DNB Næringskreditt AS

A company in the DNB Group

DNB

FIRST QUARTER REPORT 2017

(Unaudited)

Financial highlights

Income statement

Amounts in NOK million	1st quarter 2017	1st quarter 2016	Full year 2016
	DNB Næringskreditt AS		
Net interest income	90	91	351
Net other operating income	(10)	1	(14)
Total operating expenses	(28)	(27)	(86)
Impairment of loans and commitments	0	(1)	1
Pre-tax operating profit	52	65	253
Tax expense	(13)	(16)	(63)
Profit for the period	**39**	**49**	**190**

Balance sheet

Amounts in NOK million	31 March 2017	31 Dec. 2016	31 March 2016
Total assets	26 282	25 470	26 933
Loans to customers	26 056	25 251	26 695
Debt securities issued	2 118	2 100	2 143
Total equity	5 629	5 589	5 610

Key figures

	1st quarter 2017	1st quarter 2016	Full year 2016
Total average spread for lending (%) [1)]	1.03	1.01	0.94
Return on equity, annualised (%)	2.8	3.5	3.4
Common equity Tier 1 capital ratio, transitional rules (%)	26.0	25.3	26.8
Capital ratio, transitional rules (%)	26.0	25.3	26.8
Common equity Tier 1 capital (NOK million)	5 373	5 366	5 376
Risk-weighted volume, transitional rules (NOK million)	20 655	21 229	20 029

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

First quarter report 2017

Accounts

Additional information

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

Directors' report

DNB Næringskreditt AS is the DNB Group's vehicle for the issue of covered bonds based on commercial mortgages. The company's offices are located in Oslo. DNB Næringskreditt is a wholly-owned subsidiary of DNB Bank ASA and is reported partly under the Corporate Banking Norway business area and partly under the Large Corporates and International business area in the consolidated accounts of DNB Bank ASA. The company has completed two bond issues totalling NOK 2.0 billion. The rating agencies' assessments are of significance to the company's funding terms. In 2013, an agreement was signed with Moody's on the rating of the company's bond issues. DNB Næringskreditt's covered bonds are rated Aaa by Moody's.

Financial accounts

DNB Næringskreditt recorded a profit of NOK 39 million in the first quarter of 2017, compared with a profit of NOK 49 million in the first quarter of 2016.

Total income

Income totalled NOK 80 million in the first quarter of 2017, compared with NOK 92 million in the year-earlier period.

Amounts in NOK million	1st quarter 2017	Change	1st quarter 2016
Total income	80	(12)	92
Net interest income		(1)	
Net commission and fee income			
Net gains/(losses) on financial instruments at fair value		(11)	

Net interest income decreased by NOK 1 million from the first quarter of 2016 to the first quarter of 2017, while net gains on interest rate swaps decreased by NOK 11 million in the same period.

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 25 million in the first quarter of 2017, up from NOK 24 million in the first quarter of 2016.

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

Funding, liquidity and balance sheet

Balance sheet

At end-March 2017, DNB Næringskreditt had total assets of NOK 26.3 billion, a decrease of NOK 0.7 billion, or 2.4 per cent, from end-March 2016.

Amounts in NOK million	31 March 2017	Change	31 March 2016
Total assets	26 282	(651)	26 933
Loans to customers		(639)	
Financial derivatives		(49)	
Other assets		37	
Total liabilities	20 654	(669)	21 323
Due to credit institutions		(646)	
Debt securities issued		(25)	
Other liabilities		2	

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

The company did not issue covered bonds in the first quarter of 2017. Total debt securities issued amounted to NOK 2.1 billion at end-March 2017.

Risk and capital adequacy

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

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

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

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

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

At end-March 2017, the company's equity totalled NOK 5.6 billion, of which NOK 5.4 billion represented Tier 1 capital. The company has no primary capital in excess of equity. The company's capital adequacy and Tier 1 capital ratios were both 26.0 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 end-March 2017, the common equity Tier 1 capital requirement was 15.0 per cent for DNB Næringskreditt. This included a counter-cyclical capital buffer of 1.5 per cent. The counter-cyclical capital buffer requirement in Norway will increase by 0.5 percentage points, to 2.0 per cent, as of 31 December 2017.

