Third quarter report 2007

DnB NOR Boligkreditt AS

DnB NOR
Boligkreditt

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Introduction

DnB NOR Boligkreditt AS recorded operating profits of NOK 61.5 million in the third quarter of 2007, compared with NOK 29.6 million in the year-earlier period. After taxes, profits came to NOK 44.3 million, up from NOK 21.3 million in the third quarter of 2006. Return on equity was 8.5 per cent in the July through September period of 2007, as against 8.1 per cent in the year-earlier period. Earnings per share were NOK 7.8 in the third quarter of 2007, an increase from NOK 3.1 in the third quarter of 2006.

DnB NOR Boligkreditt recorded operating profits of NOK 79.9 million for the January through September period of 2007, compared with NOK 69.2 million in the year-earlier period. After taxes, profits came to NOK 57.6 million, up from NOK 49.8 million in the first nine months of 2006. Net interest income totalled NOK 140.5 million in the January through September period of 2007, up from NOK 96 million in 2006.

As in the first and second quarter of 2007, the company's third quarter performance reflected strong competition and frequent 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. However, lending spreads have widened somewhat compared with the first and second quarter of 2007 due to adjustments in lending rates.

The core capital ratio of DnB NOR Boligkreditt was 7.7 per cent at end-September 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 98 million in the third quarter of 2007, up from NOK 41.4 million in the year-earlier period.

Net interest income

Net interest income came to NOK 72.9 million for the July through September period, an increase of NOK 32.1 million or 79 per cent from the third quarter of 2006.

Net other operating income

Net other operating income totalled NOK 25 million in the third quarter of 2007, which represented 26 per cent of total income. Other operating income mainly represented unrealised gains related to outstanding bonds, reflecting the financial market turmoil.

Operating expenses

The company's operating expenses totalled NOK 36.4 million in the third quarter of 2007, an increase of NOK 24.6 million from the year-earlier period. The management fee to DnB NOR Bank ASA was NOK 32.9 million, up from NOK 11.7 million in the third 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 loans in the third quarter of 2007.

Taxes

DnB NOR Boligkreditt's tax charge for the third quarter of 2007 was NOK 17.2 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 end-September 2007, DnB NOR Boligkreditt had a total of NOK 56.5 billion under management, an increase of NOK 30.5 billion from a year earlier.

Net lending to customers rose by NOK 29.7 billion over the 12-month period, mainly reflecting the acquisition of a portfolio from DnB NOR Bank.

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 60 per cent of appraised value, and credit risk is therefore assessed to be very low.

At end-September 2007, the company's equity totalled NOK 2 133.5 million, of which NOK 2 075.2 million represented core capital. Total primary capital in the company is NOK 2 805.2 million.

The core capital ratio was 7.7 per cent, while the capital adequacy ratio was 10.4 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, and the company engaged Standard & Poor's, Fitch Ratings and Moody's with a view to obtaining ratings of the company and the company's covered bonds. All companies have assigned DnB NOR Boligkreditt a rating of AAA (or the equivalent).

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

The company completed a bond programme with a total limit of EUR 15 billion in the second quarter of 2007. The company issued covered bonds for a total value of EUR 1.5 billion with settlement date on 3 July 2007 and covered bonds for a total value of NOK 5 billion with settlement date 11 July 2007.

Through the summer and autumn 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 the rest of the year

DnB NOR Boligkreditt will acquire portfolios from DnB NOR Bank and extend loans directly to customers.

DnB NOR Boligkreditt is planning to finance large parts of its lending by issuing covered bonds.

The company expects to issue new bonds during the fourth quarter of 2007.

