

DNB Boligkreditt

A company in the DNB group

First quarter report 2020

(Unaudited)



Financial highlights

Income statement

	DNB Boligkreditt AS		
<i>Amounts in NOK million</i>	1st quarter 2020	1st quarter 2019	Full year 2019
Net interest income	1 279	1 186	4 763
Net other operating income	(319)	(360)	388
Of which net gains on financial instruments at fair value	(331)	(373)	330
Total operating expenses	(185)	(212)	(807)
Impairment of financial instruments	(12)	(7)	16
Pre-tax operating profit	763	607	4 360
Tax expense	(191)	(152)	(1 089)
Profit for the period	572	455	3 271

Balance sheet

<i>Amounts in NOK million</i>	31 March 2020	31 Dec. 2019	31 March 2019
Total assets	748 037	693 855	682 832
Loans to customers	657 839	636 786	633 617
Debt securities issued	584 338	471 715	494 890
Total equity	47 270	46 621	43 999

Key figures and alternative performance measures

	1st quarter 2020	1st quarter 2019	Full year 2019
Return on equity, annualised (%) ¹⁾	4.9	4.2	7.3
Total average spread for lending (%) ¹⁾	0.71	0.62	0.62
Impairment relative to average net loans to customers, annualised (per cent) ¹⁾	(0.01)	(0.00)	0.00
Net loans and financial commitments in stage 3, per cent of net loans ¹⁾	0.15	0.16	0.15
Net loans and financial commitments in stage 3, (NOK million) ¹⁾	989	1 007	982
Common equity Tier 1 capital ratio end of period (%) ²⁾	23.2	24.7	24.5
Capital ratio end of period (%) ²⁾	26.1	27.8	27.6
Common equity Tier 1 capital (NOK million)	41 908	42 162	42 132
Risk-weighted assets (NOK million) ²⁾	180 338	170 631	171 652
Number of full-time positions at end of period	6	6	5

1) Defined as alternative performance measures (APM). APMs are described on [ir.dnb.no](#).

2) On 31 December 2019, Norway fully implemented the EU's capital requirements legislation CRR/CRD IV, and the so-called Basel I floor was removed. The additional capital requirements due to the transitional rules have been removed from the historical figures. The harmonised rules include the introduction of the SME discount factor.

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

Directors' report

DNB Boligkreditt AS is the DNB Group's vehicle for the issue of covered bonds based on residential mortgages. The company's office is located in Oslo. DNB Boligkreditt is a wholly-owned subsidiary of DNB Bank ASA and is reported as part of the Personal Banking Norway business area in DNB's consolidated accounts. Based on developments in international capital markets, DNB Boligkreditt has come to play a key role in ensuring long-term favourable funding for the Group. The rating agencies' assessments are of significance to the company's funding terms. DNB Boligkreditt's covered bond programmes are rated AAA by Moody's and Standard & Poor's.

Financial accounts

DNB Boligkreditt recorded a profit of NOK 572 million in the first quarter of 2020, compared with a profit of NOK 455 million in the first quarter of 2019.

Total income

Income totalled NOK 960 million in the first quarter of 2020, up from NOK 826 million in the year-earlier period.

<i>Amounts in NOK million</i>	1st quarter		1st quarter	
	2020	Change	2019	
Total income	960	134	826	
Net interest income		93		
Net commission and fee income		(2)		
Net gains/(losses) on financial instruments at fair value		43		

Compared to the same period in the previous year, the net interest income is somewhat up, mainly due to an increase in loans to customers. The recorded gains/losses on financial instruments reflect the effects of unrealised changes in the market value of covered bonds, derivatives and loans measured at fair value. Gains and losses from such instruments tend to vary considerably from quarter to quarter and will typically be reversed in subsequent periods due to stabilising markets or because the maturity dates of the instruments are approaching.

Operating expenses and impairment of loans

Operating expenses are volatile due to the management fee paid to DNB Bank. The cooperation with DNB Bank is formalised through an extensive servicing agreement that ensures DNB Boligkreditt sound competence in key areas and cost-effective operations. The management fee calculation is based primarily on lending volume and the spreads achieved, thus the fee will fluctuate with the net interest income. The fee amounted to NOK 164 million in the first quarter of 2020, down from NOK 195 million in the first quarter of 2019.

