

# DNB Boligkreditt AS

A company in the DNB Group

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# Q4

Fourth quarter report 2018  
(Preliminary and unaudited)

DNB

# Financial highlights

## Income statement

<i>Amounts in NOK million</i>	DNB Boligkreditt AS			
	4th quarter 2018	4th quarter 2017	Full year 2018	Full year 2017
Net interest income	1 323	1 542	5 183	5 664
Net other operating income	(698)	(14)	(2 128)	(1 288)
Of which net gains on financial instruments at fair value	(714)	(30)	(2 190)	(1 354)
Total operating expenses	(211)	(429)	(771)	(1 243)
Impairment of financial instruments	3	(23)	15	(26)
Pre-tax operating profit	418	1 075	2 299	3 107
Tax expense	(105)	(269)	(575)	(777)
<b>Profit for the period</b>	<b>313</b>	<b>807</b>	<b>1 724</b>	<b>2 331</b>

## Balance sheet

<i>Amounts in NOK million</i>	31 Dec. 2018	31 Dec. 2017
Total assets	695 819	715 425
Loans to customers	628 901	622 169
Debt securities issued	478 548	468 236
Total equity	43 608	44 108

## Key figures and alternative performance measures

	4th quarter 2018	4th quarter 2017	Full year 2018	Full year 2017
Return on equity, annualised (%) <sup>1)</sup>	2.9	7.3	4.0	5.5
Total average spread for lending (%) <sup>1)</sup>	0.73	0.91	0.73	0.82
Impairment relative to average net loans to customers, annualised (per cent) <sup>1)</sup>	0.00	(0.01)	0.00	(0.00)
Net loans and financial commitments in stage 3, per cent of net loans <sup>1) 2)</sup>	0.16	0.13	0.16	0.13
Net loans and financial commitments in stage 3, (NOK million) <sup>2)</sup>	1 019	818	1 019	818
Common equity Tier 1 capital ratio, transitional rules, end of period (%)	16.9	16.6	16.9	16.6
Capital ratio, transitional rules, end of period (%)	18.9	18.5	18.9	18.5
Common equity Tier 1 capital (NOK million)	42 143	40 789	42 143	40 789
Risk-weighted assets, transitional rules (NOK million)	250 087	246 134	250 087	246 134
Number of full-time positions at end of period	6	6	6	6

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

2) Due to the implementation of IFRS 9, the calculation method for these key figures and alternative performance measures is changed as from the second quarter of 2018. The change primarily reflects that net non-performing and doubtful loans without impairments now are included in the calculation. In addition minor adjustments has been made to historical figures.

# Fourth quarter report 2018

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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 offices are 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.

## Implementation of IFRS 9

The new accounting rules for financial instruments (IFRS 9) are applicable as of 1 January 2018. The new standard introduces a business model-oriented approach for the classification of financial assets and an expected loss model for impairment which replaces the former incurred loss model.

## Financial accounts

DNB Boligkreditt recorded a profit of NOK 313 million in the fourth quarter of 2018, compared with a profit of NOK 807 million in the fourth quarter of 2017.

### Total income

Income totalled NOK 626 million in the fourth quarter of 2018, down from NOK 1.527 million in the year-earlier period.

Amounts in NOK million	4th quarter		4th quarter
	2018	Change	2017
Total income	626	(901)	1 527
Net interest income		(219)	
Net commission and fee income		1	
Net gains/(losses) on financial instruments at fair value		(683)	

The decrease in net interest income was due to a narrowing of interest rate spreads.

The effect of financial instruments was negative in both the fourth quarter of 2018 and the fourth quarter of 2017, though it was more negative in the fourth quarter of 2018. The recorded loss on financial instruments reflects 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. The size of the management fee to the bank is related to net interest income. The fee amounted to NOK 193 million in the fourth quarter of 2018, down from NOK 410 million in the fourth quarter of 2017.

The company has generally recorded low impairment losses on loans. In the fourth quarter of 2018, the company reported net reversals on impairment losses of NOK 3 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-December 2018, DNB Boligkreditt had total assets of NOK 695.8 billion, a decrease of NOK 19.6 billion or 2.7 per cent from end-December 2017.

