PD, LGD and EAD. This is both in terms of using historic data in the development and calibration of models and the judgement performed in relation to setting these parameters as part of the credit process. Furthermore, the identification of relevant risk drivers for the segment and the forecasts for each of the risk drivers also create estimation uncertainty.

Other areas with significant estimation uncertainty are the creation of multiple future economic scenarios, estimation of expected lifetime, determining if the criteria for default are satisfied and assessing significant increases in credit risk.

For exposures in stage 3 significant judgement is applied when determining assumptions used as input for the customer’s future cash flow and assumptions related to valuation of collateral, including the point in time when collateral is potentially taken over.

Note 5 Credit risk exposure by risk grade

In the table below, all loans to customers are presented by risk grade. The amounts are based on the gross carrying amount before adjustments for impairments.

Credit risk exposure by risk grade as at 31 December 2018 **DNB Næringskreditt AS**

	Loans to customers			
Amounts in NOK million	Stage 1	Stage 2	Stage 3	Total
Risk grade based on probability of default				
1 - 4	13 301			13 301
5 - 7	1 906	76		1 982
8 - 10				
Credit impaired				
Total	15 208	76		15 283

Note 6 Impairment of financial instruments

Impairment of financial instruments remained stable at a low level, close to zero throughout 2018.

Note 7 Development in gross carrying amount and maximum exposure

The quality of DNB Næringskreditt’s loan portfolio is high with a large share of loans in stage 1. The total gross carrying amount has decreased from NOK 20 583 million as at 1 January 2018 to NOK 15 283 million as at 31 December 2018.

Note 8 Development in accumulated impairment of financial instruments

Accumulated impairment of financial instruments was at a low level as at 31 December 2018.

Note 9 Market risk

Conditions for calculating market risk

Market risk is the risk of losses or reduced future income due to fluctuations in market prices or exchange rates. The risk arises as a consequence of open positions in foreign exchange and interest rate markets.

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.

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

Interest rate risk		**DNB Næringskreditt AS**
	Change in interest rate levels in basis points	Effect on pre-tax profits (NOK 1 million)
2018	+ 100	(19)
	- 100	19
2017	+ 100	(26)
	- 100	26

Relative to the company's primary capital of NOK 5.4 billion, the company's interest rate risk is considered to be insignificant. In the opinion of the company's management, the company does not assume greater interest rate risk than what is considered prudent; cf. the requirements in Section 5 in the regulations on mortgage institutions issuing covered bonds of 25 May 2007.

Note 10 Financial derivatives

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

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

The table below shows nominal values on financial derivatives according to type of derivative as well as positive and negative market values. Positive market values are recognised as assets in the balance sheet, whereas negative market values are recognised as liabilities. See note 1 Accounting principles for a more detailed description of measurement of financial derivatives.

						DNB Næringskreditt AS
	31 December 2018			31 December 2017		
Amounts in NOK million	Total nominal values	Positive market value	Negative market value	Total nominal values	Positive market value	Negative market value
Interest rate contracts						
Swaps				257	24	
Total interest rate contracts				257	24	

Note 11 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 limit of NOK 20 billion by end December 2018.

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.

Residual maturity as at 31 December 2018 [1)] **DNB Næringskreditt AS**

Amounts in NOK million	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	No fixed maturity	Total
Assets							
Loans to and deposits with credit institutions	50						50
Loans to customers	825	77	1 862	8 231	4 289		15 284
Other assets							
Total	875	77	1 862	8 231	4 289		15 334
Liabilities							
Due to credit institutions				9 741			9 741
Debt securities issued							
Other liabilities	5						5
Total	5			9 741			9 746
Financial derivatives							
Financial derivatives, net settlement							
Total financial derivatives							

Residutal maturity as at 31 December 2017 [1)] **DNB Næringskreditt AS**

Amounts in NOK million	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	No fixed maturity	Total
Assets							
Loans to and deposits with credit institutions	109						109
Loans to customers	195	598	1 952	11 261	6 578	(4)	20 579
Other assets							
Total	304	598	1 952	11 261	6 578	(4)	20 688
Liabilities							
Due to credit institutions				14 821			14 821
Debt securities issued		1		257			258
Other liabilities	4						4
Total	4	1		15 078			15 083
Financial derivatives							
Financial derivatives, net settlement		(1)	7	24	6		36
Total financial derivatives		(1)	7	24	6		36

