DNB

DNB LUXEMBOURG S.A.
Annual report 2013

DNB Luxembourg S.A.

13, rue Goethe
L-1637 Luxembourg

R.C.S. Luxembourg B 22.374

Annual accounts as at 31 December 2013,
Management report, and
Independent auditor's report

Table of contents

The Board of Directors

Mr Tom RATHKE	Group vice president, Wealth Management - Board Member and Chairman
Mrs Trine LOE	Executive vice president, DNB Bank ASA London Branch - Board Member
Mr Håkon HANSEN	Managing Director, DNB Luxembourg S.A. - Board Member (as from 21 March 2013)
Mrs Ingrid TJØNNELAND	Executive vice president, DNB Bank ASA - Board Member (until 21 March 2013)
Mr Jørgen HJEMDAL	Executive director, DNB Asset Management AS - Board Member (until 21 March 2013)

Report of the board of directors

The Board is pleased to submit its report for the year ending 31 December 2013, which has, all in all, been a satisfactory period for the Bank.

Economic growth in 2013 came to just above 3% globally, with +1.9% in the US, -0.4% in the Eurozone and +7.7% in China. However, in the second half of the year, growth in both industrialised countries and emerging economies headed towards what can be considered normal rates of 2% and just over 5% respectively. There were a number of fundamental drivers of the upturn in the industrial countries. The first one was a still very expansionary monetary policy combined with a reduction of government budget deficits and record-low interest rates. The second was that the European sovereign debt crisis has been handled, at least for now, thanks to the joint efforts of the European Central Bank (ECB) and European governments. The third was that low growth and high unemployment rates have limited price and wage growth, especially in the countries that were most affected by the crisis, thereby increasing their competitive strength. A fourth factor is that the world economy did not undergo significant unexpected shocks. There were no major disruptions of oil markets, no new sovereign debt crises, no new wars or earthquakes. Some unpleasant episodes occurred though, such as the Cyprus crisis and the federal shutdown in the U.S. in October, but these were kept under control largely thanks to the market's confidence in the measures implemented by the ECB and the Fed.

The same factors are expected to continue to drive economic recovery in 2014. None of the industrialised countries' central banks are expected to raise key interest rates, as their economies are still characterised by abnormally high unemployment rates and the absence of inflationary pressure. Assuming that there are no new shocks, the pricing of risk should be reduced further. It is also expected that the public debt burden will decline, that job markets will progressively improve thereby contributing to increased demand, investment and corporate earnings, and that the cuts in public spending will be less drastic than in previous years. Risk factors have to be taken into account, too, though and include the possibility of hard landing in China, the US economy reaching its maximum capacity faster than currently anticipated, and new debt crises or similar episodes in the Eurozone. In consideration of these elements, the prediction for 2014 is a growth rate of 3.7% globally, with 3% in the US, 1.3% in the Eurozone and still above 7% in China.

Growth in Norway came to less than 2% in 2013. This is the lowest level since 2010, and is the result of a low level of investments in the oil sector, a near standstill in consumption and low growth in exports. Unemployment rates rose, and house prices fell somewhat in the last half of the year after several years of strong growth. A similar pattern may be expected for the next three years. However, the anticipated expansionary budget policy, growth in exports, and persistent low interest rates should help limit the downturn. The deterioration of economic fundamentals triggered a sharp depreciation of the Norwegian currency. DNB’s view, however, is that that the magnitude of the noted variation is exaggerated and a stronger NOK is expected going forward[1].

Under these macroeconomic conditions, the Bank continued to successfully adhere to its long-term strategy, which is to deliver high-quality private banking and mortgage services to DNB customers with international needs. The mortgage portfolio continued to grow at a steady pace, to a total of EUR 291m at the end of the year, an increase of over 37% compared to 2012. Total customer assets in the form of cash deposits and securities held in trust, also grew substantially.

[1] Source and further details : DNB Markets Economic Outlook, January 2014.
See www.dnb.no/en/analyses

We continued to focus on meeting the expectations of our customers, extensive travel and marketing activities, and co-operation with the parent company and other international offices in the DNB Group. Our core focus is still on Scandinavian (primarily Norwegian) customers, but we also target selective customers that come from other (primarily West European) countries and/or have established business relationships with other DNB entities.

Organisationally, the Bank is now part of the DNB group's Private Banking division under the newly established DNB Wealth Management business area. It has, however, maintained strong business ties with the Large Corporates and International (LCI) area, especially LCI's London operations. During the course of the year, the cooperation between the two DNB Group entities based in Luxembourg – i.e. the Bank and DNB Asset Management Luxembourg S.A. - was also strengthened. The composition of the Boards of the two units was adjusted to reflect the above changes, and remains fully aligned. Credit should also be given to our extremely loyal and dedicated staff. On the whole, transactions were processed without significant delays or errors. The manning of the Front Office, Operations and IT areas has been strengthened further, both to support the growth our business, and to ensure that we have sufficient resources available to implement our expansion plans for the coming year(s).