There is a need to have a margin over the total common equity Tier 1 capital requirement to take into account expected lending growth and 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 15.5 per cent at end-March 2017, increasing to 16.0 per cent at year-end 2017 due to the higher counter-cyclical capital buffer requirement.

New regulatory framework

Covered bonds and overcollateralisation

Covered bonds are a key funding instrument for Norwegian banks. The Ministry of Finance has laid down in regulations that the cover pool at any given time shall represent minimum 102 per cent of the bonds issued, i.e. a requirement for 2 per cent overcollateralisation. The regulation implies that the current practice is formalised and will contribute to reduced uncertainty among investors and derivative counterparties. The regulation must also be seen in light of the fact that the European Market Infrastructure Regulation, EMIR, allows an exemption from the clearing obligation rules and the rules on risk-mitigating measures for certain OTC derivatives, including OTC derivatives that are included in the cover pool for covered bonds. In order to qualify for such exemptions, however, the covered bonds must meet several requirements, including the requirement for 2 per cent overcollateralisation.

The Ministry of Finance has also asked Finanstilsynet to implement a more extensive review of the covered bonds system in Norway, which includes considering the level of overcollateralisation in a longer term perspective. The deadline for the review has been set at 1 September 2017.

Macroeconomic developments

Global GDP growth ended at 3.1 per cent in 2016 and looks set to be slightly higher this year. Growth will probably increase further in 2018. The emerging economies were the main driver behind the rise in economic growth, while developments in industrialised countries remain relatively weak, with a growth rate of 1.6 per cent in 2016. Nevertheless, activity levels appear to be picking up in the industrial countries and unemployment continues to fall. Higher energy prices have given a rise in inflation.

The Chinese economy continued to grow strongly in 2016. This was due partly to the authorities' expansionary policy and partly to higher commodity prices, which contributed to higher earnings growth in many industries. Parallel to this, consumption growth remained sound in spite of a certain decline during the recent period. Economic growth in China was 6.7 per cent in 2016, which was in line with the authorities' ambition of a growth rate between 6.5 and 7.0 per cent. Growth is expected to slow somewhat in the period ahead. High debt and unprofitable investments are among the factors that increase the risk of a crisis further ahead in time.

The business upturn appears to be continuing in the US, and American households and businesses have become significantly more optimistic after Trump was elected president. Nevertheless, growth is likely to be sluggish in early 2017, primarily due to weaker consumption growth. The US president wants lower taxes and higher infrastructure investments, which implies that fiscal policy can be expected to be somewhat more expansionary in the period ahead. However, it will take time to implement such a shift in fiscal policy, and no material effect on GDP is expected until next year. The labour market remains strong, with falling unemployment and good employment growth. Wage growth is still moderate, and price inflation is just below the Federal Reserve's 2 per cent target. An expansionary monetary policy has supported the US recovery in recent years. However, monetary policy is expected to be normalised in the coming period. The Federal Reserve raised interest rates in both December 2016 and March 2017 and is expected to implement further rate increases twice this year.

Economic growth in the euro area was 1.7 per cent in 2016, which reflected higher private consumption on the back of a strong rise in households' real disposable income. Higher inflation will probably result in lower income growth for households in the period ahead, which in turn will have a negative impact on consumption. At the same time, there is strong confidence in the business sector, which indicates increased activity. Business investment is up and will probably represent a higher share of GDP after many years of sluggish growth. Increased uncertainty, especially related to the political landscape, Greek debt levels and weak Italian banks, is also expected to put a damper on demand. The European Central Bank will probably continue to conduct an expansionary monetary policy and to gradually scale down its asset purchases, which will not end until 2019.

The British no to further EU membership has so far had fewer negative consequences than expected. The financial turmoil was short-lived, and domestic demand remained buoyant throughout 2016. The British pound depreciated more than expected, which has stimulated the balance of payments. At the same time, the weaker currency has resulted in higher inflation and reduced households' real income. Article 50 was triggered on 29 March. This means that the United Kingdom has two years to negotiate a withdrawal agreement and new trade agreements before leaving the European Union. Uncertainty regarding the process and the results thereof make future prospects more unpredictable than normal.