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

Note 12 Net interest income

						DNB Næringskreditt AS
	2018			2017		
Amounts in NOK million	Measured at FVTPL	Measured at amortised cost	Total	Measured at FVTPL	Measured at amortised cost	Total
Interest on amounts due from credit institutions		0	0		1	1
Interest on loans to customers		503	503		653	653
Other interest income		0	0		0	0
Total interest income		**503**	**503**		**653**	**653**
Interest on amounts due to credit institutions		(239)	(239)		(277)	(277)
Interest on debt securities issued	(7)		(7)	(32)	(11)	(43)
Total interest expenses	**(7)**	**(239)**	**(246)**	**(32)**	**(288)**	**(320)**
Net interest income	**(7)**	**264**	**257**	**(32)**	**365**	**333**

Note 13 Net gains on financial instruments at fair value

	DNB Næringskreditt AS	
Amounts in NOK million	2018	2017
Net gains on financial liabilities, designated as at FVTPL [1)]	5	(24)
Net gains on financial derivatives, trading [2)]	(8)	(8)
Net gains (losses) on financial instruments at FVTPL	**(3)**	**(32)**

1) *DNB Næringskreditt's fixed-rate bonds, issued in Norwegian kroner, are carried at fair value. The floating-rate bonds are carried at amortised cost. The market value of the fixed-rate bonds, carried at fair value, is impacted by the interest rate, including own credit risk premium. Reduced interest rates, including own credit risk premium, will increase the fair value of already issued Norwegian kroner liabilities. However, new funding issued at lower credit risk premiums will over time lead to decreased interest expenses. The fair value adjustments of the company's Norwegian kroner debt are reversed over the loans' remaining term to maturity.*

2) *DNB Næringskreditt AS enters into swaps to manage interest-rate risk for the fixed-rate bonds issued in Norwegian kroner. Such derivatives are measured at fair value.*

Note 14 Taxes

Tax expense on pre-tax operating profit

Amounts in NOK million	DNB Næringskreditt AS 2018	2017
Current taxes	(43)	(51)
Changes in deferred taxes		3
Tax expense	(43)	(48)

Reconciliation of tax expense against nominal tax rate

Amounts in NOK million	2018	2017
Pre-tax operating profit	186	200
Estimated tax expense at nominal tax rate 23 per cent (24 per cent in 2017)	(43)	(48)
Tax expense	(43)	(48)
Effective tax rate	23%	24%

Deferred tax assets/(deferred taxes)

23 per cent (24 per cent in 2017) deferred tax calculation on all temporary differences (Norway)

Amounts in NOK million	2018	2017
The year's changes in deferred tax assets/(deferred taxes)		
Deferred tax assets/(deferred taxes) as at 1 January		(3)
Changes recorded against profits		3
Deferred tax assets/(deferred taxes) as at 31 December		0

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

Amounts in NOK million	31 Dec. 2018	31 Dec. 2017
Deferred tax assets		
Debt securities issued		6
Financial derivatives		(6)
Total deferred tax assets		**0**

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

Amounts in NOK million	2018	2017
Debt securities issued		(17)
Financial derivatives		20
Deferred tax expense		**3**

Note 15 Classification of financial instruments

As at 31 December 2018					**DNB Næringskreditt AS**
	Mandatorily at FVTPL		Designated		
			as at	Amortised	
Amounts in NOK million	Trading	Other	FVTPL	cost	Total
Due from credit institutions				50	50
Loans to customers				15 283	15 283
Total financial assets				15 333	15 333
Due to credit institutions				9 741	9 741
Other liabilities				5	5
Total financial liabilities				9 745	9 745

As at 31 December 2017				**DNB Næringskreditt AS**
	At fair value through profit and loss			
		Designated as	Amortised	
Amounts in NOK million	Trading	at fair value	cost	Total
Due from credit institutions	108		1	109
Loans to customers	(0)		20 578	20 578
Financial derivatives	24			24
Total financial assets	132		20 579	20 712
Due to credit institutions			14 821	14 821
Debt securities issued		283		283
Other liabilities			4	4
Total financial liabilities [1)]		283	14 825	15 109

1) Contractual obligations of financial liabilities designated as at fair value totalled NOK 258 million.

