

A photograph of a young man and woman standing outdoors in a residential setting. The woman is on the left, wearing a white parka over a red turtleneck sweater and blue jeans. The man is on the right, wearing a dark jacket over a brown turtleneck sweater and blue jeans. They are both smiling and looking at each other. In the background, there is a wooden house with a gabled roof and a window with white shutters. Bare tree branches are visible against a clear blue sky. The ground is covered with fallen leaves.

Fourth quarter report 2007

DnB NOR Boligkreditt AS

Fourth quarter report 2007

Introduction

DnB NOR Boligkreditt AS recorded operating profits of NOK 12.8 million in the fourth quarter of 2007, compared with NOK 19.5 million in the year-earlier period. After taxes, profits came to NOK 9.2 million, down from NOK 14.1 million in the fourth quarter of 2006. Return on equity was 1.6 per cent in the October through December period of 2007, as against 5.6 per cent in the year-earlier period. Earnings per share were NOK 1.02 in the fourth quarter of 2007, a decrease from NOK 2.05 in the fourth quarter of 2006.

DnB NOR Boligkreditt recorded operating profits of NOK 92.8 million in 2007, compared with NOK 88.7 million in 2006. After taxes, profits came to NOK 66.8 million, up from NOK 63.9 million in 2006. Net interest income totalled NOK 213.4 million in 2007, up from NOK 124.8 million in 2006.

As in the first three quarters of 2007, the company's fourth quarter performance reflected strong competition and interest rate increases.

Notification periods in connection with changes in customer interest rates will normally cause a shortfall in net interest income during periods of rising interest rates.

The core capital ratio of DnB NOR Boligkreditt was 6.9 per cent at year-end 2007, compared with 7.9 per cent at end-December 2006.

New capital adequacy regulations, Basel II, entered into force with effect from 2007. DnB NOR Boligkreditt has been granted permission to use the foundation IRB approach for credit risk to calculate capital adequacy. Capital adequacy according to Basel II is reported as from the second quarter of 2007.

In DnB NOR's consolidated accounts, DnB NOR Boligkreditt is reported along with the Retail Banking business area.

Income

Income totalled NOK 86.8 million in the fourth quarter of 2007, up from NOK 35.8 million in the year-earlier period.

Net interest income

Net interest income came to NOK 72.9 million for the October through December period, an increase of NOK 44.2 million or 154 per cent from the fourth quarter of 2006.

Net other operating income

Net other operating income totalled NOK 13.9 million in the fourth quarter of 2007, which represented 16 per cent of total income. Other operating income mainly represented unrealised gains related to financial derivatives and outstanding bonds, reflecting the financial market turmoil.

Operating expenses

The company's operating expenses totalled NOK 59.9 million in the fourth quarter of 2007, an increase of NOK 43.7 million from the year-earlier period. The management fee to DnB NOR Bank ASA was NOK 47.6 million, up from NOK 14.9 million in the fourth quarter of 2006. The increase is mainly due to the fact that the fee is calculated on the basis of portfolio volume.

Write-downs on commitments

Based on the strong Norwegian economy and sound portfolio quality, the Board of Directors finds that there is no need for write-downs on (individual) loans in the fourth quarter of 2007. Based on the high lending volume at year-end 2007, the company made group write-downs of NOK 14 million. The write-downs are based on the DnB NOR Group's calculation model for group write-downs.

Taxes

DnB NOR Boligkreditt's tax charge for the fourth quarter of 2007 was NOK 3.6 million. The tax charge is based on an anticipated average tax rate of 28 per cent of the company's pre-tax operating profits.

Balance sheet and assets under management

At year-end 2007, DnB NOR Boligkreditt had a total of NOK 93.9 billion under management, an increase of NOK 66.2 billion from a year earlier.

Net lending to customers rose by NOK 67.1 billion over the 12-month period, mainly reflecting the acquisition of a portfolio from DnB NOR Bank. The company granted a total of 15.3 billion in new mortgages through DnB NOR's distribution network.

Risk and capital adequacy

The company has established limits for risk exposure together with guidelines to handle the different types of risk. Interest, currency and margin risk is sought eliminated through the use of financial derivatives.

Operational risk is assessed to be low. A management agreement has been entered into with DnB NOR Bank comprising administration, bank production, IT operations and financial and liquidity management.

Assets are primarily mortgages within 75 per cent of appraised value, and credit risk is therefore assessed to be very low.

At year-end 2007, the company's equity and core capital totalled NOK 3 176 million. Total primary capital in the company is NOK 4 206 million.