GDP for Mainland Norway increased by 0.8 per cent from 2015 to 2016. This is the lowest growth rate since 2009, the year of the financial crisis. Growth is expected to rise to 1.6 per cent in 2017. The weak development last year was mainly due to a significant drop in oil investments. Increased activity in the public sector, the building and construction and tourism-based industries contributed to keeping up production. During the fourth quarter of 2016, the upturn in the mainland economy was somewhat broader based, and an increase in business investment is anticipated this year. In addition, a somewhat smaller drop in oil investments and a certain rise in private consumption are expected to provide a slight increase in growth this year.

Unemployment seems to have peaked. The unemployment rate, as measured in Statistics Norway's labour force survey, dropped from 5.0 per cent in July 2016 to 4.2 per cent in January 2017 (the latest reading). Registered unemployment measured by the Norwegian Labour and Welfare Administration declined slightly and was 2.9 per cent in March 2017. The unemployment rate has dropped during the recent period, as measured by both Statistics Norway's labour force survey and the Norwegian Labour and Welfare Administration's statistics of registered unemployed people. Employment growth, however, remains weak, with virtually unchanged employment figures throughout 2016. The national accounts show signs of a slight increase in employment towards the end of last year, while the labour force survey shows a decline.

Consumer price growth has slowed markedly in recent months. The weak exchange rate gave a temporary rise in inflation in 2016, and lower price growth was expected when exchange rate effects were phased out of the inflation figures. However, the decline emerged more quickly and was stronger than expected. The parties in the labour market agreed on a framework for the wage negotiations of 2.4 per cent, which indicates that domestic price pressure will remain moderate in the period ahead.

Future prospects

The downside risk of commercial property was reduced in 2016, and prospects are considered to be good for 2017. The loan portfolio and volume-weighted spreads are expected to be stable in the period ahead.

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

Oslo, 27 April 2017
The Board of Directors of DNB Næringskreditt AS

Kjerstin R. Braathen
(chairman)

Jørn E. Pedersen

Eva-Lill Strandskogen

Per Sagbakken
(chief executive officer)

Comprehensive income statement

Amounts in NOK million	Note	DNB Næringskreditt AS 1st quarter 2017	1st quarter 2016	Full year 2016
Total interest income	6	179	183	733
Total interest expenses	6	(89)	(92)	(382)
Net interest income	**6**	**90**	**91**	**351**
Commission and fee income		0	0	1
Commission and fee expenses		(0)	(0)	(0)
Net gains on financial instruments at fair value	7	(10)	1	(14)
Net other operating income		**(10)**	**1**	**(14)**
Total income		**80**	**92**	**338**
Other expenses	12	(28)	(27)	(86)
Total operating expenses		**(28)**	**(27)**	**(86)**
Impairment of loans and commitments	8	0	(1)	1
Pre-tax operating profit		**52**	**65**	**253**
Tax expense		(13)	(16)	(63)
Profit for the period		**39**	**49**	**190**
Total comprehensive income for the period		**39**	**49**	**190**

Balance sheet

Amounts in NOK million	Note	DNB Næringskreditt AS 31 March 2017	31 Dec. 2016	31 March 2016
Assets				
Due from credit institutions	10, 11	113	113	75
Loans to customers	8, 11	26 056	25 251	26 695
Financial derivatives	10	113	104	162
Other assets		0	1	1
Total assets		**26 282**	**25 470**	**26 933**
Liabilities and equity				
Due to credit institutions	11	18 443	17 699	19 089
Debt securities issued	9, 10, 11	2 118	2 100	2 143
Payable taxes		80	67	73
Deferred taxes		3	3	6
Other liabilities		10	13	12
Total liabilities		**20 654**	**19 881**	**21 323**
Share capital		550	550	550
Share premium		4 604	4 604	4 604
Other equity		474	435	456
Total equity		**5 629**	**5 589**	**5 610**
Total liabilities and equity		**26 282**	**25 470**	**26 933**

Statement of changes in equity

DNB Næringskreditt AS

Amounts in NOK million	Share capital	Share premium	Other equity	Total equity
Balance sheet as at 31 December 2015	**550**	**4 604**	**408**	**5 562**
Profit for the period			49	49
Total comprehensive income for the period			**49**	**49**
Balance sheet as at 31 March 2016	**550**	**4 604**	**456**	**5 610**
Balance sheet as at 31 December 2016	**550**	**4 604**	**435**	**5 589**
Profit for the period			39	39
Total comprehensive income for the period			**39**	**39**
Balance sheet as at 31 March 2017	**550**	**4 604**	**474**	**5 629**