Note 16 Fair value of financial instruments at amortised cost

	DNB Næringskreditt AS			
	31 December 2018		31 December 2017	
Amounts in NOK million	Carrying amount	Fair value	Carrying amount	Fair value
Due from credit institutions	50	50	1	1
Loans to customers	15 283	15 283	20 578	20 578
Total financial assets	15 333	15 333	20 579	20 579
Due to credit institutions	9 741	9 741	14 821	14 821
Total financial liabilities	9 741	9 741	14 821	14 821

	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 inputs other than observable market data Level 3	Total
Assets as at 31 December 2018				
Due from credit institutions		50		50
Loans to customers			15 283	15 283
Liabilities as at 31 December 2018				
Due to credit institutions		9 741		9 741
Assets as at 31 December 2017				
Due from credit institutions		1		1
Loans to customers			20 578	20 578
Liabilities as at 31 December 2017				
Due to credit institutions		14 821		14 821

See note 1 Accounting principles for a description of the reclassifications made as a consequence of the implementation of IFRS 9.

Financial instruments at amortised cost

Most assets and liabilities in DNB Næringskreditt's balance sheet are measured 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.

Due from credit institutions and loans to customers

Due from credit institutions represent reverse repos with DNB Bank ASA with duration of one month. Loans to customers have an average time to reprising of 0.5 years. Both balance sheet items are measured at amortised cost, which is considered not to diverge significantly from fair value.

Due to credit institutions

Due to credit institutions represents an overdraft account with DNB Bank ASA at floating interest rate and is measured at amortised cost, which is considered not to diverge significantly from fair value.

Note 17 Debt securities issued

Changes in debt securities issued

DNB Næringskreditt AS

Amounts in NOK million	Balance sheet 31 Dec. 2018	Issued 2018	Matured/ redeemed 2018	Exchange rate movements 2018	Other adjustments 2018	Balance sheet 31 Dec. 2017
Bond debt, nominal amount			(257)			257
Adjustments					(26)	26
Total debt securities issued			(257)		(26)	283

Private placements

DNB Næringskreditt AS

Amounts in NOK million ISIN Code	Currency	Nominal value	Interest	Issued	Maturity [1)]	31 Dec. 2018	31 Dec. 2017
NO 0010694474	NOK	257	Fixed	2013	2023		282
Accrued interest							1
Total debt securities issued							283

Cover pool

DNB Næringskreditt AS

Amounts in NOK million	31 Dec. 2018	31 Dec. 2017
Pool of eligible loans	13 415	18 722
Market value of eligible derivatives		24
Total collateralised assets	13 415	18 747
Debt securities issued, carrying value		283
Less valuation changes attributable to changes in credit risk on debt carried at fair value		(1)
Debt securities issued, valued according to regulation [2)]		282
Collateralisation (per cent)		6 646

1) *The bond was transferred at market value to DNB Boligkreditt AS in October 2018.*
2) *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 new Financial Institutions Act with appurtenant regulations.*

Note 18 Remunerations

DNB Næringskreditt AS

Amounts in NOK 1000	Fixed annual salary as at 31 Dec. 2018	Remunera-tion earned in 2018	Paid salaries 2018	Variable remunera-tion earned in 2018	Benefits in kind and other benefits in 2018	Total remunera-tion earned in 2018	Loans as at 31 Dec. 2018	Accrued pension expenses 1)
The Board of Directors								
Reidar Bolme	3 445		3 490	24	154	3 667	1	266
Jørn E. Pedersen		188			177	365	33	
Toril Steinmo (from 31.08.18)	1 076		1 146	24	95	1 265	3 918	265
Eva-Lill Strandskogen (until 31.08.18)	1 382		1 396	24	157	1 577	1 570	363
Per Sagbakken, CEO	1 895		1 934	71	160	2 165	5 424	684