The core capital ratio was 6.9 per cent, while the capital adequacy ratio was 9.1 per cent. The Board of Directors considers the company to be adequately capitalised relative to the risk level in the loan portfolios and other operations.

Important events in 2007

Amendments in the Financial Institutions Act regarding covered bonds and appurtenant regulations entered into force as of 1 June 2007. This enables mortgage institutions to issue bearer bonds in the form of promissory notes with pre-emptive rights secured by the company's cover pool.

With effect from 6 June 2007, DnB NOR Boligkreditt has a concession from Kredittilsynet to operate as a mortgage institution and is responsible for issuing covered bonds in the DnB NOR Group. The company is a wholly owned subsidiary of DnB NOR Bank.

DnB NOR Boligkreditt's strategy includes both acquiring and extending mortgages that are secured within 75 per cent of appraised value. DnB NOR Bank will serve as a sales channel for the company's mortgages.

The rating agencies' assessments of DnB NOR Boligkreditt and the DnB NOR Group are of significance to the Group's funding terms. The company engaged Standard & Poor's, Fitch Ratings and Moody's with a view to obtaining ratings of the company's covered bonds. All companies have assigned DnB NOR Boligkreditt's bonds a rating of AAA (or the equivalent).

On 1 September 2007, Øyvind Birkeland took up the position of new CEO of DnB NOR Boligkreditt.

DnB NOR Boligkreditt completed a bond programme with a total limit of EUR 15 billion in the second quarter of 2007. The company issued a total of six series of covered bonds in 2007. An overview of outstanding bonds is presented in note 8.

Through the second half of 2007, financial markets were in turmoil, with special focus on credit risk. Price differences between bonds with high and low credit quality have increased as a result of the financial market unrest.

Prospects for 2008

DnB NOR Boligkreditt will acquire portfolios from DnB NOR Bank and extend loans directly to customers. Significant balance sheet growth is planned in 2008.

DnB NOR Boligkreditt intends to finance large parts of its lending by issuing covered bonds. Current market conditions are considered to be very favourable for the company, which aims to expand the investor base for its covered bonds.

Oslo, 15 February 2008

The Board of Directors of DnB NOR Boligkreditt AS

Åsmund Skår
(chairman)

Eldbjørg Sture

Reidar Bolme

Steinar Ouren

Øyvind Birkeland
(chief executive officer)

The fourth quarter report has been approved by the Board of Directors in the original Norwegian version. This is an English translation.

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Income statement

		DnB NOR Boligkreditt AS			
		4th quarter	4th quarter	Full year	Full year
<i>Amounts in NOK 1 000</i>	Note	2007	2006	2007	2006
Total interest income	2	1 047 260	273 714	2 658 891	705 234
Total interest expenses	2	974 360	244 999	2 445 484	580 465
Net interest income	2	72 900	28 715	213 407	124 769
Commissions and fees receivable etc.		4 835	44	6 791	139
Commissions and fees payable etc.		24	51	125	51
Net gains/(losses) on financial instruments at fair value	3	9 067	7 069	26 752	9 458
Other income		-	-	-	-
Net other operating income		13 878	7 062	33 418	9 546
Total income		86 778	35 777	246 825	134 315
Salaries and other ordinary personnel expenses	4	3 367	115	7 699	115
Other expenses	4	56 586	16 122	132 370	45 474
Depreciation and impairment of fixed and intangible assets		-	-	-	-
Total operating expenses		59 953	16 237	140 069	45 589
Net gains on fixed and intangible assets		-	-	-	-
Write-downs on loans and guarantees	6	14 000	-	14 000	-
Pre-tax operating profit		12 825	19 540	92 756	88 726
Taxes		3 603	5 471	25 984	24 843
Profit for the period		9 222	14 069	66 772	63 883
Earnings per share (NOK)		1.02	2.05	8.66	9.50
Diluted earnings per share (NOK)		1.02	2.05	8.66	9.50