The company has generally recorded low impairment losses on loans. In the first quarter of 2020, the company reported a net impairment loss of NOK 12 million. The Board of Directors considers the level of impairment to be satisfactory relative to the high quality of the loan portfolio.

Funding, liquidity and balance sheet

Balance sheet

At end-March 2020, DNB Boligkreditt had total assets of NOK 748.0 billion, an increase of NOK 65.2 billion from end-March 2019.

<i>Amounts in NOK million</i>	31 March		31 March
	2020	Change	2019
Total assets	748 037	65 205	682 832
Loans to customers		24 222	
Financial derivatives		40 356	
Other assets		627	
Total liabilities	700 767	61 934	638 833
Due to credit institutions		(26 414)	
Financial derivatives		1 404	
Debt securities issued		89 448	
Deferred taxes		(876)	
Other liabilities		(1 628)	

The increase in loans to customers originates from the acquisition of residential mortgage portfolios from DNB Bank and the sale of new loans through the bank's distribution network.

Debt securities issued were up by net NOK 89.4 billion from end-March 2019. The company issued covered bonds under existing programmes totalling NOK 50 billion in the first quarter of 2020. Total debt securities issued amounted to NOK 584.3 billion at end-March 2020.

Risk and capital adequacy

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

Currency risk is eliminated through the use of financial derivatives. Interest rate and liquidity risk is managed in accordance with stipulations concerning covered bonds in the Financial Institutions Act and guidelines and limits approved by the Board of Directors. The company's overall financial risk is considered to be low.

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

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

Negative developments in the housing market will affect the company. A decline in housing prices will reduce the value of the company's cover pool relative to the statutory asset coverage requirement. Quarterly stress tests are carried out to estimate the effects of a negative development in housing prices. A short-term measure to meet a significant fall in housing prices will be to supply DNB Boligkreditt with more substitute collateral. The Board of Directors considers the company's total risk exposure to be low.

At end-March 2020, the company's equity totalled NOK 47.3 billion, of which NOK 41.9 billion represented Tier 1 capital. Total primary capital in the company was NOK 47.1 billion. The Tier 1 capital ratio was 23.2 per cent, while the capital adequacy ratio was 26.1 per cent. The increased capital ratios compared to prior periods is due to the removal of the Basel I floor with effect from 31 December 2019.

New regulatory framework

Norwegian implementation of the EU Banking Package

In the spring of 2019, the EU adopted a number of changes to the EU's capital requirements legislation for banks (CRR/CRD IV) and the Bank Recovery and Resolution Directive (BRRD), based on recommendations from the Basel Committee. The adopted legislative acts are collectively referred to as 'the Banking Package' and include CRR 2, CRD 5 and BRRD 2. The rules set out in the Banking Package will enter into force in the EU two years after being adopted, i.e. from the spring of 2022.

In February 2020, the Ministry of Finance asked Finanstilsynet (the Financial Supervisory Authority of Norway) to establish and lead a working group tasked with reviewing Norway's implementation of the EU's Banking Package. The deadline for the working group's review is 1 October 2020. The working group's mandate also includes possible improvements in light of experiences from the application of the Financial Institutions Act, which entered into force in 2016. Furthermore, the working group shall consider the relationship between Norwegian law and the CRR/CRD IV legislation.

FINANCIAL AND REGULATORY MEASURES RELATED TO THE CORONAVIRUS OUTBREAK (COVID-19)

The COVID-19 outbreak has caused a severe setback for the Norwegian economy, with a sharp decline in value creation and a significant increase in the number of lay-offs and businesses experiencing a fall in turnover, wholly or partly due to various measures introduced to reduce the spread of infection. In order to help households and businesses, the Norwegian Government and parliament (Stortinget) acted quickly in the first quarter of 2020, implementing a number of effective measures to mitigate the financial consequences of the virus outbreak. Some of the most important measures are listed below.

Significantly reduced key policy rate

At two extraordinary board meetings on 12 March and 19 March, Norges Bank lowered the key policy rate by a total of 1.25 percentage points to 0.25 per cent. Norges Bank points out that a lower key policy rate could soften the impact on the Norwegian economy and reduce the risk of long-term consequences for production and employment. Norges Bank also emphasises that Norway has sufficient scope of action in its economic policy options, good welfare schemes and solid banks. In principle, this means that Norway is well-equipped to deal with the current crisis. Norges Bank does not rule out the possibility of further reducing the interest rate.

