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DNB  
BOLIGKREDITT AS

– a company in the DNB Group

Second quarter and  
first half report 2014  
(Unaudited)

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# Key figures

## DNB Boligkreditt AS

<b>Statement of comprehensive income</b>	2nd quarter	2nd quarter	1st half	1st half	Full year
<i>Amounts in NOK million</i>	2014	2013	2014	2013	2013
Net interest income	1 922	1 714	3 932	3 171	7 169
Net other operating income	(152)	(303)	(705)	(355)	(631)
- net gains (losses) on financial instruments at fair value	(162)	(324)	(726)	(394)	(697)
Operating expenses	1 373	1 328	2 891	2 399	5 620
Impairments on loans and commitments	6	3	12	(4)	16
Pre tax operating profit	391	80	325	420	901
Taxes	106	22	88	118	51
<b>Profit for the period</b>	<b>285</b>	<b>57</b>	<b>237</b>	<b>303</b>	<b>850</b>

<b>Balance sheet</b>	30 June	31 Dec.	30 June
<i>Amounts in NOK million</i>	2014	2013	2013
Total assets	601 126	578 420	555 211
Loans to customers	542 820	532 284	528 297
Debt securities issued	414 628	420 451	417 836
Total equity	28 902	25 166	22 614

<b>Key figures</b>	2nd quarter	2nd quarter	1st half	1st half	Full year
<i>Per cent</i>	2014	2013	2014	2013	2013
Combined weighted total average spread for loans <sup>1)</sup>	1.29	1.13	1.37	1.02	1.21
Return on equity, annualised <sup>2)</sup>	1.1	1.0	0.9	2.7	3.6
Tier 1 capital ratio at end of period <sup>3)</sup>	12.5	10.2	12.5	10.2	11.2
Capital ratio at end of period <sup>3)</sup>	14.4	11.0	14.4	11.0	13.3
Impairments relative to net loans to customers, annualised	0.00	0.00	0.00	0.00	0.00
Net non-performing and impaired loans, per cent of net loans	0.15	0.12	0.15	0.12	0.14

1) Based on nominal values excluding impaired loans, measured against actual funding cost.

2) Due to changes in principles, some comparative figures have been restated. See further details in note 1 Accounting principles in the Annual Report 2013.

3) Average equity is calculated on the basis of book value of equity.

# Second quarter and first half report 2014

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# 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. On 17 January 2014, Fitch Ratings affirmed and withdrew the A+ rating of both DNB Bank and its special purpose entity DNB Boligkreditt at the issuer's request. In addition, the rating on DNB Boligkreditt's covered bond programmes was affirmed at AAA and subsequently withdrawn. DNB Boligkreditt's covered bond programmes continue to be rated AAA by Moody's and Standard & Poor's.

## Financial accounts

DNB Boligkreditt recorded a profit of NOK 285 million in the second quarter of 2014, compared with a profit of NOK 57 million in the second quarter of 2013. The profit for the first half of 2014 was NOK 237 million, compared with a profit of NOK 303 million in the first half of 2013.

### Total income

Income totalled NOK 1 770 million in the second quarter of 2014, up from NOK 1 411 million in the year-earlier period.

<i>Amounts in NOK million</i>	2nd quarter 2014	Change	2nd quarter 2013
Total income	1 770	359	1 411
Net interest income		208	
Net commission and fee income		(9)	
Net gains (losses) on financial instruments at fair value		162	
Net other income		(2)	

The improvement in net interest income was mainly due to wider interest rate spreads.

The recorded losses on financial instruments reflect the effects of unrealised changes in the market value of covered bonds, derivatives and loans recorded 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.

<i>Amounts in NOK million</i>	1st half 2014	Change	1st half 2013
Total income	3 227	411	2 816
Net interest income		761	
Net commission and fee income		(15)	
Net gains (losses) on financial instruments at fair value		(332)	
Net other income		(3)	

Interest rate spreads increased from the first half of 2013 to the first half of 2014.

The negative effects of financial instruments were mainly due to a reduction in the market value of basis swaps. The effect was also negative in 2012 and 2013, though it was less negative in 2013.

