

DNB Boligkreditt

A company in the DNB group

Third quarter report 2020

(Unaudited)



DNB

Financial highlights

Income statement

<i>Amounts in NOK million</i>	DNB Boligkreditt AS				
	3rd quarter 2020	3rd quarter 2019	January-September		Full year
			2020	2019	2019
Net interest income	1 612	1 254	3 888	3 631	4 763
Net other operating income	214	39	743	605	388
Of which net gains on financial instruments at fair value	198	23	700	560	330
Total operating expenses	(542)	(260)	(654)	(687)	(807)
Impairment of financial instruments	16	(7)	23	26	16
Pre-tax operating profit	1 300	1 026	4 000	3 576	4 360
Tax expense	(325)	(256)	(1 000)	(894)	(1 089)
Profit for the period	975	769	3 000	2 682	3 271

Balance sheet

<i>Amounts in NOK million</i>	30 Sept. 2020	31 Dec. 2019	30 Sept. 2019
Total assets	761 466	693 855	719 703
Loans to customers	677 546	636 786	640 097
Debt securities issued	546 758	471 715	501 640
Total equity	46 364	46 621	45 785

Key figures and alternative performance measures

	3rd quarter 2020	3rd quarter 2019	January-September		Full year
			2020	2019	2019
Return on equity, annualised (%) ¹⁾	8.5	6.7	8.7	8.0	7.3
Total average spread for lending (%) ¹⁾	0.89	0.63	0.71	0.62	0.62
Impairment relative to average net loans to customers, annualised (per cent) ¹⁾	0.01	0.00	0.00	0.01	0.00
Net loans and financial commitments in stage 3, per cent of net loans ¹⁾	0.14	0.15	0.14	0.15	0.15
Net loans and financial commitments in stage 3, (NOK million) ¹⁾	925	968	925	968	982
Common equity Tier 1 capital ratio end of period (%) ²⁾	23.1	24.1	23.1	24.1	24.5
Capital ratio end of period (%) ²⁾	26.0	27.1	26.0	27.1	27.6
Common equity Tier 1 capital (NOK million)	42 012	42 123	42 012	42 123	42 132
Risk-weighted assets (NOK million) ²⁾	181 662	174 941	181 662	174 941	171 652
Number of full-time positions at end of period	6	5	6	5	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 975 million in the third quarter of 2020, compared with a profit of NOK 769 million in the third quarter of 2019.

Total income

Income totalled NOK 1 826 million in the third quarter of 2020, up from NOK 1 293 million in the year-earlier period.

Amounts in NOK million	3rd quarter		3rd quarter
	2020	Change	2019
Total income	1 826	533	1 293
Net interest income		358	
Net commission and fee income		0	
Net gains/(losses) on financial instruments at fair value		175	

Compared to the same period in the previous year, the net interest income has increased, due to a combination of increased lending volume and an increase in interest rate margins. 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 servicing agreement also ensures DNB Boligkreditt a minimum fee based on the net interest rate margin achieved on loans to customers. The fee amounted to NOK 507 million in the third quarter of 2020, up from NOK 237 million in the third quarter of 2019.

The company has generally recorded low impairment losses on loans. In the third quarter of 2020, the company reported net recoveries on impairment losses of NOK 16 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-September 2020, DNB Boligkreditt had total assets of NOK 761.5 billion, an increase of NOK 41.8 billion from end-September 2019.

Amounts in NOK million	30 Sept.		30 Sept.
	2020	Change	2019
Total assets	761 466	41 763	719 703
Loans to customers		37 449	
Financial derivatives		47	
Other assets		4 267	
Total liabilities	715 102	41 184	673 918
Due to credit institutions		(3 383)	
Financial derivatives		(827)	
Debt securities issued		45 118	
Deferred taxes		(921)	
Other liabilities		1 197	

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 45.1 billion from end-September 2019. The company issued covered bonds under existing programmes totalling NOK 56.4 billion in the first three quarters of 2020. Total debt securities issued amounted to NOK 546.8 billion at end-September 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-September 2020, the company's equity totalled NOK 46.4 billion, of which NOK 42.0 billion represented Tier 1 capital. Total primary capital in the company was NOK 47.2 billion. The Tier 1 capital ratio was 23.1 per cent, while the capital adequacy ratio was 26.0 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