Amounts in NOK million	31 Dec.	Change	31 Dec.
	2018		2017
Total assets	695 819	(19 606)	715 425
Loans to customers		6 732	
Financial derivatives		(15 462)	
Other assets		(10 876)	
Total liabilities	652 211	(19 106)	671 317
Due to credit institutions		(32 391)	
Financial derivatives		(2 067)	
Debt securities issued		10 312	
Deferred taxes		970	
Other liabilities		4 070	

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 increased by net NOK 10.3 billion from end-December 2017. The company issued covered bonds under existing programmes for a total of NOK 18.8 billion in the fourth quarter of 2018. Total debt securities issued amounted to NOK 478.5 billion at end-December 2018.

## 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 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-December 2018, the company's equity totalled NOK 43.6 billion, of which NOK 42.1 billion represented Tier 1 capital. Total primary capital in the company was NOK 47.3 billion. The Tier 1 capital ratio was 16.9 per cent, while the capital adequacy ratio was 18.9 per cent.

## **New regulatory framework**

### **Incorporation of CRD IV and CRR into the EEA Agreement**

The EU's capital requirements legislation CRD IV and CRR is expected to be incorporated into the EEA Agreement during the first half of 2019. The regulatory framework has for the most part already been implemented in Norwegian law, but the Norwegian Ministry of Finance has underlined that provisions that are not in line with the EU legislation, including the Basel I floor for IRB banks and the exception from the SME supporting factor, will not be continued.

### **Increased counter-cyclical capital buffer requirement**

The Ministry of Finance has decided that the counter-cyclical capital buffer requirement will be increased by 0.5 percentage points to 2.5 percent with effect from 31 December 2019. The requirement is the weighted average of the buffer rates for the countries where the bank has credit exposures.

In the course of 2019, some Norwegian provisions that are not in line with the EU legislation will cease to apply in connection with the implementation of the CRR/CRD IV in Norwegian law. The implementation of the CRR/CRD IV thus implies that DNB Boligkreditt can meet the increased counter-cyclical buffer requirement without having to build more capital.

### **New Personal Data Act**

The Norwegian Parliament (Stortinget) has adopted a new Personal Data Act, which implements the EU General Data Protection Regulation (GDPR) in Norway. The new Act entered into force on 20 July 2018. New Personal Data Regulations and separate transitional Regulations have also been adopted.

### **New anti-money laundering legislation entered into force in October 2018**

The new Money Laundering Act and Anti-Money Laundering Regulations entered into force on 15 October 2018. The new legislation implements the EU's fourth Anti-Money Laundering Directive in Norwegian law and involves, among other things, stricter requirements for customer due diligence and more responsibilities for the management and Board of Directors. Administrative sanctions for companies and individuals who do not abide by the law have also been introduced.

### **Government proposal for an adjustment of the financial activities tax**

The financial activities tax was introduced in 2017 and implies a 5 percentage point increase in employer's national insurance contributions and a 2 percentage point increase in the corporate income tax rate for the financial services industry. The Norwegian Parliament has decided to reduce the corporate income tax rate from 23 to 22 per cent in 2019. However, this reduction does not include companies that are liable to financial activities tax. The tax rate for the financial services industry will thus increase from 2 to 3 percentage points above the rate in other sectors. The Ministry of Finance is examining a new amendment in the financial activities tax from 2020 where salary costs and taxable profit will be combined into one common tax base with one tax rate.

### **Minimum Requirement for Own funds and Eligible Liabilities, MREL**

The Norwegian Parliament has adopted the Act related to the Norwegian Banks' Guarantee Fund and the Act related to amendments to the Financial Institutions Act, etc. The adopted acts

implement the EU's Bank Recovery and Resolution Directive (BRRD) and Deposit Guarantee Scheme Directive (DGSD) in Norwegian law and came into force on 1 January 2019. The BRRD has already been incorporated into the EEA Agreement, and efforts are now being made to incorporate the DGSD.

Finanstilsynet (the Financial Supervisory Authority of Norway) has proposed new regulatory provisions to supplement the new statutory provisions, which are now under consideration in the Ministry of Finance. A precondition for being able to implement the crisis management measure of internal recapitalisation (bail-in) is that the banks have sufficient own funds and eligible liabilities that can be written down or converted to equity. Finanstilsynet has proposed that the loss absorption amount should consist of the current capital requirements (Pillar 1 plus Pillar 2) without the buffer requirements. Common equity Tier 1 capital being used to satisfy the buffer requirements cannot cover MREL. These rules will not apply to DNB Boligkreditt.

