DNB Næringskreditt AS

A company in the DNB Group

DNB

SECOND QUARTER AND FIRST HALF REPORT 2017

(Unaudited)

Financial highlights

Income statement

DNB Næringskreditt AS

Amounts in NOK million	2nd quarter 2017	2nd quarter 2016	January-June 2017	January-June 2016	Full year 2016
Net interest income	87	86	177	177	351
Net other operating income	(4)	(5)	(14)	(3)	(14)
Total operating expenses	(28)	(21)	(56)	(48)	(86)
Impairment of loans and commitments	2	1	2	0	1
Pre-tax operating profit	57	61	110	126	253
Tax expense	(14)	(15)	(27)	(31)	(63)
Profit for the period	**43**	**46**	**82**	**94**	**190**

Balance sheet

Amounts in NOK million	30 June 2017	31 Dec. 2016	30 June 2016
Total assets	25 155	25 470	26 200
Loans to customers	24 927	25 251	25 913
Debt securities issued	2 128	2 100	2 160
Total equity	5 482	5 589	5 494

Key figures

	2nd quarter 2017	2nd quarter 2016	January-June 2017	January-June 2016	Full year 2016
Total average spread for lending (%) [1)]	1.02	0.92	1.03	0.97	0.94
Return on equity, annualised (%)	3.1	3.3	3.0	3.4	3.4
Common equity Tier 1 capital ratio, transitional rules (%)	27.3	26.1	27.3	26.1	26.8
Capital ratio, transitional rules (%)	27.3	26.1	27.3	26.1	26.8
Common equity Tier 1 capital (NOK million)	5 365	5 365	5 365	5 365	5 376
Risk-weighted volume, transitional rules (NOK million)	19 659	20 583	19 659	20 583	20 029

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

Second quarter and first half report 2017

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 43 million in the second quarter of 2017, compared with a profit of NOK 46 million in the second quarter of 2016.

Total income

Income totalled NOK 83 million in the second quarter of 2017, compared with NOK 81 million in the year-earlier period.

Amounts in NOK million	2nd quarter 2017	Change	2nd quarter 2016
Total income	83	2	81
Net interest income		1	
Net commission and fee income			
Net gains/(losses) on financial instruments at fair value		1	

Net interest income increased by NOK 1 million from the second quarter of 2016 to the second quarter of 2017, while net losses on interest rate swaps were down from NOK 5 million to NOK 4 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 24 million in the second quarter of 2017, up from NOK 17 million in the second quarter of 2016.

The company has recorded no individual impairment losses in previous years, which was also the case in the second 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-June 2017, DNB Næringskreditt had total assets of NOK 25.2 billion, a decrease of NOK 1.0 billion, or 4.0 per cent, from end-June 2016.

Amounts in NOK million	30 June 2017	Change	30 June 2016
Total assets	25 155	(1 045)	26 200
Loans to customers		(986)	
Financial derivatives		(55)	
Other assets		(4)	
Total liabilities	19 673	(1 033)	20 706
Due to credit institutions		(1 000)	
Debt securities issued		(32)	
Other liabilities		(1)	

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 second quarter of 2017. Total debt securities issued amounted to NOK 2.1 billion at end-June 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-June 2017, 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 both 27.3 per cent. The Board of Directors considers the company to be adequately capitalised relative to the risk level in the loan portfolios and other operations.

New regulatory framework

New rules on deposit guarantee scheme and crisis management for banks

The Ministry of Finance has proposed new legislation to the Norwegian parliament (Stortinget) for banking crisis resolution and the deposit guarantee scheme. The amending legislation will implement the EU Bank Recovery and Resolution Directive (BRRD) and the revised directive on Deposit Guarantee Schemes (DGS) in Norway. Both directives are EEA relevant, but have not yet been included in the EEA Agreement.

Among other things, the Ministry of Finance proposes that plans be drawn up for the recovery and crisis management of individual banks, and that Finanstilsynet be given new tools to intervene at an early stage when banks have financial problems. Among the proposed crisis resolution measures, internal recapitalisation (bail-in) is the most significant change compared with current legislation. Bail-in implies that parts of the debt of the bank in resolution are converted to equity, whereby losses are covered and the bank is capitalised to a level where operations can be continued.