Ordinary flexibility quotas as set out in the Home Mortgage Regulations to be reintroduced as of the fourth quarter

The Home Mortgage Regulations contain requirements regarding loan-to-value ratio, instalment payments, debt-servicing capacity and loan-to-income ratio. Under the Home Mortgage Regulations, banks are allowed to deviate from these requirements for up to 10 per cent of their lending volume each quarter (8 per cent in Oslo). On 23 March, the Ministry of Finance decided to increase these quotas to 20 per cent throughout the country. This increased flexibility helped strengthen the banks' ability to assist their customers during the demanding period caused by the COVID-19 pandemic. On 11 September, the Ministry of Finance decided that the temporarily increased flexibility quotas will be discontinued after the third quarter of 2020.

Regulation of banks' lending practices

Banks' lending practices towards households are currently regulated by the Home Mortgage Regulations and the Consumer Loan Regulations. On 28 September, Finanstilsynet (the Financial Supervisory Authority of Norway) issued advice to the Norwegian Ministry of Finance on how banks' lending practices should be regulated, in light of the fact that these regulations will cease to apply on 31 December 2020.

Finanstilsynet has proposed that the regulations should be continued indefinitely, but with certain amendments. It is proposed that the requirements for banks' lending practices should be set out in a single set of regulations, and that the scope should be expanded to include loans secured by assets other than housing properties. It is further proposed that the limit for debt in relation to income (maximum loan-to-income ratio) should be reduced from 5 to 4.5 times the borrowers' gross annual income.

Finanstilsynet has also proposed that the banks' flexibility quota for home mortgages, that is to say the right to provide loans that do not meet one or more of the conditions set out in the regulations, should be set at 5 per cent throughout the country. As mentioned, in the current Home Mortgage Regulations, this quota is set at 10 per cent for loans outside Oslo, and 8 per cent for loans in Oslo.

Finanstilsynet's proposal has been circulated for public consultation, and the deadline for comments is 10 November. The Ministry of Finance has not yet taken a stance on the specific elements of the proposal but will consider them together with the input from the various consultative bodies. The Norwegian central bank, Norges Bank, has stated that current developments do not indicate any need, at the present time, for any changes to the requirements for lending practices for mortgages and consumer loans.

Countercyclical capital buffer requirement remains unchanged at 1 per cent

On the advice of Norges Bank, the Ministry of Finance decided on 13 March to reduce the requirement for a countercyclical capital buffer from 2.5 to 1 per cent. The reduction was made in connection with the COVID-19 pandemic and the infection control measures that led to a sharp decline in activity in the Norwegian economy. Lower buffer requirements reduce the risk of banks adopting stricter lending practices that could exacerbate the decline. On 24 September, the Ministry of Finance decided to keep the requirement unchanged at 1 per cent. This decision was again

based on advice from Norges Bank, which pointed out, among other things, that although the banks' profitability has now increased as a result of lower loan losses, there is still uncertainty attached to loss development in the time ahead. In its advice, Norges Bank emphasised that Norwegian banks are well equipped for withstanding increased losses while maintaining their current credit offering. Norges Bank does not anticipate issuing advice on whether or not to increase the buffer requirement again until the first quarter of 2021, at the earliest. Any decision to increase the requirement will normally enter into force no earlier than 12 months after the decision has been made.

Macroeconomic developments

The measures to contain the spread of the coronavirus sent the world economy into an exceptionally abrupt, deep and synchronised recession. After reaching the lowest point in April and despite the strong recovery as a result of the easing of the infection control measures, value creation at the time of writing is well below the pre-pandemic level.

There is still considerable uncertainty concerning economic developments, both in the short and long term. The major central banks have signalled that the interest rates will remain at the current low level for a long time.