### **The home mortgage lending provisions are continued**

The Ministry of Finance has laid down new home mortgage lending regulations effective as of 1 July 2018. Both the general provisions, the banks' flexibility quota and the special requirements for Oslo have been continued in the new regulations, which will apply until 31 December 2019.

### **Introduction of PSD2 into Norwegian law**

The EU's revised Payment Services Directive, PSD2, entered into force in the EU in 2018. The implementation into Norwegian law is now under way in the form of a bill and updated regulations. In dialogue with the authorities, DNB is working actively to explore the possibilities for new services within so-called "open banking", i.e. data exchange with third parties, among other things to clarify the implications of GDPR and electronic ID (eIDAS) for such services.

## **Macroeconomic developments**

The growth in the world economy held up well during the first half of 2018, but slowed down markedly through the second half. The slowdown, which was particularly evident in Europe and China, was caused by several factors. High energy prices contributed to a weakening of the real household disposable income and put a damper on demand. New emission rules for cars were part of the reason for a pronounced drop in the German automotive industry. These are both presumably temporary effects, which will be reversed this year. In addition, the ongoing trade war between the US and China contributed to reducing the growth in the Chinese economy. The trade conflict will probably continue this year, but the negative effects on the global economy will nevertheless be relatively limited. It is also possible that the two parties will reach a solution that will prevent further escalation of the conflict.

In the US, lower tax rates and increased public spending boosted the economy last year, thus preventing a slowdown in the growth. This year, the effects of this fiscal policy will gradually diminish. Financial turmoil and a significant fall in the stock markets at the end of last year may put a damper on economic activity in the time ahead. However, this may cause the Federal Reserve (Fed) to raise the key policy rate by less than would otherwise be the case, despite the fact that the unemployment rate is very low. In any case, the GDP growth will be slightly lower this year than last year.

Growth in the eurozone was disappointing in 2018, but this stagnation is most likely temporary. This year, we expect a GDP growth of 1.5 per cent. The European Central Bank (ECB) has announced that it will gradually depart from its expansionary monetary policy and at the turn of the year, it finalised its asset purchases. The first rate hike may be expected towards the end of 2019.

The uncertainty surrounding Brexit has put a damper on the British economy in the wake of the referendum. This has particularly affected investments in the business world. If the country leaves the EU without an agreement, this may lead to a serious negative

shock to the economy. The British Parliament ended up rejecting the proposed withdrawal agreement presented on 15 January 2019. However, a large majority of the members of Parliament want to avoid a hard Brexit, and therefore we find it likely that the British Parliament in the end will adopt a withdrawal agreement. The Bank of England will act very carefully until this uncertainty had been resolved.

The GDP for Mainland Norway rose by an estimated 2.3 per cent during 2018, adjusted for changes in the number of working days, and thus maintained approximately the same growth rate as the previous year. After a very hot and dry summer we saw a decline in the agricultural production, which contributed to a slowdown in the economy. A cold winter, dry summer and higher energy prices in Europe led to an increase in the electricity prices of more than 25 per cent last year. This was the main reason why an expected real wage growth failed to occur. The increase in electricity prices was probably also a major contributor to the stagnation in household consumption. Although electricity prices may remain high this winter, there is little reason to expect the same price growth as last year. This could mean that the real wage growth will pick up and thereby also the growth in consumption. A marked upswing in oil investments is also expected to contribute positively to this year's economic growth. In addition, other business investments are expected to rise and support further growth in domestic demand. On the other hand, the trade war between China and the US is contributing to slowing down the increase. We assume, however, that the effects will be relatively moderate as long as a global trade war is avoided. We forecast a growth in the mainland economy of close to 2 per cent this year.

