# First quarter report 2007

DnB NOR Bank ASA

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*Following changes in regulations stipulated by the Norwegian Ministry of Finance in March 2007, banks and finance and mortgage companies are required to use IFRS or Norwegian IFRS regulations in the statutory accounts. This requirement will apply to interim accounts presented as from the second quarter of 2007 but is optional for the first quarter of 2007.*

*DnB NOR Bank has prepared statutory accounts for the first quarter of 2007 in accordance with Norwegian IFRS regulations. These regulations give permission to record provisions for dividends and group contributions in subsidiaries as income and record the Board of Directors' proposed dividends and group contributions as liabilities on the balance sheet date. The DnB NOR Bank Group [1)] has prepared accounts for the first quarter of 2007 in accordance with IFRS. The new principles are described in notes to the accounts.*

## Introduction

The DnB NOR banking group recorded healthy profits in the first quarter of the year, with a return on equity of 16.8 per cent. The cost/income ratio was 49.6 per cent for the January through March period of 2007, compared with 48.5 per cent in the year-earlier period. The strong Norwegian economy and sound portfolio quality resulted in low write-downs on loans and guarantees in the first quarter of 2007.

The banking group's pre-tax operating profits before write-downs came to NOK 3 355 million in the first quarter of 2007, up from NOK 3 208 million in the corresponding period in 2006. After taxes, profits totalled NOK 2 415 million, compared with NOK 2 458 million in the first quarter of 2006.

As from 1 January 2007, capital adequacy calculations for some portfolios are based on the Basel II framework. The core capital ratio for the banking group was 7.5 per cent as at 31 March 2007. A partial audit has been conducted of the accounts of DnB NOR Bank and the banking group as at 31 March 2007, thus in accordance with capital adequacy rules, 50 per cent of interim profits has been included in the capital adequacy figures. The core capital ratio for the banking group as at 31 December 2006 was 6.8 per cent. The Board of Directors considers the banking group to be well capitalised relative to the risk level in the loan portfolios and other operations.

DnB NOR Bank aims to increase the share of income from the banking group's international operations. As part of this strategy, the bank has presented an offer to acquire the Swedish real estate brokerage chain Svensk Fastighetsförmedling AB. Through this transaction, the real estate brokerage operations of the banking group will become the most extensive in the Nordic region. During the first quarter of the year, DnB NOR Finans entered into an agreement to acquire SEB's leasing portfolio within vendor-based car financing in Sweden. In late 2006, DnB NOR Bank signed an agreement to acquire 76.3 per cent of the Polish BISE Bank through its partially owned subsidiary DnB NORD. In April 2007, the banking group received a concession for the acquisition. DnB NOR Bank expanded its operations in Asia during the first quarter of 2007 through the establishment of Corporate Finance Asia, a Singapore-based unit offering investment banking services. DnB NOR has adopted a plan to sell all remaining bank buildings.

New capital adequacy regulations, Basel II, entered into force with effect from 2007. During the first quarter of the year, Kredittilsynet (the Financial Supervisory Authority of Norway) granted the banking group permission to use the foundation IRB approach for credit risk to calculate the capital adequacy for some portfolios as from 1 January 2007.

## Income

Income totalled NOK 6 659 million for the January through March period, an increase of NOK 429 million or 6.9 per cent from the first quarter of 2006.

## Net interest income

Net interest income was NOK 4 040 million in the first quarter of 2007, up NOK 377 million or 10.3 per cent compared with the year-earlier period.

Average lending increased by NOK 120 billion or 16.7 per cent from the first quarter of 2006. The rise mainly represented well-secured housing loans and corporate customer loans with low or medium risk. There was a rise of NOK 65 billion or 15.2 per cent in average deposits. Lending spreads contracted by 0.30 percentage points compared with the year-earlier period, standing at 1.08 per cent at end-March 2007. During the same period, deposit spreads expanded by 0.19 percentage points to 0.94 per cent at end-March 2007.

The table below specifies changes from the first quarter of 2006 according to main items:

Changes in net interest income

| *Amounts in NOK million* | 1st quarter 2007 | Change | 1st quarter 2006 |
|---|---|---|---|
| Net interest income | 4 040 | 377 | 3 663 |
| DnB NORD | 233 | 79 | 154 |
| Lending and deposit volumes | | 413 | |
| Lending and deposit spreads | | (352) | |
| Other | | 236 | |

[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.*

## Net other operating income

Net other operating income amounted to NOK 2 620 million in the first quarter of 2007, up NOK 53 million compared with the corresponding period of 2006.

Net other operating income represented 39.3 per cent of total income in the first quarter of 2007, as against 41.2 per cent in the year-earlier period.

The table below specifies changes from the first quarter of 2006 according to main items:

Changes in net other operating income

| | 1st quarter | | 1st quarter |
|---|---|---|---|
| *Amounts in NOK million* | 2007 | Change | 2006 |
| Net other operating income | 2 620 | 53 | 2 567 |
| DnB NORD | 105 | 34 | 71 |
| Net commissions and fees | | (52) | |
| Net gains on equity investments | | 48 | |
| Net gains on other financial instruments | | (13) | |
| Other income | | 36 | |

## Operating expenses

Operating expenses totalled NOK 3 305 million in the first quarter of 2007, up NOK 283 million from the year-earlier period. Excluding operations in DnB NORD, there was a NOK 214 million rise in expenses.

The cost trend in the first quarter of 2007 reflected rising personnel expenses due to higher pension costs and the result of the 2006 wage settlements. In addition, the banking group is in the midst of a period of investment, product development and international start-ups. The investments will ensure a broader income base and improve conditions for future income growth.

Pension expenses rose by NOK 65 million in the first quarter of 2007 compared with the year-earlier period. The increase was partly attributable to new calculations of pension commitments due to higher anticipated life expectancy.

The table below shows changes in operating expenses from the first quarter of 2006 according to main items:

Changes in operating expenses

| | 1st quarter | | 1st quarter |
|---|---|---|---|
| *Amounts in NOK million* | 2007 | Change | 2006 |
| Operating expenses | 3 305 | 283 | 3 022 |
| DnB NORD | 220 | 69 | 151 |
| Wage settlements | | 58 | |
| Pension expenses | | 65 | |
| IT development | | 40 | |
| Depreciation and write-downs | | 26 | |
| Synergies | | (22) | |
| Other | | 47 | |

## Net gains on fixed and intangible assets

Net gains on fixed and intangible assets came to NOK 5 million in the first quarter of 2007, compared with NOK 12 million in the year-earlier period. The gains referred to the sale of properties.

## Write-downs on commitments

Write-downs on loans and guarantees came to NOK 51 million, with individual write-downs of NOK 88 million and reversals on group write-downs of NOK 37 million. The reversals on group write-downs reflected the positive trend in the Norwegian economy.

Portfolio quality showed a continued positive trend in the first quarter of 2007. After deductions for individual write-downs, net non-performing and impaired commitments came to NOK 3 367 million at end-March 2007, a decline of NOK 433 million from 31 December 2006. Net non-performing and impaired commitments represented 0.39 per cent of net lending at end-March 2007, down from 0.64 per cent a year earlier.

## Taxes

The banking group's tax charge for the first quarter of 2007 was NOK 893 million. The tax charge is based on an anticipated average tax rate of 27 per cent of the banking group's pre-tax operating profits.

## Balance sheet and assets under management

Total assets in the banking group's balance sheet were NOK 1 168 billion as at 31 March 2007, as against NOK 931 billion a year earlier.

Net lending to customers rose by NOK 115 billion or 15.5 per cent during the twelve-month period.

Customer deposits rose by NOK 82 billion or 19.3 per cent from the first quarter of 2006.

In order to keep the banking group's liquidity risk at a low level, the majority of customer loans are financed through customer deposits, long-term securities, subordinated loan capital and equity. With respect to short-term funding of the bank, restrictive borrowing limits have been established.

The ratio of customer deposits to net lending to customers was maintained at a satisfactory level, standing at 59.7 per cent at end-March 2007, up from 57.8 per cent a year earlier.

Securities issued by the banking group increased by NOK 68 billion or 26.1 per cent from the first quarter of 2006, totalling NOK 330 billion at end-March 2007. The majority of the securities were issued in international capital markets. The banking group has good access to the European, US and Asian capital markets, and there was a significant increase in the banking group's funding in the US capital market in 2006.

The rating agencies' assessments of DnB NOR are of significance to the banking group's funding terms. DnB NOR Bank has the following long-term ratings: Aa1 from Moody's, AA from Dominion Bond Rating Service and A+ with a positive outlook from Standard & Poor's.

## Risk and capital adequacy

The banking group quantifies risk by measuring risk-adjusted capital requirement. The net risk-adjusted capital requirement increased by NOK 0.8 billion in the January through March period of 2007, to NOK 38.9 billion. The table below shows developments in the risk-adjusted capital requirement:

| | 31 March | 31 Dec. | 31 March |
|---|---|---|---|
| *Amounts in NOK billion* | 2007 | 2006 | 2006 |
| Credit risk | 35.1 | 36.0 | 33.8 |
| Market risk | 2.7 | 2.4 | 2.0 |
| Operational risk | 4.2 | 4.0 | 3.7 |
| Business risk | 2.1 | 2.1 | 1.9 |
| Gross risk-adjusted capital | 44.2 | 44.6 | 41.4 |
| Diversification effect [1] | 5.3 | 4.9 | 4.2 |
| Net risk-adjusted capital | 38.9 | 39.7 | 37.2 |
| Diversification effect in per cent of gross risk-adjusted capital [1] | 12.0 | 11.0 | 10.1 |

1) *The diversification effect refers to the effect achieved by the banking group in reducing risk by operating within several risk categories where unexpected losses are unlikely to occur at the same time.*

The decline in credit risk reflects improved credit quality and a moderate increase in credit volumes. Lending growth remains brisk in the retail market, while corporate credit volumes have been stable. The banking group has taken a cautious approach to extending credit to acquisition financing and commercial property projects.

There was a slight increase in market risk due to the bank's higher exposure in equity instruments.

During the first quarter, parts of the banking group's IT systems were affected by computer viruses. The cleanup process took some time, and the problems had certain negative effects on operations, though the impact on the bank's IT solutions for customers was less serious.

The banking group has been granted permission to use the foundation IRB approach for credit risk as from 1 January 2007. Use of the foundation IRB approach implies that the bank's own classification systems can be used for capital adequacy purposes. The portfolios for which the banking group has been granted permission to use the foundation IRB approach comprises loans to small and medium-sized companies as well as loans to retail customers secured by residential property, excluding Postbanken and DnB NOR Boligkreditt. See further description in note 17.