Extraordinary 'F-loans' to the banks

In order to ensure that the key policy rate has an impact on the money market rates during the COVID-19 crisis, Norges Bank is offering so-called 'F-loans' in Norwegian kroner with terms of up to twelve months. The loans will be offered until the end of May 2020, or longer if necessary. The F-loans are fully allocated, at an interest rate corresponding to the current key policy rate. Norges Bank also offers banks F-loans in US dollars with a term of three months. The background for the US dollar loan is an agreement on a temporary liquidity arrangement (swap lines), which Norges Bank and other central banks have entered into with the Federal Reserve.

Reduced counter-cyclical capital buffer requirement

On 13 March, the Ministry of Finance decided to reduce the counter-cyclical capital buffer requirement for banks from 2.5 per cent to 1 per cent with immediate effect, in line with Norges Bank's recommendation. This measure is intended to help counteract a tightening of the banks' lending practices. In its recommendation, Norges Bank underlines that Norwegian banks are profitable and solid, and have enough capital to withstand losses in the event of a strong downturn.

New requirements for IRB models are shelved

Finanstilsynet has been working on a circular on requirements for IRB models. However, in a news item on 13 March, Finanstilsynet stated that it will not make it a priority to finalise the circular at this moment in time, due to the turmoil caused by COVID-19. A new circular will therefore not be available for some time.

Measures to increase liquidity and access to capital in the bond market

The COVID-19 pandemic has led to low liquidity and high risk premiums in the bond market. Several large companies, regardless of industry, need a well-functioning and efficient market for corporate bonds to be able to refinance loans or secure new funding. To help large companies obtain the necessary liquidity, the Norwegian authorities have reinstated the Government Bond Fund, an instrument which was established in March 2009, during the financial crisis. The fund is now restored based on the previously used model, but has been adapted to the problems caused by the COVID-19 pandemic.

The mandate of the Government Bond Fund includes purchasing corporate bonds, which will increase liquidity and access to capital in the bond market. The aim is for the fund to encourage other investors to participate in the market, and investments will therefore be made in cooperation with other investors and on market terms, in both primary and secondary markets. The Government Bond Fund may invest in issuers from all sectors and industries registered in Norway, including the high-yield segment. The fund has an investment limit of NOK 50 billion and is managed by Folketrygdfondet (manager of the Government Pension Fund Norway). The Ministry of Finance will evaluate the scheme's framework and mandate after the fund has been in operation for a while.

Compensation scheme for companies severely affected by the virus outbreak

The authorities have introduced a compensation scheme whereby the state assumes part of the costs inflicted on Norwegian companies by COVID-19 and the infection control measures. The main objective is to prevent unnecessary bankruptcies and preserve jobs. The size of the compensation will depend, among other things, on how much the company's turnover has fallen, the size of the company's unavoidable fixed costs and whether the company has been ordered to close by the authorities.

The scheme will initially apply in March, April and May, and disbursements will be made in arrears based on the actual turnover in the months in question. The scheme will have a scope of NOK 10-20 billion per month, depending on the number of companies using it. Companies can apply for support through a digital portal. The processing of applications is largely automated and based on data available from business registers, so it will not take long from the application is submitted to the money is deposited in the company's account.

Temporary increased flexibility in the Home Mortgage Regulations

On 23 March, the Ministry of Finance decided to increase the flexibility quota in the Home Mortgage Regulations to 20 per cent. The change will apply in the second quarter of 2020, with the possibility of an extension. The Ministry also specifies that banks may grant deferred payment of interest and instalments for up to six months. The purpose of this measure is to boost the banks' ability to help mortgage customers through a difficult time. For example people who are laid off or face a period of reduced income, or self-employed individuals who have provided their home as collateral for loans and are now in need of capital.

Other financial measures

The Government and Stortinget have also implemented a number of other targeted measures to secure income for employees and liquidity for companies, to prevent mass redundancies and bankruptcies. The measures include changes in lay-off regulations, amended rules for sick pay, deferral and relief in value added tax and employer's national insurance contributions, deferred payment of companies' withholding tax, a stimulus package for Norwegian aviation, increased grants to entrepreneurs and growth companies, road project investments, initiatives directed at the fisheries industry and investments in carbon capture and storage. The Government has also decided that the GIEK - The Norwegian Guarantee Institute for Export Credits may, temporarily, offer short-term export credit insurance to several countries.

In addition, the Government has announced that it will consider several measures in the coming months, to boost activity in the Norwegian economy as the virus outbreak declines and infection control measures are downgraded.

