

Second quarter report 2006



DnB NOR Bank ASA

First quarter report 2006

The accounts for DnB NOR Bank with subsidiaries, the banking group, are based on Norwegian generally accepted accounting principles and the accounting regulations for banks. DnB NOR Bank implemented regulations from the Ministry of Finance on the accounting treatment of loans and guarantees in the accounts of DnB NOR Bank and the banking group effective 1 January 2006. For the time being, it is not permissible for Norwegian banks and finance companies to prepare accounts according to IFRS.

Introduction

DnB NOR Bank Group ¹⁾, hereinafter called "the banking group", achieved healthy profits in the first quarter of 2006, with a high level of activity throughout the banking group. The first quarter figures reflected sound growth in the domestic and international operations. In April 2006, the banking group implemented a large-scale integration of account systems.

Operations in DnB NOR and Monchebank are included in the banking group as of the first quarter of 2006.

The banking group's pre-tax operating profits came to NOK 2 926 million in the first quarter of 2006, up from NOK 2 178 million in the year-earlier period. Relatively low risk in the loan portfolios resulted in very low write-downs on loans and guarantees for the banking group in the first quarter of 2006. After taxes, profits totalled NOK 2 178 million, an increase from NOK 1 590 million in the corresponding period of 2005. This is the best quarterly performance in the history of the banking group. Return on equity was 19.2 per cent for the January through March period, up from 17.5 per cent in the first quarter of 2005. The cost/income ratio improved further, representing 51.5 per cent for the first quarter of 2006, down from 54.5 per cent in the year-earlier period. Excluding DnB NOR and Monchebank, the cost/income ratio for the first quarter of 2006 was 51.1 per cent.

Including 50 per cent of profits, the core capital ratio for the banking group was 7.5 per cent at end-March 2006, compared with 7.4 per cent a year earlier.

Income

Income totalled NOK 6 013 million for the January through March period, an increase of NOK 922 million or 18.1 per cent from the first quarter of 2005.

Net interest income

Net interest income was NOK 3 730 million in the first quarter of 2006, up NOK 494 million compared with the year-earlier period. Excluding DnB NOR and Monchebank, net interest income increased by NOK 322 million from the first quarter of 2005.

¹⁾ DnB NOR Bank ASA is a subsidiary of DnB NOR ASA and part of the DnB NOR Group. The DnB NOR Bank Group, hereinafter called "the banking group", comprises the bank and the bank's subsidiaries. Other companies owned by DnB NOR ASA, including Vital Forsikring and DnB NOR Kapitalforvaltning, are not part of the banking group. Operations in DnB NOR ASA and the total DnB NOR Group are not covered in this report but described in a separate report and presentation.

Average lending, excluding DnB NOR and Monchebank, rose by NOK 98 billion or 16.7 per cent from the first quarter of 2005, while there was a rise of NOK 45 billion or 12.2 per cent in average deposits. The combined spread contracted by 0.14 percentage points compared with the year-earlier period.

The table below specifies changes in net interest income between the two quarters according to main items:

Changes in net interest income

Amounts in NOK million	1st quarter		1st quarter 2005
	2006	Change	
Net interest income	3 730	494	3 236
DnB NOR	166	166	
Monchebank	6	6	
Lending and deposit volumes		390	
Lending and deposit spreads		(224)	
Net result on equity etc.		94	
Other		62	

Net other operating income

Net other operating income amounted to NOK 2 283 million in the first quarter of 2006, up NOK 428 million or 23.1 per cent compared with the corresponding period of 2005. Adjusted for DnB NOR and Monchebank, net other operating income rose by NOK 348 million. The increase in commission income and income on foreign exchange and financial instruments reflected brisk sales of mutual fund and pension products, a high level of activity within real estate broking, healthy income from corporate finance activity and favourable stock market conditions.

Net other operating income represented 38.0 per cent of total income in the first quarter of 2006, as against 36.4 per cent in the year-earlier period.

The table below specifies changes in net other operating income between the two quarters according to main items:

Changes in net other operating income

Amounts in NOK million	1st quarter		1st quarter 2005
	2006	Change	
Net other operating income	2 283	428	1 855
DnB NOR	74	74	
Monchebank	6	6	
Net commissions receivable		273	
Net gains on foreign exchange and financial instruments		44	
Other income		31	

Operating expenses

Operating expenses totalled NOK 3 099 million in the first quarter of 2006, up NOK 326 million from the year-earlier period. Excluding operations in DnB NOR and Monchebank, there was a NOK 168 million rise in expenses.