Higher manufacturing growth has been reflected in stronger employment growth. The rate of unemployment has fallen, but the decline levelled out somewhat last autumn. We expect a moderate

decrease in the unemployment rate this year. The marked rise in electricity prices contributed to an overall increase in consumer prices of 2.7 per cent last year. Adjusted for tax changes and energy prices, the rise ended at 1.6 per cent. Slightly lower electricity prices in the course of the year will cause a marked drop in the inflation rate. In the housing market, prices increased by 0.7 per cent from 2017 to 2018. Prices rose somewhat at the beginning of 2018, but then levelled out. In the current year, we expect housing prices to remain relatively stable for the country as a whole. Over the last two years, the activity in the Norwegian economy has increased somewhat faster than normal, and capacity utilisation has gone up. The inflation outlook is relatively stable, and the risk of a marked drop in the inflation rate is significantly reduced. The Norwegian krone is weak. Based on this situation, Norges Bank raised the key policy rate in September last year and has notified a new increase in March this year, in which case the rate will stand at 1.00 per cent. One more rate hike is expected this year.

### Future prospects

The increase in Norges Bank's key policy rate from 0.5 per cent to 0.75 per cent, followed by DNB's announcement of an interest rate rise on loans that was effective from 4 November, will have full effect on net interest income in 2019. The annual increase in lending volumes is anticipated to be 3 to 4 per cent in 2019 as well.

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 in 2019 is expected to be at about the same level as in 2018. Overall, this provides a further solid basis for DNB Boligkreditt's funding activities

Oslo, 6 February 2019  
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	4th quarter 2018	4th quarter 2017	Full year 2018	Full year 2017
Interest income, amortised cost		3 620	3 445	13 843	13 532
Other interest income		292	304	1 107	1 363
Interest expenses, amortised cost		(2 213)	(2 156)	(8 704)	(8 630)
Other interest expenses		(375)	(51)	(1 063)	(601)
<b>Net interest income</b>		<b>1 323</b>	<b>1 542</b>	<b>5 183</b>	<b>5 664</b>
Commission and fee income		15	15	62	64
Commission and fee expenses		(0)	(1)	(3)	(3)
Net gains on financial instruments at fair value		(714)	(30)	(2 190)	(1 354)
Other income	7	1	1	3	5
<b>Net other operating income</b>		<b>(698)</b>	<b>(14)</b>	<b>(2 128)</b>	<b>(1 288)</b>
<b>Total income</b>		<b>626</b>	<b>1 527</b>	<b>3 055</b>	<b>4 376</b>
Salaries and other personnel expenses		(3)	(5)	(12)	(16)
Other expenses	7	(207)	(423)	(759)	(1 227)
<b>Total operating expenses</b>		<b>(211)</b>	<b>(429)</b>	<b>(771)</b>	<b>(1 243)</b>
Impairment of financial instruments		3	(23)	15	(26)
<b>Pre-tax operating profit</b>		<b>418</b>	<b>1 075</b>	<b>2 299</b>	<b>3 107</b>
Tax expense		(105)	(269)	(575)	(777)
<b>Profit for the period</b>		<b>313</b>	<b>807</b>	<b>1 724</b>	<b>2 331</b>
Other comprehensive income that will not be reclassified to profit or loss		126		107	
Tax		(32)	0	(27)	
<b>Total comprehensive income for the period</b>		<b>408</b>	<b>807</b>	<b>1 804</b>	<b>2 331</b>

# Balance sheet

		DNB Boligkreditt AS	
<i>Amounts in NOK million</i>	Note	31 Dec. 2018	31 Dec. 2017
<b>Assets</b>			
Due from credit institutions	7	15 820	26 705
Loans to customers	3, 6	628 901	622 169
Financial derivatives	6	51 088	66 550
Other assets		10	1
<b>Total assets</b>		<b>695 819</b>	<b>715 425</b>
<b>Liabilities and equity</b>			
Due to credit institutions	7	147 204	179 595
Financial derivatives	6	11 606	13 673
Debt securities issued	4, 6	478 548	468 236
Payable taxes		3 832	0
Deferred taxes		5 693	4 723
Other liabilities		87	207
Provisions		33	28
Subordinated loan capital	5	5 209	4 856
<b>Total liabilities</b>		<b>652 211</b>	<b>671 317</b>
Share capital		4 157	4 157
Share premium		31 563	31 563
Other equity		7 888	8 388
<b>Total equity</b>		<b>43 608</b>	<b>44 108</b>
<b>Total liabilities and equity</b>		<b>695 819</b>	<b>715 425</b>