So far, it seems that the Norwegian economy has performed better than many other advanced economies. On 27 August, DNB Markets estimated a decrease in mainland GDP of 3.9 per cent in 2020, while Norges Bank in September estimated a decline of 3.6 per cent. Mainland GDP fell by 2.2 per cent in the first quarter, while the decrease in the second quarter was 6.4 per cent. In May, however, there was an increase of 2.4 per cent month on month, which increased to 3.7 per cent month on month in June. In July, the growth rate slowed to 1.1 per cent. The unemployment rate rose rapidly to a peak of 10.4 per cent of the workforce in April but had declined to 3.7 per cent at the start of October. Increased infection rates and continued infection control measures are likely to put a damper on activity growth in the near future, and some industries, particularly service industries, may experience a new decline. Inflation in Norway has also been low, with a CPI growth of well below 2 per cent so far this year. This can mainly be ascribed to falling electricity prices. Core inflation has risen and ended at 3.7 per cent in August, driven by the weak Norwegian krone. Low wage growth and the prospect of a slightly stronger krone indicate that the rise in core inflation is temporary.

Norges Bank lowered the key policy rate to 0.00 per cent in May and signalled that the rate would remain unchanged until the end of 2023. In June, however, projections for the economy were revised upwards, and Norges Bank warned of a potential rise in the key policy rate in the second half of 2022, followed by two additional potential rate hikes in 2023. This was to a large extent repeated at the monetary policy meeting in September. In the housing market, inflation has remained at an average of 1 per cent per month since April. In September, there was a near record-high level of activity in the market for the sale of existing homes. On 7 October, the Government presented the national budget for 2021. The structural non-oil deficit covered by allocations from the Government Pension Fund Global, was expected to decline from 3.9 per cent of the fund in 2020 to 3.0 per cent in 2021. The fiscal impulse for 2021 is estimated to be contractionary at minus 2.9 per cent in contrast to an estimated expansionary impulse in 2020 at 4.5 per cent.

Future prospects

The immediate recovery of the Norwegian economy progressed at a rapid pace in the quarter, but is expected to somewhat decrease in pace going forward. DNB Boligkreditt's activity level was less impacted by the COVID-19 pandemic than expected in the third quarter and operating income was strong with very low impairment losses.

In the period 2020 to 2022, the annual increase in lending volumes is expected to be around 3 to 4 per cent.

The common equity Tier 1 (CET1) capital ratio was 23.1 per cent as at 30 September 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, 21 October 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	3rd quarter 2020	3rd quarter 2019	January-September 2020	January-September 2019	Full year 2019
Interest income, amortised cost		2 839	4 161	10 576	11 599	16 051
Other interest income		279	290	852	856	1 153
Interest expenses, amortised cost		(502)	(1 069)	(3 013)	(2 972)	(4 273)
Other interest expenses		(1 005)	(2 129)	(4 527)	(5 851)	(8 168)
Net interest income		1 612	1 254	3 888	3 631	4 763
Commission and fee income		17	16	46	47	61
Commission and fee expenses		(0)	(1)	(2)	(2)	(3)
Net gains on financial instruments at fair value		198	23	700	560	330
Other income					0	0
Net other operating income		214	39	743	605	388
Total income		1 826	1 293	4 632	4 237	5 152
Salaries and other personnel expenses		(3)	(3)	(8)	(8)	(11)
Other expenses	7	(539)	(257)	(646)	(679)	(796)
Total operating expenses		(542)	(260)	(654)	(687)	(807)
Impairment of financial instruments	3	16	(7)	23	26	16
Pre-tax operating profit		1 300	1 026	4 000	3 576	4 360
Tax expense		(325)	(256)	(1 000)	(894)	(1 089)
Profit for the period		975	769	3 000	2 682	3 271
Other comprehensive income that will not be reclassified to profit or loss ¹⁾		(15)	8	18	(49)	279
Tax		4	(2)	(5)	12	(70)
Total comprehensive income for the period		964	775	3 014	2 645	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	30 Sept. 2020	31 Dec. 2019	30 Sept. 2019
Assets				
Due from credit institutions	7	21 796	5 537	17 527
Loans to customers	3, 6	677 546	636 786	640 097
Financial derivatives	6	62 124	51 524	62 077
Other assets		1	9	3
Total assets		761 466	693 855	719 703
Liabilities and equity				
Due to credit institutions	7	145 611	153 401	148 994
Financial derivatives	6	10 544	9 928	11 371
Debt securities issued	4, 6	546 758	471 715	501 640
Payable taxes		1 983	2 103	891
Deferred taxes		4 772	4 747	5 693
Other liabilities		200	99	91
Provisions		30	30	29
Subordinated loan capital	5	5 205	5 210	5 209
Total liabilities		715 102	647 235	673 918
Share capital		5 257	5 257	5 257
Share premium		31 719	31 719	31 719
Other equity		9 388	9 645	8 809
Total equity		46 364	46 621	45 785
Total liabilities and equity		761 466	693 855	719 703