1) *Accrued pension expenses include pension rights earned during the year (service cost). The calculation of pension entitlements is based on the same economic and actuarial assumptions as those used in note 25 Pensions in the annual report 2018 for the DNB Group.*

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

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

DNB Næringskreditt has no contractual obligations to give the chief executive officer, members of the board or others special compensation in case of changes in conditions of employment. Nor has the company contractual obligations to offer bonuses, profit sharing arrangements or options benefiting the chief executive officer, the Board of Directors or others. For 2018, all of the Group's employees will receive a bonus of NOK 24 000. The bonus will be paid in 2019.

Remuneration to the statutory auditor

Amounts in NOK 1000, excluding VAT	DNB Næringskreditt AS 2018	2017
Statutory audit	(345)	(339)
Other certification services 1)	(167)	(132)
Total remuneration to the statutory auditor	(512)	(471)

1) *Of this, remuneration to the independent investigator, pursuant to Section 11-14 of the Financial Institutions Act, represented NOK 151 000 in 2018. In addition, fees related to the merger of DNB Næringskreditt represented NOK 16 000 in 2018.*

Note 19 Information on related parties

DNB Næringskreditt AS is a subsidiary within the DNB Group. During the year many transactions, mostly related to the ordinary course of business, take place between DNB Næringskreditt and other group entities. All transactions are at market terms.

Transactions with related parties	**DNB Næringskreditt AS**	
Amounts in NOK million	2018	2017
Assets		
Loans to and deposits with credit institutions	50	109
Financial derivatives		24
Liabilities		
Loans due to credit institutions	9 645	14 821
Other liabilities	5	4
Income and expenses		
Net interest expenses	(133)	(158)
Net gains on financial instruments at fair value	(8)	(32)
Net fee expenses	(66)	(99)

Major transactions with related parties

DNB Bank ASA

DNB Bank ASA (the bank) is the parent of DNB Næringskreditt. As part of ordinary business transactions, a large number of banking transactions are entered into between DNB Næringskreditt and the bank. The transactions are regulated in the "Agreement relating to transfer of loan portfolio between DNB Bank ASA and DNB Næringskreditt AS" (the transfer agreement) and the "Contract concerning purchase of management services" (the management agreement).

The transfer agreement regulates the transfer of loan portfolios qualifying as collateral for the issue of covered bonds. During 2018, no loans (NOK 1.9 billion in 2017) were transferred from the bank to DNB Næringskreditt. All transactions are carried out at market terms.

Pursuant to the management agreement, DNB Næringskreditt purchases services from the bank, including administration, bank production, distribution, customer contact, IT operations, financial and liquidity management. DNB Næringskreditt pays a management fee for these services based on the lending volume under management and the achieved lending spreads. The management fee is recognised as "other expenses" in the statement of comprehensive income and amounted to NOK 57.9 million in 2018 (NOK 88.2 million in 2017).

In the balance sheet "Loans to and deposits with credit institutions" and "Due to credit institutions", are solely outstandings with DNB Bank. All derivative contracts are with DNB Bank as counterparty.

In 2017 DNB Næringskreditt entered into reverse repurchasing agreements (revers repos) with the bank as counterparty. The value of the repos amounted to NOK 50 million at end-December 2018 (NOK 108.3 million in 2017).

The company has a long-term overdraft facility in DNB Bank ASA with a limit of NOK 20 billion.

DNB Boligkreditt AS

DNB Næringskreditt has no employees and purchases administrative services from DNB Boligkreditt. On an annual basis, DNB Næringskreditt hires staff representing1.5 full-time equivalents. The management fee amounted to NOK 3.2 million in 2018 (NOK 3.5 million in 2017). DNB Boligkreditt is a wholly-owned subsidiary of DNB Bank.

Dividends payable

DNB Næringskreditt proposes to provide dividends payable of NOK 142.0 million to DNB Bank ASA. Dividends payable will be recognized in DNB Næringskreditt's financial statements in 2019 and is not included in the company's balance sheet at 31 December 2018.