Risk-weighted volume included in the calculation of the capital adequacy requirement declined by NOK 18.4 billion during the first quarter, to NOK 768.9 billion. This was due to a NOK 17.9 billion increase according to previous rules and a NOK 36.3 billion reduction according to transitional rules for IRB measurement. In the first quarter of 2007, capital adequacy is calculated on the basis of IFRS accounts for the first time. The increase in statutory deductions in core capital mainly reflects the conversion from NGAAP to IFRS. The core capital ratio was 7.5 per cent, while the capital adequacy ratio was 11.2 per cent.

## Business areas

The activities of the banking group are organised in three business areas according to the customer segments served by the group and the products offered. In addition, DnB NORD is regarded as a separate profit centre.

### Corporate Banking and Payment Services

Corporate Banking and Payment Services achieved pre-tax operating profits of NOK 1 783 million in the first quarter of 2007, an increase of NOK 312 million from the year-earlier period. Strong growth in lending and deposit volumes contributed to the rise in profits.

Reflecting the healthy rise in credit demand throughout 2006, average loans and guarantees rose by NOK 78.8 billion from the first quarter of 2006, to NOK 448.0 billion. Sound profit margins among Norwegian corporate clients has also ensured a boost in liquidity in the business sector. Average deposits thus increased by NOK 41.1 billion from the year-earlier period, to NOK 271.8 billion.

Ordinary net interest income was up NOK 234 million in the first quarter of 2007 compared with the year-earlier period. There was continued strong competition in the Norwegian and international markets, and the combined spread contracted by 0.10 percentage points from the first quarter of 2006 to the corresponding period in 2007.

Due to a high level of customer activity, net other operating income increased by NOK 85 million from the first quarter of 2006. There was a rise in income from syndicated loans, foreign exchange and interest rate products and guarantee commissions, while lower corporate finance activity reduced income from this product area.

Operating expenses totalled NOK 982 million in the first quarter of the year, up NOK 119 million from the corresponding period of 2006. The increase reflected international initiatives in 2006, resulting in rising staff numbers and greater investments. In addition, there was strong wage growth in Norwegian operations compared with the first quarter of 2006. The cost/income ratio was 35.2 per cent in the first quarter, an improvement of 2.0 percentage points from the corresponding period in 2006. At end-March 2007, staff in Corporate Banking and Payment Services represented 2 635 full-time positions, including 606 positions in subsidiaries and 445 in international units.

Due to sound quality in the credit portfolios combined with the healthy economic trend, write-downs were low in the January through March period. Net write-downs came to NOK 31 million.

Market shares showed a satisfactory trend, and the market share of credit to Norwegian corporate clients was 15.1 per cent at end-February 2007, on a level with the figure a year earlier.

In the first quarter of 2007, the banking group acquired a car loan portfolio in Sweden valued at approximately SEK 2.4 billion.

Corporate Banking and Payment Services anticipates a continued high level of activity, though credit growth is expected to stabilise. The fierce competition is expected to prevail, causing continued pressure on spreads.

### Retail Banking

Retail Banking recorded pre-tax operating profits of NOK 878 million in the first quarter of 2007, down NOK 227 million from the corresponding period in 2006. The decline was an anticipated consequence of narrowing spreads during the period.

Brisk demand for housing loans caused an increase in average lending of 11.1 per cent or NOK 41 billion from the first quarter of 2006, to NOK 412 billion in the first quarter of 2007. Customer deposits increased by 9.1 per cent or NOK 18 billion to NOK 212 billion during the same period.

Net interest income from ordinary operations declined by NOK 185 million compared with the first quarter of 2006, to NOK 1 604 million. Due to strong competition in the housing loan market, lending spreads contracted, standing at 1.08 per cent in the first quarter of 2007. Notification periods in connection with changes in customer interest rates will normally cause a shortfall in net interest income during periods of rising interest rates.

Net other operating income totalled NOK 775 million, down NOK 24 million from the year-earlier period. The reduction in income from payment transactions was partly offset by higher income from sales of insurance, mutual fund and structured products.

Operating expenses were up 3.5 per cent, totalling NOK 1 553 million in the first quarter of the year, up from NOK 1 500 million in the year-earlier period. The cost/income ratio was 61.9 per cent, as against 56.0 per cent in the first quarter of 2006. Retail Banking staff numbered 4 111 full-time positions at end-March 2007.

Write-downs on loans remained low, totalling NOK 77 million for the January through March period in 2007.

Equities trading via mobile phones was offered to the banking group's customers during the first quarter. Retail customers will soon be given the opportunity to invest in savings products which have previously been reserved for large institutional customers. Through cooperation with Vital, retail customers will be offered investments in a global portfolio of private equity funds. In March 2007, a special customer loyalty programme, Partner Start, was introduced for corporate clients and one-man businesses in the start-up phase. BankID, which is a personal electronic proof of identify for secure identification and signatures on the Internet, is under establishment and will be offered customers in the course of the year.

At end-February 2007, the market share of credit to retail customers was 29.6 per cent, down from 30.2 per cent at end-March 2006. The market share of savings was 37.1 per cent at end-February 2007. The number of customers subscribing to loyalty programmes increased by 14 per cent during the 12-month period, totalling 1 080 000 at end-March, of whom 660 000 were under the DnB NOR brand while 420 000 had Postbanken Leve product packages. Postbanken Eiendom was established in 2006 and had 19 franchise offices as at 31 March 2007.

Retail Banking aims to strengthen its position in a market characterised by intense competition from domestic and international players. Competition will be met by developing new products and distribution solutions geared to the market and by making efficient use of the broad distribution network. Retail Banking will also seek future growth outside Norway. As part of this strategy, DnB NOR Bank has presented an offer to acquire the Swedish real estate brokerage chain Svensk Fastighetsförmedling AB. Through this transaction, the real estate brokerage operations of the banking group will become the most extensive in the Nordic region.

### DnB NOR Markets

DnB NOR Markets achieved pre-tax operating profits of NOK 647 million in the first quarter of 2007, up NOK 52 million from the year-earlier period. Return on capital was 53.2 per cent. Due to stock market volatility, income from equities brokerage and corporate finance activity was lower than in the first quarter of 2006. However, higher income from foreign exchange and interest rate products and custodial and other securities services more than compensated for the decline.

Total revenues were NOK 1 063 million in the first quarter of 2007, an increase from NOK 1 010 million in the year-earlier period.

Costs totalled NOK 392 million in the first quarter of 2007, a decline from NOK 415 million in the January through March period in 2006. The 6 per cent reduction was due to non-recurring items in the first quarter of 2007. The cost/income ratio was 36.9 per cent, and full-time positions numbered 569 at end-March 2007.

Customer-related income from foreign exchange and interest rate derivatives rose to NOK 306 million in the first quarter of 2007, from NOK 268 million a year earlier. Higher Norwegian money market rates boosted demand for interest rate hedging products, while demand for foreign exchange products remained stable compared with the year-earlier period.

Customer-related revenues from the sale of securities and other investment products came to NOK 230 million, as against NOK 259 million in the first quarter of 2006. There was healthy demand for savings products such as property funds, bonds with embedded credit derivatives, index-linked bonds and equity-linked bank deposits. During the quarter, DnB NOR Markets launched bank deposits with returns linked to mutual funds based on DnB NOR Asset Management's equity and hedge funds. In addition, equities trading by mobile phone was introduced.

Customer-related revenues from corporate finance services were NOK 148 million, down NOK 64 million from the high level in the first quarter of 2006. In March 2007, DnB NOR Markets established a corporate finance department for Asia at the bank's branch in Singapore. There was a high level of activity in the debt capital markets, and DnB NOR Markets was the leading arranger of bond issues in Norwegian kroner in the first quarter of 2007.

Customer-related revenues from the sale of custodial and other securities services rose to NOK 91 million, from NOK 70 million in the first quarter of 2006. The 30 per cent increase reflected a high level of activity within securities lending and among international investors on Oslo Børs.

Earnings from market making and other proprietary trading totalled NOK 251 million, an increase from NOK 184 million in the year-earlier period. A rise in income from trading in interest rate instruments and narrower credit margins on bonds were factors contributing to the good performance.

Stock market activity, credit market trends and fluctuations in the NOK exchange rate and Norwegian interest rate levels will be decisive factors for the business area's future performance. Strong competition and an increase in electronic trading are expected to further increase the pressure on prices. Activity levels are generally lower in the second than in the first quarter of the year.

### DnB NORD

DNB NORD recorded pre-tax operating profits of NOK 109 million in the first quarter of 2007, up NOK 44 million compared with the year-earlier period, mainly reflecting a strong rise in volumes.

Customer lending averaged NOK 38.9 billion in the first quarter of 2007, up 63.7 per cent from the corresponding period in 2006. Average deposit volume rose by 24.5 per cent from the year-earlier period, to NOK 13.0 billion.

Income totalled NOK 338 million in the first quarter of the year, an increase of NOK 113 million or 50.2 per cent from the first quarter of 2006. Costs represented NOK 220 million for the January through March period in 2007, up NOK 69 million or 45.7 per cent from the first quarter of 2006. The cost/income ratio was 65.1 per cent. At end-March 2007, DnB NORD staff represented 2 111 full-time positions.

A key strategic target for DnB NORD is to take part in the extensive commercial and investment activities throughout the Baltic Sea region. In order to succeed, major efforts are being made to harmonise products and integrate IT systems and products in the DnB NORD network, ensuring that products and services can be offered across national borders. This is expected to provide economies of scale and boost revenues.

In Poland, Denmark and Finland, DnB NORD is a full-service bank for corporate customers, while the entities in the Baltic region also serve retail customers and small businesses. DnB NORD is well represented in the Baltic region and Poland, with more than 715 000 customers and 122 branches, and is thus well positioned and has good prospects in markets showing considerable growth.

Strong credit growth is expected in the Baltic region in 2007, and DnB NORD expects to grow in pace with the total market. In early autumn 2006, DnB NOR initiated measures to minimise losses in the event of exchange rate volatility in Latvia. In the short term, a potential currency depreciation will thus have limited effect on DnB NORD's financial performance. In Poland, there is also brisk growth in the financial sector, and DnB NORD aims to increase market shares here by focusing on small and medium-sized companies. The agreement to acquire BISE Bank is part of this initiative. In Denmark and Finland, DnB NORD will seek greater market shares among large corporates and medium-sized businesses.

## Prospects for the rest of the year

Towards the end of 2006, the strong growth in the Norwegian economy accelerated and underlying growth at the beginning of 2007 was very high. A high level of optimism among households and businesses indicate continued solid growth in the mainland economy in 2007. A lack of available resources in several areas will, however, curb the growth potential of certain business sectors, while a global economic cool-down may cause export growth to decline somewhat. It is expected that rising interest rates may result in a slowdown in both household consumption and investment growth.