Balance sheets

		DnB NOR Boligkreditt AS		
		31 Dec.	31 Dec.	1 Jan.
<i>Amounts in NOK 1 000</i>	Note	2007	2006	2006
Assets				
Cash and deposits with central banks		-	-	-
Lending to and deposits with credit institutions		2 243 726	4 452 327	3 733
Lending to customers	7	90 005 395	22 951 687	14 747 260
Financial derivatives		1 583 060	214 567	-
Deferred tax assets		-	797	326
Other assets		20 509	5 658	-
Total assets		93 852 690	27 625 036	14 751 319
Liabilities and equity				
Loans and deposits from credit institutions		55 100 835	500 000	13 998 141
Securities issued	8	33 305 705	24 512 624	-
Payable taxes		-	3 119	3 571
Deferred taxes		54 889	-	-
Other liabilities		180 272	313 825	31 447
Subordinated loan capital	8	1 032 270	350 568	-
Total liabilities		90 676 719	26 619 066	14 102 159
Share capital		902 000	685 000	650 000
Other reserves and retained earnings		2 273 971	320 970	(840)
Total equity		3 175 971	1 005 970	649 160
Total liabilities and equity		93 852 690	27 625 036	14 751 319

Statement of changes in equity

DnB NOR Boligkreditt AS

	Share capital	Share premium reserve	Other equity	Total other reserves and retained earnings	Total equity
<i>Amounts in NOK 1 000</i>					
Balance sheet as at 1 January 2006 NGAAP	650 000	-	-	-	650 000
IFRS effects (pro forma)					
IAS 39 - Extended use of fair value of financial instruments			(840)	(840)	
Total IFRS effects (pro forma)			(840)	(840)	(840)
Balance sheet as at 1 January 2006 (pro forma)	650 000	-	(840)	(840)	649 160
Profit for the period	0	0	63 883	63 883	
Net income for the period			63 883	63 883	63 883
Share issue 13 March 2007	10 000	90 000			100 000
Share issue 7 June 2007	25 000	225 000			250 000
Balance sheet as at 31 December 2006 (pro forma)	685 000	315 000	63 043	378 043	1 063 043
Balance sheet as at 31 December 2006 NGAAP	685 000	315 000	-	-	1 000 000
IFRS effects					
IAS 39 - Extended use of fair value of financial instruments			5 971	5 971	
Total IFRS effects			5 971	5 971	5 971
Balance sheet as at 1 January 2007	685 000	315 000	5 971	320 971	1 005 971
Profit for the period	-	-	66 772	66 772	66 772
Group contribution			(66 772)	(66 772)	(66 772)
Net income for the period			-	-	-
Share issue 5 February 2007	47 000	423 000	-	423 000	470 000
Share issue 14 May 2007	60 000	540 000	-	540 000	600 000
Share issue 13 December 2007 ¹⁾	110 000	990 000	-	990 000	1 100 000
Balance sheet as at 31 December 2007	902 000	2 268 000	5 971	2 273 971	3 175 971

1) The share issue on 13 December has not been registered with the Brønnøysund Register Centre.

Cash flow statement

DnB NOR Boligkreditt AS

Amounts in NOK 1 000

	Full year 2007	Full year 2006
OPERATIONS		
Net payments on loans to customers	(8 718 914)	(7 455 866)
Interest received from customers	2 390 389	431 679
Net payments on sales of financial assets for investment or trading	-	-
Net receipts on commissions and fees	6 791	139
Payments to operations	223 885	39 591
Taxes paid	3 119	-
Other receipts	-	-
Net cash flow relating to operations	10 889 090	7 848 093
INVESTMENT ACTIVITY		
Net payments on the acquisition of fixed assets	-	-
Net purchase of loan portfolio	75 482 545	15 701 467
Net cash flow relating to investment activity	(75 482 545)	(15 701 467)
FUNDING ACTIVITY		
Net receipts/payments on loans from credit institutions	54 600 835	(13 498 141)
Net receipts/payments on other short-term liabilities	29 912	(8 554)
Net issue of bonds and commercial paper	8 120 976	25 260 000
Issue of subordinated loan capital	680 000	350 000
Redemptions of subordinated loan capital	-	-
Repurchase of own shares/share issue	2 170 000	350 000
Dividend payments	-	-
Net interest payments on funding activity	3 216 869	151 337
Net cash flow from funding activity	62 384 854	12 301 968
Net cash flow	(2 208 601)	4 448 594
Cash as at 1 January	4 452 327	3 733
Net receipts/payments on cash	(2 208 601)	4 448 594
Cash at end of period	2 243 726	4 452 327

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

Key figures

	DnB NOR Boligkreditt AS			
	4th quarter 2007	4th quarter 2006 1)	Full year 2007	Full year 2006 1)
Rate of return/profitability				
1. Return on equity, annualised (%)	1.6	5.6	3.7	7.4
Financial strength				
2. Core (Tier 1) capital ratio at end of period (%)	6.9	7.9	6.9	7.9
3. Capital adequacy ratio at end of period (%)	9.1	10.6	9.1	10.6
4. Core capital at end of period (NOK million)	3 175 971	996 881	3 175 971	996 881
5. Risk-weighted volume at end of period (NOK million)	46 069 822	12 663 969	46 069 822	12 663 969
Loan portfolio and write-downs				
6. Write-downs relative to net lending to customers, annualised	-	-	-	-
7. Net non-performing and impaired commitments, per cent of net lending	-	-	-	-
8. Net non-performing and impaired commitments at end of period (NOK 1 000)	-	-	-	-
Staff				
9. Number of full-time positions at end of period	9	4	9	4

Definitions

- 1) Profit for the period is adjusted for the period's change in fair value recognised directly in equity. Average equity is calculated on the basis of recorded equity.

