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## DNB NÆRINGSKREDITT AS

– a company in the DNB Group

Fourth quarter report 2013

(PRELIMINARY AND UNAUDITED)

# DNB



# Key figures

## DNB Næringskreditt AS

<b>Statement of comprehensive income</b>	4th quarter	4th quarter	Full year	Full year
<i>Amounts in NOK 1000</i>	2013	2012	2013	2012
Net interest income	83 691	78 498	317 385	335 262
Net other operating income	(10 015)	645	(10 015)	1 000
Operating expenses	26 020	19 098	89 903	77 307
Impairments on loans and commitments	1 021	104	2 098	(3 222)
Pre-tax operating profit	46 488	59 941	215 369	262 177
Taxes	12 987	16 784	60 408	73 409
<b>Profit for the period</b>	<b>33 501</b>	<b>43 158</b>	<b>154 962</b>	<b>188 767</b>

<b>Balance sheet</b>	31 Dec.	31 Dec.
<i>Amounts in NOK million</i>	2013	2012
Total assets	23 742	21 452
Loans to customers	23 165	21 294
Debt securities issued	4 417	2 415
Total equity	5 521	5 555

<b>Key figures</b>	4th quarter	4th quarter	Full year	Full year
<i>Per cent</i>	2013	2012	2013	2012
Average lending spread <sup>1)</sup>	0.86	0.66	0.77	0.59
Return on equity, annualised <sup>2)</sup>	2.4	4.6	3.7	3.2
Tier 1 capital ratio at end of period	28.8	31.5	28.8	31.5
Capital ratio at end of period	28.8	31.5	28.8	31.5
Net non-performing and impaired loans, per cent of net loans	0.00	0.00	0.00	(0.01)

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

2) Average equity is calculated on the basis of recorded equity.

# Fourth quarter report 2013

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# 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 company has completed three bond issues totalling NOK 4.4 billion, of which NOK 2.0 billion was issued in the fourth quarter of 2013. The rating agencies' assessments are of significance to the company's funding terms. In the second quarter of 2013 an agreement was signed with Moody's on the rating of the company's bond issues, which were rated Aa1.

## Financial accounts

DNB Næringskreditt recorded a profit of NOK 34 million in the fourth quarter of 2013, compared with a profit of NOK 43 million in the fourth quarter of 2012. The profit for the full year 2013 was NOK 155 million, compared with a profit of NOK 189 million in 2012.

### Total income

Income totalled NOK 74 million in the fourth quarter of 2013, down from NOK 79 million in the year-earlier period.

<i>Amounts in NOK million</i>	4th quarter 2013	Change	4th quarter 2012
Total income	74	(5)	79
Net interest income		6	
Net commission and fee income		(1)	
Net gains (losses) on financial instruments at fair value		(10)	

The improvement in net interest income was mainly due to wider interest rate spreads.

The recorded losses on financial instruments reflect the effects of unrealised changes in the market value of covered bonds and interest rate swaps.

<i>Amounts in NOK million</i>	2013	Change	2012
Total income	307	(29)	336
Net interest income		(18)	
Net commission and fee income		(1)	
Net gains (losses) on financial instruments at fair value		(10)	

Interest rate spreads stabilised at a higher level than in 2012. However, average net loans to customers decreased slightly during 2013 and the net effect was thus a reduction in net interest income.

### 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 23 million in the fourth quarter of 2013, up from NOK 17 million in the fourth quarter the year before. The management fee for the full year 2013 was NOK 77 million.

The company has recorded no individual impairment losses in previous years, though collective impairment losses of NOK 2.1 million were recorded in 2013. 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 2013, DNB Næringskreditt had total assets of NOK 23.7 billion under management, an increase of NOK 2.3 billion or 10.7 per cent from year-end 2012.