From a financial perspective, we are pleased to note that the core private banking and mortgage activities are firmly securing the structural profitability of the Bank. The increase in operating income (EUR 12.3m, compared to EUR 9.9m in 2012) reflects substantial growth in both private banking and mortgage lending. Operating expenses rose from EUR 6m to EUR 7.1m following a general increase in activity levels, and "investments" made, especially in additional staff, in order to fuel the Bank's future development. The operating profit came to EUR 5.2m (2012: EUR 3.9m). Taking into account the impact of movements on provisions and taxes, the Bank thus ended the financial year with a net profit of EUR 4.5m (2012: EUR 2.9m).

The change in the total balance sheet (to EUR 1,739m compared to EUR 1,044m at the end of 2012) is primarily due to increases of the mortgage loan portfolio and customer deposits.

The Bank meets all of the applicable regulatory financial adequacy requirements, including those pertaining to solvency and liquidity. During the course of the year, the share capital was increased to EUR 30m in response to new requirements that apply to the DNB Group as a whole and to reflect the increase of the total balance sheet. The Bank was also fully self-funded at all times, with volumes of customer cash deposits no less than double the size of its loan commitments.

We are aiming to develop the Bank further in 2014, based on the same main objectives as before, i.e. meeting our customers' expectations, continued and controlled growth of our private banking and mortgage lending businesses, continued integration with and a satisfactory level of financial contribution to the Group, and an attractive work environment for our employees. The Bank obviously recognizes that its business activity may, to some extent, be affected by prevailing macroeconomic conditions. However, as part of the DNB group, the Bank is well-equipped to meet the various business, operational and regulatory challenges that may arise.

The Bank's risk management strategy involves maintaining conservative and moderate profiles in all of the different business areas. Management is closely involved in the risk management process and has overall responsibility for the supervision of controls, capital adequacy and liquidity. The Bank has very limited exposure to interbank counterparty and market risks, as all of its customers' interest-rate and foreign exchange transactions are covered by the parent bank.

The Bank offers housing loans to selected customers. These loans are secured by mortgages on properties in France and Spain, and are granted for amounts of up to 70 per cent of property value. Despite this indirect exposure to real estate markets, the Bank considers this activity to entail low risk all in all, thanks to a strict lending policy involving strong emphasis on customers' creditworthiness, and no “project financing” of any type, continuous expansion of in-house credit expertise, and close cooperation with the Group credit department. As of 31 December 2013, loan loss provisions were limited to EUR 0.1m.

In addition, the Bank grants investment loans to some of its private banking customers (EUR 60m at the end of 2013). These are mainly used to invest in low to medium-risk securities, which are pledged, together with cash deposits, as collateral for the loans. The value of the securities as collateral is determined on the basis of the associated risk level. The market value of pledged assets and the collateral coverage ratio of each loan are monitored on a daily basis. Historically, this lending activity has not resulted in any losses for the Bank.

The Bank monitors the various operational, legal, and other business-related risks by a number of means, including a proactive approach (including the involvement of management) to risk identification, assessment and mitigation, and to compliance with new and existing legal and regulatory requirements, constant improvement and streamlining of operating procedures, as well as close follow-up of operational incidents and observations made by auditors and compliance officers. Finally, the Bank formally adjusted its risk management set-up to meet the requirements set out in the CSSF circular 12/552, as amended. It should be emphasized, however, that the Bank had already met most of the substance requirements specified in this circular before that.

In accordance with article 70 of Luxembourg law 17/06/1992 relating to the accounts of credit institutions, we confirm that no events of importance have occurred since the end of the financial year; we also confirm that the Bank does not have a subsidiary, branch or representative office. In 2013, the Bank had no activities in the field of research and development, nor did it buy any of its own shares.

The Board of Directors would like to express its gratitude to the Bank’s employees and business partners for the fruitful collaboration during 2013. The Board also wishes to thank outgoing directors Ingrid Tjønneland and Jørgen Hjemdal for all they have done for the Bank.

The Board of Directors recommends that the annual accounts be presented for approval in the Annual General Meeting. It also recommends that the net profit for the year EUR 4,505,269, together with results carried forward from previous years should be allocated as follows: transfer to “net worth tax reserve” (cf. note 25 to the accounts) EUR 750,000, transfer to legal reserve (cf note 12 to the accounts) EUR 1,264,746, and the balance to result carried forward.

Luxembourg, 12 February 2014

DNB Luxembourg S.A.