Oslo, 1 November 2007
The Board of Directors of DnB NOR Boligkreditt AS

Åsmund Skår
(chairman)

Eldbjørg Sture

Reidar Bolme

Steinar Ouren

Øyvind Birkeland
(chief executive officer)

Contents – quarterly accounts

Notes to the accounts

Income statement

DnB NOR Boligkreditt AS

Amounts in NOK 1 000	Note	3rd quarter 2007	3rd quarter 2006	January - September 2007	January - September 2006	Full year 2006
Total interest income	3	683 131	175 360	1 611 631	431 520	705 234
Total interest expenses	3	610 197	134 581	1 471 124	335 466	580 465
Net interest income	3	**72 934**	**40 779**	**140 507**	**96 054**	**124 769**
Commissions and fees receivable etc.		1 677	29	1 956	95	139
Commissions and fees payable etc.		13	-	101	-	51
Net gains/(losses) on financial instruments at fair value	4	23 352	551	17 685	2 389	9 458
Other income		-	-	-	-	-
Net other operating income		**25 016**	**580**	**19 540**	**2 648**	**9 546**
Total income		**97 950**	**41 359**	**160 047**	**98 538**	**134 315**
Salaries and other ordinary personnel expenses	5	2 442	-	4 332	-	115
Other expenses	5	33 973	11 779	75 784	29 352	45 474
Depreciation and impairment of fixed and intangible assets		-	-	-	-	-
Total operating expenses		**36 415**	**11 779**	**80 116**	**29 352**	**45 589**
Net gains on fixed and intangible assets		-	-	-	-	-
Write-downs on loans and guarantees	7	-	-	-	-	-
Pre-tax operating profit		**61 535**	**29 580**	**79 931**	**69 186**	**88 726**
Taxes		17 230	8 282	22 381	19 372	24 843
Profit for the period		**44 305**	**21 298**	**57 550**	**49 814**	**63 883**
Earnings per share (NOK)		7.77	3.11	10.57	7.46	9.50
Diluted earnings per share (NOK)		7.77	3.11	10.57	7.46	9.50

Balance sheets

DnB NOR Boligkreditt AS

Amounts in NOK 1 000	Note	30 Sep. 2007	31 Dec. 2006	30 Sep. 2006
Assets				
Cash and deposits with central banks		-	-	-
Lending to and deposits with credit institutions		65 831	4 452 327	34 608
Lending to customers	8	55 614 441	22 951 687	25 909 239
Financial derivatives		804 590	214 567	13 169
Deferred tax assets		797	797	-
Other assets		10 195	5 658	2 442
Total assets		**56 495 854**	**27 625 036**	**25 959 458**
Liabilities and equity				
Loans and deposits from credit institutions		35 712 330	500 000	24 391 554
Financial derivatives		1 065 015	938 930	27 523
Securities issued	9	16 785 283	24 512 624	-
Payable taxes		3 119	3 119	-
Deferred taxes		-	-	343
Other liabilities		55 743	314 393	122 361
Subordinated loan capital	9	740 843	350 000	350 000
Total liabilities		54 362 333	26 619 066	24 891 781
Share capital		792 000	685 000	685 000
Other reserves and retained earnings		1 341 521	320 970	382 677
Total equity		2 133 521	1 005 970	1 067 677
Total liabilities and equity		**56 495 854**	**27 625 036**	**25 959 458**

Statement of changes in equity

DnB NOR Boligkreditt AS

Amounts in NOK 1 000	Share capital	Share premium reserve	Other equity	Total other reserves and retained earnings	Total equity
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			49 814	49 814	
Net income for the period			49 814	49 814	49 814
Balance sheet as at 30 September 2006 (pro forma)	**650 000**	**-**	**48 974**	**48 974**	**698 974**
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			57 550	57 550	
Net income for the period			57 550	57 550	57 550
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
Balance sheet as at 30 September 2007	792 000	1 278 000	63 521	1 341 521	2 133 521