<i>Amounts in NOK million</i>	31 Dec. 2013	Change	31 Dec. 2012
Total assets	23 742	2 290	21 452
Loans to customers		1 870	
Financial derivatives		2	
Other assets		418	
Total liabilities	18 221	2 324	15 897
Due to credit institutions		310	
Financial derivatives		16	
Debt securities issued		2 002	
Other liabilities		(4)	

The increase in loans to customers originates from the acquisition of commercial mortgage portfolios from DNB Bank and the sale of new loans through the bank's distribution network.

Debt securities issued increased by a net NOK 2.0 billion from year-end 2012. The company issued covered bonds totalling NOK 2.0 billion in 2013. Total debt securities issued amounted to NOK 4.4 billion at year-end 2013.

## 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 the 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 the value of commercial property prices. A short-term measure to meet a significant fall in prices of commercial properties will be to supply DNB Næringskreditt with more substitute collateral. The Board of Directors considers the company's total risk exposure to be low.

As at year-end 2013, the company's equity totalled NOK 5.5 billion, of which NOK 5.4 billion represented Tier 1 capital. The company has no primary capital in excess of equity. The company's capital adequacy and Tier 1 capital ratios were 28.8 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

The EU's new capital adequacy regulations, CRR and CRD IV, will enter into force on 1 January 2014. The regulations are based on the Basel Committee's recommendations on new and stricter capital and liquidity standards, Basel III. Norway has chosen to introduce the capital requirements earlier than on the implementation date specified in the international regulations. The new legislation became effective as from 1 July 2013 and requires a common equity Tier 1 capital ratio of minimum 9 per cent and a capital adequacy ratio of 12.5 per cent. The requirement will be increased to 10.0 per cent by 1 July 2014, while the capital adequacy requirement will be increased to 13.5 per cent.

Requirements have also been introduced for a special buffer for systemically important institutions of 2.0 per cent common equity Tier 1 capital, as well as a counter-cyclical capital buffer of maximum 2.5 per cent. These buffers will apply to banks, but are not relevant for DNB Næringskreditt.

In October 2013, the Ministry of Finance also determined rules for the weighting of bank's home mortgages in capital adequacy calculations. At the same time, it was announced that prevailing rules relating to the so-called Basel I floor will be retained. For DNB Næringskreditt, the Basel I floor will represent the actual limit for risk-weighted assets.

## Macroeconomic developments

International economic growth remains moderate, and there are large differences between individual countries. In the US and Great Britain, economic growth increased markedly through 2013. After declining for six consecutive quarters, the euro economy showed a slight rebound from the second quarter of the year. However, there are great variations within the eurozone, ranging from strong growth in Germany to downturns in Italy and France. The picture is also mixed among emerging economies. In China, growth rebounded in 2013, while India and Mexico struggled with very weak growth rates.

In Norway, growth in the mainland economy was below the trend growth rate throughout 2013. There was a healthy trend in the engineering industry, mainly due to rising petroleum investment, while a number of other industry sectors showed a less favourable development as a result of the international recession. Norwegian exports stagnated in 2013, but due to a markedly weaker Norwegian krone and slightly stronger international growth, export is expected to pick up in the period ahead.

Housing prices in Norway showed a decline in the second half of 2013, and at year-end 2013 prices were slightly lower than a year before. Households have become more pessimistic about the Norwegian economy, and the weak price trend in the housing market is expected to continue.

Activity levels in the commercial property rental market are rising, with higher rents for the best properties. At the same time, there is still great uncertainty with respect to how the Norwegian liquidity and capital requirements will be designed, and how this will affect bank lending practices and lending spreads. Conditions in the transaction market normalised in 2013, with more transactions and slightly better access to capital.

The market remained attractive for covered bond issuers with strong credit ratings in 2013. Lower returns in other asset classes seemed to have a positive impact on the demand for covered bonds from highly rated issuers, especially covered bond issues with a long term to maturity. However, the volume of covered bond issues in 2013 were rather low compared to 2012.