Norway currently has one of the best capitalised deposit guarantee funds in Europe. In line with the EU directives, the Ministry of Finance proposes to transfer the capital to two new funds that will fund the deposit guarantee and resolution measures. The directives require that the funds represent minimum 1.8 per cent of guaranteed deposits in 2024. The level of capital in both Norwegian funds already exceeds the target set by the EU.

In addition, the Ministry of Finance proposes to retain the requirement of annual payments from the banks to the funds. Payments from DNB to the funds will be higher than today. This is mainly due to the fact that the duty to contribute to the resolution fund will also apply to DNB's mortgage institutions. Payments to the new funds will be more strongly differentiated according to risk, which implies that the banks with the highest risk level must pay a larger share.

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", will also be introduced. The Ministry of Finance has set a minimum requirement of 3 per cent as of 30 June 2017. All banks must have a buffer on top of the minimum 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 will thus be 6 per cent. The additional buffer requirements will not apply to DNB Næringskreditt, which means that 3 per cent will be the effective requirement.

Macroeconomic developments

Global GDP growth ended at 3.0 per cent in 2016 and looks set to be slightly higher this year. Growth will probably increase further in 2018. A rise is expected for both industrialised countries and emerging economies, though the level of growth is expected to remain low in the industrial countries. Nevertheless, a further decline in unemployment is anticipated in these countries, while price inflation will remain below the central banks' targets.

The Chinese economy continued to grow strongly in 2016, by 6.7 per cent, which was in line with the authorities' ambition of a growth rate between 6.5 and 7.0 per cent. The pace of growth has slowed somewhat in 2017, with a weaker development within real estate and infrastructure investments. Growth is expected to decelerate further during the year, but large parts of the economy, including consumption, remain strong and contribute to a relatively moderate slowdown. Due to factors such as high debt levels and unprofitable investments, there is a risk of a crisis further ahead in time. 2016 was a quite good year for the Japanese economy, which grew by 1.0 per cent from the year before. A slightly lower future growth rate is expected, reflecting the limited growth potential caused, among other things, by demographic factors.

In the United States, the cyclical upturn looks set to continue. There was weak growth in the first quarter, though this was probably due to temporary factors. The level of activity is expected to pick up next year as a result of an expansionary fiscal policy. The rate of unemployment has declined further, while employment growth has been somewhat weaker in recent months. Overall, the labour market is still strong. Wage growth is nevertheless 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 its policy rate in both March and June and is expected to implement further rate increases in December this year and twice next year. In addition, the Federal Reserve will probably start to scale down its balance sheet by reducing reinvestments in Treasury bills and mortgage-backed securities during the year.

In the euro area, GDP growth in the first quarter was higher than expected and confidence indexes for households and businesses indicate a further recovery. Business investment is up and will probably represent a higher share of GDP after many years of sluggish growth. However, the confidence indexes appear to focus too strongly on activity levels. Moreover, consumption is expected to decline in step with higher inflation and lower growth in households' real income. Wage growth is still low and inflation is likely to remain below the central bank target for a long time. The European Central Bank will probably continue to pursue an expansionary monetary policy for many years and to gradually scale down its asset purchases, which will not end until 2019.

In the UK, there will probably be significantly weaker growth in the period ahead as a result of uncertainty about the exit agreement with the EU and new trade agreements. This will probably contribute to lowering both consumption and investments. In consequence of weaker growth, the Bank of England will keep its policy rate unchanged for a long time, in spite of the temporary high inflation resulting from the depreciating pound in the aftermath of the Brexit vote. Uncertainty regarding the process around Brexit and the results thereof makes future prospects more unpredictable than normal.

GDP growth for Mainland Norway was significantly stronger in the first quarter of the year than throughout last year and also showed signs of being broadly based. A less pronounced drop in oil investments and a certain rise in private consumption are expected to provide a slight increase in growth this year. From next year onwards, the upswing will be curbed by lower housing investment and a more neutral contribution from fiscal policy. Unemployment seems to have peaked. The unemployment rate has dropped from its highest level, 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 has also increased somewhat, but is still moderate.

The tightening of the home mortgage lending regulation as of 1 January 2017 has contributed to prices levelling off during the first six months of this year. Combined with greater housebuilding activity and the fact that mortgage rates appear to have bottomed out, this is expected to result in housing prices levelling off over the next few years. A general improvement in the Norwegian economy and continued low interest rates limit the downside in housing prices.