Balance sheet
As of 31 December 2013
(expressed in EUR)

Assets

	Note(s)	2013	2012
Cash, balances with central banks and post office banks	**3**	**13,506,495**	**9,906,682**
Loans and advances to credit institutions	**3, 4, 8**	**1,368,950,581**	**772,784,618**
a) repayable on demand		208,191,484	144,256,834
b) other loans and advances		1,160,759,097	628,527,784
Loans and advances to customers	**3, 5, 22**	**351,187,468**	**257,921,195**
Debt and other fixed-income securities	**3, 6**	**410,000**	**---**
Tangible assets	**7**	**1,081,359**	**1,199,795**
Other assets	**8**	**58,568**	**442,340**
Prepayments and accrued income		**4,120,842**	**2,217,488**
Total assets	**10**	**1,739,315,313**	**1,044,472,118**

The accompanying notes form an integral part of the annual accounts.

Liabilities

	Note(s)	2013	2012
Amounts owed to credit institutions	**3, 13**	**633,383,627**	**490,533,654**
a) repayable on demand		5,240,571	3,515,514
b) with agreed maturity dates or periods of notice		628,143,056	487,018,140
Amounts owed to customers	**3, 13**	**1,054,400,477**	**519,448,912**
a) repayable on demand		123,445,656	133,750,901
b) with agreed maturity dates or periods of notice		930,954,821	385,698,011
Other liabilities	**8**	**450,876**	**432,766**
a) preferential creditors		450,876	432,766
Accruals and deferred income		**2,788,509**	**1,086,920**
Provisions		**4,876,701**	**4,507,466**
a) provisions for taxation		1,878,921	2,018,923
b) other provisions	**24**	2,997,780	2,488,543
Subscribed capital	**11**	**30,000,000**	**17,352,547**
Reserves	**12, 25**	**5,135,255**	**4,385,254**
Profit brought forward	**12**	**3,774,599**	**3,745,464**
Profit for the financial year		**4,505,269**	**2,979,135**
Total liabilities	**14**	**1,739,315,313**	**1,044,472,118**

DNB Luxembourg S.A.

Off balance sheet
As of 31 December 2013
(expressed in EUR)

	Note(s)	2013	2012
Contingent liabilities	**3, 15**	**2,198,250**	**2,118,000**
of which:			
- guarantees and assets pledged as collateral security		2,198,250	2,118,000
Commitments	**3, 16**	**50,168,050**	**57,445,972**

DNB Luxembourg S.A.

Profit and loss account
For the year ended 31 December 2013
(expressed in EUR)

	Note(s)	2013	2012
Interest received and similar income		**26,045,755**	**19,921,457**
Interest paid and similar charges		**(17,619,057)**	**(13,502,499)**
Commission received		**4,105,921**	**3,020,796**
Commission paid		**(226,752)**	**(170,192)**
Net profit or loss on financial operations	**6**	**(247,122)**	**2,758**
Other operating income	**20**	**275,637**	**707,479**
General administrative expenses		**(6,783,906)**	**(5,826,173)**
a) staff costs	**22, 23**	(4,154,802)	(3,461,783)
of which:			
- wages and salaries		(3,600,518)	(2,986,697)
- social security costs		(301,450)	(287,409)
of which:			
- social security costs relating to pensions		(232,117)	(221,305)
b) other administrative expenses	**26**	(2,627,902)	(2,364,390)
Value adjustment in respect of tangible assets		**(320,576)**	**(254,068)**
Other operating charges	**21**	**(5,832)**	**(26,062)**
Value adjustment in respect of loans and advances and provisions for contingent liabilities and commitments		**---**	**(121,830)**
Profit before tax		**5,225,269**	**3,751,666**
Tax on profit on ordinary activities		**(720,000)**	**(772,531)**
Profit for the financial year		**4,505,269**	**2,979,135**

Note 1 – General

1.1. Corporate matters

DNB Luxembourg S.A., (hereafter “the Bank”), was established in Luxembourg on 3 January 1985 as a public limited company under Luxembourg law. The Bank is a wholly owned subsidiary of DNB Bank ASA, whose head office is at Dronning Eufemias gate 30, N-0191 Oslo. The consolidated accounts of DNB Bank ASA are available at its head office. The ultimate parent company is DNB ASA whose consolidated accounts can be obtained at the above address.

The Board of Directors consists of senior executives of DNB Bank ASA. The business policies and valuation principles applied by the Bank, unless prescribed by Luxembourg rules and regulations, are determined and monitored by the Board of Directors.

As of 31 December 2013, the registered office of the Bank is at 13, rue Goethe, L-1637 Luxembourg. The register number is R.C.S. No. B 22.374.

1.2. Nature of the Bank's business

The Bank is involved in credit and private banking activities.

The Bank's main products and services are the following:

- Current accounts and time deposits,
- Securities investments and custody,
- Foreign exchange transactions,
- Lombard (“money market” or “investment”) loans,
- Mortgage loans.

1.3. Annual accounts

The Bank prepares its annual accounts in Euro (EUR), the currency in which the capital is expressed.

The Bank's accounting year coincides with the calendar year.