## Future prospects

According to current economic forecasts, a cautious recovery is expected in both the Norwegian and the international economy, though developments remain highly uncertain. In Norway, the uncertainty relates to housing market trends, though updated forecasts do not indicate any significant reduction in values in the Norwegian housing market in 2014. Overall, there is conditional optimism with respect to commercial property in Norway.

In consequence of the interest rate increases implemented for personal and corporate customers in 2013, the level of interest income rose throughout the year. DNB Næringskreditt expects spreads to remain relatively stable in the coming period. The loan portfolio is expected to increase in the period ahead as a result of IRB approval of the loan portfolio and further transfer of loans from DNB Bank ASA.

The particularly strict requirements for Norwegian financial institutions mean that competitors that are not subject to the same capital requirements may be in a better position to increase their market shares at the expense of Norwegian institutions. DNB Næringskreditt, however, is already adequately capitalised to meet the new capital requirements.

Covered bonds have gained a leading position as a funding vehicle for Norwegian banks. Norwegian covered bonds still seem to be regarded as attractive investments with relatively low credit and market risk. The company will continue to arrange bond issues in the market.

Oslo, 5 February 2014

The Board of Directors of DNB Næringskreditt AS

Bjørn Erik Næss  
(chairman)

Eva-Lill Strandskogen

Stein Ove Steffensen

Elisabeth Ege

Rein Øsebak

Øyvind Birkeland  
(chief executive officer)

# Statement of comprehensive income

## DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	Note	4th quarter	4th quarter	Full year	Full year
		2013	2012	2013	2012
Total interest income	7	194 912	204 969	757 570	892 747
Total interest expenses	7	111 220	126 471	440 184	557 485
<b>Net interest income</b>	<b>7</b>	<b>83 691</b>	<b>78 498</b>	<b>317 385</b>	<b>335 262</b>
Commission and fee income		183	661	221	1 055
Commission and fee expenses		(65)	16	81	55
Net gains (losses) on financial instruments at fair value	8	(10 156)	-	(10 156)	-
<b>Net other operating income</b>		<b>(10 015)</b>	<b>645</b>	<b>(10 015)</b>	<b>1 000</b>
<b>Total income</b>		<b>73 530</b>	<b>79 143</b>	<b>307 370</b>	<b>336 262</b>
Other expenses	13	26 020	19 098	89 903	77 307
<b>Total operating expenses</b>		<b>26 020</b>	<b>19 098</b>	<b>89 903</b>	<b>77 307</b>
Impairments on loans and commitments	9	1 021	104	2 098	(3 222)
<b>Pre-tax operating profit</b>		<b>46 488</b>	<b>59 941</b>	<b>215 369</b>	<b>262 177</b>
Taxes		12 987	16 784	60 408	73 409
<b>Profit for the period</b>		<b>33 501</b>	<b>43 158</b>	<b>154 962</b>	<b>188 767</b>
Other comprehensive income		-	-	-	-
<b>Total comprehensive income for the period</b>		<b>33 501</b>	<b>43 158</b>	<b>154 962</b>	<b>188 767</b>

# Balance sheet

## DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	Note	31 Dec.	31 Dec.
		2013	2012
<b>Assets</b>			
Due from credit institutions	12, 13	571 517	157 317
Loans to customers	9, 11, 12	23 164 541	21 294 343
Financial derivatives	11, 13	1 864	-
Deferred tax assets		2 818	97
Other assets		960	-
<b>Total assets</b>		<b>23 741 700</b>	<b>21 451 758</b>
<b>Liabilities and equity</b>			
Due to credit institutions	12, 13	13 709 979	13 400 436
Financial derivatives	11, 13	15 962	-
Debt securities issued	10, 11, 12, 13	4 417 224	2 414 985
Payable taxes		63 128	73 385
Other liabilities		14 269	8 072
<b>Total liabilities</b>		<b>18 220 563</b>	<b>15 896 878</b>
Share capital		550 000	550 000
Share premium reserve		4 604 100	4 694 100
Other equity		367 037	310 780
<b>Total equity</b>		<b>5 521 137</b>	<b>5 554 880</b>
<b>Total liabilities and equity</b>		<b>23 741 700</b>	<b>21 451 758</b>