Cash flow statement

	DnB NOR Boligkreditt AS		
	January - September		Full year
Amounts in NOK 1 000	2007	2006	2006
OPERATIONS			
Net payments on loans to customers	(11 759 191)	(4 519 312)	(7 455 866)
Interest received from customers	1 491 236	406 485	431 679
Net payments on sales of financial assets for investment or trading	-	-	-
Net receipts on commissions and fees	191	95	139
Payments to operations	66 201	23 959	39 591
Taxes paid	-	-	-
Other receipts	-	-	-
Net cash flow relating to operations	**13 184 417**	**4 901 933**	**7 848 093**
INVESTMENT ACTIVITY			
Net payments on the acquisition of fixed assets	-	-	-
Net purchase of loan portfolio	44 347 624	15 701 467	15 701 467
Net cash flow relating to investment activity	**(44 347 624)**	**(15 701 467)**	**(15 701 467)**
FUNDING ACTIVITY			
Net receipts/payments on loans from credit institutions	34 959 403	9 393 413	(13 498 141)
Net receipts/payments on other short-term liabilities	(72 517)	886 318	(8 554)
Net issue of bonds and commercial paper	(8 124 904)	-	25 260 000
Issue of subordinated loan capital	380 000	350 000	350 000
Redemptions of subordinated loan capital	-	-	-
Repurchase of own shares/share issue	1 070 000	350 000	350 000
Dividend payments	-	-	-
Net interest payments on funding activity	1 458 345	149 322	151 337
Net cash flow from funding activity	**26 753 637**	**10 830 409**	**12 301 968**
Net cash flow	**(4 409 570)**	**30 875**	**4 448 594**
Cash as at 1 January	4 452 327	3 733	3 733
Net receipts/payments on cash	(4 409 570)	30 875	4 448 594
Cash at end of period	42 757	34 608	4 452 327

Key figures

		DnB NOR Boligkreditt AS				
		3rd quarter 2007	3rd quarter 2006 1)	January - September 2007	January - September 2006 1)	Full year 2006 1)
Rate of return/profitability						
1.	Return on equity, annualised (%)	8.5	8.1	4.6	8.5	7.4
Financial strength						
2.	Core (Tier 1) capital ratio at end of period (%)	7.7	7.7	7.7	7.7	7.9
3.	Capital adequacy ratio at end of period (%)	10.4	10.4	10.4	10.4	10.6
4.	Core capital at end of period (NOK million)	2 075 174	995 254	2 075 174	995 254	996 881
5.	Risk-weighted volume at end of period (NOK million)	27 066 225	12 953 011	27 066 225	12 953 011	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	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

BASIS FOR PREPARING THE ACCOUNTS

DnB NOR Boligkreditt AS has prepared accounts for the first quarter of 2007 in accordance with IFRS, including IAS 34 – Interim Financial Reporting. The company is included in the DnB NOR Group, which implemented IFRS in the consolidated accounts as of 1 January 2005. The DnB NOR Group's opening balance date was 1 January 2004.

DnB NOR Boligkreditt AS has prepared statutory accounts according to the Norwegian Ministry of Finance's regulations on annual accounts, Section 1-5, on the use of IFRS (International Financial Reporting Standards) hereinafter called the Norwegian IFRS regulations. These regulations give permission to record provisions for dividends and group contribution in subsidiaries as income and record the Board of Directors' proposed dividends and group contributions as liabilities on the balance sheet date. According to IFRS, dividends should be classified as equity until approved by the general meeting. The Norwegian IFRS regulations also imply that the company will use all other accounting principles resulting from IFRS in full.
Changes in IAS 23 – Borrowing Costs were issued by IASB in the first quarter of 2007. The effective date of these standards is 1 January 2009.

COMPARISON FIGURES

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

ACCOUNTING PRINCIPLES

The accounting principles applied by DnB NOR Boligkreditt according to IFRS are described below.

Conversion of transactions in foreign currency

Norwegian kroner serve as the reporting currency for the company. DnB NOR Boligkreditt AS has Norwegian kroner as its functional currency.

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

Recognition and derecognition of assets and liabilities

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

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

Financial instruments

Classification of financial instruments

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

- Financial assets held for trading (trading portfolio), carried at fair value through profit or loss.
- Financial assets designated at fair value with changes in value recognised in the income statement
- Loans and receivables, carried at amortised cost

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

- Financial liabilities designated as at fair value with changes in value recognised in the income statement
- Other financial liabilities carried at amortised cost

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

The company's portfolios of fixed-rate loans, bonds issued in Norwegian kroner and derivatives are managed together and valued at fair value.

Financial derivatives designated as hedging instruments

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

Loans and receivables, carried at amortised cost

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

Other financial liabilities carried at amortised cost

Other financial liabilities designated at fair value with changes recognised in profit or loss, are carried at amortised cost.