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				2 682	2 682
Financial liabilities designated at FVTPL, changes in credit risk			(49)		(49)
Tax on other comprehensive income			12		12
Comprehensive income for the period			(37)	2 682	2 645
Share issue	1 100	9 900			11 000
Group contribution paid		(9 744)		(1 724)	(11 468)
Balance sheet as at 30 Sept. 2019	5 257	31 719	(306)	9 115	45 785
Balance sheet as at 31 December 2019	5 257	31 719	(59)	9 704	46 621
Profit for the period				3 000	3 000
Financial liabilities designated at FVTPL, changes in credit risk			18		18
Tax on other comprehensive income			(5)		(5)
Comprehensive income for the period			14	3 000	3 014
Group contribution paid				(3 270)	(3 270)
Balance sheet as at 30 Sept. 2020	5 257	31 719	(45)	9 434	46 364

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-September 2020	January-September 2019	Full year 2019
Operating activities			
Net payments on loans to customers	7 410	(9 504)	(6 366)
Interest received from customers	11 743	12 301	16 933
Net received/paid on loans from credit institutions	(24 095)	80	16 464
Interest received from credit institutions	35	76	112
Interest paid to credit institutions	(1 712)	(2 163)	(3 281)
Net receipts on commissions and fees	43	45	58
Payments for operating expenses	(506)	(746)	(899)
Taxes paid	(1 100)		
Net cash flow relating to operating activities	(8 182)	90	23 021
Investing activities			
Net purchase of loan portfolio	(47 123)	(1 491)	(1 516)
Net cash flow relating to investing activities	(47 123)	(1 491)	(1 516)
Financing activities			
Receipts on issued bonds and commercial paper	95 379	39 419	46 419
Payments on redeemed bonds and commercial paper	(30 249)	(27 447)	(54 971)
Interest payments on issued bonds and commercial paper	(6 485)	(6 171)	(8 518)
Interest payments on subordinated loan capital	(113)	(117)	(160)
Share issue		11 000	11 000
Group contribution receipts/payments	(3 270)	(15 290)	(15 290)
Net cash flow from financing activities	55 262	1 395	(21 520)
Net cash flow	(43)	(6)	(15)
Cash as at 1 January	45	60	60
Net receipts/payments of cash	(43)	(6)	(15)
Cash at end of period	2	54	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	
	30 Sept. 2020	31 Dec. 2019
<i>Amounts in NOK million</i>		
Share capital	5 257	5 257
Other equity	38 107	41 364
Total equity	43 364	46 621
Deductions		
Expected losses exceeding actual losses, IRB-portfolios	(908)	(862)
Value adjustments due to the requirements for prudent valuation (AVA)	(482)	(404)
Adjustments for unrealised losses/(gains) on liabilities measured at fair value	45	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)
Common equity Tier 1 capital	42 012	42 132
Term subordinated loan capital	5 200	5 200
Tier 2 capital	5 200	5 200
Total eligible primary capital	47 212	47 332
Risk-weighted assets	181 662	171 652
Minimum capital requirement	14 533	13 732
Common equity Tier 1 capital ratio (%)	23.1	24.5
Capital ratio (%)	26.0	27.6

Specification of risk-weighted assets and capital requirements

	DNB Boligkreditt AS				
	Nominal exposure	EAD ¹⁾	Risk-weighted assets	Capital requirement	Capital requirement
	30 Sept. 2020	30 Sept. 2020	30 Sept. 2020	30 Sept. 2020	31 Dec. 2019
<i>Amounts in NOK million</i>					
IRB approach					
Corporate	442	442	157	13	194
Retail - secured by immovable property	713 705	713 705	150 366	12 029	11 417
Total credit risk, IRB approach	714 147	714 147	150 523	12 042	11 612
Standardised approach					
Institutions	55 126	55 126	11 025	882	556
Corporate	19 991	19 981	5 423	434	419
Retail	535	372	278	22	14
Retail - secured by immovable property	25 114	22 812	7 991	639	619
Other assets	104	92	132	11	9
Total credit risk, standardised approach	100 870	98 382	24 848	1 988	1 617
Total credit risk	815 017	812 528	175 371	14 030	13 229
Credit value adjustment (CVA)					
Operational risk			6 291	503	503
Total risk-weighted assets and capital requirements			181 662	14 533	13 732