Note 2 – Summary of significant accounting policies

The Bank prepares its annual accounts under the historical cost principle, in accordance with the laws and regulations in force in the Grand Duchy of Luxembourg and on the basis of accounting principles generally accepted in the banking sector in the Grand Duchy of Luxembourg.

The accounting policies and the valuation principles are determined and applied by the Board of Directors, except those which are defined by law and by the Commission de Surveillance du Secteur Financier.

In observing these, the following significant accounting policies are applied:

2.1. <u>The date of recording of transactions in the balance sheet</u>

Assets and liabilities are stated in the balance sheet according to when the amounts concerned become cleared funds, that is, their date of effective transfer.

2.2. <u>Foreign currencies</u>

The Bank maintains a multi-currency accounting system which records all transactions in the currency or currencies of the transaction on the day on which the contract is concluded.

Revenues and expenses in foreign currencies are translated into EUR daily at the prevailing exchange rates.

Tangible fixed assets in foreign currencies not covered in either the spot or forward market are translated into EUR at the rate of exchange ruling at the date of their acquisition. All other assets and liabilities are converted into EUR at the average of the buy and sell spot rates applicable at the balance sheet date. Both realized and unrealized profits and losses arising on revaluation are accounted for in the profit and loss account for the year, except for those on assets and liabilities specifically covered by operations assimilated to swaps. The revaluation of these transactions does not affect the profit and loss account since any revaluation gains or losses are posted to the transitory accounts and not to the profit and loss account.

At the year end all uncompleted forward transactions are translated into EUR at the forward rate applicable for the remaining term ruling on the balance sheet date.

Uncovered forward transactions are valued individually on the basis of forward exchange rates applicable at the balance sheet date. Unrealized revaluation profits are ignored, whereas a provision is set up in respect of any unrealized revaluation losses. This provision is included on the liabilities side of the balance sheet under “Provisions: other provisions”.

Note 2 – Summary of significant accounting policies (continued)

2.3. <u>Derivative financial instruments</u>

The Bank's commitments deriving from derivative financial instruments are recorded on the transaction date as off balance sheet items.

At the year end, where necessary, a provision is set up in respect of individual unrealized losses resulting from the revaluation of the Bank's commitments at market value. This provision is included on the liabilities side of the balance sheet under “Provisions: other provisions”.

No provision is set up in those cases where a financial instrument clearly covers an asset or a liability and economic unity is established or where a financial instrument is hedged by a reverse transaction so that no open position exists.

2.4. <u>Trading book</u>

As per the Article 56 of the Law of April 1993, as amended, on the accounts of banks, the Bank will classify the following items, if any, in the trading book:

- securities trading book as defined in the banking law,
- securities underwriting if not held-to-maturity,
- trading financial derivatives.

2.5. <u>Specific value adjustments in respect of doubtful and irrecoverable debts</u>

It is the Bank's policy to establish specific value adjustments in respect of doubtful and irrecoverable debts, as deemed appropriate by the Board of Directors.

Value adjustments, if any, are deducted from the assets items to which they relate.

Note 2 – Summary of significant accounting policies (continued)

2.6. Lump sum provision for risk exposures

In accordance with the Luxembourg tax legislation, it is the Bank's policy to establish a lump sum provision for risk exposures, as defined in the legislation governing prudential supervision of banks. The purpose of the provision is to take account of risks, which are likely to crystallize but which have not yet been identified as at the date of preparation of the annual accounts.

Pursuant to the Instructions issued by the “Direction des Contributions” on 16 December 1997, this provision is made before taxation and may not exceed 1.25% of the Bank’s risk exposures.

The lump sum provision for risk exposures is broken down in proportion to the weighting of the items which form the basis for its calculation, between:

- a portion which is deemed to represent a value adjustment, and which is deducted from the assets items which constitute risk exposures; and
- a portion which is deemed to represent a provision attributable to credit risk associated with off balance sheet items, foreign exchange risk and market risks, and which is shown among the liabilities items under “Provisions: other provisions”.

As of 31 December 2013 and 2012, the lump sum provision amounts to EUR 1,600,312 and is fully deducted from the loans and advances to customers’ caption.

2.7. Loans and advances

Loans and advances are stated at their acquisition price. The policy of the Bank is to establish specific provisions for doubtful debts in accordance with the circumstances and for amounts specified by the Board of Directors. These provisions are deducted from the appropriate asset account balances and shall not be maintained if the reasons for which they were recorded no longer exist.

2.8. Transferable securities

Transferable securities are recorded initially at their purchase price, plus additional charges. The average cost method is used to determine the acquisition costs.

Note 2 – Summary of significant accounting policies (continued)

2.9. Debt securities and other fixed income securities

The Bank has divided its portfolio of fixed income securities into three categories, whose principal characteristics are the following:

- an investment portfolio of financial fixed assets, which are intended to be used on a continuing basis in the Bank's activities;
- a trading portfolio of securities purchased with the intention of resale in the short term; and
- a structural portfolio of securities which do not fall within either of the two other categories.