# Statement of changes in equity

<i>Amounts in NOK million</i>	DNB Boligkreditt AS				
	Share capital	Share premium	Liability credit reserve	Other equity	Total equity
<b>Balance sheet as at 31 Dec. 2016</b>	<b>3 857</b>	<b>28 863</b>		<b>6 872</b>	<b>39 592</b>
Profit for the period				2 331	2 331
Comprehensive income for the period				2 331	2 331
Share issue	300	2 700			3 000
Group contribution paid				(815)	(815)
<b>Balance sheet as at 31 Dec. 2017</b>	<b>4 157</b>	<b>31 563</b>		<b>8 388</b>	<b>44 108</b>
Implementation of IFRS 9			(348)	345	(4)
<b>Balance sheet as at 1 Jan. 2018</b>	<b>4 157</b>	<b>31 563</b>	<b>(348)</b>	<b>8 732</b>	<b>44 104</b>
Profit for the period				1 724	1 724
Actuarial gains and losses				0	0
Financial liabilities designated at FVTPL, changes in credit risk			106		106
Tax on other comprehensive income			(27)	(0)	(27)
Comprehensive income for the period			80	1 724	1 804
Group contribution paid				(2 300)	(2 300)
<b>Balance sheet as at 31 Dec. 2018</b>	<b>4 157</b>	<b>31 563</b>	<b>(269)</b>	<b>8 157</b>	<b>43 608</b>

## Share capital

All shares and voting rights of the company are held by DNB Bank ASA. Share capital at year-end 2018 was NOK 4 157 million (41 570 000 shares at NOK 100).

# Cash flow statement

<i>Amounts in NOK million</i>	DNB Boligkreditt AS	
	Full year 2018	Full year 2017
<b>Operating activities</b>		
Net payments on loans to customers	(3 565)	(6 835)
Interest received from customers	14 876	14 789
Net received/payments on loans from credit institutions	(21 530)	7 765
Interest received from credit institutions	64	67
Interest paid to credit institutions	(2 989)	(2 676)
Net payments on the sale of financial assets for investment or trading		(20)
Net receipts on commissions and fees	59	62
Payments for operating expenses	(704)	(1 440)
Taxes paid		(8 328)
<b>Net cash flow relating to operating activities</b>	<b>(13 790)</b>	<b>3 385</b>
<b>Investing activities</b>		
Net purchase of loan portfolio	(3 453)	(12 025)
<b>Net cash flow relating to investing activities</b>	<b>(3 453)</b>	<b>(12 025)</b>
<b>Financing activities</b>		
Receipts on issued bonds and commercial paper	90 935	76 131
Payments on redeemed bonds and commercial paper	(69 393)	(62 590)
Interest payments on issued bonds and commercial paper	(6 447)	(6 620)
Receipts on subordinated loan capital	350	
Interest payments on subordinated loan capital	(128)	(128)
Share issue		3 000
Group contribution receipts/payments	1 900	(1 087)
<b>Net cash flow from financing activities</b>	<b>17 217</b>	<b>8 706</b>
<b>Net cash flow</b>	<b>(26)</b>	<b>66</b>
Cash as at 1 January	86	20
Net receipts/payments of cash	(26)	66
Cash at end of period	60	86



## 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, 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 and 22 Transition to IFRS 9 in the annual report for 2017.

### IFRS 9 Financial Instruments

IFRS 9 entered into force during the first quarter of 2018 and is the new standard for financial instruments that replaces IAS 39. DNB Boligkreditt AS applied the standard as of 1 January 2018. Comparative information has not been restated. For additional information on IFRS 9 adoption, see note 22 Transition to IFRS 9 in the annual report for 2017. Disclosures related to the line item Loans to customers in the balance sheet and the line item Impairment of loans and commitments in the comprehensive income statement for the fourth quarter of 2017 can be found in note 9 Loans to customers in the fourth quarter report of 2017.

## Note 2 Capital adequacy

Primary capital	DNB Boligkreditt AS	
	31 Dec. 2018	31 Dec. 2017
<i>Amounts in NOK million</i>		
Share capital	4 157	4 157
Other equity	39 451	39 951
Total equity	43 608	44 108
Deductions		
Expected losses exceeding actual losses, IRB-portfolios	(842)	(1 070)
Value adjustments due to the requirements for prudent valuation (AVA)	(405)	(258)
Adjustments for unrealised losses/(gains) on liabilities measured at fair value	269	348
Adjustments for unrealised losses/(gains) arising from the institution's own credit risk related to derivative liabilities (DVA)	(20)	(9)
Allocated group contributions for payment	(468)	(2 331)
Common equity Tier 1 capital	42 143	40 789
Term subordinated loan capital	5 200	4 850
Tier 2 capital	5 200	4 850
Total eligible primary capital	47 343	45 639
Risk-weighted assets, transitional rules	250 087	246 134
Minimum capital requirement, transitional rules	20 007	19 691
Common equity Tier 1 capital ratio, transitional rules (%)	16.9	16.6
Capital ratio, transitional rules (%)	18.9	18.5