Competition in the savings and loan markets is expected to continue to increase. To meet the intensifying competition, the banking group will exploit in full its size and scale of operations. In addition, productivity and cost awareness will be enhanced at all levels.

Due to the banking group's position in the domestic market and intensifying competition in Norway, the banking group will seek future growth also abroad. Therefore, during the last few years, the significance of the banking group's international operations has increased and the target is that the future share of income from international operations will increase. DnB NOR Bank's strategy is to expand internationally in sectors and product areas where the banking group has acquired special competence based on several years' experience, while it will remain important to accompany Norwegian customers when they establish businesses outside Norway. The banking group will closely observe future developments in the Nordic financial markets.

Favourable economic conditions for Norway and DnB NOR indicate that 2007 will be a profitable year for the banking group, with limited write-downs on loans.

Oslo, 2 May 2007
The Board of Directors of DnB NOR Bank ASA

| | | |
|---|---|---|
| Olav Hytta<br>(chairman) | Bent Pedersen<br>(vice-chairman) | Rune Bjerke |
| Per Hoffmann | Sten Sture Larre | Kari Lotsberg |
| Heidi M. Petersen | Torill Rambjør | Ingjerd Skjeldrum |

# Contents – quarterly accounts

# Income statement

| | | DnB NOR Bank ASA | | |
|---|---|---|---|---|
| | | 1st quarter | 1st quarter | Full year |
| *Amounts in NOK million* | Note | 2007 | 2006 | 2006 |
| Total interest income | 5 | 12 266 | 8 156 | 39 108 |
| Total interest expenses | 5 | 8 875 | 5 029 | 25 997 |
| Net interest income | 5 | 3 391 | 3 126 | 13 111 |
| Commissions and fees receivable etc. | 6 | 1 495 | 1 562 | 5 861 |
| Commissions and fees payable etc. | 6 | 475 | 478 | 1 866 |
| Net gains on financial instruments at fair value | 6, 7 | 1 138 | 1 066 | 3 712 |
| Net realised gains on investment securities (AFS) | 6 | 0 | 0 | 0 |
| Profit from companies accounted for by the equity method | 6 | 0 | 0 | 4 |
| Other income | 6 | 202 | 169 | 2 904 |
| Net other operating income | 6 | 2 359 | 2 320 | 10 615 |
| Total income | | 5 750 | 5 446 | 23 726 |
| Salaries and other personnel expenses | 8 | 1 478 | 1 374 | 5 538 |
| Other expenses | 8 | 1 098 | 1 066 | 4 609 |
| Depreciation and impairment of fixed and intangible assets | 8 | 94 | 89 | 383 |
| Total operating expenses | 8 | 2 670 | 2 529 | 10 530 |
| Net gains on fixed and intangible assets | 10 | (2) | 3 | 63 |
| Write-downs on loans and guarantees | 11 | 37 | (50) | (337) |
| Pre-tax operating profit | | 3 041 | 2 970 | 13 597 |
| Taxes | | 851 | 722 | 3 207 |
| Profit from discontinuing operations after taxes | | 0 | 0 | 0 |
| Profit for the period | | 2 190 | 2 248 | 10 390 |

# Balance sheets

| | | DnB NOR Bank ASA | | | |
|---|---|---|---|---|---|
| | | 31 March | 31 Dec. | 31 March | 1 Jan. |
| *Amounts in NOK million* | Note | 2007 | 2006 | 2006 | 2006 |
| **Assets** | | | | | |
| Cash and deposits with central banks | | 17 077 | 9 346 | 1 292 | 19 715 |
| Lending to and deposits with credit institutions | | 198 630 | 117 261 | 109 125 | 74 648 |
| Lending to customers | 12, 13 | 712 206 | 722 881 | 650 631 | 627 892 |
| Commercial paper and bonds | | 112 825 | 137 302 | 82 724 | 76 798 |
| Shareholdings | | 4 515 | 3 590 | 3 045 | 3 174 |
| Financial derivatives | | 57 134 | 56 657 | 28 097 | 33 025 |
| Shareholdings, available for sale | | 0 | 0 | 0 | 0 |
| Commercial paper and bonds, held to maturity | | 0 | 0 | 0 | 0 |
| Investment property | | 0 | 0 | 0 | 0 |
| Investments in associated companies | | 569 | 569 | 543 | 537 |
| Investements in subsidiaries | | 9 034 | 8 594 | 8 081 | 7 170 |
| Intangible assets | 14 | 2 008 | 1 990 | 1 960 | 1 932 |
| Deferred tax assets | | 384 | 404 | 5 | 6 |
| Fixed assets | | 2 652 | 2 687 | 2 830 | 2 860 |
| Biological assets | | 0 | 0 | 0 | 0 |
| Discontinuing operations | | 0 | 0 | 0 | 27 |
| Other assets | | 7 050 | 6 033 | 3 220 | 3 597 |
| Total assets | | 1 124 084 | 1 067 313 | 891 554 | 851 382 |
| **Liabilities and equity** | | | | | |
| Loans and deposits from credit institutions | | 132 346 | 120 072 | 100 083 | 97 510 |
| Deposits from customers | | 485 324 | 457 465 | 408 919 | 401 267 |
| Financial derivatives | | 58 705 | 57 258 | 30 936 | 30 641 |
| Securities issued | 15 | 326 899 | 324 183 | 259 051 | 234 460 |
| Payable taxes | | 3 347 | 2 642 | 1 369 | 778 |
| Deferred taxes | | 3 | 3 | 997 | 899 |
| Other liabilities | | 27 198 | 21 087 | 14 693 | 14 591 |
| Discontinuing operations | | 0 | 0 | 0 | 0 |
| Provisions | | 4 110 | 4 113 | 3 716 | 3 776 |
| Subordinated loan capital | 15 | 36 744 | 33 240 | 27 227 | 25 122 |
| Total liabilities | | 1 074 677 | 1 020 064 | 846 990 | 809 045 |
| Minority interests | | 0 | 0 | 0 | 0 |
| Revaluation reserve | | 0 | 0 | 0 | 0 |
| Share capital | | 17 214 | 17 214 | 17 214 | 17 214 |
| Other reserves and retained earnings | | 32 192 | 30 035 | 27 349 | 25 122 |
| Total equity | | 49 407 | 47 249 | 44 563 | 42 336 |
| Total liabilities and equity | | 1 124 084 | 1 067 313 | 891 553 | 851 382 |
| Off-balance sheet transactions and contingencies | 18 | | | | |

# Income statement

| | | DnB NOR Bank Group | | |
|---|---|---|---|---|
| | | 1st quarter | 1st quarter | Full year |
| *Amounts in NOK million* | Note | 2007 | 2006 | 2006 |
| Total interest income | 5 | 13 490 | 8 939 | 42 720 |
| Total interest expenses | 5 | 9 450 | 5 276 | 27 251 |
| Net interest income | 5 | 4 040 | 3 663 | 15 469 |
| Commissions and fees receivable etc. | 6 | 1 614 | 1 649 | 6 249 |
| Commissions and fees payable etc. | 6 | 498 | 492 | 1 939 |
| Net gains on financial instruments at fair value | 6, 7 | 1 064 | 1 015 | 3 601 |
| Net realised gains on investment securities (AFS) | 6 | 0 | 0 | 0 |
| Profit from companies accounted for by the equity method | 6 | 37 | 29 | 171 |
| Other income | 6 | 403 | 366 | 1 475 |
| Net other operating income | 6 | 2 620 | 2 567 | 9 556 |
| Total income | | 6 659 | 6 230 | 25 026 |
| Salaries and other personnel expenses | 8 | 1 847 | 1 672 | 6 849 |
| Other expenses | 8 | 1 281 | 1 214 | 5 205 |
| Depreciation and impairment of fixed and intangible assets | 8 | 177 | 136 | 632 |
| Total operating expenses | 8 | 3 305 | 3 022 | 12 686 |
| Net gains on fixed and intangible assets | 10 | 5 | 12 | 354 |
| Write-downs on loans and guarantees | 11 | 51 | (26) | (258) |
| Pre-tax operating profit | | 3 309 | 3 247 | 12 952 |
| Taxes | | 893 | 789 | 3 357 |
| Profit from discontinuing operations after taxes | | 0 | 0 | 0 |
| Profit for the period | | 2 415 | 2 458 | 9 595 |
| | | | | |
| Profit attributable to shareholders | | 2 361 | 2 424 | 9 452 |
| Profit attributable to minority interests | | 54 | 34 | 143 |

# Balance sheets

| | | | | | DnB NOR Bank Group |
|---|---|---|---|---|---|
| | | 31 March | 31 Dec. | 31 March | 1 Jan. |
| *Amounts in NOK million* | Note | 2007 | 2006 | 2006 | 2006 |
| **Assets** | | | | | |
| Cash and deposits with central banks | | 18 685 | 11 453 | 2 742 | 21 229 |
| Lending to and deposits with credit institutions | | 102 066 | 65 203 | 60 864 | 31 427 |
| Lending to customers | 12, 13 | 852 661 | 838 023 | 737 925 | 707 916 |
| Commercial paper and bonds | | 115 404 | 114 203 | 84 581 | 78 018 |
| Shareholdings | | 4 748 | 3 818 | 3 277 | 3 260 |
| Financial derivatives | | 57 169 | 56 345 | 28 213 | 33 128 |
| Shareholdings, available for sale | | 0 | 0 | 0 | 0 |
| Commercial paper and bonds, held to maturity | | 0 | 0 | 0 | 0 |
| Investment property | | 149 | 148 | 232 | 270 |
| Investments in associated companies | | 1 450 | 1 499 | 1 427 | 1 388 |
| Investments in subsidiaries | | - | - | - | - |
| Intangible assets | 14 | 3 177 | 3 166 | 3 054 | 2 954 |
| Deferred tax assets | | 144 | 190 | 37 | 37 |
| Fixed assets | | 5 526 | 5 392 | 5 062 | 5 057 |
| Biological assets | | 0 | 0 | 0 | 0 |
| Discontinuing operations | | 27 | 27 | 0 | 27 |
| Other assets | | 6 817 | 5 663 | 3 283 | 3 318 |
| Total assets | | 1 168 024 | 1 105 131 | 930 697 | 888 029 |
| **Liabilities and equity** | | | | | |
| Loans and deposits from credit institutions | | 141 603 | 124 383 | 110 529 | 108 067 |
| Deposits from customers | | 509 186 | 480 471 | 426 709 | 417 734 |
| Financial derivatives | | 58 645 | 57 646 | 31 047 | 30 765 |
| Securities issued | 15 | 330 288 | 326 806 | 261 847 | 236 631 |
| Payable taxes | | 5 579 | 4 888 | 2 145 | 1 505 |
| Deferred taxes | | 34 | 39 | 1 203 | 1 130 |
| Other liabilities | | 21 403 | 15 367 | 12 257 | 12 188 |
| Discontinuing operations | | 0 | 0 | 0 | 0 |
| Provisions | | 4 345 | 4 372 | 4 002 | 4 113 |
| Subordinated loan capital | 15 | 37 432 | 33 979 | 28 215 | 26 112 |
| Total liabilities | | 1 108 516 | 1 047 950 | 877 954 | 838 246 |
| | | | | | |
| Minority interests | | 2 226 | 2 201 | 1 520 | 947 |
| Revaluation reserve | | 0 | 0 | 0 | 0 |
| Share capital | | 17 214 | 17 214 | 17 214 | 17 214 |
| Other reserves and retained earnings | | 40 068 | 37 765 | 34 008 | 31 622 |
| Total equity | | 59 508 | 57 181 | 52 742 | 49 783 |
| Total liabilities and equity | | 1 168 024 | 1 105 131 | 930 697 | 888 029 |
| Off-balance sheet transactions and contingencies | 18 | | | | |