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, 11 July 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	2nd quarter 2017	2nd quarter 2016	January-June 2017	January-June 2016	Full year 2016
		DNB Næringskreditt AS				
Total interest income	6	171	180	350	363	733
Total interest expenses	6	(83)	(94)	(173)	(187)	(382)
Net interest income	**6**	**87**	**86**	**177**	**177**	**351**
Commission and fee income		0	0	0	0	1
Commission and fee expenses		(0)	(0)	(0)	(0)	(0)
Net gains on financial instruments at fair value	7	(4)	(5)	(14)	(4)	(14)
Net other operating income		**(4)**	**(5)**	**(14)**	**(3)**	**(14)**
Total income		**83**	**81**	**164**	**173**	**338**
Other expenses	12	(28)	(21)	(56)	(48)	(86)
Total operating expenses		**(28)**	**(21)**	**(56)**	**(48)**	**(86)**
Impairment of loans and commitments	8	2	1	2	0	1
Pre-tax operating profit		**57**	**61**	**110**	**126**	**253**
Tax expense		(14)	(15)	(27)	(31)	(63)
Profit for the period		**43**	**46**	**82**	**94**	**190**
Total comprehensive income for the period		**43**	**46**	**82**	**94**	**190**

Balance sheet

Amounts in NOK million	Note	30 June 2017	31 Dec. 2016	30 June 2016
		DNB Næringskreditt AS		
Assets				
Due from credit institutions	10, 11	109	113	112
Loans to customers	8, 11	24 927	25 251	25 913
Financial derivatives	10	119	104	174
Other assets		0	1	1
Total assets		**25 155**	**25 470**	**26 200**
Liabilities and equity				
Due to credit institutions	11	17 504	17 699	18 504
Debt securities issued	9, 10, 11	2 128	2 100	2 160
Payable taxes		31	67	29
Deferred taxes		3	3	6
Other liabilities		8	13	7
Total liabilities		**19 673**	**19 881**	**20 706**
Share capital		550	550	550
Share premium		4 604	4 604	4 604
Other equity		328	435	340
Total equity		**5 482**	**5 589**	**5 494**
Total liabilities and equity		**25 155**	**25 470**	**26 200**

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			94	94
Total comprehensive income for the period			**94**	**94**
Group contribution paid			(162)	(162)
Balance sheet as at 30 June 2016	**550**	**4 604**	**340**	**5 494**
Balance sheet as at 31 December 2016	**550**	**4 604**	**435**	**5 589**
Profit for the period			82	82
Total comprehensive income for the period			**82**	**82**
Group contribution paid			(190)	(190)
Balance sheet as at 30 June 2017	**550**	**4 604**	**328**	**5 482**