Note 1 – Accounting principles etc.

Accounting principles

The fourth quarter accounts have been prepared according to the IFRS principles, including IAS 34 – Interim Financial Reporting. A description of the accounting principles the applied by the company in preparing the accounts is found in the third quarter report 2007.

Comparable figures

Comparable figures are based on IFRS.

Result for the period – transition from NGAAP to IFRS

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

- According to IFRS, a number of financial instruments are recorded at market value, as against the lower of cost and fair value based on NGAAP. The portfolios of fixed-rate loans in Norwegian kroner are recorded at fair value, while they were recorded at amortised cost according to NGAAP.

Effects on the income statement

DnB NOR Boligkreditt AS

	Full year	4th quarter
<i>Amounts in NOK 1 000</i>	2006	2006
Profit for the period NGAAP	57.073	8.979
IAS 39 - Extended use of fair value of financial instruments	6.810	5.090
Profit for the period IFRS	63.883	14.069

Note 2 – Net interest income

DnB NOR Boligkreditt AS				
	4th quarter	4th quarter	Full year	Full year
<i>Amounts in NOK 1 000</i>	2007	2006	2007	2006
Interest on loans to and deposits with credit institutions	17 040	26 463	47 523	28 905
Interest on loans to customers	1 021 870	244 576	2 588 986	669 371
Interest on impaired commitments	-	-	-	-
Front-end fees etc.	76	-	7	-
Other interest income	8 274	2 675	22 375	6 958
Total interest income	1 047 260	273 714	2 658 891	705 234
Interest on loans and deposits from credit institutions	635 054	26 381	1 661 952	329 449
Interest on securities issued	323 933	197 926	735 806	197 926
Interest on subordinated loan capital	11 446	3 381	36 262	3 850
Other interest expenses	3 927	17 311	11 464	49 240
Total interest expenses	974 360	244 999	2 445 484	580 465
Net interest income	72 900	28 715	213 407	124 769

Note 3 – Net gains on financial instruments at fair value

DnB NOR Boligkreditt AS				
	4th quarter	4th quarter	Full year	Full year
<i>Amounts in NOK 1 000</i>	2007	2006	2007	2006
Dividends	-	-	-	-
Net gains on foreign exchange and financial derivatives	18 668	(151 834)	232 355	(104 234)
Net gains on financial derivatives, hedging	(49 259)	-	(12 475)	-
Net gains on fixed rate loans	5 080	(22 856)	(23 413)	(68 067)
Net gains on financial guarantees	-	-	-	-
Net gains on commercial paper and bonds	-	-	-	-
Net gains on shareholdings	-	-	-	-
Net gains on other financial assets	-	-	-	-
Net gains on financial liabilities, hedged items	47 738	-	10 654	-
Net gains on financial liabilities, other	(13 160)	181 759	(180 369)	181 759
Net interest on interest rate positions	-	-	-	-
Net gains on financial instruments at fair value	9 067	7 069	26 752	9 458

Note 4 – Operating expenses

<i>Amounts in NOK 1 000</i>	DnB NOR Boligkreditt AS			
	4th quarter 2007	4th quarter 2006	Full year 2007	Full year 2006
Ordinary salaries	2 436	115	5 490	115
Employer's national insurance contributions	262	-	698	-
Pension expenses	518	-	1 167	-
Social expenses	151	-	344	-
Total salaries and other personnel expenses	3 367	115	7 699	115
Fees	56 406	14 911	130 351	44 215
EDP expenses	2	-	1 375	-
Postage and telecommunications	-	-	7	-
Office supplies	6	-	16	-
Marketing and public relations	65	800	69	800
Travel expenses	52	-	293	-
Other operating expenses	55	411	259	459
Other expenses	56 586	16 122	132 370	45 474
Depreciation and impairment of fixed and intangible assets	0	0	0	0
Total operating expenses	59 953	16 237	140 069	45 589