# Statement of changes in equity

DnB NOR Bank ASA

| *Amounts in NOK million* | Revaluation reserve | Share capital | Share premium reserve | Other equity [1)] | Total other reserves and retained earnings | Total equity |
|---|---|---|---|---|---|---|
| Balance sheet as at 1 January 2006 NGAAP [2)] | 0 | 17 214 | 9 995 | 13 966 | 23 961 | 41 176 |
| IFRS effects | | | | | | |
| IAS 39 - Extended use of fair value of financial instruments | | | | 383 | 383 | 383 |
| IAS 16 - Market value of buildings for own use | | | | 448 | 448 | 448 |
| IFRS 3 - Exclusion of goodwill amortisation | | | | 347 | 347 | 347 |
| Other | | | | (18) | (18) | (18) |
| Total IFRS effects | 0 | 0 | 0 | 1 161 | 1 161 | 1 161 |
| Balance sheet as at 1 January 2006 | 0 | 17 214 | 9 995 | 15 127 | 25 122 | 42 336 |
| Net change in currency translation reserve | | | | (21) | (21) | (21) |
| Profit for the period | | | | 2 248 | 2 248 | 2 248 |
| Net income for the period | 0 | | | 2 227 | 2 227 | 2 227 |
| Balance sheet as at 31 March 2006 | 0 | 17 214 | 9 995 | 17 354 | 27 349 | 44 563 |
| | | | | | | |
| Balance sheet as at 31 December 2006 NGAAP | 0 | 17 214 | 9 995 | 18 148 | 28 143 | 45 357 |
| IFRS effects | | | | | | |
| IAS 39 - Extended use of fair value of financial instruments | | | | 1 057 | 1 057 | 1 057 |
| IAS 16 - Market value of buildings for own use | | | | 430 | 430 | 430 |
| IFRS 3 - Exclusion of goodwill amortisation | | | | 428 | 428 | 428 |
| Other | | | | (23) | (23) | (23) |
| Total IFRS effects | 0 | 0 | 0 | 1 891 | 1 891 | 1 891 |
| Balance sheet as at 31 December 2006 | 0 | 17 214 | 9 995 | 20 039 | 30 035 | 47 249 |
| Net change in currency translation reserve | | | | (32) | (32) | (32) |
| Profit for the period | | | | 2 190 | 2 190 | 2 190 |
| Net income for the period | | | | 2 157 | 2 157 | 2 157 |
| Balance sheet as at 31 March 2007 | 0 | 17 214 | 9 995 | 22 197 | 32 192 | 49 407 |

1) *Of which currency translation reserve:*

| | | |
|---|---|---|
| *Balance sheet as at 1 January 2006* | *22* | *22* |
| *Net change in currency translation reserve* | *(21)* | *(21)* |
| *Balance sheet as at 31 March 2006* | *1* | *1* |
| | | |
| *Balance sheet as at 31 December 2006* | *(32)* | *(32)* |
| *Net change in currency translation reserve* | *(32)* | *(32)* |
| *Balance sheet as at 31 March 2007* | *(64)* | *(64)* |

2) *Including effects of new regulations on the treatment of loans and guarantees, and merger with DnB NOR Hypotek.*

# Statement of changes in equity

DnB NOR Bank Group

| *Amounts in NOK million* | Minority interests [1] | Revalu-ation reserve | Share capital | Share premium reserve | Other equity [1] | Total other reserves and retained earnings | Total equity |
|---|---|---|---|---|---|---|---|
| Balance sheet as at 1 January 2006 NGAAP [2] | 947 | 0 | 17 214 | 10 711 | 15 940 | 26 651 | 44 812 |
| IFRS effects | | | | | | | |
| IAS 39 - Extended use of fair value of | | | | | | | |
| financial instruments | | | | | 611 | 611 | 611 |
| IAS 16 - Market value of buildings for own use | | | | | 571 | 571 | 571 |
| IFRS 3 - Exclusion of goodwill amortisation | | | | | 474 | 474 | 474 |
| IAS 10 - Dividends/Group contribution | | | | | 3 297 | 3 297 | 3 297 |
| Other | | | | | 18 | 18 | 18 |
| Total IFRS effects | 0 | 0 | 0 | 0 | 4 970 | 4 970 | 4 970 |
| Balance sheet as at 1 January 2006 | 947 | 0 | 17 214 | 10 711 | 20 910 | 31 622 | 49 783 |
| Net change in currency translation reserve | (9) | | | | (38) | (38) | (46) |
| Profit for the period | 34 | | | | 2 424 | 2 424 | 2 458 |
| Net income for the period | 26 | 0 | 0 | 0 | 2 386 | 2 386 | 2 412 |
| Minority interests, DnB NORD | 545 | | | | | | 545 |
| Minority interests, other | 2 | | | | | | 2 |
| Balance sheet as at 31 March 2006 | 1 520 | 0 | 17 214 | 10 711 | 23 297 | 34 008 | 52 742 |
| | | | | | | | |
| Balance sheet as at 31 December 2006 NGAAP | 2 201 | 0 | 17 214 | 10 711 | 19 113 | 29 824 | 49 240 |
| IFRS effects | | | | | | | |
| IAS 39 - Extended use of fair value of | | | | | | | |
| financial instruments | | | | | 1 174 | 1 174 | 1 174 |
| IAS 16 - Market value of buildings for own use | | | | | 529 | 529 | 529 |
| IFRS 3 - Exclusion of goodwill amortisation | | | | | 640 | 640 | 640 |
| IAS 10 - Dividends/Group contribution | | | | | 5 544 | 5 544 | 5 544 |
| Other | | | | | 53 | 53 | 53 |
| Total IFRS effects | 0 | 0 | 0 | 0 | 7 941 | 7 941 | 7 941 |
| Balance sheet as at 31 December 2006 | 2 201 | 0 | 17 214 | 10 711 | 27 054 | 37 765 | 57 181 |
| Net change in currency translation reserve | (30) | | | | (58) | (58) | (88) |
| Profit for the period | 54 | | | | 2 361 | 2 361 | 2 415 |
| Net income for the period | 25 | | | | 2 303 | 2 303 | 2 328 |
| Balance sheet as at 31 March 2007 | 2 226 | 0 | 17 214 | 10 711 | 29 357 | 40 068 | 59 508 |

1) *Of which currency translation reserve:*

| | Minority interests | Other equity | Total equity |
|---|---|---|---|
| *Balance sheet as at 1 January 2006* | *0* | *(27)* | *(27)* |
| *Net change in currency translation reserve* | *(9)* | *(38)* | *(46)* |
| *Balance sheet as at 31 March 2006* | *(9)* | *(64)* | *(73)* |
| *Balance sheet as at 31 December 2006* | *44* | *(39)* | *6* |
| *Net change in currency translation reserve* | *(30)* | *(58)* | *(88)* |
| *Balance sheet as at 31 March 2007* | *14* | *(96)* | *(82)* |

2) *Including effects of new regulations on the treatment of loans and guarantees.*

# Cash flow statements

| DnB NOR Bank ASA | | | | DnB NOR Bank Group | | |
|---|---|---|---|---|---|---|
| Full year 2006 | 1st quarter 2006 | 1st quarter 2007 | *Amounts in NOK million* | 1st quarter 2007 | 1st quarter 2006 | Full year 2006 |
| | | | OPERATIONS | | | |
| (107 359) | (16 346) | 10 448 | Net receipts/payments on loans to customers | (14 663) | (23 236) | (129 985) |
| 58 942 | 6 587 | 26 682 | Net receipts on deposits from customers | 27 424 | 7 839 | 66 112 |
| 37 009 | 7 204 | 10 738 | Interest received from customers | 11 937 | 7 951 | 40 476 |
| (8 857) | (1 120) | (2 644) | Interest paid to customers | (2 788) | (1 190) | (9 226) |
| (52 057) | (1 909) | 28 049 | Net receipts/payments on sales of financial assets for investment or trading | 1 542 | (2 462) | (28 088) |
| 6 140 | 1 831 | 1 527 | Net receipts on commissions and fees | 1 645 | 1 918 | 6 528 |
| (11 463) | (3 092) | (3 272) | Payments to operations | (3 845) | (3 551) | (13 491) |
| (477) | (39) | (127) | Taxes paid | (186) | (70) | (562) |
| 580 | 94 | 158 | Other receipts | 359 | 290 | 1 407 |
| (77 542) | (6 790) | 71 559 | Net cash flow relating to operations | 21 426 | (12 512) | (66 829) |
| | | | INVESTMENT ACTIVITY | | | |
| (899) | (50) | (80) | Net payments on the acquisition of fixed assets | (327) | (138) | (802) |
| 45 | (144) | 0 | Net receipts/payments on the sale/acquisition of long-term investments in shares | 0 | (144) | 45 |
| 1 215 | 57 | 87 | Dividends received on long-term investments in shares | 87 | 46 | 115 |
| 362 | (137) | 7 | Net cash flow relating to investment activity | (240) | (236) | (642) |
| | | | FUNDING ACTIVITY | | | |
| (6 833) | (32 529) | (61 209) | Net receipts/payments on loans from credit institutions | (14 152) | (27 598) | (13 852) |
| (5 831) | (3 513) | 5 578 | Net receipts/payments on other short-term liabilities | 5 655 | (3 056) | (5 567) |
| 94 079 | 25 034 | 4 546 | Net issue of bonds and commercial paper 1) | 5 342 | 25 637 | 92 803 |
| 10 302 | 2 925 | 4 310 | Issue of subordinated loan capital | 4 310 | 2 925 | 10 302 |
| (2 152) | (296) | 0 | Redemptions of subordinated loan capital | 0 | (296) | (2 152) |
| (3 932) | 0 | 0 | Dividend payments | 0 | 0 | (3 932) |
| (16 806) | (2 804) | (7 997) | Net interest payments on funding activity | (8 430) | (2 976) | (17 673) |
| 68 826 | (11 183) | (54 770) | Net cash flow from funding activity | (7 274) | (5 364) | 59 929 |
| (8 354) | (18 110) | 16 796 | Net cash flow | 13 912 | (18 111) | (7 542) |
| 30 138 | 30 138 | 21 783 | Cash as at 1 January | 18 230 | 25 698 | 25 698 |
| 0 | 0 | 0 | Increase in cash and deposits through acquisitions | 0 | 74 | 74 |
| (8 354) | (18 110) | 16 796 | Net receipts/payments on cash | 13 912 | (18 111) | (7 542) |
| 21 783 | 12 029 | 38 580 | Cash at end of period | 32 142 | 7 661 | 18 230 |