# Statement of changes in equity

DNB Næringskreditt AS

<i>Amounts in NOK 1000</i>	Share capital	Share premium reserve	Other equity	Total equity
<b>Balance sheet as at 1 January 2012</b>	<b>550 000</b>	<b>4 604 100</b>	<b>395 000</b>	<b>5 549 100</b>
Profit for the period	-	-	188 767	188 767
Other comprehensive income	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>188 767</b>	<b>188 767</b>
Group contribution paid	-	-	(182 987)	(182 987)
<b>Balance sheet as at 31 December 2012</b>	<b>550 000</b>	<b>4 604 100</b>	<b>400 780</b>	<b>5 554 880</b>
<b>Balance sheet as at 1 January 2013</b>	<b>550 000</b>	<b>4 604 100</b>	<b>400 780</b>	<b>5 554 880</b>
Profit for the period	-	-	154 962	154 962
Other comprehensive income	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>154 962</b>	<b>154 962</b>
Group contribution paid	-	-	(188 704)	(188 704)
<b>Balance sheet as at 31 December 2013</b>	<b>550 000</b>	<b>4 604 100</b>	<b>367 037</b>	<b>5 521 137</b>

## Share capital

All of the company's shares and voting rights are held by DNB Bank ASA. Share capital at the beginning of 2013 was NOK 550 million (550 000 shares at NOK 1 000).

# Statement of cash flows

DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	Full year 2013	Full year 2012
<b>OPERATING ACTIVITIES</b>		
Net receipts/payments on loans to customers	1 894 346	3 114 630
Net receipts/payments on loans to/from credit institutions	(109 693)	(1 234 504)
Interest received from credit institutions	6 919	9 394
Interest paid to credit institutions	(381 613)	(523 159)
Payments for operating expenses	(84 526)	(76 788)
<b>Net cash flow from operating activities</b>	<b>2 071 151</b>	<b>2 183 222</b>
<b>Investing activities</b>		
Net purchase of loan portfolio	(3 761 709)	(1 857 465)
<b>Net cash flow relating to investment activities</b>	<b>(3 761 709)</b>	<b>(1 857 465)</b>
<b>Financing activities</b>		
Receipts on issued bonds and commercial paper	2 000 000	-
Interest payments on issued bonds and commercial paper	(56 816)	(75 414)
Group contribution paid	(262 089)	(254 149)
<b>Net cash flow from financing activities</b>	<b>1 681 095</b>	<b>(329 563)</b>
<b>Net cash flow</b>	<b>(9 462)</b>	<b>(3 806)</b>
Cash at beginning of period	20 826	24 633
Net receipts/payments of cash	(9 462)	(3 806)
Cash at end of period	11 364	20 826

The statement of cash flows shows receipts and payments of cash and cash equivalents during the year and has been prepared in accordance with the direct method. Cash and cash equivalents are defined as cash and deposits with central banks and deposits with credit institutions with no agreed period of notice.

During the fourth quarter of 2013, certain items in the cash flow statement were reclassified. Among other things, Net receipts/ payments on loans to credit institutions and appurtenant interest were included in operating activities with effect from the fourth quarter of 2013. Prior to this, these items were included under funding activities. Comparable figures for previous periods have been restated.

## Note 1 Accounting principles

The financial statements for the fourth quarter of 2013 have been prepared in accordance with IAS 34 *Interim Financial Reporting*

The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the company's annual financial statements as at 31 December 2012.

The company's accounting principles and calculation methods are consistent with those applied when preparing the annual financial statements for 2012. No new or amended accounting standards or interpretations have entered into force in 2013 that have had effect on the interim report.