Debt securities held as of 31 December 2013 are part of the structural portfolio.

Fixed income securities are valued as follows:

- they are valued at purchase price in those cases where the conditions set out by the relevant authorities in the Banking Regulations are fulfilled;
- otherwise they are valued at the lower of cost or market value.

2.10. Tangible fixed assets

Tangible fixed assets are valued at purchase price less accumulated depreciation. The accumulated depreciation is calculated to write off the value of such assets systematically over their useful economic lives.

Fixtures and fittings costing less than EUR 1,000 or whose expected useful lives are not expected to exceed the current year are charged directly to the profit and loss account for the year.

2.11. Taxes

The Bank is liable to taxes on income and net assets. Tax liabilities are recorded under “Provisions for taxation” in the balance sheet.

Note 3 – Analysis of primary financial instruments

The primary financial assets and liabilities are presented according to their remaining lifetime to final maturity as follows:

2013 EUR 000	**Less than 3 months**	**3 - 12 months**	**1 - 5 years**	**More than 5 years**	**Total**
Cash, balance with central banks and post office banks	13,506	---	---	---	**13,506**
Loans and advances to credit institutions	1,112,766	256,185	---	---	**1,368,951**
Loans and advances to customers	54,624	9,480	6,257	280,826	**351,187**
Debt and other fixed-income securities	---	---	---	410	**410**
	1,180,896	**265,665**	**6,257**	**281,236**	**1,734,054**
Amounts owed to credit institutions	402,112	231,272	---	---	**633,384**
Amounts owed to customers	921,680	132,720	---	---	**1,054,400**
Contingent liabilities	116	394	1,688	---	**2,198**
Commitments	2,208	15,707	11,796	20,457	**50,168**
	1,326,116	**380,093**	**13,484**	**20,457**	**1,740,150**

2012 EUR 000	**Less than 3 months**	**3 - 12 months**	**1 - 5 years**	**More than 5 years**	**Total**
Cash, balance with central banks and post office banks	9,906	---	---	---	**9,906**
Loans and advances to credit institutions	537,642	235,143	---	---	**772,785**
Loans and advances to customers	47,551	524	4,958	204,888	**257,921**
	595,099	**235,667**	**4,958**	**204,888**	**1,040,612**
Amounts owed to credit institutions	255,620	234,914	---	---	**490,534**
Amounts owed to customers	514,562	4,886	---	---	**519,448**
Contingent liabilities	61	740	1,317	---	**2,118**
Commitments	6,660	31,870	5,559	13,357	**57,446**
	776,903	**272,410**	**6,876**	**13,357**	**1,069,546**

Note 4 – Loans and advances to credit institutions

The geographical distribution of loans and advances to credit institutions, including those repayable on demand, is as follows:

	2013 **EUR 000**	**2012** **EUR 000**
European Union	2,302	915
Other OECD countries	1,366,649	771,870
	1,368,951	**772,785**

Note 5 – Loans and advances to customers

The geographical distribution of loans and advances to customers is as follows:

	2013 **EUR 000**	**2012** **EUR 000**
European Union	84,833	62,146
Other OECD countries	225,860	167,892
Other countries	40,494	27,883
	351,187	**257,921**

Note 6 – Debt and other fixed-income securities

The policy of the Bank is not to invest in securities portfolios. However, during the year, the Bank has become the owner of a bond issued by a European financial institution following the non-execution of a sell-order placed by one client on such security.

As at 31 December 2013, the said bond has been valued at the lower of cost or market, which led to an impairment of EUR 250,000 recorded in the “Net profit or loss on financial operations” caption.

Note 7 – Movements in tangible assets

The following movements have occurred in the Bank's tangible assets in the course of the financial year:

	Gross value at the beginning of the financial year EUR	Additions EUR	Disposals EUR	Gross value at the end of the financial year EUR	Cumulative value adjustments at the end of the financial year EUR	Net value at the end of the financial year EUR
Tangible assets	**2,465,253**	**217,140**	**---**	**2,682,393**	**1,601,034**	**1,081,359**
of which:						
Other fixtures and fittings, tools and equipment	2,465,253	217,140	---	2,682,393	1,601,034	1,081,359

Note 8 – Other assets, other liabilities

Other assets primarily represent short term receivables.

Other liabilities primarily represent short term payables.

Note 9 – Related parties balances – assets

As at 31 December 2013, loans and advances to credit institutions amounting to EUR 1,368,950,581 (2012: EUR 772,784,618) include the following balances with related parties:

	Affiliated undertakings 2013 EUR	**Affiliated undertakings 2012 EUR**
Loans and advances to credit institutions	1,362,546,727	769,889,655

Following the Bank’s request, the CSSF has approved the total exemption of the risks taken on the DNB Group in the context of the calculation of the large risks exposures in accordance with Part XVI, point 24 of the CSSF Circular 06/273, as amended.