Due to transitional rules, the minimum capital adequacy requirement cannot be reduced below 80 per cent of the corresponding figure calculated according to the Basel I regulations.

## Note 2 Capital adequacy (continued)

### Specification of risk-weighted assets and capital requirements

DNB Boligkreditt AS

<i>Amounts in NOK million</i>	Nominal exposure	EAD <sup>1)</sup>	Risk-weighted assets	Capital requirement	Capital requirement
	31 Dec. 2018	31 Dec. 2018	31 Dec. 2018	31 Dec. 2018	31 Dec. 2017
<b>IRB approach</b>					
Corporate	5 150	5 150	2 540	203	221
Retail - residential property	655 412	655 412	141 627	11 330	11 245
<b>Total credit risk, IRB approach</b>	<b>660 562</b>	<b>660 562</b>	<b>144 167</b>	<b>11 533</b>	<b>11 467</b>
<b>Standardised approach</b>					
Institutions	50 704	35 577	7 115	569	693
Corporate	19 779	19 738	6 961	557	531
Retail - residential property	20 925	19 089	6 737	539	422
Retail - other exposures	493	326	267	21	20
Other assets					
<b>Total credit risk, standardised approach</b>	<b>91 900</b>	<b>74 731</b>	<b>21 081</b>	<b>1 686</b>	<b>1 666</b>
<b>Total credit risk</b>	<b>752 462</b>	<b>735 293</b>	<b>165 248</b>	<b>13 220</b>	<b>13 132</b>
Credit value adjustment (CVA)					1 345
Operational risk			5 463	437	741
<b>Total risk-weighted assets and capital requirements before transitional rules</b>			<b>170 710</b>	<b>13 657</b>	<b>15 218</b>
<b>Additional capital requirements according to transitional rules</b>			<b>79 376</b>	<b>6 350</b>	<b>4 472</b>
<b>Total risk-weighted assets and capital requirements</b>			<b>250 087</b>	<b>20 007</b>	<b>19 691</b>

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 and financial commitments. 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 movements and other changes affecting the expected credit loss

### Loans to customers at amortised cost

<i>Amounts in NOK million</i>	DNB Boligkredit			
	Stage 1	Stage 2	Stage 3	Total
<b>Accumulated impairment as at 30 September 2018</b>	<b>(33)</b>	<b>(44)</b>	<b>(61)</b>	<b>(138)</b>
Transfer to stage 1	(11)	10	1	
Transfer to stage 2	1	(6)	5	
Transfer to stage 3	0	1	(1)	
Originated and purchased during the period	(4)	(0)		(4)
Increased expected credit loss	(7)	(14)	(12)	(33)
Decreased (reversed) expected credit loss	19	8	20	47
Derecognition	0	6		6
Write-offs			1	1
<b>Accumulated impairment as at 31 December 2018</b>	<b>(35)</b>	<b>(39)</b>	<b>(48)</b>	<b>(122)</b>

### Loans to customers at amortised cost

<i>Amounts in NOK million</i>	DNB Boligkredit			
	Stage 1	Stage 2	Stage 3	Total
<b>Accumulated impairment as at 1 January 2018</b>	<b>(43)</b>	<b>(37)</b>	<b>(74)</b>	<b>(154)</b>
Transfer to stage 1	(44)	37	6	
Transfer to stage 2	4	(32)	28	
Transfer to stage 3	0	2	(2)	0
Originated and purchased during the period	(13)	(1)		(14)
Increased expected credit loss	(25)	(63)	(65)	(152)
Decreased (reversed) expected credit loss	86	35	56	177
Derecognition	0	19		19
Write-offs	0	(0)	3	3
<b>Accumulated impairment as at 31 December 2018</b>	<b>(35)</b>	<b>(39)</b>	<b>(48)</b>	<b>(122)</b>