Share capital

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

Cash flow statement

Amounts in NOK million	1st quarter 2017	1st quarter 2016	Full year 2016
Operating activities			
Net receipts on loans to customers	771	3 068	8 629
Interest received from customers	188	172	723
Net receipts/payments on loans to/from credit institutions	744	(29)	(1 418)
Interest received from credit institutions	0	1	1
Interest paid to credit institutions	(80)	(82)	(383)
Payments for operating expenses	(31)	(24)	(83)
Taxes paid		(3)	
Net cash flow relating to operating activities	**1 593**	**3 103**	**7 470**
Investing activities			
Net purchase of loan portfolio	(1 585)	(3 095)	(7 212)
Net cash flow relating to investing activities	**(1 585)**	**(3 095)**	**(7 212)**
Financing activities			
Interest payments on issued bonds and commercial paper	(9)	(9)	(35)
Group contribution paid			(222)
Net cash flow from financing activities	**(9)**	**(9)**	**(256)**
Net cash flow	**(1)**	**(0)**	**1**
Cash as at 1 January	2	0	0
Net payments of cash	(1)	(0)	1
Cash at end of period	1	(0)	2

Note 1 Basis for preparation

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

Note 2 Capital adequacy

Primary capital

Amounts in NOK million	DNB Næringskreditt AS 31 March 2017	 31 Dec. 2016
Share capital	550	550
Other equity	5 039	5 039
Total equity	5 589	5 589
Deductions		
Expected losses exceeding actual losses, IRB-portfolios	(22)	(19)
Value adjustments due to the requirements for prudent valuation (AVA)	(1)	(0)
Adjustments for deferred tax assets		
Adjustment for unrealised losses/(gains) on debt recorded at fair value	(4)	(4)
Allocated group contributions for payment	(190)	(190)
Tier 1 capital	5 373	5 376
Total eligible primary capital	5 373	5 376
Risk-weighted volume, transitional rules	20 655	20 029
Minimum capital requirement, transitional rules	1 652	1 602
Tier 1 capital ratio, transitional rules (%)	26.0	26.8
Capital ratio, transitional rules (%)	26.0	26.8

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

Specification of risk-weighted volume and capital requirements

DNB Næringskreditt AS

Amounts in NOK million	Nominal exposure 31 March 2017	EAD [1] 31 March 2017	Risk-weighted volume 31 March 2017	Capital require-ments 31 March 2017	Capital require-ments 31 Dec. 2016
IRB approach					
Corporate	24 891	24 891	6 556	525	503
Total credit risk, IRB approach	24 891	24 891	6 556	525	503
Standardised approach					
Institutions	353	129	26	2	2
Corporate	1 172	1 172	1 172	94	124
Other assets	0	0	0	0	0
Total credit risk, standardised approach	1 525	1 301	1 198	96	126
Total credit risk	26 416	26 192	7 754	620	629
Credit value adjustment (CVA)			8	1	13
Operational risk			667	53	53
Total risk-weighted volume and capital requirements before transitional rules			8 429	674	695
Additional capital requirements according to transitional rules			12 226	978	907
Total risk-weighted volume and capital requirements			20 655	1 652	1 602

1) EAD, exposure at default.

Note 3 Credit risk

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

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

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

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

Note 4 Market risk

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

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

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

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

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

Note 5 Liquidity risk

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

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

According to Section 11-12 of the Financial Institutions Act: "the mortgage institution shall ensure that payment flows from the cover assets at all times enable the mortgage institution to meet its payment obligations to the owners of bonds with preferential rights and counterparties in derivative agreements". The company's Board of Directors has decided that the company shall, at all times, have positive cash flows over the next 12 months. In a situation where the net cash flow from the lending and funding activities is negative, the company has a long-term overdraft facility in DNB Bank ASA with a total limit of NOK 30 billion.

According to Section 6 in the regulations on sound liquidity management, "the institution shall analyze the liquidity situation by means of stress tests, which must be adapted to the scope, complexity and risk of operations. Experience from the stress tests shall be used when the Board of Directors considers the liquidity strategy and approves liquidity risk limits". As part of its liquidity risk management, the company prepares liquidity stress tests with quarterly reporting to the Board of Directors.