The accounts for the fourth quarter were approved by the Board of Directors on the 5 of February 2013.

### Operating segments

The company has operations within one operating segment only, according to IFRS 8 *Operating segments*. The segment generated a profit of NOK 155 million in 2013. The company uses the information in the statement of comprehensive income and balance sheet also in its internal reporting.

## Note 2 Important accounting estimates and discretionary assessments

The preparation of financial information in conformity with IFRS requires the use of estimates and discretionary assessments about future conditions that will affect reported income, expenses, assets and liabilities. A more detailed description of important estimates and assumptions is presented in the annual report for 2012, note 1 *Important accounting estimates and discretionary assessments*.

## Note 3 Capital adequacy

Primary capital	DNB Næringskreditt AS	
	31 Dec. 2013	31 Dec. 2012
<i>Amounts in NOK 1 000</i>		
Share capital	550 000	550 000
Other equity	4 971 137	5 004 880
Total equity	5 521 137	5 554 880
Deductions		
100 per cent of expected losses, IRB portfolios	(4 078)	(1 407)
Adjustments for deferred tax assets	(2 818)	(97)
Allocated group contributions for payment	(154 800)	(188 704)
Tier 1 capital	5 359 441	5 364 671
Total eligible primary capital	5 359 441	5 364 671
Risk-weighted volume	18 624 555	17 017 313
Minimum capital requirement	1 489 964	1 361 385
Tier 1 capital ratio (%)	28.8	31.5
Capital ratio (%)	28.8	31.5

DNB Næringskreditt AS complies with the Basel II regulations.

Due to transitional rules, the minimum capital requirement for 2013 cannot be reduced below 80 per cent relative to the Basel I requirements. Capital adequacy for the fourth quarter is reported according to the transitional rules.

The schedule below shows capital adequacy according to Basel II without regard to the rules of transition.

	DNB Næringskreditt AS	
	31 Dec. 2013	31 Dec. 2012
<i>Amounts in NOK 1 000</i>		
Risk-weighted volume, Basel II	16 739 734	16 256 192
Minimum capital requirement, Basel II	1 339 179	1 318 792
Tier 1 capital ratio (%)	32.0	33.0
Capital ratio (%)	32.0	33.0



## Note 4 Credit risk

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

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

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

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

## Note 5 Market risk

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

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

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

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

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

## Note 6 Liquidity risk

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

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

According to Section 2-32 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.

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.

DNB Næringskreditt's liquidity situation for the fourth quarter of 2013 can be characterised as sound.

## Note 7 Net interest income

<i>Amounts in NOK 1 000</i>	4th quarter	4th quarter	Full year	Full year
	2013	2012	2013	2012
Interest on amounts due from credit institutions	2 209	3 359	6 919	9 394
Interest on loans to customers	192 683	201 385	749 963	882 417
Other interest income	19	226	688	937
<b>Total interest income</b>	<b>194 912</b>	<b>204 969</b>	<b>757 570</b>	<b>892 747</b>
Interest on amounts due to credit institutions	89 912	111 299	377 189	488 086
Interest on debt securities issued	21 308	15 172	62 996	69 399
<b>Total interest expenses</b>	<b>111 220</b>	<b>126 471</b>	<b>440 184</b>	<b>557 485</b>
<b>Net interest income</b>	<b>83 691</b>	<b>78 498</b>	<b>317 385</b>	<b>335 262</b>

## Note 8 Net gains on financial instruments

<i>Amounts in NOK 1 000</i>	DNB Næringskreditt AS	
	4th quarter 2013	4th quarter 2012
Net gains on financial liabilities, designated as at fair value <sup>1)</sup>	3 940	-
Net gains on financial derivatives, trading <sup>2)</sup>	(14 096)	-
<b>Net gains (losses) on financial instruments at fair value</b>	<b>(10 156)</b>	<b>-</b>

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 Boligkreditt enters into swaps to manage interest-rate risk for the fixed-rate bonds issued in Norwegian kroner. Such derivatives are recorded at fair value.