Macroeconomic developments

Three factors have had an impact on the Norwegian economy. Firstly, the downturn in the international economy has led to lower demand for Norwegian goods and services. In addition, the strict measures imposed internationally have led to disrupted value chains and supply lines, which affect Norwegian production capacity. Secondly, the decline in international activity has led to lower oil prices. The drop in oil prices has also been exacerbated by the fact that OPEC and Russia failed to reach agreement on production cuts, resulting in a price war. The oil price peaked in early January this year at USD 68.9 per barrel, but plummeted to a low of USD 22.74 per barrel at the end of the first quarter. Since then, OPEC and Russia, along with several others, have agreed to implement production cuts, causing a slight rise in oil prices. The reduced oil price has led to oil companies on the Norwegian continental shelf making considerable cutbacks in their investment plans. This in turn is affecting the demand for goods and services from the Norwegian supplier industry. In addition, this industry is facing lower demand from the oil and gas sector in other countries. Thirdly, the stringent measures implemented by the Norwegian authorities directly reduce the level of activity in the Norwegian economy.

From the end of 2016 until the middle of 2019, the Norwegian economy experienced a moderate upswing. This recovery came after an economic downturn that was not serious in historical terms. Developments during 2019 indicated that the upturn was over even before the outbreak of coronavirus in Norway. In the fourth quarter of 2019, mainland GDP growth was 0.7 per cent, measured as an annual rate, and the slowdown in activity was relatively broad-

based. Growth in the latter half of 2019 was thus clearly lower than projected trend growth. The coronavirus outbreak caused growth prospects to deteriorate during February and March. From 12 March to 19 March, Norges Bank reduced its key policy rate by a total of 1.25 percentage points. On 27 March, the Ministry of Finance estimated a decline in mainland GDP growth of about 2 per cent this year. This was a downward adjustment of one percentage point compared with the estimate published a week earlier. The downward adjustment reflects the spread of the coronavirus, the escalation of national and international infection control measures, and lower oil prices.

Measures in Norway and abroad to prevent the spread of the coronavirus have led to a dramatic fall in the demand for labour. According to figures from the Norwegian Labour and Welfare Administration (NAV), the number of registered unemployed persons increased from 65 000 on 11 March to 291 000 on 7 April. On top of this, 13 000 people were participating in labour market measures. The housing market saw a marked slowdown in both the number of homes put up for sale and the number of homes sold in March. Both were about 14.5 per cent lower than in March last year. Housing prices for existing homes fell by 1.4 per cent from February to March, but were up 2.7 per cent year-over-year in the first quarter. There is reason to expect lower sales in the time ahead, but a limited impact on prices.

Future prospects

The reduction in interest rates on customer loans of up to 85 basis points from 5 April will have an effect on the interest income from the second quarter.

The annual increase in lending volumes is anticipated to be 3 to 4 per cent in 2020 and 2021.

The common equity Tier 1 (CET1) capital ratio was 23.2 per cent as at 31 March 2020. The very high ratio is due to the removal of the Basel I floor as from year-end 2019. The CET1 capital ratio requirement for DNB Boligkreditt is 15.55 per cent. This is after the reduction in the counter-cyclical buffer in March of 1.5 per cent, and including a management buffer (Pillar 2 Guidance) of 0.75 per cent. But from year-end 2020 the company's capital requirement will be increased by the change in the systemic risk buffer of 1.5 per cent, increasing the CET1 capital ratio requirement to 17.05 per cent.

Covered bonds have gained a leading position as a funding vehicle for Norwegian banks. Norwegian covered bonds still seem attractive, with relatively low credit and market risk. The volume of covered bond issues the next couple of years is however expected to be lower than in the previous years due to the Group's issuing of Minimum Requirement for own funds and Eligible Liabilities (MREL).