Last five quarters

<i>Amounts in NOK 1 000</i>	DnB NOR Boligkreditt AS				
	4th quarter 2007	3rd quarter 2007	2nd quarter 2007	1st quarter 2007	4th quarter 2006
Ordinary salaries	2 436	1 570	1 162	425	115
Employer's national insurance contributions	262	233	203	-	-
Pension expenses	518	555	94	-	-
Social expenses	151	84	3	3	-
Total salaries and other personnel expenses	3 367	2 442	1 462	428	115
Fees	56 406	33 610	21 216	18 567	14 911
EDP expenses	2	0	823	-	-
Postage and telecommunications	0	4	-	1	-
Office supplies	6	8	2	-	-
Marketing and public relations	65	0	-	2	800
Travel expenses	52	218	21	2	-
Other operating expenses	55	133	1 163	14	411
Other expenses	56 586	33 973	23 225	18 586	16 122
Depreciation and impairment of fixed and intangible assets	0	0	0	0	0
Total operating expenses	59 953	36 415	24 687	19 014	16 237

Note 5 – Number of employees/full-time positions

	DnB NOR Boligkreditt AS	
	Full year 2007	Full year 2006
Number of employees at end of period	9	4
Number of employees calculated on a full-time basis at end of period	9	2

Note 6 – Write-downs on loans and guarantees

<i>Amounts in NOK 1 000</i>	DnB NOR Boligkreditt AS			
	4th quarter 2007	4th quarter 2006	Full year 2007	Full year 2006
Write-offs	-	-	-	-
New individual write-downs	-	-	-	-
Total new individual write-downs	-	-	-	-
Reassessed individual write-downs	-	-	-	-
Total individual write-downs	-	-	-	-
Recoveries on commitments previously written off	-	-	-	-
Change in group write-downs ¹⁾	14 000	-	14 000	-
Write-downs on loans and guarantees	14 000	0	14 000	0

1) The write-downs are based on the DnB NOR Group's calculation model for group write-downs.

Note 7 – Lending to customers

<i>Amounts in NOK 1 000</i>	DnB NOR Boligkreditt AS	
	31 Dec. 2007	31 Dec. 2006
Lending to customers, nominal amount	87 869 975	21 334 605
Individual write-downs	-	-
Lending to customers, after individual write-downs	87 869 975	21 334 605
+ Accrued interest and amortisation	274 775	48 869
- Individual write-downs of accrued interest and amortisation	-	-
- Group write-downs	14 000	-
Lending to customers, at amortised cost	88 130 750	21 383 474
Lending to customers, nominal amount	1 893 238	1 563 958
+ Accrued interest	5 216	4 487
+ Adjustment to fair value	(23 809)	(232)
Lending to customers, classified at fair value	1 874 645	1 568 213
Lending to customers	90 005 395	22 951 687

Note 8 – Securities issued and subordinated loan capital

Covered bonds

							DnB NOR Boligkreditt AS	
Amounts in NOK 1 000							31 Dec.	31 Dec.
ISIN Code	Nominal value	Currency	Interest	Issued	Matured		2007	2006
NO0010337751 ¹⁾	1 500 000	EUR	Fixed 3.925 %	-	-			12 347 192
NO0010337736 ¹⁾	1 500 000	EUR	Fixed 3.895 %	-	-			12 347 191
NO0010378730	5 000 000	NOK	Fixed 5.550 %	2007	2014		5 000 000	-
XSO308736023	1 500 000	EUR	Fixed 4.625 %	2007	2012		11 957 952	-
NO0010398431	1 500 000	NOK	Float Nibor - 0,03%	2007	2010		1 500 000	
CH0034696242	250 000	CHF	Fixed 3.000 %	2007	2012		1 204 593	
CH0034696259	250 000	CHF	Fixed 3.375 %	2007	2016		1 204 593	
XS0330848622	1 500 000	EUR	Fixed 4.375 %	2007	2010		11 957 952	
Adjustments							480 615	(181 759)
Total securities issued							33 305 705	24 512 624

1) Ordinary bonds

Subordinated loan capital and perpetual subordinated loan capital securities

						DnB NOR Boligkreditt AS	
						Net change in	
						recorded costs	Balance sheet
						and adjustments	31 Dec.
Amounts in NOK 1 000						2007	2006
Term subordinated loan capital, nominal amount				Balance sheet	Issued	Matured/ redeemed	
				31 Dec.	2007	2007	
				2007			
Term subordinated loan capital, nominal amount	1 030 000	680 000	-				350 000
Adjustments	2 270		-				568
Total	1 032 270	680 000	0			0	350 568

Note 9 – Capital adequacy

New capital adequacy regulations, Basel II, entered into force on 1 January 2007, see below for further description of DnB NOR Boligkreditt and the DnB NOR Group's implementation of the Basel II regulations.