Measurement

Initial recognition of financial instruments

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

Subsequent measurement

Measurement at fair value

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

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

Instruments traded in an active market

Most of the company's financial derivatives, e.g. forward currency contracts, forward rate agreements (FRAs), interest rate options, currency options, interest rate swaps and interest rate futures, are traded in an active market.

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

Instruments not traded in an active market

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

Financial instruments in the company not traded in an active market mainly include the portfolios of fixed-rate loans and certain non-standardised derivative contracts.

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

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

Measurement at amortised cost

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

Impairments on financial assets

Individual write-downs

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

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

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

Group write-downs

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

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

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

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

Presentation in the balance sheet and income statement

Cash and deposits with central banks

Cash is defined as cash and deposits with banks and credit institutions with no agreed period of notice.

Lending

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

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

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

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

Financial derivatives

Financial derivatives are presented as assets if the value is positive and as liabilities if there is a negative value. Netting is undertaken if the company has a legally binding netting agreement with its counterparty and intends to make a net redemption or sell the asset and meet the obligation at the same time.

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

Loans and deposits from credit institutions

Liabilities to credit institutions are recorded as loans and deposits from credit institutions, regardless of measurement category.

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

Securities issued and subordinated loan capital

Securities issued and subordinated loan capital includes bond debt and subordinated loan capital, regardless of measurement category.

Interest expenses on instruments classified as securities issued and subordinated loan capital are included in "Net interest income" using the internal rate method.

Hedge accounting and risk management

The company's portfolios of fixed-rate loans and borrowings make it necessary to manage and hedge interest rate risk. To reflect this in the accounts the company designates financial assets and liabilities as assets of liabilities at fair value with changes in value recognised in the income statement.

Fixed-rate instruments issued in foreign currency are subject to fair value interest rate hedging on an individual basis. In such cases, there is a clear, direct and documented correlation between changes in the value of the currency loan (hedged item) and changes in the value of the financial derivative (hedging instrument).

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

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

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

Fixed assets

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

Impairment assessment

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

Taxes

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

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

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

Accrual accounting of interest and fees

Interest and commissions are included in the income statement when earned as income or incurred as expenses. Fees that represent direct payment for services rendered are recognised as income upon payment. Fees for the establishment of loan agreements are included in cash flows when calculating amortised cost and recorded under "Net interest income" using the internal rate method.

Recording of interest

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

Cash flow statements

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

Equity

Dividends and group contributions

DnB NOR Boligkreditt AS records distributed dividends and group contributions as liabilities in accordance with the Board of Directors' proposal on the balance sheet date.

Provisions for dividends and group contributions are not included in the capital adequacy calculations.

Note 2 – Transition to IFRS

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	3rd quarter
Amounts in NOK 1 000	2006	2006
Profit for the period NGAAP	**57 073**	**20 901**
IAS 39 - Extended use of fair value of financial instruments	6 810	397
Profit for the period IFRS	**63 883**	**21 298**

Note 3 – Net interest income

DnB NOR Boligkreditt AS

Amounts in NOK 1 000	3rd quarter 2007	3rd quarter 2006	January - September 2007	January - September 2006	Full year 2006
Interest on loans to and deposits with credit institutions	15 996	1 666	30 483	2 442	28 905
Interest on loans to customers	660 815	172 127	1 567 116	424 795	669 371
Interest on impaired commitments	-	-	-	-	-
Front-end fees etc.	2 062	-	2 182	-	-
Other interest income	4 258	1 567	11 850	4 283	6 958
Total interest income	**683 131**	**175 360**	**1 611 631**	**431 520**	**705 234**
Interest on loans and deposits from credit institutions	412 845	127 405	1 026 898	303 068	329 449
Interest on securities issued	196 660	0	411 873	-	197 926
Interest on subordinated loan capital	9 679	469	24 816	469	3 850
Other interest expenses	(8 987)	6 707	7 537	31 929	49 240
Total interest expenses	**610 197**	**134 581**	**1 471 124**	**335 466**	**580 465**
Net interest income	**72 934**	**40 779**	**140 507**	**96 054**	**124 769**