## Note 4 Debt securities issued

Debt securities issued	DNB Boligkreditt AS	
	31 Dec. 2018	31 Dec. 2017
<i>Amounts in NOK million</i>		
Listed covered bonds, nominal amount	391 085	379 635
Private placements under the bond programme, nominal amount	70 409	70 812
Total bonds, nominal amount	461 495	450 446
Accrued interest	2 985	3 033
Unrealised losses <sup>1)</sup>	14 068	14 757
Adjustments	17 053	17 790
<b>Total debt securities issued</b>	<b>478 548</b>	<b>468 236</b>

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 Dec. 2018	Issued 2018	Matured/ redeemed 2018	Exchange rate movements 2018	Other changes 2018	Balance sheet 31 Dec. 2017
<i>Amounts in NOK million</i>						
Bond debt, nominal amount	461 495	75 179	(71 485)	7 354		450 446
Value adjustments	17 053				(737)	17 790
<b>Total debt securities issued</b>	<b>478 548</b>	<b>75 179</b>	<b>(71 485)</b>	<b>7 354</b>	<b>(737)</b>	<b>468 236</b>

Maturity of debt securities issued	DNB Boligkreditt AS		
	NOK	Foreign currency	Total
<i>Amounts in NOK million</i>			
2019	16 600	41 879	58 479
2020	19 000	36 089	55 089
2021	26 500	51 238	77 738
2022	15 500	69 127	84 627
2023 and later	2 877	182 686	185 563
<b>Total bond debt</b>	<b>80 477</b>	<b>381 018</b>	<b>461 495</b>

## Note 4 Debt securities issued (continued)

### Debt securities issued - matured/redeemed during the period

Amounts in NOK million ISIN Code	Currency	Matured redeemed amount	Interest	Issued	Matured		DNB Boligkreditt AS	
							Remaining nominal amount 31 Dec. 2018	31 Dec. 2017
CH0110819445	CHF	1 680	Fixed	2010	2018	Matured		1 680
XS0592277429	EUR	98	Floating	2011	2018	Matured		98
XS0746565877	EUR	492	Fixed	2012	2018	Matured		492
XS0822752233	EUR	246	Fixed	2012	2018	Matured		246
XS0864911259	EUR	197	Floating	2012	2018	Matured		197
NO0010669864	NOK	3 500	Floating	2013	2018	Matured		3 500
NO0010669864	NOK	500	Floating	2014	2018	Matured		500
XS0876790808	SEK	1 499	Floating	2013	2018	Matured		1 499
XS0877571884	EUR	14 749	Fixed	2013	2018	Matured		14 749
XS0899701212	USD	82	Floating	2013	2018	Matured		82
US25600WAD20/US25600XAB47	USD	16 397	Fixed	2013	2018	Matured		16 397
Private	EUR	344	Fixed	2008	2018	Matured		344
Private	EUR	49	Fixed	2008	2018	Matured		49
Private	EUR	147	Fixed	2008	2018	Matured		147
Private	EUR	197	Fixed	2008	2018	Matured		197
Private	EUR	98	Fixed	2008	2018	Matured		98
Private	EUR	147	Fixed	2008	2018	Matured		147
XS0618699994	EUR	492	Floating	2011	2018	Matured		492
NO0010634777	NOK	2 000	Fixed	2012	2018	Matured		2 000
NO0010634777	NOK	500	Fixed	2013	2018	Matured		500
XS0846052396	EUR	885	Floating	2012	2018	Matured		885
XS0914395222	EUR	1 652	Floating	2013	2018	Matured		1 652
XS0934222521	EUR	98	Fixed	2013	2018	Matured		98
Private	EUR	197	Fixed	2008	2018	Called		197
XS0378505514	JPY	364	Fixed	2008	2018	Matured		364
Private	EUR	197	Fixed	2008	2018	Called		197
Private	EUR	147	Fixed	2008	2018	Called		147
Private	EUR	197	Fixed	2008	2018	Called		197
XS0536317620	EUR	79	Fixed	2010	2018	Matured		79
XS0647110245	EUR	49	Fixed	2011	2018	Matured		49
NO0010622087	NOK	1 950	Floating	2011	2018	Matured		1 950
NO0010622087	NOK	2 500	Floating	2012	2018	Matured		2 500
NO0010622087	NOK	500	Floating	2013	2018	Matured		500
NO0010622087	NOK	2 000	Floating	2014	2018	Matured		2 000
XS0952098407	EUR	49	Fixed	2013	2018	Matured		49
Private	EUR	147	Fixed	2009	2018	Matured		147
Private	EUR	1 573	Fixed	2009	2018	Matured		1 573
Private	EUR	590	Fixed	2010	2018	Matured		590
Private	EUR	147	Fixed	2011	2018	Matured		147
XS0992304369	EUR	14 749	Fixed	2013	2018	Matured		14 749
<b>Total debt securities issued, nominal value</b>		<b>71 485</b>						<b>71 485</b>