Oslo, 29 April 2020

The Board of Directors of DNB Boligkreditt AS



Reidar Bolme
(Chair of the Board)



Jørn E. Pedersen



Toril Steinmo



Per Sagbakken
(Chief Executive Officer)

Comprehensive income statement

		DNB Boligkreditt AS		
<i>Amounts in NOK million</i>	Note	1st quarter 2020	1st quarter 2019	Full year 2019
Interest income, amortised cost		4 495	3 601	16 051
Other interest income		290	282	1 153
Interest expenses, amortised cost		(1 468)	(913)	(4 273)
Other interest expenses		(2 038)	(1 784)	(8 168)
Net interest income		1 279	1 186	4 763
Commission and fee income		13	15	61
Commission and fee expenses		(1)	(1)	(3)
Net gains on financial instruments at fair value		(331)	(373)	330
Other income			0	0
Net other operating income		(319)	(360)	388
Total income		960	826	5 152
Salaries and other personnel expenses		(1)	(3)	(11)
Other expenses	7	(184)	(209)	(796)
Total operating expenses		(185)	(212)	(807)
Impairment of financial instruments	3	(12)	(7)	16
Pre-tax operating profit		763	607	4 360
Tax expense		(191)	(152)	(1 089)
Profit for the period		572	455	3 271
Other comprehensive income that will not be reclassified to profit or loss ¹⁾		103	(86)	279
Tax		(26)	21	(70)
Total comprehensive income for the period		650	391	3 480

1) The measurement category for debt securities issued in Norwegian kroner with floating rates has been changed from FVTPL to amortised cost as of 31 December 2019. A gain of NOK 238 million before tax (NOK 179 million after tax) was recognised in the Comprehensive income statement in 2019, due to the correction. Comparative information has not been restated. The correction does not impact the CET1 capital ratio.

Balance sheet

		DNB Boligkreditt AS		
<i>Amounts in NOK million</i>	Note	31 March 2020	31 Dec. 2019	31 March 2019
Assets				
Due from credit institutions	7	7 018	5 537	6 389
Loans to customers	3, 6	657 839	636 786	633 617
Financial derivatives	6	83 178	51 524	42 822
Other assets		2	9	3
Total assets		748 037	693 855	682 832
Liabilities and equity				
Due to credit institutions	7	91 175	153 401	117 589
Financial derivatives	6	12 781	9 928	11 377
Debt securities issued	4, 6	584 338	471 715	494 890
Payable taxes		2 245	2 103	3 962
Deferred taxes		4 817	4 747	5 693
Other liabilities		173	99	78
Provisions		29	30	34
Subordinated loan capital	5	5 210	5 210	5 209
Total liabilities		700 767	647 235	638 833
Share capital		5 257	5 257	4 157
Share premium		31 719	31 719	31 563
Other equity		10 294	9 645	8 279
Total equity		47 270	46 621	43 999
Total liabilities and equity		748 037	693 855	682 832

Statement of changes in equity

DNB Boligkreditt AS

<i>Amounts in NOK million</i>	Share capital	Share premium	Liability credit reserve	Other equity	Total equity
Balance sheet as at 31 December 2018	4 157	31 563	(269)	8 157	43 608
Profit for the period				455	455
Financial liabilities designated at FVTPL, changes in credit risk			(86)		(86)
Tax on other comprehensive income			21		21
Comprehensive income for the period			(64)	455	391
Balance sheet as at 31 March 2019	4 157	31 563	(333)	8 612	43 999
Balance sheet as at 31 December 2019	5 257	31 719	(59)	9 704	46 621
Profit for the period				572	572
Financial liabilities designated at FVTPL, changes in credit risk			103		103
Tax on other comprehensive income			(26)		(26)
Comprehensive income for the period			78	572	650
Balance sheet as at 31 March 2020	5 257	31 719	19	10 276	47 270

Share capital

All shares and voting rights of the company are held by DNB Bank ASA. Share capital at the beginning of 2020 was NOK 5 257 million (52 570 000 shares at NOK 100).

Cash flow statement

<i>Amounts in NOK million</i>	January-March 2020	2019	Full year 2019
Operating activities			
Net payments on loans to customers	798	(3 636)	(6 366)
Interest received from customers	4 720	3 777	16 933
Net received/payments on loans from credit institutions	(63 719)	(20 184)	16 464
Interest received from credit institutions	28	19	112
Interest paid to credit institutions	(893)	(629)	(3 281)
Net receipts on the sale of financial assets for investment or trading		1 892	
Net receipts on commissions and fees	12	14	58
Payments for operating expenses	1	(212)	(899)
Taxes paid	(5)		
Net cash flow relating to operating activities	(59 058)	(18 961)	23 021
Investing activities			
Net purchase of loan portfolio	(21 069)	(999)	(1 516)
Net cash flow relating to investing activities	(21 069)	(999)	(1 516)
Financing activities			
Receipts on issued bonds and commercial paper	88 950	32 893	46 419
Payments on redeemed bonds and commercial paper	(6 269)	(10 991)	(54 971)
Interest payments on issued bonds and commercial paper	(2 520)	(1 903)	(8 518)
Interest payments on subordinated loan capital	(45)	(37)	(160)
Share issue			11 000
Group contribution receipts/payments			(15 290)
Net cash flow from financing activities	80 117	19 961	(21 520)
Net cash flow	(10)	2	(15)
Cash as at 1 January	45	60	60
Net receipts/payments of cash	(10)	2	(15)
Cash at end of period	34	62	45