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

Note 6 Net interest income

Amounts in NOK million	DNB Næringskreditt AS 1st quarter 2017	1st quarter 2016	Full year 2016
Interest on amounts due from credit institutions	0	1	1
Interest on loans to customers	179	183	732
Other interest income	0	(0)	0
Total interest income	**179**	**183**	**733**
Interest on amounts due to credit institutions	(75)	(78)	(327)
Interest on debt securities issued	(14)	(14)	(55)
Total interest expenses	**(89)**	**(92)**	**(382)**
Net interest income	**90**	**91**	**351**

Note 7 Net gains on financial instruments at fair value

Amounts in NOK million	DNB Næringskreditt AS 1st quarter 2017	1st quarter 2016	Full year 2016
Net gains on financial liabilities, designated as at fair value [1)]	(9)	(31)	2
Net gains on financial derivatives, trading [2)]	(1)	32	(16)
Net gains on financial instruments at fair value	**(10)**	**1**	**(14)**

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

Note 8 Loans to customers

Loans to customers, including accrued interest, totaled NOK 26.1 billion at end-March 2017 (NOK 26.7 billion as at end-March 2016). There was no objective evidence of a decrease in value requiring individual impairment of the loans. Nor were any allocations made for individual impairment.

The loans have been reviewed for collective impairment. At end-March 2017, there were net reversals on collective impairment losses with NOK 0.3 million.

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

Amounts in NOK million	DNB Næringskreditt AS 31 March 2017	31 Dec. 2016	31 March 2016
Loans to customers, nominal amount	25 963	25 149	26 593
Accrued interest	98	107	109
Collective impairment	(5)	(5)	(7)
Total loans to customers	**26 056**	**25 251**	**26 695**

Amounts in NOK million	DNB Næringskreditt AS 31 March 2017	31 Dec. 2016	31 March 2016
Impairment as per 1 January	(5)	(6)	(6)
Changes in collective impairment	0	1	(1)
Impairment at end of period	(5)	(5)	(7)

Note 9 Debt securities issued

Amounts in NOK million ISIN Code	Currency	Nominal value	Interest	Issued	Matured	DNB Næringskreditt AS 31 March 2017	31 Dec. 2016	31 March 2016
NO 0010694425	NOK	1 000	Floating	2013	2 018	1 000	1 000	1 000
NO 0010694474	NOK	1 000	Fixed	2013	2 023	1 102	1 093	1 126
Accrued interest						17	7	17
Total debt securities issued						**2 118**	**2 100**	**2 143**

Cover pool

Amounts in NOK million	DNB Næringskreditt AS 31 March 2017	31 Dec. 2016	31 March 2016
Pool of eligible loans	24 915	23 864	25 779
Market value of eligible derivatives	113	104	162
Total collateralised assets	**25 028**	**23 968**	**25 940**
Debt securities issued, carrying value	2 118	2 100	2 143
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(1)	6	20
Debt securities issued, valued according to regulation [1)]	**2 117**	**2 106**	**2 162**
Collateralisation (per cent)	1 182	1 138	1 200

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

Note 10 Financial instruments at fair value

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

Amounts in NOK million	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	DNB Næringskreditt AS Total
Assets as at 31 March 2016				
Financial derivatives		162		162
Liabilities as at 31 March 2016				
Debt securities issued		1 140		1 140

In the second quarter of 2016 DNB Næringskreditt entered into repurchase agreements (repos) with the bank as counterparty. The fair value of the repos is presented in level 2 and amounted to NOK 112 million as at 31 March 2017. For a further description of the instruments and valuation techniques, see the annual report for 2016.

Note 11 Fair value of financial instruments at amortised cost

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

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

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

The table shows estimated fair values of items carried at amortised cost. For a further description of valuation methods, see the annual report for 2016.