Note 4 – Net gains on financial instruments at fair value

DnB NOR Boligkreditt AS

Amounts in NOK 1 000	3rd quarter 2007	3rd quarter 2006	January - September 2007	January - September 2006	Full year 2006
Dividends	-	-	-	-	-
Net gains on foreign exchange and financial derivatives	5 862	1 700	213 688	47 600	(104 234)
Net gains on financial derivatives, hedging	36 784	-	36 784	-	-
Net gains on fixed rate loans	3 241	(1 149)	(28 493)	(45 211)	(68 067)
Net gains on financial guarantees	-	-	-	-	-
Net gains on commercial paper and bonds	14 550	-	(167 209)	-	181 759
Net gains on shareholdings	-	-	-	-	-
Net gains on other financial assets	-	-	-	-	-
Net gains on financial liabilities, hedged items	(37 084)	-	(37 084)	-	-
Net gains on financial liabilities, other	-	-	-	-	-
Net interest on interest rate positions	-	-	-	-	-
Net gains on financial instruments at fair value	**23 352**	**551**	**17 685**	**2 389**	**9 458**

Note 5 – Operating expenses

					DnB NOR Boligkreditt AS
	3rd quarter	3rd quarter	January- September		Full year
Amounts in NOK 1 000	2007	2006	2007	2006	2006
Ordinary salaries	1.570	-	3.054	-	115
Employer's national insurance contributions	233	-	436	-	-
Pension expenses	555	-	649	-	-
Social expenses	84	-	193	-	-
Total salaries and other personnel expenses	**2.442**	**0**	4.332	**0**	**115**
Fees	33.610	11.731	73.462	29.304	44.215
EDP expenses	-	-	1.857	-	-
Postage and telecommunications	4	-	7	-	-
Office supplies	8	-	10	-	-
Marketing and public relations	-	-	4	-	800
Travel expenses	218	-	241	-	-
Other operating expenses	133	48	203	48	459
Other expenses	**33.973**	**11.779**	**75.784**	**29.352**	**45.474**
Depreciation and impairment of fixed and intangible assets	**0**	**0**	**0**	**0**	**0**
Total operating expenses	**36.415**	**11.779**	**80.116**	**29.352**	**45.589**

Last five quarters					DnB NOR Boligkreditt AS
	3rd quarter	2nd quarter	1st quarter	4th quarter	3rd quarter
Amounts in NOK 1 000	2007	2007	2007	2006	2006
Ordinary salaries	1.570	1.162	425	115	-
Employer's national insurance contributions	233	203	-	-	-
Pension expenses	555	94	-	-	-
Social expenses	84	3	3	-	-
Total salaries and other personnel expenses	**2.442**	**1.462**	**428**	**115**	**0**
Fees	33.610	21.216	18.567	14.911	11.731
EDP expenses	0	823	-	-	-
Postage and telecommunications	4	0	1	-	-
Office supplies	8	2	-	-	-
Marketing and public relations	0	0	2	800	-
Travel expenses	218	21	2	-	-
Other operating expenses	133	1.163	14	411	48
Other expenses	**33.973**	**23.225**	**18.586**	**16.122**	**11.779**
Depreciation and impairment of fixed and intangible assets	**0**	**0**	**0**	**0**	**0**
Total operating expenses	**36.415**	**24.687**	**19.014**	**16.237**	**11.779**

Note 6 – Number of employees/full-time positions

					DnB NOR Boligkreditt AS
	3rd quarter	3rd quarter	January - September		Full year
	2007	2006	2007	2006	2006
Number of employees at end of period	9	4	9	4	4
Number of employees calculated on a full-time basis at end of period	9	2	9	2	2

Note 7 – Write-downs on loans and guarantees

	DnB NOR Boligkreditt AS				
	3rd quarter	3rd quarter	January - September		Full year
Amounts in NOK 1 000	2007	2006	2007	2006	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	-	-	-	-	-
Write-downs on loans and guarantees	**0**	**0**	**0**	**0**	**0**

The loan portfolio has been acquired from DnB NOR Bank ASA. It is the opinion of the Board of Directors that the quality of the loan portfolio is so sound that write-downs on groups of mortgages are not necessary.