### 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 1 365 million in the second quarter of 2014, up from NOK 1 315 million in the second quarter of the year before. The management fee for the first half of 2014 was NOK 2 875 million.

The company has generally recorded low impairment losses on loans. In the second quarter of 2014, impairment losses amounted to NOK 5.8 million. Impairment losses for the first half of 2014 came to NOK 11.7 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-June 2014, DNB Boligkreditt had total assets of NOK 601.1 billion under management, an increase of NOK 45.9 billion or 8.3 per cent from end-June 2013.

<i>Amounts in NOK million</i>	30 June 2014	Change	30 June 2013
Total assets	601 125	45 914	555 211
Loans to customers		14 523	
Financial derivatives		27 850	
Other assets		3 541	
Total liabilities	572 223	39 626	532 597
Due to credit institutions		30 672	
Financial derivatives		4 727	
Debt securities issued		(3 207)	
Subordinated loan capital		2 801	
Other liabilities		4 635	

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 decreased by a net NOK 3.2 billion from end-June 2013. The company has issued covered bonds under existing programmes totalling NOK 23.3 billion in 2014. Total debt securities issued amounted to NOK 414.6 billion as at 30 June 2014.

### 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.

As at 30 June 2014, the company's equity totalled NOK 28.9 billion, of which NOK 28.4 billion represented Tier 1 capital. Total

primary capital in the company was NOK 32.9 billion. The Tier 1 capital ratio was 12.5 per cent, while the capital adequacy ratio was 14.4 per cent.

### New regulatory framework

The EU's new capital adequacy regulations, CRR and CRD IV, entered into force on 1 January 2014. The regulations are based on the Basel Committee's recommendations on new and stricter capital and liquidity standards, Basel III. Norway has chosen to introduce the capital requirements earlier than on the implementation date specified in the international regulations. The new legislation became effective as of 1 July 2013 and requires a common equity Tier 1 capital ratio of minimum 9 per cent and a capital adequacy ratio of 12.5 per cent. The common equity Tier 1 capital requirement will be increased to 10.0 per cent as of 1 July 2014, while the capital adequacy requirement will be increased to 13.5 per cent.

Requirements have also been introduced for a special buffer for systemically important institutions (SIFI) of 2.0 per cent common equity Tier 1 capital, as well as a counter-cyclical capital buffer of maximum 2.5 per cent. On 12 June 2014, the Ministry of Finance concluded that the SIFI buffer will apply also to DNB Boligkreditt, with effect from 1 July 2015.

With effect from 1 January 2014, the Ministry of Finance introduced stricter requirements for the models used to estimate the weighting of bank's residential mortgages in capital adequacy calculations. For systemic reasons, the Norwegian authorities have increased the requirement for capital calculated according to internal models. The minimum requirement for the model parameter "loss given default", LGD, has thus been increased from 10 to 20 per cent in the capital adequacy regulations. On 1 June 2014, the Norwegian authorities announced a further increase in residential mortgage risk weights by adjusting the bank's "probability of default", PD, estimate. The models must be adapted to the new requirements by the end of 2014.

However, prevailing rules relating to the so-called Basel I floor will be retained until 2017. For DNB Boligkreditt, the Basel I floor will still represent the actual limit for risk-weighted assets, resulting in an actual risk weight of as much as 40 per cent on home mortgages. DNB Boligkreditt's average risk weight on residential mortgages is approximately 12 per cent according to Basel II. In order to meet the new requirements by 1 July 2014, DNB Boligkreditt was recapitalised in the second quarter of 2014.

### Macroeconomic developments

The positive trend in international economy through 2013 continued

in the first six months of 2014. The level of activity increased in practically all eurozone countries, though high unemployment and the need to reduce debt levels in both the private and public sector could curb further growth. In the US, growth also picked up parallel to a positive trend in the labour market and healthy growth in consumer demand. In China, growth slowed at the start of 2014, mainly due to a sluggish property investment activity. Over the coming years, increased credit supply, a less restrictive fiscal policy and a continued expansionary monetary policy will probably result in higher growth in most industrialised countries.