The table below shows changes in operating expenses between the two quarters according to main items:

Changes in operating expenses

Amounts in NOK million	1st quarter		1st quarter
	2006	Change	2005
Driftskostnader	3 099	326	2 773
DnB NOR	151	151	
Monchebank	7	7	
Performance-based pay		109	
Pension expenses		36	
IT-investments		25	
Wage settlements		24	
Other expenses		45	
Synergies		(101)	
New operations		30	

Write-downs on commitments

The banking group recorded low write-downs on both retail and corporate loans in the first quarter of 2006. Net reversals on write-downs on loans and guarantees came to NOK 12 million, with individual write-downs of NOK 71 million and reversals on group write-downs of NOK 83 million. The reversals on group write-downs reflected the positive trend in the Norwegian economy. In the first quarter of 2005 net write-downs came to NOK 134 million.

New individual write-downs totalled NOK 257 million while reversals and recoveries came to NOK 186 million. In 2005 new individual write-downs totalled NOK 335 million while reversals and recoveries stood at NOK 201 million. Figures for 2005 have not been restated in accordance with new lending regulations implemented as of 1 January 2006.

After deductions for individual write-downs, net non-performing and impaired commitments came to NOK 4 758 million at end-March 2006, a decline of NOK 482 million from 31 December 2005. Net non-performing and impaired commitments represented 0.66 per cent of net lending at end-March 2006. Excluding DnB NOR and Monchebank, net non-performing and impaired commitments represented 0.60 per cent of net lending, down from 1.02 a year earlier.

Taxes

The banking group's tax charge for the first quarter of 2006 was NOK 748 million, based on an anticipated average tax rate of 27 per cent of pre-tax operating profits. Too high provisions for taxes in 2005 resulted in a write-back in the first quarter of 2006. The write-back was based on the Ministry of Finance's clarification with respect to tax-related adjustments to amendments in the Accounting Act.

Balance sheet

Total assets in the banking group's balance sheet were NOK 907 billion as at 31 March 2006 and NOK 758 billion a year earlier.

Net lending to customers rose by NOK 128 billion or 21.5 per cent during the twelve-month period, with DnB NOR and Monchebank accounting for NOK 26.8 billion.

Customer deposits rose by NOK 51 billion or 13.7 per cent from the first quarter of 2005, of which NOK 10.6 billion stemmed from DnB NOR and Monchebank.

The ratio of customer deposits to net lending to customers was maintained at a satisfactory level, standing at 58.8 per cent at end-March 2006, down from 62.9 per cent a year earlier.

A significant share of the banking group's operations is funded through lending in Norwegian and international capital markets. Securities issued by the banking group increased by NOK 63 billion or 31.5 per cent from the first quarter of 2005, totalling NOK 262 billion at end-March 2006.

Risk and capital adequacy

There was a further rise in corporate credit demand during the first quarter, combined with strong growth in housing loan portfolios.

Market risk remained at a low, stable level throughout the first quarter.

The banking group recorded no major operational losses during the January through March period. In April, a successful integration of account systems in the banking group was completed, which will reduce operational risk in the future.

Risk-weighted volume included in the calculation of the capital adequacy requirement rose by NOK 47 billion during the first quarter, to NOK 682 billion at end-March 2006. Including 50 per cent of profits, the core capital ratio was 7.5 per cent, while the capital adequacy ratio was 10.6 per cent.

The implementation of new regulations on the accounting treatment of loans and guarantees effective 1 January 2006 led to a slight increase in capital adequacy ratios.

Changes in group structure

During 2005, DnB NOR Bank entered into an agreement to acquire the Russian bank Monchebank, headquartered in Murmansk. The agreement came into effect on 1 January 2006, and Monchebank is included in the banking group's first quarter accounts. The acquisition of Monchebank gives the banking group access to a very interesting growth area.

Prospects for the rest of the year

The economic upturn in Norway continued throughout the first quarter. The healthy economic climate is expected to prevail. The banking group expects that oil investments will continue to increase in 2006, stimulating Norway's mainland economy. Investments are at a historically high level and are expected to remain high also over the next few years. Considerable optimism ensures strong growth in corporate investment and high demand for credit. The rise in housing prices and household debt has remained high over a long period. A strong increase in wealth during the last three years signifies that household credit growth will not be notably subdued in 2006.

Following completion of the integration process, the banking group is well equipped to intensify its efforts in the Norwegian market. The banking group aims to maintain or increase market shares in Norway. In combination with good prospects for the Norwegian economy in 2006, this should indicate strong organic growth in the banking group's Norwegian operations. The banking group also foresees considerable opportunities for strong international growth in 2006. The banking group has enhanced its position in an important growth area through the establishment of DnB NOR in the Baltic Sea region. Further expansion is planned in Sweden over the coming years. The takeover of Monchebank has given the banking group an important foothold in North-West Russia, an area showing strong economic growth and good potential for business development within areas where the banking group has considerable expertise.