Primary capital

	DnB NOR Boligkreditt AS	
	31 Dec. 2007	31 Dec. 2006
<i>Amounts in NOK 1 000</i>		
Share capital	902 000	685 000
Other equity ¹⁾	2 273 971	315 000
Total equity	3 175 971	1 000 000
Deductions		
Deferred tax assets	-	(3 119)
Core capital	3 175 971	996 881
Perpetual subordinated loan capital	-	-
Term subordinated loan capital	1 030 000	350 000
Supplementary capital	1 030 000	350 000
Deductions	-	-
Total eligible primary capital	4 205 971	1 346 881

Minimum primary capital

	31 Dec. 2007
<i>Amounts in NOK 1 000</i>	
Credit risk, IRB ²⁾	622 850
Of which:	
Retail commitments secured by residential property	622 850
Claims calculated according to Basel I, transitional rules ³⁾	68 769
Total capital requirement, credit risk	691 619
Counterparty risk	-
Position risk	-
Settlement risk	-
Foreign exchange risk	-
Total capital requirement, market risk	0
Operational risk	15 418
Deductions	-
Total capital requirements	707 037
Addition due to transitional rules (max 5 per cent reduction in relation to Basel I) ⁴⁾	2 978 549
Total capital requirements	3 685 586

The table below illustrates the effect of the transition to Basel II regulations in 2007. The column "Basel I" reflects calculations based on the former capital adequacy regulations. The results of the Basel II calculations have been included in the capital adequacy calculations shown in the "Basel II" column. The transitional rules limit the effect of Basel II calculations to a reduction to 95 per cent of Basel I requirements in the first year of implementation. This restriction, known as "Capital floor" is reflected in the capital adequacy shown in the "Reported" column in the table below.

Capital adequacy

	Reported 31 Dec. 2007 ⁴⁾	Basel II 31 Dec. 2007	Basel I 31 Dec. 2007	2006 ⁵⁾
Risk-weighted volume (NOK 1 000)	46 069 822	8 837 967	48 494 549	12 663 969
Core capital ratio (%)	6.9	35.9	6.5	7.9
Capital ratio (%)	9.1	47.6	8.7	10.6

1) Profit for the period is not included in core capital.

2) In 2007 credit risk for loans to retail customers secured by residential property is reported according to the foundation IRB approach, Internal Ratings Based.

3) The minimum capital requirements for all portfolios not mentioned in footnote 2 is 8 per cent of risk-weighted volume calculated according to Basel I rules.

4) Due to transitional rules, minimum capital requirement for 2007, 2008 and 2009 can maximum be reduced to 95, 90 and 80 per cent respectively in relation to the requirements according to Basel I rules.

5) Figures for previous periods have been prepared in accordance with rules prevailing on the reporting dates.

Note 9 – Capital adequacy (continued)

Basel II

New capital requirements, Basel II, entered into force on 1 January 2007 and is divided into three parts, so-called pillars. Pillar 1 is about minimum capital adequacy requirements and is based on the previous capital adequacy regulations, Basel I. Pillar 2 is about institutions' assessment of their overall capital requirement and supervisory review, while Pillar 3 is about the disclosure of financial information. The regulations entail that there will be greater consistency between the authorities' capital adequacy regulations for financial institutions and the methodologies used by the financial institutions themselves in calculating capital requirements. The minimum capital requirement is still 8 per cent, with minimum 50 per cent representing core capital. The new regulations will result in changes in the risk-weighted volume included in the calculation of the capital adequacy requirement. A new methodology has been introduced for calculating credit risk, while operational risk calculations have been added as a new element. The shift from Basel I to Basel II has a more limited impact on the treatment of market risk.

Pillar 1 Approach used in capital adequacy calculations

Pillar 1 includes capital requirements for credit, market and operational risk. DnB NOR Boligkreditt has been granted permission to use the IRB, Internal Ratings Based, approach for credit risk to calculate the company's capital adequacy as from 30 June 2007. The company has been granted permission to use the foundation IRB approach for the portfolio of home mortgages for the second quarter of 2007.