1) EAD, exposure at default

Note 3 Development in accumulated impairment of financial instruments

The quality of DNB Boligkreditt'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)

Amounts in NOK million	3rd quarter 2020				3rd quarter 2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Accumulated impairment as at 30 June	(19)	(19)	(53)	(91)	(12)	(26)	(56)	(94)
Transfer to stage 1	(9)	7	2		(10)	8	2	
Transfer to stage 2	1	(6)	5		0	(3)	3	
Transfer to stage 3	0	0	(0)		0	0	(0)	
Originated and purchased during the period	(3)	(1)		(3)	(2)	(0)		(2)
Increased expected credit loss ¹⁾	(3)	(8)	(14)	(25)	(3)	(11)	(20)	(34)
Decreased (reversed) expected credit loss ¹⁾	19	6	13	38	15	4	8	26
Derecognition	0	4		4	0	3		3
Write-offs			2	2		0	1	1
Accumulated impairment as at 30 Sept.	(14)	(16)	(45)	(75)	(12)	(25)	(63)	(99)

Loans to customers at amortised cost (year-to-date figures)

Amounts in NOK million	Jan.-Sept. 2020				Jan.-Sept. 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	(25)	20	4		(32)	27	5	
Transfer to stage 2	1	(17)	15		3	(12)	9	
Transfer to stage 3	0	1	(1)		0	1	(1)	
Originated and purchased during the period	(9)	(2)		(10)	(9)	(1)		(11)
Increased expected credit loss ¹⁾	(14)	(27)	(48)	(89)	(13)	(41)	(61)	(115)
Decreased (reversed) expected credit loss ¹⁾	44	22	39	104	75	26	31	132
Derecognition	0	15		15	(0)	14		14
Write-offs			8	8		0	2	3
Accumulated impairment as at 30 Sept.	(14)	(16)	(45)	(75)	(12)	(25)	(63)	(99)

1) In the second quarter of 2019, DNB performed a recalibration of the IFRS 9 models used for stage 1 and stage 2 loans. The net effect of the recalibration is a decrease in expected credit loss of approximately NOK 40 million. As the recalibration resulted in both increases and decreases on a financial instrument level, the effect is included in the flows 'increased expected credit loss' and 'decreased (reversed) expected credit loss'.

Note 4 Debt securities issued

Debt securities issued	DNB Boligkreditt AS		
	30 Sept. 2020	31 Dec. 2019	30 Sept. 2019
<i>Amounts in NOK million</i>			
Listed covered bonds, nominal amount	447 018	382 950	404 563
Private placements under the bond programme, nominal amount	71 165	66 064	67 008
Total bonds, nominal amount	518 182	449 015	471 572
Accrued interest	2 892	3 032	2 969
Unrealised losses ¹⁾	25 684	19 669	27 099
Adjustments	28 576	22 701	30 068
Total debt securities issued	546 758	471 715	501 640

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 30 Sept. 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	518 182	56 612	(28 281)	40 837		449 015
Value adjustments	28 576				5 875	22 701
Total debt securities issued	546 758	56 612	(28 281)	40 837	5 875	471 715

Maturity of debt securities issued	DNB Boligkreditt AS		
	NOK	Foreign currency	Total
<i>Amounts in NOK million</i>			
2020	13 000	16 490	29 490
2021	26 500	57 101	83 601
2022	75 500	76 656	152 156
2023	257	74 624	74 881
2024 and later	12 120	165 934	178 054
Total bond debt	127 377	390 805	518 182

Note 4 Debt securities issued (continued)