Healthy income growth and rising wealth among both companies and households indicate a low level of write-downs on loans for the banking group in 2006.

Oslo, 10 May 2006
The Board of Directors of DnB NOR Bank ASA

Olav Hytta
(chairman)

Bent Pedersen
((vice-chairman)

Sten Sture Larre

Per Hoffmann

Torill Rambjør

Ingjerd Skjeldrum

Marit Wiig

Heidi M. Petersen

Svein Aaser
(group chief executive)

Income statement

		DnB NOR Bank ASA				
<i>Amounts in NOK million</i>	Note	2nd quarter 2006	2nd quarter 2005 ¹⁾	1st half 2006	1st half 2005 ¹⁾	Full year 2005 ¹⁾
Interest income	2	9 206	6 607	17 284	12 973	27 536
Interest expenses	2	5 866	3 636	10 790	7 116	15 560
Net interest income and credit commissions	2	3 340	2 970	6 494	5 857	11 976
Dividends		74	200	159	210	1 465
Commissions and fees receivable		1 555	1 492	3 210	2 898	6 073
Commissions and fees payable		461	505	938	999	1 980
Net gains on foreign exchange and financial instruments		436	415	989	923	2 117
Sundry ordinary operating income		153	161	324	297	648
Gains on the sale of fixed assets		149	27	157	30	143
Net other operating income		1 908	1 789	3 901	3 359	8 467
Salaries and other ordinary personnel expenses		1 335	1 196	2 705	2 433	4 955
Administrative expenses		779	857	1 562	1 639	3 287
Depreciation		135	152	278	302	589
Sundry ordinary operating expenses		273	289	556	585	1 169
Other expenses		158	39	159	40	188
Total operating expenses		2 680	2 532	5 259	4 999	10 188
Pre-tax operating profit before write-downs		2 568	2 227	5 136	4 217	10 255
Write-downs on loans and guarantees	3	(133)	(62)	(164)	50	(32)
Net gains on long-term securities		0	3	0	99	108
Pre-tax operating profit		2 701	2 292	5 300	4 265	10 395
Taxes		665	619	1 325	1 152	2 973
Profit for the period		2 035	1 673	3 975	3 114	7 422
Earnings per share		11.82	9.86	23.09	18.35	43.12
Average total assets		886 121	753 336	869 544	739 397	771 300

Balance sheets

		DnB NOR Bank ASA			
<i>Amounts in NOK million</i>	Note	30 June 2006	31 Dec. 2005 ¹⁾	30 June 2005 ¹⁾	31 Dec. 2004 ¹⁾
Assets					
Cash and deposits with central banks		11 877	19 715	1 106	8 286
Lending to and deposits with credit institutions		147 480	86 156	94 109	54 947
Gross lending to customers		655 630	600 680	563 162	525 645
- Individual write-downs		1 458	1 478	2 373	2 494
- Group write-downs		930	3 230	3 230	3 230
Net lending to customers	4, 5	653 242	595 972	557 559	519 921
Commercial paper and bonds		92 235	78 221	69 370	64 615
Shareholdings etc.		2 405	2 610	2 204	4 213
Investments in associated companies		537	537	537	583
Investments in subsidiaries		9 271	8 122	5 814	5 597
Intangible assets		1 448	1 493	2 903	3 038
Fixed assets		2 082	2 412	2 493	2 923
Other assets		20 321	19 901	24 711	23 138
Prepayments and accrued income		4 576	4 097	3 856	3 946
Total assets		945 473	819 238	764 662	691 207
Liabilities and equity					
Loans and deposits from credit institutions		112 834	87 341	81 051	47 608
Deposits from customers		445 155	401 942	386 678	353 741
Securities issued		275 019	230 124	201 364	184 572
Other liabilities		25 782	27 024	25 774	40 337
Accrued expenses and prepaid revenues		7 003	4 832	5 966	4 318
Provisions for commitments		4 274	3 698	4 248	4 525
Subordinated loan capital		30 582	24 839	23 675	23 362
Total liabilities		900 649	779 800	728 756	658 465
Share capital		17 214	17 214	16 964	16 964
Share premium reserve		9 995	9 995	7 745	7 745
Other equity		17 614	12 228	11 196	8 033
Total equity	6, 7	44 824	39 438	35 906	32 743
Total liabilities and equity		945 473	819 238	764 662	691 207
Off-balance sheet transactions and contingencies	8				

1) Items according to former regulations on the treatment of loans and guarantees, but reclassified in accordance with new presentation models, see note 1.