In Norway, there has been a moderate decline in economic activity over the past year and a half. However, household consumption showed a positive trend during the January through June period of 2014 and companies in Norges Bank's regional network have reported increasing production growth in traditional manufacturing industries and industries supplying goods and services to the household sector.

The recent rise in housing prices in Norway, along with continued income growth in the household sector and low real interest rates, will probably result in a renewed increase in housing investments.

The market remained attractive for covered bond issuers with strong credit ratings in the first half of 2014. Lower returns in other asset classes seemed to have a positive impact on the demand for covered bonds from highly rated issuers, especially covered bond issues with a long term to maturity. However, the volume of covered bonds issued in the first half of 2014 was low compared to 2013.

### Future prospects

According to current economic forecasts, a recovery is expected in international economy. In Norway, there are also indications of an economic upturn, and housing prices are expected to be stable.

Interest rate spreads are also expected to be stable in 2014, while lending volumes are expected to increase at an annual rate of 3 to 4 per cent, with slightly higher growth in lending to personal customers and small and medium-sized enterprises and more subdued lending growth in the large corporate segments. Furthermore, credit quality is expected to improve, while losses are expected to be below the normalised level in 2014. The company will build Tier 1 capital in accordance with the authorities' requirements.

Covered bonds have gained a leading position as a funding vehicle for Norwegian banks. Norwegian covered bonds still seem to be regarded as attractive investments with relatively low credit and market risk. This provides a further sound basis for DNB Boligkreditt's funding activities. The volume of covered bond issues in 2014 is expected to be lower than in 2013.

Oslo, 9 July 2014

The Board of Directors of DNB Boligkreditt AS

Bjørn Erik Næss  
(chairman)

Eva-Lill Strandskogen

Reidar Bolme

Elisabeth Ege

Jørn E. Pedersen

Øyvind Birkeland  
(chief executive officer)

# Statement pursuant to Section 5-6 of the Securities Trading Act

We hereby confirm that the half-yearly financial statements for the company for the period 1 January through 30 June 2014 to the best of our knowledge have been prepared in accordance with IAS 34 Interim Financial Reporting, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole.

To the best of our knowledge, the half-yearly report gives a true and fair:

- overview of important events that occurred during the accounting period and their impact on the half-yearly financial statements
- description of the principal risks and uncertainties facing the company over the next accounting period
- description of major transactions with related parties.

Oslo, 9 July 2014  
The Board of Directors of DNB Boligkreditt AS

Bjørn Erik Næss  
(chairman)

Eva-Lill Strandskogen

Reidar Bolme

Elisabeth Ege

Jørn E. Pedersen

Øyvind Birkeland  
(chief executive officer)

# Statement of comprehensive income

DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	Note	2nd quarter 2014	2nd quarter 2013	1st half 2014	1st half 2013	Full year 2013
Total interest income	7	5 197 994	5 117 951	10 341 817	9 938 101	20 475 799
Total interest expenses	7	3 276 052	3 403 727	6 409 570	6 767 490	13 307 101
<b>Net interest income</b>	<b>7</b>	<b>1 921 942</b>	<b>1 714 224</b>	<b>3 932 247</b>	<b>3 170 612</b>	<b>7 168 699</b>
Commission and fee income		9 712	18 813	20 009	34 693	61 843
Commission and fee expenses		434	525	916	1 004	2 014
Net gains (losses) on financial instruments at fair value	8	(162 194)	(323 877)	(726 112)	(393 881)	(697 112)
Other income		749	2 514	2 157	5 290	6 735
<b>Net other operating income</b>		<b>(152 167)</b>	<b>(303 075)</b>	<b>(704 862)</b>	<b>(354 901)</b>	<b>(630 548)</b>
<b>Total income</b>		<b>1 769 775</b>	<b>1 411 150</b>	<b>3 227 385</b>	<b>2 815 710</b>	<b>6 538 150</b>
Salaries and other personnel expenses	9	3 690	7 437	9 620	17 591	24 124
Other expenses	9, 15	1 369 229	1 320 809	2 881 498	2 381 505	5 596 364
<b>Total operating expenses</b>	<b>9</b>	<b>1 372 918</b>	<b>1 328 246</b>	<b>2 891 118</b>	<b>2 399 095</b>	<b>5 620 488</b>
Impairments on loans and commitments	10	5 849	3 269	11 746	(3 857)	16 260
<b>Pre-tax operating profit</b>		<b>391 008</b>	<b>79 634</b>	<b>324 520</b>	<b>420 471</b>	<b>901 402</b>
Taxes		105 572	22 163	87 620	117 789	51 068
<b>Profit for the period</b>		<b>285 436</b>	<b>57 471</b>	<b>236 899</b>	<b>302 682</b>	<b>850 334</b>
Other comprehensive income		-	-	-	-	3 509
<b>Total comprehensive income for the period</b>		<b>285 436</b>	<b>57 471</b>	<b>236 899</b>	<b>302 682</b>	<b>853 843</b>