The cash flow statement shows receipts and payments of cash and cash equivalents during the year. The statement has been prepared in accordance with the direct method and has been adjusted for items that do not generate cash flows, such as accruals, depreciation and write-downs on loans and guarantees. Cash flows are classified as operating activities, investment activities or funding activities. Balance sheet items are adjusted for the effects of exchange rate movements. Cash is defined as cash and deposits with central banks, and deposits with credit institutions with no agreed period of notice.

*1) A significant share of the Group's operations was during 2006 funded by issuing bonds and commercial paper.*

# Key figures

| | | DnB NOR Bank Group | | |
|---|---|---|---|---|
| | | 1st quarter 2007 | 1st quarter 2006 | Full year 2006 |
| **Interest rate analyses** | | | | |
| 1. | Combined average spread for lending and deposits (%) | 2.02 | 2.13 | 2.08 |
| 2. | Spread for ordinary lending to customers (%) | 1.08 | 1.38 | 1.27 |
| 3. | Spread for deposits from customers (%) | 0.94 | 0.75 | 0.81 |
| **Rate of return/profitability** | | | | |
| 4. | Net other operating income, per cent of total income | 39.3 | 41.2 | 38.2 |
| 5. | Cost/income ratio (%) | 49.6 | 48.5 | 50.1 |
| 6. | Return on equity, annualised (%) | 16.8 | 19.4 | 18.2 |
| **Financial strength** | | | | |
| 7. | Core (Tier 1) capital ratio at end of period (%) | 7.5 | 7.4 | 6.8 |
| 8. | Capital adequacy ratio at end of period (%) | 11.2 | 10.4 | 10.2 |
| 9. | Core capital at end of period (NOK million) | 57 514 | 50 180 | 53 554 |
| 10. | Risk-weighted volume at end of period (NOK million) | 768 863 | 682 239 | 787 311 |
| **Loan portfolio and write-downs** | | | | |
| 11. | Write-downs relative to net lending to customers, annualised | 0.01 | 0.00 | (0.03) |
| 12. | Net non-performing and impaired commitments, per cent of net lending | 0.39 | 0.64 | 0.45 |
| 13. | Net non-performing and impaired commitments at end of period (NOK million) | 3 367 | 4 758 | 3 800 |
| **Liquidity** | | | | |
| 14. | Ratio of customer deposits to net lending to customers at end of period (%) | 59.7 | 57.8 | 57.3 |
| **Staff** | | | | |
| 15. | Number of full-time positions at end of period | 10 895 | 10 511 | 10 710 |

**Definitions**

| | |
|---|---|
| 1, 2, 3 | Based on nominal values excluding lending to and deposits with credit institutions and impaired loans. |
| 5 | Total expenses relative to total income. Expenses are excluding allocation to employees. |
| 6 | Profit for the period are exclusive of profit attributable to minority interests and are adjusted for the period`s change in fair value recognised directly in equity. Average equity is calculated on the basis of recorded equity excluding minority interests. |

# Note 1 – Accounting principles etc.

## BASIS FOR PREPARING THE ACCOUNTS

DnB NOR Bank ASA and the bank including subsidiaries, the banking group, have prepared accounts for the first quarter of 2007 in accordance with IFRS, including IAS 34 – Interim Financial Reporting. The banking group is included in the DnB NOR Group, which implemented IFRS in the consolidated accounts as of 1 January 2005. The DnB NOR Group's opening balance date was 1 January 2004.

DnB NOR Bank ASA has prepared statutory accounts according to the Norwegian Ministry of Finance's regulations on annual accounts, Section 1-5, on the use of IFRS (International Financial Reporting Standards) hereinafter called the Norwegian IFRS regulations. These regulations give permission to record provisions for dividends and group contribution in subsidiaries as income and record the Board of Directors' proposed dividends and group contributions as liabilities on the balance sheet date. According to IFRS, dividends should be classified as equity until approved by the general meeting. The Norwegian IFRS regulations also imply that the bank will use all other accounting principles resulting from IFRS in full.

Changes in IFRS 8 – Segment Reporting and IFRS 2 – Share-based Payment were issued by IASB in the fourth quarter of 2006. Changes in IAS 23 – Borrowing Costs were issued by IASB in the first quarter of 2007. The effective date of these standards is 1 January 2009. Hence, the bank and the banking group have not adopted these regulations in the accounts for the first quarter of 2007.

## COMPARISON FIGURES

DnB NOR Bank and the banking group implemented IFRS as of 1 January 2007. The opening balance date according to IFRS was 1 January 2006, thus comparable figures according to new principles have been prepared for 2006. The effects of the transition to IFRS are described in further detail in note 2.

## ESTIMATES

When preparing the consolidated accounts, management makes assessments and estimates and prepares assumptions that influence the effect of the accounting principles applied and thus the recorded values of assets and liabilities, income and expenses. Note 3 gives a description of important estimates and assumptions.

## ACCOUNTING PRINCIPLES

The accounting principles applied by DnB NOR Bank and the banking group according to IFRS are described below.

### Consolidation

The consolidated accounts of the banking group include DnB NOR Bank ASA including subsidiaries and associated companies.

Subsidiaries are defined as companies in which DnB NOR Bank has control, directly or indirectly, through ownership or other means and a holding of more than 50 per cent of the voting share capital or primary capital. DnB NOR Bank considers the existence of de facto control, but generally assumes to have control when holding more than 50 per cent of the voting share capital or primary capital in another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the banking group. Subsidiaries that are sold are consolidated up till the time risk and control are transferred.

Associated companies are companies in which DnB NOR Bank has a significant influence, that is the power to participate in the financial and operating policy decisions of the companies, but is not in control or joint control of the companies. An assumption of significant influence exists when DnB NOR Bank holds between 20 and 50 per cent of the voting share capital or primary capital in another entity. Associates are recognised in the banking group accounts according to the equity method. In the statutory accounts, investments in subsidiaries and associates are recorded at cost.

### Conversion of transactions in foreign currency

Norwegian kroner serve as the reporting currency for the banking group. DnB NOR Bank ASA, has Norwegian kroner as its functional currency. Balance sheet items of foreign branches and subsidiaries are translated into Norwegian kroner according to exchange rates prevailing on the balance sheet date, while profit and loss items are translated according to exchange rates on the transaction date. Changes in net assets resulting from exchange rate movements are charged directly to equity.

Monetary assets and liabilities in foreign currency are translated to exchange rates prevailing on the balance sheet date. Changes in value of such assets due to exchange rate movements between the transaction date and the balance sheet date, are recognised in the income statement.

### Business combinations

Business combinations are recorded according to IFRS 3 – Business Combinations. The purchase method is applied for acquisitions of operations. Cost is measured at fair value of the consideration, taking account of any equity instruments issued in addition to any direct costs relating to the transaction. Possible share issue expenses are not included in cost, but deducted from equity.

Acquired identifiable tangible and intangible assets and liabilities are recorded at fair value at the time of acquisition. If cost exceeds the fair value of identifiable assets and liabilities, the excess will be recorded as goodwill. Goodwill is not amortised, but is subject to impairment testing on an annual basis or more frequently if there are indications of impairment. If cost is lower than the fair value of identifiable assets and liabilities, the difference will be recognised in the income statement on the transaction date.

In connection with acquisitions of less than 100 per cent ownership, 100 per cent of excess fair value is recorded in the balance sheet, with the exception of goodwill where only DnB NOR Bank's share is included.

### Recognition and derecognition of assets and liabilities

Assets and liabilities are recorded in the balance sheet at the time the banking group assumes actual control of the rights to the assets and takes on a real commitment.

Assets are derecognised at the time actual risk relating to the assets is transferred and control of rights to the assets is annulled or expired.

### Financial instruments

#### Classification of financial instruments

On initial recognition financial assets are classified in one of the following categories according to the purpose of the investment:

- Financial assets held for trading (trading portfolio), carried at fair value through profit or loss
- Other financial instruments designated at fair value with changes in value recognised in the income statement
- Financial derivatives designated as hedging instruments
- Loans and receivables, carried at amortised cost
- Held-to-maturity investments, carried at amortised cost
- Available-for-sale financial instruments carried at fair value, with changes in value recorded against equity

On initial recognition financial liabilities are classified in one of the following categories:

- Financial liabilities held for trading (trading portfolio), carried at fair value through profit or loss
- Financial liabilities designated as at fair value with changes in value recognised in the income statement
- Other financial liabilities carried at amortised cost

#### Financial assets and liabilities in the trading portfolio

Instruments in the trading portfolio are typically subject to frequent trading and positions are established with an aim to obtain short-term gains.

The trading portfolio includes financial assets in DnB NOR Markets and financial derivatives excluding derivatives used for hedging. In addition, the portfolio includes securities issued and deposits where instruments are used actively in interest rate and liquidity management and have a short remaining maturity.

### Financial assets and liabilities designated at fair value through profit and loss

Financial assets and financial liabilities designated at fair value include commercial paper and bonds, equities, fixed-rate loans in Norwegian kroner, fixed-rate securities issued in Norwegian kroner, such as index-linked bonds and bank deposits and other fixed-rate deposits. These instruments are included in the portfolios, which are managed together and valued at fair value. Financial guarantees are also included in this category.

### Financial derivatives designated as hedging instruments

The banking group uses derivative instruments as part of its risk exposure management to manage exposures to interest rate. Derivatives used in hedge accounting are recorded as financial derivatives in the balance sheet.