Following the Bank’s request, the CSSF has also approved the netting of intercompany assets with intercompany liabilities in the context of the calculation of the capital adequacy ratio, within the limits permitted by Part IX, point 13 of the CSSF Circular 06/273, as amended.

Note 10 – Foreign currency assets

As at 31 December 2013, the aggregate amount of the Bank's assets denominated in currencies other than EUR net of related value adjustments and converted to EUR is 1,323,894,334 (2012: EUR 747,120,602).

Note 11 – Subscribed capital

During the Extraordinary General Meeting dated 11 November 2013, the capital was increased from its previous amount of EUR 17,352,547 with no issuance of new shares. The increase was fully subscribed by the sole shareholder.
As at 31 December 2013, the Bank’s authorized and fully paid-up capital amounts to EUR 30,000,000 represented by 70,000 shares with a nominal value of EUR 450 each.

Note 12 – Movements in reserves and profit brought forward

	Legal reserve EUR	**Special reserve (Note 25) EUR**	**Profit brought forward EUR**
Balance at 31 December 2012	**1,735,254**	**2,650,000**	**3,745,464**
Profit for the year ended 31 December 2012	---	---	2,979,135
Transfers from/to special reserve (note 25)	---	750,000	(750,000)
Dividends paid out	---	---	(2,200,000)
Balance at 31 December 2013	**1,735,254**	**3,400,000**	**3,774,599**

Under Luxembourg law, the Bank must appropriate to a legal reserve an amount equivalent to at least 5% of the annual net profit until such reserve is equal to 10% of the share capital. This appropriation is made in the following year. Distribution of the legal reserve is restricted for the proportion equal to 10% of the share capital.

Note 13 – Related parties balances – liabilities

As at 31 December 2013, amounts owed to credit institutions and customers amounting respectively to EUR 633,383,627 (2012: EUR 490,533,654) and EUR 1,054,400,477 (2012: EUR 519,448,912) include the following balances with related parties.

	Affiliated undertakings 2013 EUR	**Affiliated undertakings 2012 EUR**
Amounts owed to credit institutions	633,347,470	490,452,728
Amounts owed to customers	12,540,173	5,147,568
	645,887,643	**495,600,296**

Note 14 – Foreign currency liabilities

As at 31 December 2013, the aggregate amount of the Bank’s liabilities denominated in currencies other than Euro, converted to EUR, is EUR 1,324,019,142 (2012: EUR 747,157,013).

Note 15 – Contingent liabilities

The geographical distribution of contingent liabilities is as follows:

	2013 EUR 000	2012 EUR 000
European Union	949	1,060
Other OECD countries	759	675
Other countries	490	383
	2,198	**2,118**

The economic sector of contingent liabilities is as follows:

	2013 EUR 000	2012 EUR 000
Corporate Bodies	385	298
Natural Persons	1,813	1,820
	2,198	**2,118**

As at 31 December 2013, the Bank's contingent liabilities of EUR 2,198,250 (2012: EUR 2,118,000) represent principally guarantees issued by the Bank in favor of clients.

As at 31 December 2013 and 2012, there were no contingent liabilities with affiliated entities.

Note 16 – Commitments

The geographical distribution of commitments is as follows:

	2013 EUR 000	2012 EUR 000
European Union	15,742	20,843
Other OECD countries	8,989	18,414
Other countries	25,437	18,189
	50,168	**57,446**

The economic sector of commitments is as follows:

	2013 EUR 000	2012 EUR 000
Corporate bodies	15,295	24,088
Natural Persons	34,873	33,357
	50,168	**57,446**

As at 31 December 2013, the Bank’s commitments of EUR 50,168,049 (2012: EUR 57,445,972) represent exclusively unused confirmed credit lines.

As at 31 December 2013 and 2012, there were no commitments with affiliated entities.

Note 17 – Operations linked to currency exchange rates, interest rates and other market rates – analysis of financial derivatives

Forward operations linked to currency exchange rates, interest rate swaps (IRS) and cross currency interest rate swaps (CCIRS) were outstanding as at 31 December 2013. These were all made on behalf of customers, and were all covered with the Bank's parent company. Moreover, the Bank contracted IRS transactions with the Bank's parent company to hedge some balance sheet positions.