# Balance sheet

## DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	Note	30 June 2014	31 Dec. 2013	30 June 2013
<b>Assets</b>				
Due from credit institutions	14,15	4 633 095	347 081	1 079 534
Loans to customers	10,13,14	542 819 869	532 284 013	528 296 500
Financial derivatives	13,15	53 671 921	45 786 413	25 822 278
Other assets		761	2 199	12 907
<b>Total assets</b>		<b>601 125 646</b>	<b>578 419 706</b>	<b>555 211 219</b>
<b>Liabilities and equity</b>				
Due to credit institutions	14,15	135 149 516	115 105 033	104 476 837
Financial derivatives	13,15	11 543 131	11 987 418	6 816 367
Debt securities issued	11,13,14	414 627 886	420 451 451	417 835 927
Payable taxes		108	108	321 478
Deferred taxes		5 535 512	211 892	159 460
Other liabilities		486 886	612 370	890 490
Provisions		19 876	25 500	38 428
Subordinated loan capital	12,14	4 860 279	4 860 381	2 057 842
<b>Total liabilities</b>		<b>572 223 194</b>	<b>553 254 154</b>	<b>532 596 830</b>
Share capital		3 077 000	2 727 000	2 527 000
Share premium		21 843 000	18 693 000	16 893 000
Other equity		3 982 452	3 745 552	3 194 389
<b>Total equity</b>		<b>28 902 452</b>	<b>25 165 552</b>	<b>22 614 389</b>
<b>Total liabilities and equity</b>		<b>601 125 646</b>	<b>578 419 706</b>	<b>555 211 219</b>



# Statement of changes in equity

DNB Boligkreditt AS

<i>Amounts in NOK 1000</i>	Share capital	Share premium	Actuarial profit and loss	Other equity	Total equity
<b>Balance sheet as at 31 December 2012</b>	<b>2 527 000</b>	<b>16 893 000</b>	<b>0</b>	<b>2 888 559</b>	<b>22 308 560</b>
Implementation of the amended IAS 19 - Employee Benefits <sup>1)</sup>	-	-	3 147	-	3 147
<b>Balance sheet as at 1 January 2013, restated</b>	<b>2 527 000</b>	<b>16 893 000</b>	<b>3 147</b>	<b>2 888 559</b>	<b>22 311 707</b>
Profit for the period	-	-	-	302 682	302 682
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>302 682</b>	<b>302 682</b>
<b>Balance sheet as at 30 June 2013</b>	<b>2 527 000</b>	<b>16 893 000</b>	<b>3 147</b>	<b>3 191 242</b>	<b>22 614 389</b>
<b>Balance sheet as at 31 December 2013</b>	<b>2 727 000</b>	<b>18 693 000</b>	<b>6 656</b>	<b>3 738 894</b>	<b>25 165 552</b>
Profit for the period	-	-	-	236 899	236 899
Other comprehensive income	-	-	-	-	-
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>0</b>	<b>236 899</b>	<b>236 899</b>
Share issue 30 May 2014	350 000	3 150 000	-	-	3 500 000
<b>Balance sheet as at 30 June 2014</b>	<b>3 077 000</b>	<b>21 843 000</b>	<b>6 656</b>	<b>3 975 793</b>	<b>28 902 452</b>

1) Changes in accounting principles due to changes in IAS 19, ref. note 1 Accounting principles in the Annual Report 2013.