### Loans and receivables, carried at amortised cost

The loans and liabilities category includes portfolios of loans and other financial assets that are not traded in an active market, carried at fair value through profit and loss or available for sale.

### Held-to-maturity investments, carried at amortised cost

The category includes securities held to maturity and is carried at amortised cost.

### Available-for-sale financial instruments carried at fair value, with changes in value recorded against equity

Assets classified as available for sale include financial assets not included in other categories.

### Other financial liabilities carried at amortised cost

Other financial liabilities that are not included in the trading portfolio or the portfolio designated as at fair value with changes recognised in profit or loss, are carried at amortised cost.

## Measurement

### Initial recognition of financial instruments

Financial instruments are measured at fair value on the trade date.

### Subsequent measurement

Measurement at fair value

Some instruments are recorded at fair value on the balance sheet date. Fair value is the amount for which an asset could be exchanged, or a liability settled, in a transaction between independent parties. Calculations are based on the going concern assumption, and provisions for credit risk on the instruments are reflected in the measurement.

Financial instruments, for which offsetting market risks can be identified with a reasonable degree of probability, are recorded at mid-market prices on the balance sheet date. Other financial assets and liabilities are measured at bid or asking prices respectively.

Instruments traded in an active market

Most of the banking group's financial derivatives, e.g. forward currency contracts, forward rate agreements (FRAs), interest rate options, currency options, interest rate swaps and interest rate futures, are traded in an active market. In addition, some investments in equities and commercial paper and bonds are traded in active markets.

A market is considered active if it is possible to obtain external, observable prices, exchange rates or volatilities and these prices represent actual and frequent market transactions. With respect to instruments traded in an active market, quoted prices are used, obtained from a stock exchange, a broker or a price-setting agency. If no prices are quoted for the instrument, it is decomposed and valued on the basis of quoted prices on the individual components.

Instruments not traded in an active market

Financial instruments not traded in an active market are valued according to different valuation techniques. When valuing ordinary, straightforward financial instruments, the banking group uses recognised option and discounting models with inputs from observable markets. For more complex products, valuation techniques that as far as possible are based on market information are used. When applying such valuation techniques, the value is adjusted for, e.g., credit risk and liquidity risk.

Financial instruments in the banking group not traded in an active market mainly include the portfolios of fixed-rate loans, deposits and borrowings in Norwegian kroner, certain non-standardised derivative contracts, investments in unlisted shares, loans in the trading portfolio, financial guarantees and structured products. Financial guarantee contracts issued are initially measured at fair value. Subsequently, these guarantees are in the accounts evaluated at the highest of fair value adjusted for any cumulative amortisation of commissions and or the implicit liability in the contract.

The fair value of the portfolios of fixed-rate loans, deposits and borrowings in Norwegian kroner is estimated at the value of contractual cash flows discounted by the market rate including a credit risk margin on the balance sheet date.

When valuing non-standardised derivative contracts, such as 'over-the-counter' options (OTC options) and unlisted instruments, a theoretical price is set based on market inputs.

Some of the banking group's products consist of different elements, e.g. deposits, securities and financial derivatives, so-called structured products. Structured products include equity-linked bank deposits and equity-linked bonds. All elements in the products are recorded at aggregate fair value.

Some of the banking group's investments in equities and participations are traded in non-active markets. When determining fair values, the following aspects are considered:

- Price at the time of the last capital increase or transaction between independent parties, adjusted for any changes in market conditions since the time of the capital increase/transaction
- Valuations made previously in connection with a possible business combination, adjusted for any changes in market conditions since the time of the business combination
- Fair value based on the expected future cash flow of the investment, provided that the investment has low liquidity

Measurement at amortised cost

Financial instruments not recorded at fair value are recorded at amortised cost and measured using the internal rate method. When using the internal rate method, the internal rate of return for the contract is calculated. The internal rate of return is set by discounting contractual cash flows based on the expected life of the financial instrument. Cash flows include front-end fees and direct marginal transaction costs not covered by the customer, as well as any residual value at the end of the expected life of the instrument. Amortised cost is the net present value of such cash flows discounted by the internal rate of return.

Impairments on financial assets

*Individual write-downs*

If objective evidence of a decrease in value can be found, write-downs on loans are calculated as the difference between the value of the loan in the balance sheet and the net present value of estimated future cash flows discounted by the internal rate of return on the loan. The internal rate of return used is the internal rate of return on the loan prior to the identification of objective evidence of impairment, adjusted for changes in market rates up to the measurement date. Changes in the credit risk of the loan due to objective evidence of impairment are not taken into consideration when adjusting the internal rate of return used for discounting.

Objective evidence of a decrease in value of a loan or loan portfolio includes serious financial problems on the part of the debtor, non-payment or other serious breaches of contract, the probability that the debtor will enter into debt negotiations or other special circumstances that have occurred.

Individual write-downs reduce the value of commitments in the balance sheet, and changes during the period are recorded under "Write-downs on loans and guarantees". Interest calculated according to the internal rate method on the written-down value of the loan is included in "Net interest income".

*Group write-downs*

Loans, which have not been individually evaluated for impairment, are evaluated collectively in groups. Loans, which have been individually evaluated, but not written down, are also evaluated in groups. The evaluation is based on objective evidence of a decrease in value that has occurred on the balance sheet date and can be related to the banking group.

Loans are grouped on the basis of similar risk and value characteristics in accordance with the division of customers into main sectors or industries and risk classes. The need for write-downs is estimated per customer group based on estimates of the general economic situation and loss experience for the respective customer groups.

Group write-downs reduce the value of commitments in the balance sheet, and changes during the period are recorded under "Write-downs on loans and guarantees". Like individual write-downs, group write-downs are based on discounted cash flows. Cash flows are discounted on the basis of statistics derived from individual write-downs. Interest is calculated on commitments subject to group write-downs according to the same principles and experience base as for commitments evaluated on an individual basis.

Interest calculated according to the internal rate method on the written-down value of the loan is included in "Net interest income".

## Presentation in the balance sheet and income statement

### Cash and deposits with central banks

Cash is defined as cash and deposits with central banks.

### Lending

Loans are recorded, dependent on the counterparty, either as lending to and deposits with credit institutions or lending to customers, regardless of measurement principle.

Interest income on instruments classified as lending are included in "Net interest income" using the internal rate method, irrespective of measurement principle. The method is described in the section on amortised cost.

A decrease in value on the balance sheet date based on objective evidence of impairment for loans valued at amortised cost and in the portfolio of fixed-rate loans in Norwegian kroner, which are measured at fair value, are reflected in "Write-downs on loans and guarantees".

Other changes in value of the portfolio of fixed-rate loans in Norwegian kroner, which are measured at fair value, or changes in value of loans included in the trading portfolio are included under "Net gains on financial instruments at fair value".

### Commercial paper and bonds

Interest-bearing securities which DnB NOR Bank has no intention of holding to maturity are classified as commercial paper and bonds. The portfolio includes both commercial paper and bonds in the trading portfolio and commercial paper and bonds classified at fair value through profit and loss.

Interest income and expenses on other portfolios of commercial paper and bonds are included in "Net interest income" using the internal rate method. The method is described in more detail in the section on amortised cost. Other changes in value are recorded under "Net gains on financial instruments at fair value" in the income statement.

### Shareholdings

Shareholdings include shareholdings in the trading portfolios as well as shareholdings and mutual funds classified at fair value.

Changes in value are recorded under "Net gains on financial instruments at fair value".

### Financial derivatives

Financial derivatives are classified as either financial derivatives in the trading portfolio or as derivatives used in hedge accounting. Financial derivatives are presented as assets if the value is positive and as liabilities if there is a negative value. Netting is undertaken if the banking group has a legally binding netting agreement with its counterparty and intends to make a net redemption or sell the asset and meet the obligation at the same time.

Interest income and expenses on other financial derivatives are included in "Net interest income" using the internal rate method. The method is described in more detail in the section on amortised cost. Other changes in value are recorded under "Net gains on financial instruments at fair value".

### Shareholdings available for sale

As at 31 March 2007 and for periods in 2006 none of the banking group's shareholdings were classified as available for sale.

Unrealised changes in value in the available-for-sale portfolio are recorded against equity. If there is objective evidence of a decrease in value on the balance sheet date for available-for-sale assets, the write-down is recognised in the income statement. When realised, such gains or losses are recorded under "Net realised gains on available-for-sale financial instruments".

### Commercial paper and bonds, held to maturity

As at 31 March 2007 and in 2006 none of the banking group's shareholdings were classified as available for sale.

### Loans and deposits from credit institutions and deposits from customers

Liabilities to credit institutions and customers are recorded, dependent on the counterparty, either as loans and deposits from credit institutions or deposits from customers, regardless of measurement category.

Interest expenses on instruments classified as loans and deposits from credit institutions and deposits from customers are included in "Net interest income" using the internal rate method. Other changes in value are recorded under "Net gains on financial instruments at fair value".

### Securities issued and subordinated loan capital

Securities issued and subordinated loan capital includes commercial paper issued, bond debt, subordinated loan capital and perpetual subordinated loan capital securities, regardless of measurement category.

Interest expenses on instruments classified as securities issued and subordinated loan capital are included in "Net interest income" using the internal rate method. Other changes in value are recorded under "Net gains on financial instruments at fair value" in the income statement. Other changes include change in value due to changes in DnB NOR Bank ASA's long-term credit rating.

### Financial guarantee contracts and loan commitments

Contracts that require the banking group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms in a debt instrument, are classified as financial guarantee contracts.

Loan commitments are classified as financial liabilities if the commitments can be settled net in cash or by delivering or issuing another financial instrument or if the banking group has a commitment to provide a loan at a below-market interest rate. The banking group did not have any such loan commitments classified as financial liabilities as at 31 March 2007.

Except for individually identified impaired commitments, any changes in the value of financial guarantee contracts issued including amortisation of commissions are recorded as "Net gains on financial instruments at fair value". Changes in the value of financial guarantee contracts issued included in individually identified impaired commitments are recorded under "Write-downs on loans and guarantees". The fair values of financial guarantee contracts issued are recorded under "Provisions" in the balance sheet.