Analysis of financial derivatives

The non-trading financial derivatives linked to exchange rates, interest rates and other market rates are analyzed by type of instrument and remaining maturity as follows:

2013 (notional amount in 000 EUR)	**Less than 3 months**	**3 - 12 months**	**1 - 5 years**	**Total**
Operations linked to currency exchange rates				
Over-the-counter (OTC) contracts				
Forward exchange transactions (*)	407,334	26,489	---	433,823
Foreign exchange options	3,629	---	---	3,629
Spot transactions (*)	4,379	---	---	4,379
Total	**415,342**	**26,489**	**---**	**441,831**

Operations linked to interest rates	**Less than 12 months**	**1 - 5 years**	**More than 5 years**	**Total**
Over-the-counter (OTC) contracts				
Interest rate swap (**)	1,205	41,565	23,259	66,029
Cross currency interest rate swap (**)	---	75,338	6,527	81,865
Total	**1,205**	**108,685**	**37,912**	**147,802**

(*) Amounts to be delivered
(**) Notional amounts

Note 17 – Operations linked to currency exchange rates, interest rates and other market rates – analysis of financial derivatives (continued)

2012 (notional amount in 000 EUR)	**Less than 3 months**	**3 - 12 months**	**1 - 5 years**	**Total**
Operations linked to currency exchange rates				
Over-the-counter (OTC) contracts				
Forward exchange transactions (*)	46,856	96,951	11,292	155,099
Spot transaction (*)	270	---	---	270
Total	**47,126**	**96,951**	**11,292**	**155,369**

Operations linked to interest rates	**Less than 12 months**	**1 - 5 years**	**More than 5 years**	**Total**
Over-the-counter (OTC) contracts				
Interest rate swap (**)	---	8,804	48,242	57,046

(*) Amounts to be delivered
(**) Notional amounts

Note 17 – Operations linked to currency exchange rates, interest rates and other market rates – analysis of financial derivatives (continued)

As at 31 December 2013 and 2012, the market value of financial derivatives is as follows:

	2013 EUR	**2012 EUR**
Operations linked to currency exchange rates		
Over-the-counter (OTC) contracts		
Forward exchange transactions		
Positive results	9,538,580	3,725,529
Negative results	(9,398,586)	(3,658,396)
Total	**139,994**	**67,133**
Foreign exchange options		
Positive results	4,185	---
Negative results	(4,185)	---
Total	**---**	**---**
Operations linked to interest rates		
Over-the-counter (OTC) contracts		
Interest rate swaps		
Positive results	871,817	1,170,158
Negative results	(962,253)	(780,882)
Total	**(90,436)**	**389,276**
Cross currency interest rate swaps		
Positive results	4,381,316	---
Negative results	(4,381,316)	---
Total	**---**	**---**

Note 18 – Credit risk information – financial derivatives

The net credit risk exposure is calculated in accordance with the requirements of CSSF Circular 06/273 as amended on the definition of capital adequacy ratios pursuant to Article 56 of the Law of 5 April 1993 on the financial sector, as amended. The Net risk exposure is calculated according to the “market value method”.

2013 (notional amount in EUR)	**Fair Value**	**Notional amount**	**Net risk exposure**
Operations linked to currency exchange rates			
Over-the-counter (OTC) contracts			
Forward exchange transactions			
Banking counterparties	3,502,335	218,121,709	5,683,552
Private customers	6,036,244	215,701,162	8,193,256
Total	**9,538,579**	**433,822,871**	**13,876,808**
Foreign exchange options			
Banking counterparties	---	1,814,850	18,149
Private customers	4,185	1,814,850	22,334
Total	**4,185**	**3,629,700**	**40,483**
Operations linked in interest rates			
Over-the-counter (OTC) contracts			
Interest rate swap			
Banking counterparties	291,214	38,854,819	874,036
Private customers	580,603	27,173,910	988,212
Total	**871,817**	**66,028,729**	**1,862,248**
Cross currency Interest rate swap			
Banking counterparties	577,419	40,932,106	1,191,401
Private customers	3,803,897	40,932,106	4,417,879
Total	**4,381,316**	**81,864,212**	**5,609,280**

Note 18 – Credit risk information – financial derivatives (continued)

2012 (notional amount in EUR)	**Fair Value**	**Notional amount**	**Net risk exposure**
Operations linked to currency exchange rates			
Over-the-counter (OTC) contracts			
Forward exchange transactions			
Banking counterparties	1,972,194	77,683,562	2,749,030
Private customers	1,753,335	77,483,128	2,528,166
Total	**3,725,529**	**155,166,690**	**5,277,196**
Operations linked in interest rates			
Over-the-counter (OTC) contracts			
Interest rate swap			
Banking counterparties	894,414	19,843,532	1,192,067
Private customers	275,744	14,720,190	496,547
Total	**1,170,158**	**34,563,722**	**1,688,614**

Note 19 – Investment management services and underwriting functions

The Bank provides management and agency services to third parties.

Management and agency services consist of:

- Portfolio advice and portfolio management,
- Custody and administration of transferable securities.

Note 20 – Other operating income

Other operating income for the year ended 31 December 2013 consists of:

	2013 EUR	2012 EUR
- release of operating and restructuring provisions	---	363,087
- income from sub-rental of premises	260,315	316,845
- refunds from AGDL (refer to note 24)	2,789	14,272
- tax and VAT refunds	9,377	13,275
- others	3,156	---
	275,637	**707,479**

Note 21 – Other operating charges

Main item under “Other operating charges” for the year ended 31 December 2013 is the allowance made to AGDL provision for EUR 2,789 (2012: EUR 14,272) (refer to Note 24).