## Note 9 Loans to customers

Loans to customers, including accrued interest, totalled NOK 23.2 billion at end-December 2013 (NOK 21.3 billion as at 31 December 2012). There was no objective evidence of a decrease in value requiring individual impairment of the loans. Nor were any allocations made for individual impairment in 2012.

The loans have been reviewed for collective impairment. During 2013, collective impairments increased by NOK 2.1 million.

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

### DNB Næringskreditt AS

	31 Dec. 2013	31 Dec. 2012
<i>Amounts in NOK 1 000</i>		
Loans to customers at amortised cost, nominal amount	23 058 352	21 190 989
– Individual impairments	-	-
Loans to customers, net of impairment allowances	23 058 352	21 190 989
+ Accrued interest	114 185	110 879
– Individual impairment of accrued interest	(890)	(2 517)
Loans to customers, at amortised cost	23 171 647	21 299 351
– Collective impairments	7 106	5 008
<b>Total loans to customers</b>	<b>23 164 541</b>	<b>21 294 343</b>

### DNB Næringskreditt AS

	31 Dec. 2013	31 Dec. 2012
<i>Amounts in NOK 1 000</i>		
Impairments as per 1 January	5 008	8 229
Changes in individual impairments	-	-
Changes in collective impairments	2 098	(3 222)
Impairments at end of period	7 106	5 008
<i>Of which:</i>		
<i>Individual impairments</i>	-	-
<i>Individual impairment of accrued interest and amortisations</i>	-	-
<i>Collective impairments</i>	7 106	5 008

## Note 10 Debt securities issued

### Private placements

### DNB Næringskreditt AS

Amounts in NOK 1 000

ISIN Code	Nominal value	Currency	Interest	Issued	Matured	31 Dec. 2013	31 Dec. 2012
NO 0010543192	2 400 000	NOK	Floating	2009	2015	2 400 000	2 400 000
NO 0010694425	1 000 000	NOK	Floating	2013	2018	1 000 000	
NO 0010694474	1 000 000	NOK	Fixed	2013	2023	996 060	
Accrued interest						21 164	14 985
<b>Total debt securities issued</b>						<b>4 417 224</b>	<b>2 414 985</b>

### Cover pool

### DNB Næringskreditt AS

Amounts in NOK 1 000	31 Dec. 2013	31 Dec. 2012
Pool of eligible loans	20 981 617	18 603 764
Market value of eligible derivatives	-	-
Supplementary assets	560 153	136 932
<b>Total collateralised assets</b>	<b>21 541 770</b>	<b>18 740 695</b>
Debt securities issued, carrying value	4 417 224	2 414 985
Market value of eligible derivatives	14 098	-
<b>Debt securities issued, valued according to regulation <sup>1)</sup></b>	<b>4 431 322</b>	<b>2 414 985</b>
Collateralisation (per cent)	486	776

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 Section 2-28 of the Financial Institutions Act with appurtenant regulations.

## Note 11 Financial instruments at fair value

The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

### Level 1

Valuation based on quoted, unadjusted prices in active markets for identical assets and liabilities. DNB Næringskreditt has no financial instruments in this category.

### Level 2

Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Valuation of interest rate swaps and is based on level 2 techniques. The valuation is based on swap curves that are based on observable market prices. Credit risk is considered to have an insignificant effect on the fair value.

Debt securities issued in Norwegian kroner are also measured at fair value based on level 2 techniques. The valuation of the bonds is primarily based on observable market data in the form of interest rate curves and credit margins.

### Level 3

Techniques for which inputs that have a significant effect on the recorded fair value are not based on observable market data.