Debt securities issued - matured/redeemed during the period						DNB Boligkreditt AS		
<i>Amounts in NOK million</i>						Remaining nominal amount		
ISIN Code	Currency	Matured redeemed amount	Interest	Issued	Matured		30 Sept. 2020	31 Dec. 2019
Private	EUR	247	Fixed	2010	2020	Redeemed		247
Private	EUR	39	Fixed	2010	2020	Redeemed		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
Private	EUR	449	Fixed	2008	2020	Matured		449
Private	EUR	247	Fixed	2010	2020	Redeemed		247
Private	EUR	247	Fixed	2010	2020	Redeemed		247
Private	EUR	493	Fixed	2010	2020	Redeemed		493
Private	EUR	197	Fixed	2010	2020	Redeemed		197
NO0010672405	NOK	5 000	Floating	2014	2020	Matured		5 000
XS1181877173	SEK	472	Fixed	2015	2020	Matured		472
XS1181877504	SEK	567	Floating	2015	2020	Matured		567
XS1226740964	EUR	493	Fixed	2015	2020	Matured		493
XS1238975798	USD	10 984	Fixed	2015	2020	Matured		10 984
NO0010672405	EUR	1 000	Floating	2016	2020	Matured		1 000
Private	EUR	109	Fixed	2009	2020	Matured		109
XS0522599678	EUR	109	Floating	2010	2020	Matured		109
Private	EUR	218	Fixed	2010	2020	Redeemed		218
XS0529463365	EUR	544	Fixed	2010	2020	Matured		544
Private	EUR	109	Fixed	2010	2020	Redeemed		109
XS0529463365	EUR	653	Fixed	2010	2020	Matured		653
Private	EUR	54	Fixed	2013	2020	Matured		54
Total debt securities issued, nominal value		28 281						28 281

Cover pool		DNB Boligkreditt AS		
<i>Amounts in NOK million</i>		30 Sept. 2020	31 Dec. 2019	30 Sept. 2019
Pool of eligible loans		674 034	632 580	636 157
Market value of eligible derivatives		51 581	41 595	50 706
Total collateralised assets		725 615	674 176	686 864
Debt securities issued, carrying value		546 758	471 715	501 640
Less valuation changes attributable to changes in credit risk on debt carried at fair value		(60)	(78)	(408)
Debt securities issued, valued according to regulation ¹⁾		546 698	471 637	501 232
Collateralisation (per cent)		132.7	142.9	137.0

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>								30 Sept. 2020	31 Dec. 2019	30 Sept. 2019
	Currency	Nominal amount	Interest rate	Issue date	Call date	Maturity date				
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							5	10	9	
Total subordinated loan capital							5 205	5 210	5 209	

Note 6 Financial instruments at fair value

<i>Amounts in NOK million</i>	DNB Boligkreditt AS			Total
	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	
Assets as at 30 September 2020				
Loans to customers			41 637	41 637
Financial derivatives		62 124		62 124
Liabilities as at 30 September 2020				
Debt securities issued ¹⁾		17 318		17 318
Financial derivatives		10 544		10 544

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.

<i>Amounts in NOK million</i>	DNB Boligkreditt AS			Total
	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	
Assets as at 30 September 2019				
Loans to customers			41 442	41 442
Financial derivatives		62 077		62 077
Liabilities as at 30 September 2019				
Debt securities issued		92 533		92 533
Financial derivatives		11 371		11 371

Financial instruments at fair value, level 3

<i>Amounts in NOK million</i>	DNB Boligkreditt AS	
	Loans to customers	
Carrying amount as at 31 December 2018	41 275	
Net gains recognised in the income statement	99	
Additions/purchases	5 310	
Sales	(50)	
Settled	(5 192)	
Carrying amount as at 30 September 2019	41 442	
Carrying amount as at 31 December 2019	41 489	
Net gains recognised in the income statement	1 365	
Additions/purchases	7 385	
Sales	(85)	
Settled	(8 518)	
Carrying amount as at 30 September 2020	41 637	

Note 7 Information on related parties

DNB Bank ASA

In the first three quarters of 2020, loan portfolios representing NOK 47.1 billion (NOK 1.5 billion in the first three quarters 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 570 million in the first three quarters of 2020 (NOK 627 million in the first three quarters of 2019).

At end-September 2020 the bank had invested NOK 61.8 billion in covered bonds issued by DNB Boligkreditt.

In the first three quarters of 2020 DNB Boligkreditt entered into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The value of the repos amounted to NOK 20.7 billion at end-September 2020.

DNB Boligkreditt AS has a long-term overdraft facility in DNB Bank ASA with a limit of NOK 165 billion.

DNB Livsforsikring AS

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

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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.**

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