Note 22 – Staff numbers

The number of persons employed by the Bank is as at 31 December:

	2013 Number	2012 Number
Management	5	4
Employees	26	24
	31	**28**

Note 23 – Management remuneration

The Bank has granted the following remuneration to the members of the administrative and managerial bodies of the Bank (2013: 5 persons; 2012: 4 persons):

	2013 EUR	2012 EUR
Managerial body	**1,018,140**	**747,070**

As of 31 December 2013 and 2012, the Bank has entered into loans amounting to EUR 411,250 to current and former members of the administrative and managerial bodies

The Bank has not entered into any other advances, commitments or guarantees on behalf of the current and former members of the administrative and managerial bodies (2012: EUR nil).

Note 24 – Deposit guarantee scheme

On 25 September 1989, all credit institutions in the Luxembourg banking sector became members of the non-profit making association “Association pour la Garantie des Dépôts, Luxembourg” (“AGDL”).

In accordance with the Law of 5 April 1993 as amended by the Law of 19 December 2008, the sole object of AGDL is the establishment of a mutual guarantee scheme covering deposits made by customers of member credit institutions (“the Guarantee”). The customers covered by the Guarantee include all depositors who are physical persons, whatever their nationality or country of residence. Also covered by the Guarantee are small companies constituted under the law of a Member State of the European Union, whose size is such that they would be permitted to draw up abbreviated accounts pursuant to Article 39 of the Law of 19 December 2002 on commercial companies, as amended.

With respect to each member, the Guarantee is limited to a maximum amount per depositor of EUR 100,000 or its foreign currency equivalent. No depositor can receive more than this sum, regardless of the number of accounts or deposits held in the sole or joint name of the depositor with the same credit institution.

The Law of 27 July 2000 stipulates that banks must also belong to an investment guarantee scheme. This additional Guarantee covers the reimbursement of claims resulting from investment transactions up to the amount of EUR 20,000.

The amount of the Guarantee represents an absolute figure and cannot be increased by any interest charges or any other amounts.

The total amount of the Guarantees which will in no case exceed EUR 120,000 per customer (EUR 100,000 deposit guarantee and EUR 20,000 investor compensation) represents an absolute figure and cannot be increased by any interest, charges or any other amount.

As at 31 December 2013 and 2012, the Bank set up a provision in recognition of its potential liabilities under the Guarantees. The amount is included on the liabilities side of the balance sheet under “Provisions: other provisions”.

Over 2013, partial refunds totaling EUR 2,789 were recovered in relation to the Bank’s contribution to the respite of payment occurred by three Luxembourg subsidiaries of Icelandic banks back in 2008/2010, and booked as other operating income.

Transfers to the AGDL provision totaling EUR 2,789 (2012: EUR 14,272) were also booked as other operating charges. As at 31 December 2013, the AGDL provision amounts to EUR 1,229,741 (2012: EUR 1,226,951).

Note 25 – Special reserve for net worth tax credit

Since 1998, the Bank has where relevant made yearly allocations for an amount equal to 5 times the theoretical net worth tax amount to a special reserve account, which it committed itself to maintain for 5 years from the year of the respective allocations.

This was made in accordance with Luxembourg tax law, in order to benefit of a credit for that net worth tax charge. The status of the special reserve account is as follows:

Special reserve created in respect to the year:	**2013** **EUR**	**2012** **EUR**
2008	660,000	660,000
2009	680,000	680,000
2010	650,000	650,000
2011	660,000	660,000
2012	750,000	---
	3,400,000	**2,650,000**

When allocating the net result for the year ended 31 December 2013, an amount of EUR 750,000 will be allocated to the special reserve for net worth tax credit.

Note 26 – Remuneration of the independent auditor

The fees paid by the Bank to its audit firm excluding VAT were:

	2013 **EUR**	**2012** **EUR**
Statutory Audit	92,250	90,000

Independent auditor's report

To the Board of Directors of
DNB Luxembourg S.A.
13, rue Goethe
L-1637 Luxembourg

Report on the annual accounts

Following our appointment by the Board of Directors, we have audited the accompanying annual accounts of DNB Luxembourg S.A., which comprise the balance sheet as at 31 December 2013 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts and for such internal control as the Board of Directors determines is necessary to enable the preparation and presentation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the "réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgment of the "réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Responsibility of the "réviseur d'entreprises agréé" (continued)

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of DNB Luxembourg S.A. as of 31 December 2013, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation and presentation of the annual accounts.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the annual accounts.

Ernst & Young
Société Anonyme
Cabinet de révision agréé

Jean-Michel Pacaud

Luxembourg, 24 February 2014