### Financial instruments at fair value, by valuation technique (fair value hierarchy)

As at 31 December 2013

DNB Næringskreditt AS

<i>Amounts in NOK 1 000</i>	Valuation based on quoted prices in an activa market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	Accrued interest <sup>1)</sup>	Total
<b>Assets</b>					
Loans to customers	-	-	5 668 499	30 385	5 698 884
Financial derivatives	-	1 864	-	-	1 864
<b>Liabilities</b>					
Debt securities issued	-	996 060	-	4 919	1 000 979
Financial derivatives	-	15 962	-	-	15 962

1) For financial derivatives, accrued interest on financial derivatives is included in the level 2- and level 3 amounts.

## Note 12 Fair value of financial instruments at amortised cost

Most assets and liabilities in the DNB Næringskreditt's balance sheet are carried at amortised cost.

Amortised cost is the historical cost of the asset or liability at initial recognition, adjusted for repayments of principal, amortisations based on the effective interest rate method and impairments. The value is not based on current market conditions, but rather accounted for based on the originally agreed terms, so in general there will be a difference between the amortised cost value and market value.

The difference is mainly related to changes in interest rates and credit risk. Fair value includes both positive and negative value changes in interest- and credit risk while amortised cost is not adjusted for positive value changes and only to some extent adjusted for negative value changes through impairment.

The table shows estimated fair values of items carried at amortised cost. Values are measured based on the valuation methods described in note 11.

Fair value of financial instruments at amortised cost	DNB Næringskreditt AS	
	Carrying value	Fair value
<i>Amounts in NOK 1 000</i>	31 Dec. 2013	31 Dec. 2013
Due from credit institutions	571 517	571 517
Loans to customers	17 472 762	17 472 762
<b>Total financial assets</b>	<b>18 044 279</b>	<b>18 044 279</b>
Due to credit institutions	13 709 979	13 709 979
Debt securities issued	3 416 245	3 416 245
<b>Total financial liabilities</b>	<b>17 126 224</b>	<b>17 126 224</b>

For floating rate loans to customers, the interest rates and margins are changed when the market rates change. The customers have to be notified of all changes in advance of the changes being put into effect, so there is a short period of time where the terms of the loans diverge from market rates. However this delay in timing is considered to have an immaterial effect to the total value of the loans hence the carrying value of these loans are considered to be a relevant measure for fair value.

## Note 13 Related parties

DNB Næringskreditt AS is a subsidiary within the DNB Group. During the quarter 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. 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 the fourth quarter of 2013, portfolios of NOK 2.0 billion 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 amounted to NOK 23.0 million for the fourth quarter of 2013 (NOK 16.8 million for the fourth quarter of 2012).

In the balance sheet "Loans to and deposits with credit institutions" and "Due to credit institutions" are solely outstanding with DNB Bank. All derivative contracts are with DNB Bank as counterparty. At end-December, the bank had invested NOK 3.7 billion in covered bonds issued by DNB Næringskreditt.

### DNB Boligkreditt AS

DNB Næringskreditt has no employees and purchases administrative services from DNB Boligkreditt. On an annual basis, DNB Næringskreditt hires staff representing 2.3 full-time equivalents. The management fee amounted to NOK 1.0 million for the fourth quarter of 2013. DNB Boligkreditt is a wholly-owned subsidiary of DNB Bank.

## Note 14 Contingencies and post balance sheet events

DNB Næringskreditt is not involved in any legal actions.

# Key figures

## DNB Næringskreditt AS

	4th quarter 2013	4th quarter 2012	Full year 2013	Full year 2012
<b>Rate of return/profitability</b>				
1. Return on equity, annualised (%) <sup>1)</sup>	2.4	4.6	3.7	3.2
<b>Financial strength</b>				
2. Core (Tier 1) capital ratio at end of period (%)	28.8	31.5	28.8	31.5
3. Capital adequacy ratio at end of period (%)	28.8	31.5	28.8	31.5
4. Core capital at end of period (NOK 1 000)	5 359 441	5 364 671	5 359 441	5 364 671
5. Risk-weighted volume at end of period (NOK 1 000)	18 624 555	17 017 313	18 624 555	17 017 313