### Hedge accounting and risk management

The banking group's portfolios of fixed-rate loans, deposits and borrowings make it necessary to manage and hedge interest rate risk. To reflect this in the accounts the banking group combines the use of selected fair value hedge accounting and designates financial assets and liabilities as assets of liabilities at fair value with changes in value recognised in the income statement. The banking group classifies these portfolios dependent on whether the instruments are issued in Norwegian kroner or foreign currency. The portfolios of fixed-rate loans in Norwegian kroner, securities issued in Norwegian kroner and fixed-rate deposits from customers in Norwegian kroner are measured at fair value with changes in value recognised in the income statement. Fixed-rate instruments issued in foreign currency are subject to fair value interest rate hedging on an individual basis. In such cases, there is a clear, direct and documented correlation between changes in the value of the currency loan (hedged item) and changes in the value of the financial derivative (hedging instrument).

Upon entering into the hedge relationship, the correlation between the hedged item and the hedging instrument is documented. In addition, the goal and strategy underlying the hedging transaction are documented. Correlations are verified in the form of a test of hedge effectiveness at the beginning and end of the relevant period. Hedging instruments are recorded at fair value and included under "Net gains on financial instruments at fair value" in the income statement. In cases where adequate effectiveness between the hedged item and the hedging instrument is documented, the change in fair value attributable to interest rate risk will be recorded as an addition to or deduction from financial liabilities. The change in value will be included under "Net gains on financial instruments at fair value" in the income statement. Financial derivatives used as hedging instruments are presented as other financial derivatives in the balance sheet.

If the hedge relationship ceases or adequate hedge effectiveness cannot be verified, the change in value of the hedged item during the period is amortised over the remaining maturity.

This is done to avoid asymmetry in the accounts as a result of items included in the banking group's interest rate management being assessed according to different principles. Use of the above principles for group items involving interest rate risk will ensure that the overall presentation of such items in DnB NOR Bank's accounts is consistent with the banking group's interest rate management and actual financial performance.

### Leasing

Finance leases are agreements, which basically transfer all risk and returns associated with the leasing object to the lessee. Such leases are classified as lending and recorded at amortised cost. Leasing income is recorded according to the annuity method, where the interest component is recorded under net interest income while instalments reduce the balance sheet value of lending. In cases where another party guarantees the residual value due to the lessee, the residual value is repaid over the term of the contract.

Upon the sale of leasing objects, gains or losses will regularly occur. The net present value of expected future net sales gains is recorded in the balance sheet. Realised gains and changes in value of future sales gains are included in net interest income.

Operational leases are agreements where DnB NOR Bank guarantees the residual value for the lessee at the end of the contract period. Leasing income is recorded under "Other operating income". Operating equipment is recorded as machinery, fittings and vehicles in the balance sheet. Depreciation for accounting purposes is calculated using the annuity method and classified as ordinary depreciation.

## Investment property, own buildings and other fixed assets

### Investment property

The banking group owns both investment property and buildings acquired for own use. Buildings acquired for rental to tenants outside the banking group are classified as investment property. Multi-purpose buildings are classified partly as investment property and partly as own buildings provided that the building can be divided into sections that can be sold separately. If the building cannot be divided, it is classified as a building for own use unless the own use is only for an insignificant portion of the property.

Investment properties are measured initially at cost and thereafter at fair value with changes in fair value recognised in the profit or loss for the period in which it arises. No annual depreciation is made on investment property. Internal or external expertise is used for valuations based on discounted annual rental income. Changes in value of investment property are recorded under "Other income" in the income statement.

### Buildings for own use

Buildings acquired for own use are classified as fixed assets. Properties are recorded at cost less accumulated depreciation and write-downs.

Buildings for own use, which the banking group shall sell, are reclassified as "Discontinuing operations". Recorded value is the lower of cost and recoverable amount.

### Other fixed assets

Other tangible assets are classified as fixed assets and recorded at cost less accumulated depreciation and write-downs. Cost includes expenses directly related to the acquisition of the asset. Subsequent expenses are capitalised on the relevant assets when it is probable that future economic benefits associated with the expenditure will flow to the banking group and can be measured reliably. Expenses for repairs and maintenance are recorded in the income statement as they occur.

Land is not depreciated. Based on cost less any residual value, other assets are subject to straight-line depreciation over their expected useful life within the following limits:

| | | |
|---|---|---|
| Buildings for own use | 50-100 | years |
| Technical installations | 10 | years |
| Machinery | 3-10 | years |
| Fixtures and fittings | 5-10 | years |
| Computer equipment | 3-5 | years |
| Means of transport | 5-7 | years |

The residual values and useful lives of the assets are reviewed annually and adjusted if required. Gains and losses on the sale of fixed assets are recorded in the line item "Net gain on fixed and intangible assets" in the income statement.

## Impairment assessment

On each reporting date, fixed and intangible assets are reviewed to look for indications of a decrease in value. If there is any indication of impairment, the recoverable amount of the asset is calculated. The recoverable amount represents the higher of an asset's fair value less costs to sell and its value in use. If the asset's recorded value exceeds the estimated recoverable amount, the asset is immediately written down to its recoverable amount.

## Intangible assets

### Goodwill

Recognised goodwill is not depreciated. An assessment of objective evidence of impairment is made on each reporting date. If such evidence exists, an impairment test is implemented. In addition an annual impairment test is made for all cash-generating units for goodwill to verify whether fair values exceeds recorded values. The choice of cash-generating unit is based on where it is possible to identify and separate cash flows relating to operations. A cash-generating unit may include goodwill from several transactions, and the impairment test is carried out on the unit's total capitalised goodwill. Future cash flows are based on historical results and available budgets and plan figures approved by management. Beyond the plan period, which in most cases is three years, cash flow trends are assumed to reflect the general expected economic growth rate for the type of operations carried out by the cash-generating unit. The required rate of return/discount rate is based on an assessment of the market's required rate of return for the type of operations carried out by the cash-generating unit. This required rate of return reflects the risk of operations. Goodwill from the acquisition of companies generating cash flows in foreign currencies is recorded in the balance sheet in the same currency and translated at rates of exchange ruling on the balance sheet date.

### IT systems and software

Acquired software is recorded at cost with the addition of expenses incurred to make the software ready for use. Identifiable costs for internally developed software controlled by the banking group where it is probable that economic benefits will cover development expenses at the balance sheet date, are recorded as intangible assets. Direct expenses include expenses covering pay to employees directly involved in the project, materials and a share of relevant overhead expenses. Expenses relating to maintenance of software and IT systems are charged to the income statement as they occur. Software expenses recorded in the balance sheet are depreciated over their expected useful life, usually five years. The need for impairment testing is considered according to the principles described under other fixed assets.

## Pensions

The basis for calculating pension expenses is a linear distribution of pension entitlements measured against estimated accumulated commitments at the time of retirement. Expenses are calculated on the basis of pension entitlements earned during the year with the deduction of the return on funds assigned to pensions.

Pension commitments which are administered through life insurance companies or pension funds, are matched against funds within the scheme. When total pension funds exceed estimated pension commitments on the balance sheet date, the net value is classified as an asset in the balance sheet if it has been rendered probable that the overfunding can be utilised to cover future commitments. When pension commitments exceed pension funds, the net commitments are classified under liabilities in the balance sheet. Each scheme is considered separately.

Pension commitments which are not administered through life insurance companies or pension funds, are recorded as liabilities in the balance sheet.

Pension commitments represent the present value of estimated future pension payments, which in the accounts are classified as accumulated on the balance sheet date. The calculation of pension commitments is based on actuarial and economic assumptions about life expectancy, rise in salaries, early retirement etc. The discount rate used is determined by reference to market yields as at 31 December 2006 on long term (10-year) government bonds, plus an addition that takes into account the relevant duration of the pension liabilities.

Deviations in estimates are recorded in the income statement over the average remaining service period when the difference exceeds the greatest of 10 per cent of pension funds and 10 per cent of pension commitments.

The financial effects of changes in pension schemes are recorded as income or charged to expense on the date of the change, unless the rights under the new pension scheme are conditional on the employee remaining in service for a specified period.

Pension expenses are based on assumptions determined at the start of the period. Expenses in connection with the accumulation of pension rights are classified as personnel expenses in the income statement. Employer's contributions are included in pension expenses and pension commitments.

## Taxes

Taxes for the year comprise payable taxes for the financial year, any payable taxes for previous years and changes in deferred taxes. In accordance with IAS 12 - Income Taxes, deferred taxes are calculated on temporary differences. Temporary differences are differences between the recorded value of an asset or liability and the taxable value of the asset or liability. Deferred taxes are calculated on the basis of tax rates and tax rules that are applied on the balance sheet date or are highly likely to be approved and are expected to be applicable when the deferred tax asset is realised or the deferred tax liability settled. The most significant temporary differences refer to pensions, depreciation of fixed assets and properties and revaluations of certain financial assets and liabilities.

Deferred tax assets are recorded in the balance sheet to the extent that it is probable that future taxable income will be available against which they can be utilised. Deferred taxed and deferred tax assets in the tax group are recorded net in the banking group's balance sheet.

Payable and deferred taxes are recorded against equity if the taxes refer to items recorded against equity during the same or in previous periods.

### Tax group

DnB NOR Bank's tax group consists of the parent company DnB NOR Bank ASA and Norwegian subsidiaries where DnB NOR Bank owns more than 90 per cent of the shares and has a corresponding share of the votes, which can be cast at general meetings.

## Accrual accounting of interest and fees

Interest and commissions are included in the income statement when earned as income or incurred as expenses. Unrealised gains and losses on interest rate hedges in connection with changes in market rates on fixed-rate deposits and borrowings in foreign currency are amortised under "Net interest income".

Fees that represent direct payment for services rendered are recognised as income upon payment. Fees for the establishment of loan agreements are included in cash flows when calculating amortised cost and recorded under "Net interest income" using the internal rate method. Fees that are included when establishing financial guarantees are included in the valuation and recorded under "Net gains on financial instruments at fair value".

## Recording of interest

Interest income is recorded using the internal rate method. This implies that nominal interest is recorded when incurred, with the addition of amortised front-end fees less direct marginal establishment costs. Interest is recorded according to the internal rate method with respect to both balance sheet items carried at amortised cost and balance sheet items carried at fair value with changes in value recognised in the income statement. Interest taken to income on impaired commitments corresponds to the internal rate of return on the written-down value. Cf. "Measurement at fair value", "Measurement at amortised cost" and "Impairments on financial assets" above.

## Restructuring

If restructuring plans that change the scope of operations or the way operations are carried out are approved, the need for restructuring provisions will be considered. If restructuring expenses cannot be shown to help generate income in subsequent periods and future expenses represent actual obligations on the balance sheet date, the net present value of future cash flows will be charged to the accounts and recorded as a liability in the balance sheet. The provisions will be reversed as expenses are incurred.

## Cash flow statements

The cash flow statements show cash flows grouped according to source and use. Cash is defined as cash, deposits with central banks and deposits with credit institutions with no agreed period of notice.