## Share capital

All shares and voting rights of the company are held by DNB Bank ASA. Share capital at the beginning of 2014 was NOK 2 727 million (27 270 000 shares at NOK 100).

In May 2014 3 500 000 shares were issued to DNB Bank ASA. Issue price per share was NOK 1 000. After the issuance, share capital was increased by NOK 350 million to NOK 3 077 million (30 770 000 shares) and share premium was increased by NOK 3 150 million to NOK 21 843 million.

# Statement of cash flows

DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	2nd quarter 2014	Full year 2013	2nd quarter 2013
<b>Operating activities</b>			
Net receipts/payments on loans to customers	(1 413 069)	5 355 932	(304 268)
Interest received from customers	10 413 902	20 396 081	9 793 520
Net receipts/payments on loans to/from credit institutions	19 257 783	(4 049 426)	(15 264 735)
Interest received from credit institutions	10 659	37 732	26 616
Interest paid to credit institutions	(1 523 865)	(2 931 117)	(1 582 595)
Net receipts/payments on the sale of financial assets for investment or trading	(117 028)	(19 265)	35 853
Net receipts on commissions and fees	19 093	59 828	33 689
Payments for operating expenses	(3 018 633)	(5 370 883)	(1 874 106)
Taxes receipt/paid	0	(282 830)	(80 615)
<b>Net cash flow relating to operating activities</b>	<b>23 628 841</b>	<b>13 196 051</b>	<b>(9 216 642)</b>
<b>Investing activities</b>			
Net purchase of loan portfolio	(8 330 584)	(18 104 918)	(8 415 888)
<b>Net cash flow relating to investment activities</b>	<b>(8 330 584)</b>	<b>(18 104 918)</b>	<b>(8 415 888)</b>
<b>Financing activities</b>			
Receipts on issued bonds and commercial paper	23 313 400	57 201 508	39 543 083
Payments on redeemed bonds and commercial paper	(39 096 820)	(46 842 563)	(16 875 600)
Interest payments on issued bonds and commercial paper	(4 658 641)	(11 935 490)	(6 621 472)
Receipts on the raising of subordinated loan capital	0	2 800 000	0
Interest payments on subordinated loan capital	(92 882)	(92 468)	(46 021)
Share issue	3500000	2 000 000	0
Group contribution paid	5 236 000	-	-
<b>Net cash flow from financing activities</b>	<b>(11 798 943)</b>	<b>3 130 987</b>	<b>15 999 991</b>
<b>Net cash flow</b>	<b>3 499 314</b>	<b>(1 777 880)</b>	<b>(1 632 539)</b>
Cash at beginning of period	59 689	1 837 569	1 837 569
Net receipts/payments of cash	3 499 314	(1 777 880)	(1 632 539)
Cash at end of period	3 559 004	59 689	205 031

As of 1 January 2013 due from credit institutions, previously presented as cash, is presented as part of net receipts/payments on loans from credit institutions in the net cash flow from financing activities.

During the fourth quarter of 2013, certain items in the cash flow statement were reclassified. Among other things, net receipts/ payments on loans to credit institutions and appurtenant interest were included in operating activities with effect from the fourth quarter of 2013. Prior to this, these items were included under financing activities. Comparable figures for previous periods have been restated.

The statement of cash flows has been prepared in accordance with the direct method and shows receipts and payments of cash and cash equivalents during the year. Cash and cash equivalents is defined as cash and deposits with central banks and deposits with credit institutions with no agreed period of notice. Included in the cash balances at end of period, is restricted amounts of NOK 418 882 (NOK 540 190 for 2013) related to withholding employee taxes.

## **Note 1      Accounting principles**

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The financial statements for the first half and second quarter of 2014 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the company's annual financial statements as at 31 December 2013.