Note 1 Basis for preparation

The quarterly financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board and as adopted by the European Union. When preparing the financial statements, the management makes estimates, judgments and assumptions that affect the application of the accounting principles and the carrying amount of assets, liabilities, income and expenses. Estimates and assumptions are subject to continual evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be probable on the balance sheet date. A description of the accounting policies, significant estimates and areas where judgment is applied can be found in note 1 Accounting principles in the annual report for 2019.

Note 2 Capital adequacy

Capital adequacy is calculated and reported in accordance with the EU capital requirements regulations for banks and investment firms (CRR/CRD IV).

Primary capital	DNB Boligkreditt AS	
	31 March 2020	31 Dec. 2019
<i>Amounts in NOK million</i>		
Share capital	5 257	5 257
Other equity	41 441	41 364
Total equity	46 698	46 621
Deductions		
Expected losses exceeding actual losses, IRB-portfolios	(837)	(862)
Value adjustments due to the requirements for prudent valuation (AVA)	(657)	(404)
Adjustments for unrealised losses/(gains) on liabilities measured at fair value	(19)	59
Adjustments for unrealised losses/(gains) arising from the institution's own credit risk related to derivative liabilities (DVA)	(7)	(12)
Allocated group contributions for payment	(3 271)	(3 271)
Common equity Tier 1 capital	41 908	42 132
Term subordinated loan capital	5 200	5 200
Tier 2 capital	5 200	5 200
Total eligible primary capital	47 108	47 332
Risk-weighted assets	180 338	171 652
Minimum capital requirement	14 427	13 732
Common equity Tier 1 capital ratio (%)	23.2	24.5
Capital ratio (%)	26.1	27.6

Specification of risk-weighted assets and capital requirements

	DNB Boligkreditt AS				
	Nominal exposure	EAD ¹⁾	Risk-weighted assets	Capital requirement	Capital requirement
	31 March 2020	31 March 2020	31 March 2020	31 March 2020	31 Dec. 2019
<i>Amounts in NOK million</i>					
IRB approach					
Corporate	5 050	5 050	2 389	191	194
Retail - residential property	686 935	686 935	147 189	11 775	11 417
Total credit risk, IRB approach	691 985	691 985	149 578	11 966	11 612
Standardised approach					
Institutions	53 648	53 648	10 730	858	556
Corporate	20 158	20 135	5 475	438	419
Retail - residential property	25 077	22 763	7 987	639	619
Retail - other exposures	363	244	183	15	14
Other assets	79	66	95	8	9
Total credit risk, standardised approach	99 324	96 856	24 469	1 957	1 617
Total credit risk	791 310	788 842	174 047	13 924	13 229
Credit value adjustment (CVA)					
Operational risk			6 291	503	503
Total risk-weighted assets and capital requirements			180 338	14 427	13 732

1) EAD, exposure at default

Note 3 Development in accumulated impairment of financial instruments

The quality of DNB Boligkredit's loan portfolio is high with a large share of loans in stage 1. The following tables reconcile the opening and closing balances for accumulated impairment of loans to customers at amortised cost. Reconciling items include the following:

- Transfers between stages due to significant changes in credit risk. The transfers are presumed to occur before the subsequent remeasurement of the allowance.
- Changes due to transfers between 12-month expected credit loss in stage 1 and lifetime expected credit loss in stages 2 and 3.
- Increases and decreases in expected credit loss resulting from changes in input parameters and assumptions, including macro forecasts, as well as the effect of partial repayments on existing facilities and the unwinding of the time value of discounts due to the passage of time.
- Changes in allowance due to the origination of new financial instruments during the period.
- Changes in allowance due to the derecognition of financial instruments during the period.
- Write-offs, exchange rate effect from consolidation and other changes affecting the expected credit loss.