Use of the IRB approach implies that the company's own classification systems are used for capital adequacy purposes. The IRB system is defined as the models, work processes, decision-making processes, control mechanisms, IT systems and internal guidelines and routines used to classify and quantify credit risk. During 2006, DnB NOR implemented important parts of the IRB system, mainly through the development of routines, procedures and IT systems.

Credit risk

Credit risk represents the chief risk category for the Group and refers to all claims against customers, mainly loans

The classification of commitments provides the basis for statistical calculations of expected losses in a long-term perspective and the need for equity on the basis of portfolio risk. DnB NOR's models for risk classification of customers are subject to continual improvement and testing. The models are adapted to different industries and segments and are successively upgraded to satisfy quality requirements according to Basel II. The models are based on three components:

1. *Estimated probability of default.* The counterparty (customer) is classified according to a scale of ten risk categories based on the probability of default. In addition, impaired and non-performing commitments are placed in categories 11 and 12 respectively for reporting purposes. The risk categories are defined on the basis of the scales used by international rating agencies.
2. *Exposure at default.* Exposure is an estimated figure which includes amounts drawn under credit limits (loans) as well as a percentage share of committed, undrawn credit lines.
3. *Loss given default.* This is a statistically modelled quantity indicating how much the Group expects to lose if the customer fails to meet his obligations, taking the collateral provided into consideration. Realisation values for collateral are set on the basis of experience and/or external data.

The credit risk models should show the average probability of default during a business cycle. However, no model is completely unaffected by cyclical fluctuations. Consequently, stress testing is used to assess whether the company would be required to hold additional capital during a recession. Such assessments will be taken into account in the company's management process to determine the correct level of capital.

Operational risk

On 1 January 2007, new regulations for capital requirements for operational risk entered into force. In a separate policy for operational risk management, the Board of Directors states that DnB NOR will have low operational risk. Thus, management places great emphasis on risk and quality in the management of the Group. DnB NOR Boligkreditt observes the Group's operational risk policy.

DnB NOR Boligkreditt AS reported according to the standardised approach in 2007 and will consider a shift to the advanced measurement approach at a later date.

Transitional rules

Due to transitional rules the minimum capital adequacy requirements for 2007, 2008 and 2009 will be reduced to a maximum of 95, 90 and 80 per cent respectively relative to the Basel I requirements.

Pillar 2 Institutions' assessment of total capital requirement and supervisory review

According to Pillar 2, DnB NOR is required to have a process for assessing the Group's overall capital adequacy. This includes an analysis of the risks not encompassed by the Pillar 1 process and the capital requirement for growth, as well as an indication of how much above the minimum regulatory capital ratios the Group chooses to set its capital levels.

Note 9 – Capital adequacy (continued)

The staff unit, Group Risk Analyses has overall responsibility for assessing and reporting the Group's overall risk situation. Each quarter, Group Risk Analyses prepares a report to the Board of Directors of DnB NOR ASA regarding developments in the various risk categories as well as a report to the Board of Directors of DnB NOR Bank ASA regarding the trend in the banking group's credit risk.

As part of the adaptation to Pillar 2, the Board of Directors of DnB NOR ASA approved a new group capitalisation policy in April 2006, aimed at ensuring that group equity is adequate to ensure effective and optimal use of equity relative to the scope and risk profile of operations. The equity of DnB NOR should enable the Group to achieve a competitive return on equity and obtain competitive terms in funding markets. Also, it should put the Group in a position to exploit growth opportunities in the market through either organic growth or acquisitions while meeting minimum capital adequacy requirements with a margin adapted to the Group's adopted risk profile and risk tolerance.

In the longer term, the Group's equity will be structured to ensure that core capital excluding hybrid securities exceeds 4.25 per cent of risk-weighted assets, with the addition of a capital buffer. The calculation model for risk-adjusted capital is used to measure the size of the capital buffer relative to risk tolerance limits. Risk will be quantified through calculations of risk-adjusted capital. In addition, stress tests for credit and market risk are important reference points. The capitalisation policy is reviewed annually as part of the Group's budget and strategy process.

As part of its supervisory process, Kredittilsynet will prepare an annual overall risk assessment for the Group, including feedback on the capitalisation of the Group. These assessments will play a significant part when determining the actual effect of the transfer to new capital adequacy regulations.

Pillar 3 Requirements concerning the disclosure of financial information

Pillar 3 presents requirements concerning the disclosure of financial information on the Internet. The information must cover DnB NOR's adaptation to and compliance with the new capital adequacy regulations. Such information are presented on separate pages on www.dnbnor.com.

Note 10– Contingencies

DnB NOR Boligkreditt is party to no legal actions.