Fair value of financial instruments at amortised cost

DNB Næringskreditt AS

	31 March 2017		31 March 2016	
Amounts in NOK million	Carrying amount	Fair value	Carrying amount	Fair value
Due from credit institutions	1	1	75	75
Loans to customers	26 056	26 056	26 695	26 695
Total financial assets	26 057	26 057	26 771	26 771
Due to credit institutions	18 443	18 443	19 089	19 089
Debt securities issued	1 002	1 007	1 002	1 005
Total financial liabilities	19 445	19 450	20 091	20 094

DNB Næringskreditt AS

Amounts in NOK million	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	Total
Assets as at 31 March 2017				
Due from credit institutions		1		1
Loans to customers			26 056	26 056
Liabilities as at 31 March 2017				
Due to credit institutions		18 443		18 443
Debt securities issued		1 007		1 007

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

Debt securities issued with a floating interest rate are carried at amortised cost. If measured at fair value, a positive or negative effect of changes in credit risk would have been recorded. Loans due to credit institutions are mainly at floating interest rates and carried at amortised cost, which is considered not to diverge significantly from fair value.

Note 12 Information on related parties

DNB Bank ASA

In the first quarter of 2017, portfolios of NOK 1.6 billion were transferred from the bank to DNB Næringskreditt in accordance with the "Agreement relating to transfer of loan portfolio between DNB Bank ASA and DNB Næringskreditt AS".

The management fee paid to the bank for purchased services is recognised as "Other expenses" in the statement of comprehensive income and amounted to NOK 25 million in the first quarter of 2017 (NOK 24 million in the first quarter of 2017).

At end-March, the bank had invested NOK 0.9 billion in covered bonds issued by DNB Næringskreditt.

In the first quarter of 2017 DNB Næringskreditt entered into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The value of the repos amounted to NOK 112 million at end-March 2017.

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

DNB Boligkreditt AS

DNB Næringskreditt has no employees and purchases administrative services from DNB Boligkreditt. On an annual basis, DNB Næringskreditt hires staff representing 2 full-time equivalents. The management fee amounted to NOK 0.6 million in the first quarter of 2017.

Profit and balance sheet trends

Comprehensive income statement

DNB Næringskreditt AS

Amounts in NOK million	1st quarter 2017	4th quarter 2016	3rd quarter 2016	2nd quarter 2016	1st quarter 2016
Total interest income	179	188	182	180	183
Total interest expenses	(89)	(99)	(96)	(94)	(92)
Net interest income	**90**	**89**	**86**	**86**	**91**
Commission and fee income	0	0	0	0	0
Commission and fee expenses	(0)	(0)	(0)	(0)	(0)
Net gains on financial instruments at fair value	(10)	(2)	(8)	(5)	1
Net other operating income	**(10)**	**(2)**	**(8)**	**(5)**	**1**
Total income	**80**	**87**	**78**	**81**	**92**
Other expenses	(28)	(22)	(16)	(21)	(27)
Total operating expenses	**(28)**	**(22)**	**(16)**	**(21)**	**(27)**
Impairment of loans and commitments	0	0	0	1	(1)
Pre-tax operating profit	**52**	**65**	**62**	**61**	**65**
Tax expense	(13)	(16)	(16)	(15)	(16)
Profit for the period	**39**	**49**	**47**	**46**	**49**
Total comprehensive income for the period	**39**	**49**	**47**	**46**	**49**

Balance sheet

DNB Næringskreditt AS

Amounts in NOK million	31 March 2017	31 Dec. 2016	30 Sept. 2016	30 June 2016	31 March 2016
Assets					
Due from credit institutions	113	113	112	112	75
Loans to customers	26 056	25 251	26 907	25 913	26 695
Financial derivatives	113	104	166	174	162
Other assets	0	1	1	1	1
Total assets	**26 282**	**25 470**	**27 186**	**26 200**	**26 933**
Liabilities and equity					
Due to credit institutions	18 443	17 699	19 430	18 504	19 089
Debt securities issued	2 118	2 100	2 159	2 160	2 143
Payable taxes	80	67	44	29	73
Deferred taxes	3	3	6	6	6
Other liabilities	10	13	5	7	12
Total liabilities	**20 654**	**19 881**	**21 645**	**20 706**	**21 323**
Share capital	550	550	550	550	550
Share premium	4 604	4 604	4 604	4 604	4 604
Other equity	474	435	387	340	456
Total equity	**5 629**	**5 589**	**5 541**	**5 494**	**5 610**
Total liabilities and equity	**26 282**	**25 470**	**27 186**	**26 200**	**26 933**

Contact information

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Other sources of information

Annual and quarterly reports

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

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When it matters the most.

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