The company's accounting principles and methods of estimates are consistent with those applied in the preparation of the annual financial statements for 2013. As from 1 January 2014, hedge accounting for long-term borrowings in foreign currency only takes into account interest rate risk.

The accounts for the first half and second quarter were approved by the Board of Directors on 9<sup>th</sup> July 2014.

### **Operating segments**

The company has operations within one operating segment only according to IFRS 8 *Operating segments*. The segment gave a positive return of NOK 0.24 billion for the first half of 2014. The company uses the information in the statement of comprehensive income and balance sheet also in its internal reporting.

## **Note 2      Significant accounting judgements, estimates and assumptions**

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The preparation of financial information in conformity with IFRS requires the use of estimates and assumptions about future conditions that affect reported income, expenses, assets and liabilities. Use of available information and applications of judgement are inherent in the information estimates. Actual results in the future may differ from such estimates, and the differences may be material to the financial statements. A more detailed description of important estimates and assumptions is presented in the annual report for 2013 in note 1 *Significant accounting judgements, estimates and assumptions*.

## Note 3 Capital adequacy

Primary capital	DNB Boligkreditt AS	
	30 June 2014	31 Dec. 2013
<i>Amounts in NOK 1 000</i>		
Share capital	3 077 000	2 727 000
Other equity	25 581 894	22 438 552
Total equity	28 658 894	25 165 552
Deductions		
50 per cent expected losses, IRB-portfolios	(389 909)	(159 350)
Adjustments for unrealised losses/(gains) on liabilities recorded at fair value	156 976	(73 565)
Allocated group contributions for payment	-	-
Tier 1 capital	28 425 961	24 932 637
Term subordinated loan capital	4 850 000	4 850 000
Deductions		
Remaining maturity of less than 5 years	-	-
50 per cent expected losses, IRB-portfolios	(389 909)	(159 350)
Tier 2 capital	4 460 091	4 690 650
Total eligible primary capital	32 886 051	29 623 287
Risk-weighted volume, transitional rules	228 014 214	222 032 203
Minimum capital requirement	18 241 137	17 762 576
Tier 1 capital ratio, transitional rules (%)	12.5	11.2
Capital ratio, transitional rules (%)	14.4	13.3

DNB Boligkreditt AS complies to the Basel II regulations.

Due to transitional rules, the minimum capital requirement for the second quarter of 2014 cannot be reduced below 80 per cent in relation to the requirements according to Basel I rules. Capital adequacy for the second quarter is reported according to the transitional rules.

The schedule below shows capital adequacy according to Basel II without regard to the rules of transition.

	DNB Boligkreditt AS	
	30 June 2014	31 Dec. 2013
<i>Amounts in NOK 1 000</i>		
Risk-weighted volume, Basel II	123 194 476	76 248 020
Minimum capital requirement, Basel II	9 855 558	6 099 842
Tier 1 capital ratio (%)	23.1	32.7
Capital ratio (%)	26.7	38.9

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

	DNB Boligkreditt AS			
	Exposure 30 June 2014	EAD 30 June 2014	Risk-weighted volume 30 June 2014	Capital requirements 30 June 2014
<i>Amounts in NOK 1 000</i>				
IRB approach				
Corporate	6 316 894	6 316 894	3 616 968	289 357
Retail - residential property	550 470 073	550 470 073	91 355 593	7 308 447
Total credit-risk, IRB approach	556 786 967	556 786 967	94 972 561	7 597 805
Standardised approach				
Institutions	58 305 016	58 305 016	11 661 003	932 880
Corporate	16 152 906	16 152 906	5 685 735	454 859
Retail - residential property	12 163 799	12 163 799	4 345 832	347 667
Total credit-risk, standardised approach	86 621 721	86 621 721	21 692 571	1 735 406
Total credit-risk	643 408 688	643 408 688	116 665 132	9 333 211
Other assets			713	57
Market-risk, standardised approach			-	-
Operational risk			6 528 628	522 290
Deductions			-	-
Total risk-weighted volume and capital requirements before transitional rule			123 194 472	9 855 558
Additional capital requirements according to transitional rules				8 385 579
Capital requirements				18 241 137

## **Note 4      Credit risk**

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Credit risk is the risk that the company will incur a loss because its customers or counterparties fail to meet their contractual obligations. Credit risk arises from loans and loan commitments as well as from derivatives. The maximum exposure to credit risk, according to IFRS, is the gross carrying amount of the assets, net of any amounts offset in accordance with the standards and net of any recognised impairment losses. In addition, certain off-balance sheet items such as loan commitments represent credit risk. The maximum exposure of loan commitments is the irrevocable amount that may be drawn upon in the future.