## Equity and capital adequacy

### Dividends and group contributions

Dividends received in DnB NOR Bank ASA are recorded in the same year that provisions are made in the company declaring the dividends. Distributed dividends and group contributions are recorded as liabilities in accordance with the Board of Directors' proposal on the balance sheet date.

The banking group classifies dividends as equity until approved by the general meeting. Provisions for dividends and group contributions are not included in the capital adequacy calculations.

### Minority interests

Minority interests are presented as a separate part of equity.

### Capital adequacy

Capital adequacy calculations are based on special consolidation rules based on the statutory accounts prepared according to the Norwegian Ministry of Finance's regulations on annual accounts, Section 1-5, on the use of IFRS as from the first quarter of 2007.

## Note 2 – Transition to IFRS

Up until 31 December 2006, DnB NOR Bank ASA and the banking group prepared accounts based on Norwegian accounting legislation, the accounting regulations issued by the Ministry of Finance and Norwegian generally accepted accounting principles, hereinafter referred to as NGAAP. The banking group has prepared accounts for the first quarter of 2007 in accordance with IFRS. DnB NOR Bank ASA has prepared statutory accounts according to the Norwegian IFRS regulations. See note 1 for further description. The most significant changes in accounting principles resulting from the transition to IFRS are described below. Reconciliation and a description of effects on equity in DnB NOR Bank and the banking group upon the transition as well as on profits for the first quarter of 2006 and the full year 2006 are shown in the statement of changes in equity and in the variance analysis for the first quarter of 2006 and the full year 2006 below.

DnB NOR Bank ASA implemented the Norwegian IFRS regulations as of 1 January 2007. The formal opening balance date was 1 January 2006. DnB NOR Bank ASA and the banking group is part of the DnB NOR Group, which implemented IFRS on 1 January 2005. The opening balance date of the DnB NOR Group was 1 January 2004.

The DnB NOR Group availed itself of the exemption from the duty to restate the balance sheet and accounts for previous periods according to IFRS 1, inter alia with respect to previous acquisitions. Consequently, the value of goodwill was carried forward in the IFRS accounts based on the value on 1 January 2004 in the consolidated accounts according to NGAAP. In connection with IFRS 1, a new valuation was made of certain balance sheet items on the opening balance date. In subsequent periods, the value of these assets has been reviewed based on the IFRS rules for impairment.

DnB NOR Bank ASA and the banking group has used the option under IFRS 1 to carry book values for the DnB NOR Group forward on the opening balance date for the bank and the banking group. Thus, no new valuation has been made as at 1 January 2006.

A number of financial instruments are recorded at market value according to IFRS, as opposed to the lower of cost and fair value based on NGAAP. Fixed-rate loans in Norwegian kroner are recorded at fair value according to IFRS, as against amortised cost according to NGAAP.

The transition to IFRS entails changes in the value of a number of balance sheet items. The tax value of assets and liabilities remains unchanged, thus a new calculation has been made of deferred taxes/deferred tax assets.

DnB NOR Bank ASA and the banking group carry loans in their balance sheets, which according to a binding legal agreement have been transferred to Eksportfinans and are guaranteed by the bank. According to the guarantee, DnB NOR carries interest rate risk and credit risk associated with the loans. The transition to IFRS implies that financial derivatives to a greater extent will have to be recorded gross.

Provisions for dividends and group contributions in the banking group are classified as equity until approved by the general meeting. According to NGAAP, dividends and group contributions were classified as debt on the balance sheet date. DnB NOR Bank ASA has prepared statutory accounts according to the Norwegian IFRS regulations, which give permission to continue to classify the above-mentioned items according to NGAAP.

The accounting effect of changes in accounting principles will be charged directly against equity. See the statement of changes in equity for a further specification of the effects of changes in accounting principles.

DnB NOR Bank and the banking group implemented regulations from the Norwegian Ministry of Finance on the accounting treatment of loans and guarantees with effect from 1 January 2006. In 2005, the bank and the banking group implemented Norwegian Accounting Standard 6A on pension expenses. The stated changes in principles implied consistency between NGAAP and IFRS regarding the recording of loans at amortised costs and pensions.

### Result for the period – transition from NGAAP to IFRS

The most significant effects of the transition to the Norwegian IFRS regulations on 1 January 2007 are listed below.

- According to IFRS, a number of financial instruments are recorded at market value, as against the lower of cost and fair value based on NGAAP. The portfolios of fixed-rate loans in Norwegian kroner are recorded at fair value, while they were recorded at amortised cost according to NGAAP.
- Goodwill is no longer subject to amortisation, but will regularly be tested for impairment and any shortfall will be written down.
- Upon transition to IFRS for the DnB NOR Group, land was revalued to fair value. The revalued amount represented the new cost on the transition date. These values were carried forward in the bank and the banking group.

| DnB NOR Bank ASA | | Effects on the income statement | DnB NOR Bank Group | |
|---|---|---|---|---|
| 1st quarter | Full year | | Full year | 1st quarter |
| 2006 | 2006 | *Amounts in NOK million* | 2006 | 2006 |
| 1 967 | 9 659 | Profit for the period NGAAP | 8 872 | 2 178 |
| 255 | 674 | IAS 39 - Extended use of fair value of financial instruments | 563 | 237 |
| (4) | (19) | IAS 16 - Market value of buildings for own use | (42) | (4) |
| 38 | 80 | IFRS 3 - Exclusion of goodwill amortisation | 166 | 59 |
| (7) | (5) | Other effects | 35 | (13) |
| 2 248 | 10 390 | Profit for the period IFRS | 9 595 | 2 458 |

## Note 3 – Important accounting estimates and discretionary assessments

The bank and the banking group make estimates and assumptions concerning the future. The resulting accounting estimates will rarely be fully consistent with the final outcome. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

### Estimated impairment of goodwill

The banking group tests annually whether goodwill has suffered any impairment. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

### Income taxes

The bank and the banking group are subject to income taxes in numerous jurisdictions. Significant discretion is required in determining the worldwide provision for income taxes in the consolidated accounts. The final tax liability relating to many transactions and calculations will be uncertain. The bank and the banking group recognise liabilities related to the future outcome of tax disputes based on estimates of additional taxes. If the final outcome of the cases deviates from the originally allocated amounts, the deviations will affect income tax entered in the applicable period.

### Fair value of financial derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The bank and the banking group make evaluations and applies methods and assumptions that are mainly based on market conditions existing at the balance sheet date. The bank and the banking group use discounted cash flow analysis for available-for-sale financial assets that are not traded in active markets. Fair values of liabilities included in financial guarantees are measured according to the same techniques as for loans described below.

### Write-downs on loans

Write-downs will be made if objective evidence of impairment can be identified. Objective evidence of a decrease in value of a loan includes serious financial problems on the part of the debtor, non-payment or other serious breaches of contract, the probability that the debtor will enter into debt negotiations or other special circumstances that have occurred. Criteria for objective evidence for group write-downs in the banking group include indicators for portfolio quality and business prospects for specific industries.

All write-downs will be made based on discounted values, the discount rate being the loans' internal rate prior to impairment. In principle, all cash flows on commitments and groups should be identified and an assessment must be made as to which cash flows are at risk. Given the large number of commitments that are reviewed at both individual and group level, such estimations must be based on approximations and historical material. Since the bank and the banking group write-down system does not provide access to the actual cash flows included in the relevant commitments, discounting for group write-downs is estimated based on historical data for individual write-downs.

The average discount effect for individual commitments is estimated in relation to discounted cash flows. Based on the ratio of these cash flows to calculated commitment values, an estimate is made of the cash flows represented in the basis for group write-downs.

See note 1 Accounting principles etc. for a further description of the method used for individual write-downs and group write-downs.

### Pension commitments

The net present value of pension commitments depends on current economic and actuarial assumptions. Any change made to these assumptions affects the pension commitments amount recorded in the balance sheet and the pension expense.

The discount rate used is determined by reference to market yields as at 31 December 2006 on long term (10-year) government bonds, plus an addition that takes into account the relevant duration of the pension liabilities. The type of pension fund investments and historical returns determine the expected return on pension funds. In the past, the average return on pension funds has been higher than the risk-free rate of interest as part of the pension funds have normally been placed in securities with slightly higher risk than government bonds. Over the last 12 years, Norwegian life insurance companies have recorded an average excess return of 1.1 percentage points. The expected return has thus been estimated on the basis of the discount rate plus an addition reflecting past excess returns.

With effect from 31 December 2006, the bank and the banking group changed the assumption concerning life expectancy in connection with the calculation of pension commitments. This has affected pension expenses for the first quarter of 2007. See note 8 Operating expenses.

Other fundamental assumptions for pension commitments include annual rise in salaries, annual rise in pensions, anticipated increase in the National Insurance basic amount (G) and anticipated CPA acceptance (early retirement pension).

### Economic life for technical installations and equipment

The bank and the banking group determine the economic life and related depreciation rates for fixed assets. Depreciation is increased if the economic life is shorter than previously estimated, and technically obsolete and discarded assets are written down.

### Systems development

The balance sheet value of IT systems developed in-house and purchased by the bank and the banking group is assessed relative to the discounted value of future cash flows.

### Contingencies

Due to its extensive operations in Norway and abroad, the bank and the banking group will regularly be party to a number of legal actions. Any impact on the accounts will be considered in each case.

# Information about the DnB NOR Bank Group

## Head office DnB NOR ASA

| | |
|---|---|
| Mailing address | NO-0021 Oslo |
| Visiting address | Stranden 21, Oslo |
| Telephone | +47 915 03000 |
| Internet | www.dnbnor.com |
| Organisation number | Register of Business Enterprises NO 981 276 957 MVA |

## DnB NOR Bank ASA

| | |
|---|---|
| Organisation number | 984 851 006 MVA |

## Board of Directors in DnB NOR ASA

Olav Hytta, chairman
Bent Pedersen, vice-chairman
Rune Bjerke
Per Hoffmann
Sten Sture Larre
Kari Lotsberg
Heidi M. Petersen
Torill Rambjør
Ingjerd Skjeldrum

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## Financial calendar 2007

| | |
|---|---|
| Annual General Meeting | 24 April |
| Distribution of dividends | as of 7 May |
| First quarter | 3 May |
| Second quarter | 9 August |
| Third quarter | 1 November |

## Other sources of information

### Annual reports

Annual reports for the DnB NOR Bank Group and DnB NOR Group are available on www.dnbnor.com.

### Quarterly publications

Quarterly reports are available on www.dnbnor.com. Separate quarterly reports are prepared for the DnB NOR Group and Vital.

The publications can be ordered by sending an e-mail to investor.relations@dnbnor.no.

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