Note 11 – Profit and balance sheet trends

Income statement	DnB NOR Boligkreditt AS				
	4th quarter 2007	3rd quarter 2007	2nd quarter 2007	1st quarter 2007	4th quarter 2006
<i>Amounts in NOK 1 000</i>					
Total interest income	1 047 260	683 131	515 236	413 264	273 714
Total interest expenses	974 360	610 197	473 845	387 082	244 999
Net interest income	72 900	72 934	41 391	26 182	28 715
Commissions and fees receivable etc.	4 835	1 677	220	59	44
Commissions and fees payable etc.	24	13	21	67	51
Net gains on financial instruments at fair value	9 067	23 352	1 002	(6 669)	7 069
Other income	-	-	-	-	-
Net other operating income	13 878	25 016	1 201	(6 677)	7 062
Total income	86 778	97 950	42 592	19 505	35 777
Salaries and other ordinary personnel expenses	3 367	2 442	1 462	428	115
Other expenses	56 586	33 973	23 225	18 586	16 122
Depreciation and impairment of fixed and intangible assets	-	-	-	-	-
Total operating expenses	59 953	36 415	24 687	19 014	16 237
Net gains on fixed and intangible assets	-	-	-	-	-
Write-downs on loans and guarantees	14 000	-	-	-	-
Pre-tax operating profit	12 825	61 535	17 905	491	19 540
Taxes	3 603	17 230	5 013	137	5 471
Profit for the period	9 222	44 305	12 892	354	14 069
Earnings per share (NOK)	1.02	5.59	1.69	0.05	2.05
Diluted earnings per share (NOK)	1.02	5.59	1.69	0.05	2.05

Balance sheets	DnB NOR Boligkreditt AS				
	31 Dec. 2007	30 Sep. 2007	30 June 2007	31 March 2007	31 Dec. 2006
<i>Amounts in NOK 1 000</i>					
Assets					
Cash and deposits with central banks	-	-	-	-	-
Lending to and deposits with credit institutions	2 243 726	65 831	86 767	475 832	4 452 327
Lending to customers	90 005 395	55 614 441	49 807 904	43 727 601	22 951 687
Financial derivatives	1 583 060	804 590	34 600	8 300	214 567
Deferred tax assets	-	797	797	797	797
Other assets	20 509	10 195	-	3 689	5 658
Total assets	93 852 690	56 495 854	49 930 068	44 216 219	27 625 036
Liabilities and equity					
Loans and deposits from credit institutions	55 100 835	35 712 330	47 077 096	41 914 216	500 000
Financial derivatives	1 002 748	1 065 015	-	-	938 930
Securities issued	33 305 705	16 785 283	-	-	24 512 624
Payable taxes	-	3 119	3 119	3 119	3 119
Deferred taxes	54 889	-	-	-	-
Other liabilities	180 272	55 743	29 473	85 637	313 825
Subordinated loan capital	1 032 270	740 843	731 164	736 922	350 568
Total liabilities	90 676 719	54 362 333	47 840 852	42 739 894	26 619 066
Share capital	902 000	792 000	792 000	732 000	685 000
Other reserves and retained earnings	2 273 971	1 341 521	1 297 216	744 325	320 970
Total equity	3 175 971	2 133 521	2 089 216	1 476 325	1 005 970
Total liabilities and equity	93 852 690	56 495 854	49 930 068	44 216 219	27 625 036

Contact information

DnB NOR ASA

Organisation number: 981 276 957
www.dnbnor.com

DnB NOR Bank ASA

Organisation number: 984 851 006
Mailing address: NO-0021 Oslo
Visiting address: Stranden 21, 0250 Oslo
www.dnbnor.no
Tel: 03000 (from abroad: +47 915 03000)

DnB NOR Boligkreditt AS

Organisation number: 985 621 551
Mailing address: Kirkegaten 21, 0021 Oslo
Visiting address: Kirkegaten 21, 0021 Oslo

Chief executive officer

Øyvind Birkeland

Board of Directors in DnB NOR Boligkreditt AS

Åsmund Skår
Reidar Bolme
Eldbjørg Sture
Steinar Ouren

Investor Relations

Helge Stray
Tlf: +47 22 94 93 76
helge.stray@dnbnor.no

Thor Tellefsen
Tlf: +47 22 94 93 88
thor.tellefsen@dnbnor.no

Per Sagbakken
Tlf: +47 22 48 20 72
per.sagbakken@dnbnor.no

Other sources of information

Annual reports

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

Quarterly publications

Quarterly reports are available on www.dnbnor.com

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