Loans to customers at amortised cost (quarterly figures)

DNB Boligkredit AS

<i>Amounts in NOK million</i>	1st quarter 2020				1st quarter 2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Accumulated impairment as at 31 Dec.	(12)	(28)	(63)	(103)	(35)	(39)	(48)	(122)
Transfer to stage 1	(5)	4	2		(12)	10	2	
Transfer to stage 2	1	(6)	5		1	(5)	4	
Transfer to stage 3	0	0	(0)	0	0	0	(0)	
Originated and purchased during the period	(2)	(1)		(3)	(5)	(0)		(5)
Increased expected credit loss	(6)	(11)	(17)	(34)	(9)	(16)	(20)	(45)
Decreased (reversed) expected credit loss	9	6	11	26	18	5	15	38
Derecognition	0	3		3	0	4		4
Write-offs		0	2	2		0	1	1
Accumulated impairment as at 31 March	(17)	(33)	(60)	(110)	(41)	(40)	(48)	(129)

Note 4 Debt securities issued

Debt securities issued	DNB Boligkreditt AS		
	31 March 2020	31 Dec. 2019	31 March 2019
<i>Amounts in NOK million</i>			
Listed covered bonds, nominal amount	477 770	382 950	406 811
Private placements under the bond programme, nominal amount	76 731	66 064	67 547
Total bonds, nominal amount	554 501	449 015	474 358
Accrued interest	3 191	3 032	2 855
Unrealised losses ¹⁾	26 646	19 669	17 677
Adjustments	29 837	22 701	20 532
Total debt securities issued	584 338	471 715	494 890

1) Unrealised losses comprise of adjustments for net gain attributable to hedged risk on debt securities that are accounted for as hedged items and mark-to-market adjustments on debt securities that are designated as at fair value through profit or loss (fair value option).

Changes in debt securities issued	DNB Boligkreditt AS					
	Balance sheet 31 March 2020	Issued 2020	Matured/ redeemed 2020	Exchange rate movements 2020	Other changes 2020	Balance sheet 31 Dec. 2019
<i>Amounts in NOK million</i>						
Bond debt, nominal amount	554 501	50 000	(6 337)	61 823		449 015
Value adjustments	29 837				7 136	22 701
Total debt securities issued	584 338	50 000	(6 337)	61 823	7 136	471 715

Maturity of debt securities issued	DNB Boligkreditt AS		
	NOK	Foreign currency	Total
<i>Amounts in NOK million</i>			
2020	19 000	35 369	54 369
2021	26 500	59 678	86 178
2022	75 500	81 011	156 511
2023	257	78 563	78 820
2024 and later	12 120	166 505	178 625
Total bond debt	133 377	421 124	554 501

Debt securities issued - matured/redeemed during the period	DNB Boligkreditt AS							
	ISIN Code	Currency	Matured redeemed amount	Interest	Issued	Matured	Remaining nominal amount 31 March 2020	31 Dec. 2019
<i>Amounts in NOK million</i>								
Private	EUR	247	Fixed	2010	2020	Called		247
Private	EUR	39	Fixed	2010	2020	Called		39
Private	EUR	148	Floating	2013	2020	Matured		148
Private	EUR	99	Floating	2015	2020	Matured		99
XS1190460508	GBP	5 804	Floating	2015	2020	Matured		5 804
Total debt securities issued, nominal value		6 337						6 337

Cover pool	DNB Boligkreditt AS		
	31 March 2020	31 Dec. 2019	31 March 2019
<i>Amounts in NOK million</i>			
Pool of eligible loans	653 098	632 580	628 548
Market value of eligible derivatives	70 397	41 595	31 445
Total collateralised assets	723 495	674 176	659 993
Debt securities issued, carrying value	584 338	471 715	494 890
Less valuation changes attributable to changes in credit risk on debt carried at fair value	25	(78)	(472)
Debt securities issued, valued according to regulation ¹⁾	584 363	471 637	494 418
Collateralisation (per cent)	123.8	142.9	133.5

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

Note 5 Subordinated loan capital

								DNB Boligkreditt AS		
<i>Amounts in NOK million</i>	Currency	Nominal amount	Interest rate	Issue date	Call date	Maturity date	31 March 2020	31 Dec. 2019	31 March 2019	
Term subordinated loan capital	NOK	1 900	3 month Nibor + 160 bp	2018	2023	2028	1 900	1 900	1 900	
Term subordinated loan capital	NOK	3 300	3 month Nibor + 160 bp	2018	2023	2028	3 300	3 300	3 300	
Accrued interest							10	10	9	
Total subordinated loan capital							5 210	5 210	5 209	