Note 8 – Lending to customers

	DnB NOR Boligkreditt AS		
	30 Sep.	31 Dec.	30 Sep.
Amounts in NOK 1 000	2007	2006	2006
Lending to customers, nominal amount	53 587 649	21 334 605	24 165 285
Individual write-downs	-	-	-
Lending to customers, after individual write-downs	53 587 649	21 334 605	24 165 285
+ Accrued interest and amortisation	151 117	48 869	47 677
– Individual write-downs of accrued interest and amortisation	-	-	-
– Group write-downs	-	-	-
Lending to customers, at amortised cost	53 738 766	21 383 474	24 212 962
Lending to customers, nominal amount	1 899 347	1 563 958	1 669 832
+ Accrued interest	5 218	4 487	3 822
+ Adjustment to fair value	(28 890)	(232)	22 623
Lending to customers, classified at fair value	1 875 675	1 568 213	1 696 277
Lending to customers	**55 614 441**	**22 951 687**	**25 909 239**

Note 9 – Securities issued and subordinated loan capital

Covered bonds

						DnB NOR Boligkreditt AS		
Amounts in NOK 1 000						30 Sep.	31 Dec.	30 Sep.
ISIN Code	Nominal value	Valuta	Interest		Maturity	2007	2006	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 %	2014	5 000 000	-	-
XS0308736023	1 500 000	EUR	Fixed	4.625 %	2012	11 569 503	-	-
Adjustments						215 780	(181 759)	
Total securities issued						**16 785 283**	**24 512 624**	**0**

1) *Ordinary bonds*

Subordinated loan capital and perpetual subordinated loan capital securities

	DnB NOR Boligkreditt AS				
				Net change in	
	Balance sheet		Matured/	recorded costs	Balance sheet
	30 Sep.	Issued	redeemed	and adjustments	31 Dec.
Amounts in NOK 1 000	2007	2007	2007	2007	2006
Term subordinated loan capital, nominal amount	730 000	380 000	-		350 000
Adjustments	10 843			-	-
Total	**740 843**	**380 000**	**0**	**0**	**350 000**

Note 10 – Capital adequacy

Primary capital	DnB NOR Boligkreditt AS	
Amounts in NOK 1 000	30 Sep. 2007	31 Dec. 2006
Share capital	792 000	685 000
Other equity [1)]	1 283 971	315 000
Total equity	2 075 971	1 000 000
Deductions		
Deferred tax assets	(797)	(3 119)
Core capital	2 075 174	996 881
Perpetual subordinated loan capital	-	-
Term subordinated loan capital	730 000	350 000
Supplementary capital	730 000	350 000
Deductions	-	-
Total eligible primary capital	2 805 174	1 346 881

Minimum primary capital

Amounts in NOK 1 000	30 Sep. 2007
Credit risk, IRB [2)]	359 587
Of which:	
Retail commitments secured by residential property	359 587
Claims calculated according to Basel I, transitional rules [3)]	18 599
Total capital requirement, credit risk	378 186
Counterparty risk	-
Position risk	-
Settlement risk	-
Foreign exchange risk	-
Total capital requirement, market risk	0
Operational risk	32 643
Deductions	-
Total capital requirements	410 829
Addition due to transitional rules (max 5 per cent reduction in relation to Basel I) [4)]	1 754 469
Total capital requirements	2 165 298

Capital adequacy

	Reported	Basel II	Basel I	
	30 Sep. 2007 [4)]	30 Sep. 2007	30 Sep. 2007	31 Dec. 2006 [5)]
Risk-weighted volume (NOK 1 000)	27 066 225	4 043 675	28 490 761	12 663 969
Core capital ratio (%)	7.7	40.4	7.3	7.9
Capital ratio (%)	10.4	54.6	9.9	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 11 – Capital adequacy – Basel II implementation

Monitoring and managing risk is an integral part of financial operations. In DnB NOR, sound risk management is a strategic tool to enhance value generation. See note 18 in the DnB NOR Group's first quarter report for 2007 for a comprehensive description of Basel II.