Note 20 Additional financial instruments disclosures from 2017

Below is the accounting principles for financial instruments, as well as disclosures for 2017 related to the line item Loans to customers in the balance sheet and Impairment of loans and commitments in the income statement, as presented in the annual report for 2017.

ACCOUNTING PRINCIPLES
Financial instruments

Recognition and derecognition of assets and liabilities:

Financial assets and liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Settlement date accounting is applied for financial assets classified as loans and receivables, while trade date accounting is applied for the other classification categories.

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

Initial measurement

The classification of financial instruments at initial recognition depends on the purpose and the management's intentions for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value.

Classification and presentation of financial instruments

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

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

Financial derivatives

The company uses derivatives such as interest rate swaps and these derivatives are accounting for as trading instruments. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Fair value changes

from changes in interest rates are recognised in the statement of comprehensive income as "Total interest expenses". Other fair value changes are recognised as "Net gains on financial instruments at fair value".

Financial assets and financial liabilities designated as at fair value through profit or loss

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

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

The loans are presented in the balance sheet as "Loans to customers" and the bonds as "Debt securities issued".

Loans and receivables

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

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

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

Reverse repurchase agreements

Reverse repurchase agreements are presented in the balance sheet as "Due from credit institutions".

Securities purchased under agreements to resell are generally not recognised in the financial statements as the risk and returns are normally not taken over by the company. This is done irrespective of whether the company has the right to sell or repledge the securities. Upon the sale of securities received, the company recognises an obligation in the balance sheet.

Other financial liabilities

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

Subsequent measurement of financial instruments measured at fair value

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

Note 20 Additional financial instruments disclosures from 2017 (continued)

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

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

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

For financial instruments whose valuations include significant unobservable input (level 3), fair values are determined based on discounted estimated cash flows.

Impairment of loans carried at amortised cost

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

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

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

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

As for individual impairment calculations, collective impairments are based on discounted future cash flows. The cash flows are discounted on the basis of statistics derived from the individual impairment calculations.

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

Statement

Pursuant to Section 5-5 of the Securities Trading Act

We hereby confirm that the annual accounts for the company for 2018 to the best of our knowledge have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole.

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

Oslo, 7 March 2019
The Board of Directors of DNB Næringskreditt AS

Reidar Bolme
(chair of the board)

Jørn E. Pedersen

Toril Steinmo

Per Sagbakken
(chief executive officer)

Building a better
working world

Statsautoriserte revisorer
Ernst & Young AS

Dronning Eufemias gate 6, NO-0191 Oslo
Postboks 1156 Sentrum, NO-0107 Oslo

Foretaksregisteret: NO 976 389 387 MVA
Tlf: +47 24 00 24 00

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of DNB Næringskreditt AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of DNB Næringskreditt AS, which comprise the balance sheet as at 31 December 2018, comprehensive income statement, cash flow statement and statement of changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2018 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Opinion on the Directors' report

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

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than* Audits *or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo, 7 March 2019
ERNST & YOUNG AS

Anders Gøbel
State Authorised Public Accountant (Norway)

Governing bodies

as at 31 December 2018

Board of Directors

Members
Reidar Bolme, Oslo
Jørn E. Pedersen, Oslo
Toril Steinmo, Gjettum

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 04800
Internet	dnb.no
Organisation number	NO 846 069 062

Chief executive officer

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

Financial reporting

Inger Anne Djupvik Husby
Tel: +47 481 32 321
Inger.anne.husby@dnb.no

DNB ASA

Mailing address	P.O.Box 1600 Sentrum, NO-0021 Oslo
Visiting address	Dronning Eufemias gate 30, Oslo
Telephone	+47 915 04800
Internet	dnb.no
Organisation number	NO 981 276 957

DNB Bank ASA

Mailing address	P.O.Box 1600 Sentrum, NO-0021 Oslo
Visiting address	Dronning Eufemias gate 30, Oslo
Telephone	+47 915 04800
Internet	dnb.no
Organisation number	NO 984 851 006

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.

DNB Næringskreditt AS

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

Visiting address:
Dronning Eufemias gate 30
Bjørvika, Oslo

dnb.no