Note 6 Financial instruments at fair value

					DNB Boligkreditt AS		
<i>Amounts in NOK million</i>	Valuation based on quoted prices in an active market	Valuation based on observable market data	Valuation based on other than observable market data	Total			
	Level 1	Level 2	Level 3				
Assets as at 31 March 2020							
Loans to customers			41 912	41 912			
Financial derivatives		83 178		83 178			
Liabilities as at 31 March 2020							
Debt securities issued ¹⁾		17 362		17 362			
Financial derivatives		12 781		12 781			

1) The measurement category for debt securities issued in Norwegian kroner with floating rates has been changed from FVTPL to amortised cost as of 31 December 2019. Comparative information has not been restated.

					DNB Boligkreditt AS		
<i>Amounts in NOK million</i>	Valuation based on quoted prices in an active market	Valuation based on observable market data	Valuation based on other than observable market data	Total			
	Level 1	Level 2	Level 3				
Assets as at 31 March 2019							
Loans to customers			40 357	40 357			
Financial derivatives		42 822		42 822			
Liabilities as at 31 March 2019							
Debt securities issued		91 956		91 956			
Financial derivatives		11 377		11 377			

Financial instruments at fair value, level 3

		DNB Boligkreditt AS
<i>Amounts in NOK million</i>		Loans to customers
Carrying amount as at 31 December 2018		41 275
Net gains recognised in the income statement		2
Additions/purchases		977
Sales		(21)
Settled		(1 877)
Carrying amount as at 31 March 2019		40 357
Carrying amount as at 31 December 2019		41 489
Net gains recognised in the income statement		756
Additions/purchases		3 098
Sales		(59)
Settled		(3 371)
Carrying amount as at 31 March 2020		41 912

Note 7 Information on related parties

DNB Bank ASA

In the first quarter of 2020, loan portfolios representing NOK 21.1 billion (NOK 1.0 billion in the first quarter of 2019) were transferred from the bank to DNB Boligkreditt in accordance with the "Agreement relating to transfer of loan portfolio between DNB Bank ASA and DNB Boligkreditt AS".

The management fee paid to the bank for purchased services is recognised as "Other expenses" in the statement of comprehensive income and amounted to NOK 164 million in the first quarter of 2020 (NOK 195 million in the first quarter of 2019).

At end-March 2020 the bank had invested NOK 67.7 billion in covered bonds issued by DNB Boligkreditt.

In the first quarter of 2020 DNB Boligkreditt entered into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The value of the repos amounted to NOK 6.0 billion at end-March 2020.

The company has a long-term overdraft facility in DNB Bank ASA with a limit of NOK 130 billion.

DNB Livsforsikring AS

At end-March 2020 DNB Livsforsikring's holding of DNB Boligkreditt bonds was valued at NOK 1.5 billion.

Contact information

DNB Boligkreditt AS

Mailing address P.O.Box 1600 Sentrum, NO-0021 Oslo
Visiting address Dronning Eufemias gate 30, Oslo
Telephone +47 91 50 48 00
Internet dnb.no
Organisation number NO 985 621 551 MVA

Chief Executive Officer

Per Sagbakken
Tel: +47 90 66 11 59
per.sagbakken@dnb.no

Financial reporting

Roar Sørensen
Tel: +47 93 47 96 16
roar.sorensen@dnb.no

DNB ASA

Mailing address P.O.Box 1600 Sentrum, NO-0021 Oslo
Visiting address Dronning Eufemias gate 30, Oslo
Telephone +47 91 50 48 00
Internet dnb.no
Organisation number NO 981 276 957 MVA

DNB Bank ASA

Mailing address P.O.Box 1600 Sentrum, NO-0021 Oslo
Visiting address Dronning Eufemias gate 30, Oslo
Telephone +47 91 50 48 00
Internet dnb.no
Organisation number NO 984 851 006 MVA

Other sources of information

Annual and quarterly reports

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

**We are here.
So you can stay ahead.**

DNB Boligkreditt AS

Mailing address:
P.O.Box 1600 Sentrum
N-0021 Oslo

Visiting address:
Dronning Eufemias gate 30
Bjørsvika, Oslo

dnb.no