DNB Boligkreditt has adopted the credit risk policies as set by the DNB Group. The group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, and by monitoring exposures in relation to such limits. Collateral are taken to manage credit risk in the loan portfolios. According to the "Agreement relating to transfer of loan portfolio between DNB Bank ASA and DNB Boligkreditt AS", the day to day monitoring of the loans are managed by DNB Bank on behalf of DNB Boligkreditt.

DNB's risk classification system is divided into ten risk classes where 1 represents the lowest and 10 the highest risk. The classification system is based on the probability of default (PD) which is an estimate of the likelihood of a counterparty defaulting on its contractual obligations.

DNB Boligkreditt's majority of credit risk is related to loans to customers with collateral security in residential property, holiday homes and housing associations. DNB Boligkreditt acquires the loans from DNB Bank. The loans are originally granted to customers by DNB Bank, based on the group's policies and limits. At the time of transfer of loan portfolios from DNB Bank to DNB Boligkreditt, only loans that qualify as collateral for the issue of covered bonds according to the Financial Institutions Act, are accepted by the company. For all these loans, a mortgage over the property is taken and the value of the total loan balance per property should not exceed 75 per cent of the total value of the property. The collateral value is monitored on an ongoing basis.

Credit risk also arises from derivative financial instruments. The maximum credit risk related to derivatives is limited to those with a positive fair value in the balance sheet. All derivative contracts, both those with a current positive value and current negative value, are entered into with DNB Bank as counterparty.

## **Note 5      Market risk**

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Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

Market risk arises as a consequence of open positions in interest rates and foreign exchange rates. Changes in these rates may affect both the company's total comprehensive income for the period as well as values in the balance sheet.

### **Currency risk**

Currency risk may arise from DNB Boligkreditt's debt securities that are denominated in foreign currencies. DNB Boligkreditt has minimized this currency risk through currency swap agreements with DNB Bank. All issued debt is swapped to NOK.

In accordance with the bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

### **Interest rate risk**

The company is exposed to interest rate risk through its ordinary operations. The company's strategy is to swap all interest risk exposure to short-term interest. The Board of Directors sets interest risk limits for various fixed-rate periods. The positions are monitored on a daily basis, and monthly exposure reports are prepared for the management and for The Board of Directors.

### **Basis risk and basis swap spreads**

The company enters into basis swaps to manage foreign currency risk due to long-term borrowings in foreign currency.

The basis swaps are recorded at fair value. There may be significant variations in the value of the basis swaps from day-to-day due to increases or reductions in the spreads, which causes unrealized gains and losses in the income statement. Gains and losses from such instruments tend to vary considerably from quarter to quarter and will typically be reversed in subsequent periods due to stabilizing markets or because the maturity dates of the instruments are approaching.

## Note 6 Liquidity risk

Liquidity risk is defined as the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the company might be unable to meet its payment obligations when they fall due.

The Board of Directors sets annual limits for the company's liquidity risk, which means preparing liquidity risk limits, contingency plans, organisational aspects and responsibilities, forecasts, stress tests, routines for monitoring limit utilisation and compliance with guidelines, management reporting and independent monitoring of management and control systems.

Covered bonds are the company's primary source of funding. According to Section 2-32 of the Financial Institutions Act: *"the mortgage institution shall ensure that payment flows from the cover assets at all times enable the mortgage institution to meet its payment obligations to the owners of bonds with preferential rights and counterparties in derivative agreements"*. The company's Board of Directors has decided that the company shall, at all times, have positive cash flows within the next 12 months. In a situation where the net cash flow from the lending and funding activities is negative, the company has a long-term overdraft facility in DNB ASA with a total limit of NOK 160 billion.