### Cover pool

Amounts in NOK million	DNB Boligkreditt AS	
	31 Dec. 2018	31 Dec. 2017
Pool of eligible loans	623 859	617 756
Market value of eligible derivatives	39 482	52 878
<b>Total collateralised assets</b>	<b>663 342</b>	<b>670 634</b>
Debt securities issued, carrying value	478 548	468 236
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(358)	(465)
<b>Debt securities issued, valued according to regulation <sup>1)</sup></b>	<b>478 189</b>	<b>467 771</b>
Collateralisation (per cent)	138.7	143.4

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

<i>Amounts in NOK million</i>	Currency	Nominal amount	Interest rate	Issue date	Call date	Maturity date	DNB Boligkreditt AS	
							31 Dec. 2018	31 Dec. 2017
Term subordinated loan capital	NOK	850	3 month Nibor + 400 bp	2009	2018	2024		850
Term subordinated loan capital	NOK	4 000	3 month Nibor + 170 bp	2013	2018	2023		4 000
Term subordinated loan capital	NOK	1 900	3 month Nibor + 160 bp	2018	2023	2028	1 900	
Term subordinated loan capital	NOK	3 300	3 month Nibor + 160 bp	2018	2023	2028	3 300	
Accrued interest							9	6
<b>Total subordinated loan capital</b>							<b>5 209</b>	<b>4 856</b>

## Note 6 Financial instruments at fair value

<i>Amounts in NOK million</i>	DNB Boligkreditt AS			
	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	Total
<b>Assets as at 31 December 2018</b>				
Loans to customers			41 275	41 275
Financial derivatives		51 088		51 088
<b>Liabilities as at 31 December 2018</b>				
Debt securities issued		81 842		81 842
Financial derivatives		11 606		11 606

<i>Amounts in NOK million</i>	DNB Boligkreditt AS			
	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	Total
<b>Assets as at 31 December 2017</b>				
Due from credit institutions		25 983		25 983
Loans to customers			41 362	41 362
Financial derivatives		66 550		66 550
<b>Liabilities as at 31 December 2017</b>				
Debt securities issued		85 517		85 517
Financial derivatives		13 673		13 673

### Financial instruments at fair value, level 3

<i>Amounts in NOK million</i>	DNB Boligkreditt AS	
	Loans to customers	
<b>Carrying amount as at 31 December 2017</b>	<b>41 362</b>	
Implementation impact from IFRS 9 at 1 January 2018		(1 051)
Net gains recognised in the income statement		(312)
Additions/purchases		12 357
Sales		(185)
Settled		(10 895)
<b>Carrying amount as at 31 December 2018</b>		<b>41 275</b>

## **Note 7      Information on related parties**

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### **DNB Bank ASA**

In 2018, loan portfolios representing NOK 3.5 billion 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 687 million at end-December 2018 (NOK 1 158 million at end-December 2017).

At end-December the bank had invested NOK 9.7 billion in covered bonds issued by DNB Boligkreditt.

In 2018 DNB Boligkreditt entered into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The value of the repos amounted to NOK 15.1 billion at end-December 2018.

The company has a long-term overdraft facility in DNB Bank ASA with a limit of NOK 220 billion.

### **DNB Livsforsikring AS**

At end-December 2018 DNB Livsforsikring's holding of DNB Boligkreditt bonds was valued at NOK 1.9 billion.

### **DNB Næringskreditt AS**

The fee received for services rendered to DNB Næringskreditt is recognised as "Other income" in the income statement and amounted to NOK 3.2 million in 2018.

# Contact information

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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 [dnb.no](http://dnb.no).





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We are here.  
So you can stay ahead.

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