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

	January-June		Full year
Amounts in NOK million	2017	2016	2016
Operating activities			
Net receipts on loans to customers	2 134	4 563	8 629
Interest received from customers	367	363	723
Net payments on loans to/from credit institutions	(191)	(613)	(1 418)
Interest received from credit institutions	0	1	1
Interest paid to credit institutions	(156)	(205)	(383)
Payments for operating expenses	(60)	(49)	(83)
Taxes paid		(3)	
Net cash flow relating to operating activities	**2 095**	**4 056**	**7 470**
Investing activities			
Net purchase of loan portfolio	(1 826)	(3 817)	(7 212)
Net cash flow relating to investing activities	**(1 826)**	**(3 817)**	**(7 212)**
Financing activities			
Interest payments on issued bonds and commercial paper	(17)	(18)	(35)
Group contribution paid	(253)	(222)	(222)
Net cash flow from financing activities	**(270)**	**(240)**	**(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 30 June 2017	 31 Dec. 2016
Share capital	550	550
Other equity	4 850	5 039
Total equity	5 400	5 589
Deductions		
Expected losses exceeding actual losses, IRB-portfolios	(31)	(19)
Value adjustments due to the requirements for prudent valuation (AVA)	(0)	(0)
Adjustments for deferred tax assets		
Adjustment for unrealised losses/(gains) on debt recorded at fair value	(4)	(4)
Allocated group contributions for payment		(190)
Tier 1 capital	5 365	5 375
Total eligible primary capital	5 365	5 375
Risk-weighted volume, transitional rules	19 659	20 029
Minimum capital requirement, transitional rules	1 573	1 602
Tier 1 capital ratio, transitional rules (%)	27.3	26.8
Capital ratio, transitional rules (%)	27.3	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 30 June 2017	EAD [1] 30 June 2017	Risk-weighted volume 30 June 2017	Capital require-ments 30 June 2017	Capital require-ments 31 Dec. 2016
IRB approach					
Corporate	24 232	24 232	6 589	527	503
Total credit risk, IRB approach	24 232	24 232	6 589	527	503
Standardised approach					
Institutions	243	134	134	11	2
Corporate	700	700	700	56	124
Other assets					0
Total credit risk, standardised approach	943	834	834	67	126
Total credit risk	25 174	25 066	7 423	594	629
Credit value adjustment (CVA)			160	13	13
Operational risk			667	53	53
Total risk-weighted volume and capital requirements before transitional rules			8 250	660	695
Additional capital requirements according to transitional rules			11 409	913	907
Total risk-weighted volume and capital requirements			19 659	1 573	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	2nd quarter 2017	2nd quarter 2016	January-June 2017	January-June 2016	Full year 2016
	DNB Næringskreditt AS				
Interest on amounts due from credit institutions	0	0	0	1	1
Interest on loans to customers	171	180	350	363	732
Other interest income	0	(0)	0	(0)	0
Total interest income	**171**	**180**	**350**	**363**	**733**
Interest on amounts due to credit institutions	(70)	(81)	(145)	(159)	(327)
Interest on debt securities issued	(13)	(14)	(28)	(28)	(55)
Total interest expenses	**(83)**	**(94)**	**(173)**	**(187)**	**(382)**
Net interest income	**87**	**86**	**177**	**177**	**351**

Note 7 Net gains on financial instruments at fair value

Amounts in NOK million	2nd quarter 2017	2nd quarter 2016	January-June 2017	January-June 2016	Full year 2016
	DNB Næringskreditt AS				
Net gains on financial liabilities, designated as at fair value 1)	(0)	(8)	(9)	(39)	2
Net gains on financial derivatives, trading 2)	(4)	3	(5)	35	(16)
Net gains on financial instruments at fair value	**(4)**	**(5)**	**(14)**	**(4)**	**(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 24.9 billion at end-June 2017 (NOK 25.9 billion as at end-June 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-June 2017, there were net reversals on collective impairment losses with NOK 0.4 million.

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

Amounts in NOK million	30 June 2017	31 Dec. 2016	30 June 2016
	DNB Næringskreditt AS		
Loans to customers, nominal amount	24 841	25 149	25 820
Accrued interest	90	107	99
Collective impairment	(4)	(5)	(6)
Total loans to customers	**24 927**	**25 251**	**25 913**

Amounts in NOK million	30 June 2017	31 Dec. 2016	30 June 2016
	DNB Næringskreditt AS		
Impairment as per 1 January	(5)	(6)	(6)
Changes in collective impairment	2	1	0
Impairment at end of period	(4)	(5)	(6)

Note 9 Debt securities issued

Amounts in NOK million ISIN Code	Currency	Nominal value	Interest	Issued	Matured	DNB Næringskreditt AS 30 June 2017	31 Dec. 2016	30 June 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	1 133
Accrued interest						26	7	26
Total debt securities issued						**2 128**	**2 100**	**2 160**

Cover pool

Amounts in NOK million	DNB Næringskreditt AS 30 June 2017	31 Dec. 2016	30 June 2016
Pool of eligible loans	23 075	23 864	25 343
Market value of eligible derivatives	119	104	174
Total collateralised assets	**23 193**	**23 968**	**25 517**
Debt securities issued, carrying value	2 128	2 100	2 160
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(3)	6	14
Debt securities issued, valued according to regulation [1]	**2 125**	**2 106**	**2 173**
Collateralisation (per cent)	1 092	1 138	1 174

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 30 June 2017				
Due from credit institutions		108		108
Financial derivatives		119		119
Liabilities as at 30 June 2017				
Debt securities issued		1 126		1 126

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 30 June 2016				
Due from credit institutions		112		112
Financial derivatives		174		174
Liabilities as at 30 June 2016				
Debt securities issued		1 158		1 158