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. The DnB NOR Group has been granted permission to use the foundation IRB, Internal Ratings Based, approach for credit risk to calculate the Group's capital adequacy as from 30 June 2007.

Use of the foundation 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. The company has been granted permission to use the foundation IRB approach for the portfolio of home mortgages for the 2007 accounting year.

Note 12 – Contingencies

DnB NOR Boligkreditt is party to no legal actions.

Note 13 – Profit and balance sheet trends

Income statement — **DnB NOR Boligkreditt AS**

Amounts in NOK 1 000	3rd quarter 2007	2nd quarter 2007	1st quarter 2007	4th quarter 2006	3rd quarter 2006
Total interest income	683 131	515 236	413 264	273 714	175 360
Total interest expenses	610 197	473 845	387 082	244 999	134 581
Net interest income	**72 934**	**41 391**	**26 182**	**28 715**	**40 779**
Commissions and fees receivable etc.	1 677	220	59	44	29
Commissions and fees payable etc.	13	21	67	51	-
Net gains on financial instruments at fair value	23 352	1 002	(6 669)	7 069	551
Other income	-	-	-	-	-
Net other operating income	**25 016**	**1 201**	**(6 677)**	**7 062**	**580**
Total income	**97 950**	**42 592**	**19 505**	**35 777**	**41 359**
Salaries and other ordinary personnel expenses	2 442	1 462	428	115	-
Other expenses	33 973	23 225	18 586	16 122	11 779
Depreciation and impairment of fixed and intangible assets	-	-	-	-	-
Total operating expenses	**36 415**	**24 687**	**19 014**	**16 237**	**11 779**
Net gains on fixed and intangible assets	-	-	-	-	-
Write-downs on loans and guarantees	-	-	-	-	-
Pre-tax operating profit	**61 535**	**17 905**	**491**	**19 540**	**29 580**
Taxes	17 230	5 013	137	5 471	8 282
Profit for the period	**44 305**	**12 892**	**354**	**14 069**	**21 298**
Earnings per share (NOK)	7.77	2.35	0.05	2.05	3.11
Diluted earnings per share (NOK)	7.77	2.35	0.05	2.05	3.11

Balance sheets — **DnB NOR Boligkreditt AS**

Amounts in NOK 1 000	30 Sep. 2007	30 June 2007	31 March 2007	31 Dec. 2006	30 Sep. 2006
Assets					
Cash and deposits with central banks	-	-	-	-	-
Lending to and deposits with credit institutions	65 831	86 767	475 832	4 452 327	34 608
Lending to customers	55 614 441	49 807 904	43 727 601	22 951 687	25 909 239
Financial derivatives	804 590	34 600	8 300	214 567	13 169
Deferred tax assets	797	797	797	797	-
Other assets	10 195	-	3 689	5 658	2 442
Total assets	**56 495 854**	**49 930 068**	**44 216 219**	**27 625 036**	**25 959 458**
Liabilities and equity					
Loans and deposits from credit institutions	35 712 330	47 077 096	41 914 216	500 000	24 391 554
Financial derivatives	1 065 015	-	-	938 930	27 523
Securities issued	16 785 283	-	-	24 512 624	-
Payable taxes	3 119	3 119	3 119	3 119	-
Deferred taxes	-	-	-	-	343
Other liabilities	55 743	29 473	85 637	314 393	122 361
Subordinated loan capital	740 843	731 164	736 922	350 000	350 000
Total liabilities	**54 362 333**	**47 840 852**	**42 739 894**	**26 619 066**	**24 891 781**
Share capital	792 000	792 000	732 000	685 000	685 000
Other reserves and retained earnings	1 341 521	1 297 216	744 325	320 970	382 677
Total equity	**2 133 521**	**2 089 216**	**1 476 325**	**1 005 970**	**1 067 677**
Total liabilities and equity	**56 495 854**	**49 930 068**	**44 216 219**	**27 625 036**	**25 959 458**

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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 www.dnbnor.com

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