## Definitions

1) *Average equity is calculated on the basis of recorded equity.*

# Profit and balance sheet trends

## Statement of comprehensive income

DNB Næringskreditt AS

	31 Dec. 2013	30 Sept. 2013	30 June 2013	31 March 2013	31 Dec. 2012
<i>Amounts in NOK 1 000</i>					
Total interest income	194 912	191 853	185 661	185 144	204 969
Total interest expenses	111 220	111 494	110 660	106 810	126 471
<b>Net interest income</b>	<b>83 691</b>	<b>80 358</b>	<b>75 001</b>	<b>78 334</b>	<b>78 498</b>
Commission and fee income	183	34	84	66	661
Commission and fee expenses	(65)	13	13	13	16
Net gains (losses) on financial instruments at fair value	(10 156)				
<b>Net other operating income</b>	<b>(10 015)</b>	<b>21</b>	<b>71</b>	<b>54</b>	<b>645</b>
<b>Total income</b>	<b>73 530</b>	<b>80 380</b>	<b>75 073</b>	<b>78 388</b>	<b>79 143</b>
Other expenses	26 020	24 045	15 365	24 472	19 098
<b>Total operating expenses</b>	<b>26 020</b>	<b>24 045</b>	<b>15 365</b>	<b>24 472</b>	<b>19 098</b>
Impairments on loans and commitments	1 021	1 998	(31)	(890)	104
<b>Pre-tax operating profit</b>	<b>46 488</b>	<b>54 336</b>	<b>59 738</b>	<b>54 805</b>	<b>59 941</b>
Taxes	12 987	15 375	16 700	15 345	16 784
<b>Profit for the period</b>	<b>33 501</b>	<b>38 963</b>	<b>43 038</b>	<b>39 460</b>	<b>43 158</b>
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>33 501</b>	<b>38 963</b>	<b>43 038</b>	<b>39 460</b>	<b>43 158</b>

## Balance sheets

DNB Næringskreditt AS

	31 Dec. 2013	30 Sept. 2013	30 June 2013	31 March 2013	31 Dec. 2012
<i>Amounts in NOK 1 000</i>					
<b>Assets</b>					
Due from credit institutions	571 517	11 376	329 127	250 017	157 317
Loans to customers	23 164 541	22 122 310	20 763 004	20 885 099	21 294 343
Financial derivatives	1 864	-	-	-	-
Deferred tax assets	2 818	97	97	97	97
Other assets	960	-	-	-	-
<b>Total assets</b>	<b>23 741 700</b>	<b>22 133 783</b>	<b>21 092 228</b>	<b>21 135 213</b>	<b>21 451 758</b>
<b>Liabilities and equity</b>					
Due to credit institutions	13 709 979	14 179 528	13 187 644	13 027 111	13 400 436
Financial derivatives	15 962	-	-	-	-
Debt securities issued	4 417 224	2 413 104	2 414 280	2 413 825	2 414 985
Payable taxes	63 128	47 420	32 046	88 731	73 385
Other liabilities	14 269	6 094	9 585	11 208	8 072
<b>Total liabilities</b>	<b>18 220 563</b>	<b>16 646 147</b>	<b>15 643 555</b>	<b>15 540 874</b>	<b>15 896 878</b>
Share capital	550 000	550 000	550 000	550 000	550 000
Share premium reserve	4 604 100	4 694 100	4 694 100	4 694 100	4 694 100
Other Equity	367 037	243 536	204 573	350 239	310 780
<b>Total equity</b>	<b>5 521 137</b>	<b>5 487 636</b>	<b>5 448 673</b>	<b>5 594 339</b>	<b>5 554 880</b>
<b>Total liabilities and equity</b>	<b>23 741 700</b>	<b>22 133 783</b>	<b>21 092 228</b>	<b>21 135 213</b>	<b>21 451 758</b>



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



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