In the second quarter of 2016 DNB Næringskreditt entered into repurchase agreements (repos) with the bank as counterparty. The fair value of the repos is presented in level 2 and amounted to NOK 108 million as at 30 June 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

	30 June 2017		30 June 2016	
Amounts in NOK million	Carrying amount	Fair value	Carrying amount	Fair value
Due from credit institutions	1	1	0	0
Loans to customers	24 927	24 927	25 913	25 913
Total financial assets	24 928	24 928	25 913	25 913
Due to credit institutions	17 504	17 504	18 504	18 504
Debt securities issued	1 002	1 007	1 002	1 003
Total financial liabilities	18 505	18 510	19 506	19 507

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 30 June 2017				
Due from credit institutions		1		1
Loans to customers			24 927	24 927
Liabilities as at 30 June 2017				
Due to credit institutions		17 504		17 504
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 half of 2017, portfolios of NOK 1.9 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 49 million for the first half of 2017 (NOK 41 million for the first half of 2016).

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

In the first half of 2017 DNB Næringskreditt entered into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The value of the repos amounted to NOK 108 million at end-June 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 2.0 million in the first half of 2017.

Statement
pursuant to Section 5-6 of the Securities Trading Act

We hereby confirm that the half-yearly financial statements for the company for the period 1 January through 30 June 2017 to the best of our knowledge have been prepared in accordance with IAS 34 Interim Financial Reporting, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole.

To the best of our knowledge, the half-yearly report gives a true and fair:

- overview of important events that occurred during the accounting period and their impact on the half-yearly financial statements
- description of the principal risks and uncertainties facing the company over the next accounting period
- description of major transactions with related parties.

Oslo, 11 July 2017
The Board of Directors of DNB Næringskreditt AS

Kjerstin R. Braathen
(chairman)

Jørn E. Pedersen

Eva-Lill Strandskogen

Per Sagbakken
(chief executive officer)

Profit and balance sheet trends

Comprehensive income statement

DNB Næringskreditt AS

Amounts in NOK million	2nd quarter 2017	1st quarter 2017	4th quarter 2016	3rd quarter 2016	2nd quarter 2016
Total interest income	171	179	188	182	180
Total interest expenses	(83)	(89)	(99)	(96)	(94)
Net interest income	**87**	**90**	**89**	**86**	**86**
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	(4)	(10)	(2)	(8)	(5)
Net other operating income	**(4)**	**(10)**	**(2)**	**(8)**	**(5)**
Total income	**83**	**80**	**87**	**78**	**81**
Other expenses	(28)	(28)	(22)	(16)	(21)
Total operating expenses	**(28)**	**(28)**	**(22)**	**(16)**	**(21)**
Impairment of loans and commitments	2	0	0	0	1
Pre-tax operating profit	**57**	**52**	**65**	**62**	**61**
Tax expense	(14)	(13)	(16)	(16)	(15)
Profit for the period	**43**	**39**	**49**	**47**	**46**
Total comprehensive income for the period	**43**	**39**	**49**	**47**	**46**

Balance sheet

DNB Næringskreditt AS

Amounts in NOK million	30 June 2017	31 March 2017	31 Dec. 2016	30 Sept. 2016	30 June 2016
Assets					
Due from credit institutions	109	113	113	112	112
Loans to customers	24 927	26 056	25 251	26 907	25 913
Financial derivatives	119	113	104	166	174
Other assets	0	0	1	1	1
Total assets	**25 155**	**26 282**	**25 470**	**27 186**	**26 200**
Liabilities and equity					
Due to credit institutions	17 504	18 443	17 699	19 430	18 504
Debt securities issued	2 128	2 118	2 100	2 159	2 160
Payable taxes	31	80	67	44	29
Deferred taxes	3	3	3	6	6
Other liabilities	8	10	13	5	7
Total liabilities	**19 673**	**20 654**	**19 881**	**21 645**	**20 706**
Share capital	550	550	550	550	550
Share premium	4 604	4 604	4 604	4 604	4 604
Other equity	328	474	435	387	340
Total equity	**5 482**	**5 629**	**5 589**	**5 541**	**5 494**
Total liabilities and equity	**25 155**	**26 282**	**25 470**	**27 186**	**26 200**

Contact information

DNB Næringskreditt AS

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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

DNB ASA

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Here for you. Every day.
When it matters the most.

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