According to Section 6 in the regulations on sound liquidity management, "the institution shall analyze the liquidity situation by means of stress tests, which must be adapted to the scope, complexity and risk of operations. Experience from the stress tests shall be used when the Board of Directors considers the liquidity strategy and approves liquidity risk limits". As part of its liquidity risk management, the company prepares liquidity stress tests with quarterly reporting to the Board of Directors. Important parameters in the stress tests are developments in non-performing volume and reductions in housing prices.

DNB Boligkreditt liquidity situation at the end of first half 2014 can be characterised as sound.

## Note 7 Net interest income

	DNB Boligkreditt AS				
	2nd quarter	2nd quarter	1st half	1st half	Full year
<i>Amounts in NOK 1 000</i>	2014	2013	2014	2013	2013
Interest on amounts due from credit institutions	9 593	10 695	10 659	26 616	37 732
Interest on loans to customers	5 134 721	5 055 980	10 223 986	9 809 048	20 230 435
Front-end fees etc.	118	468	389	2 712	3 641
Other interest income	53 563	50 807	106 782	99 725	203 991
<b>Total interest income</b>	<b>5 197 994</b>	<b>5 117 951</b>	<b>10 341 817</b>	<b>9 938 101</b>	<b>20 475 799</b>
Interest on amounts due to credit institutions	568 889	470 298	1 036 008	1 025 220	1 893 187
Interest on debt securities issued	2 524 773	2 583 453	5 112 555	5 050 722	10 404 585
Interest on subordinated loan capital	47 086	22 585	92 780	45 550	94 536
Net interest income/expenses, derivatives	135 304	327 392	168 227	645 997	914 793
<b>Total interest expenses</b>	<b>3 276 052</b>	<b>3 403 727</b>	<b>6 409 570</b>	<b>6 767 490</b>	<b>13 307 101</b>
<b>Net interest income</b>	<b>1 921 942</b>	<b>1 714 224</b>	<b>3 932 247</b>	<b>3 170 612</b>	<b>7 168 699</b>

## Note 8 Net gains on financial instruments

### DNB Boligkreditt AS

	2nd quarter 2014	2nd quarter 2013	1st half 2014	1st half 2013	Full year 2013
<i>Amounts in NOK 1 000</i>					
Net gains on loans at fair value (fixed-rate loans) <sup>1)</sup>	444 582	(11 200)	886 693	92 116	146 895
Net gains on financial liabilities (long-term borrowing in NOK) <sup>2)</sup>	(547 807)	(34 096)	(893 295)	(43 584)	190 299
Total gains on financial instruments, designated as at fair value	(103 225)	(45 295)	<b>(6 602)</b>	48 532	337 194
Net gains on foreign exchange and financial derivatives, trading <sup>3)</sup>	(12 669)	(278 582)	(809 132)	(442 413)	(1 034 306)
Net gains on financial derivatives, hedging <sup>4)</sup>	3 823 604	6 162 380	8 423 581	4 955 164	27 611 659
Net gains on financial liabilities, hedged items <sup>4)</sup>	(3 869 904)	(6 162 380)	(8 333 959)	(4 955 164)	(27 611 659)
<b>Net gains (losses) on financial instruments at fair value</b>	<b>(162 193)</b>	<b>(323 877)</b>	<b>(726 112)</b>	<b>(393 881)</b>	<b>(697 112)</b>

- 1) DNB Boligkreditt's fixed-rate loans are measured at fair value. Increased interest rates, including credit margins, will reduce the fair value of already originated loans. However, new loans granted with a higher interest rate, including credit margin, will over time lead to increased interest income. The fair value adjustments of the company's fixed-rate loans are reversed over the loans' remaining term to maturity.
- 2) DNB Boligkreditt's long-term borrowing in Norwegian kroner is carried at fair value. The market value of such funding is impacted by the interest rate, including own credit risk premium. Reduced interest rates, including own credit risk premium, will increase the fair value of already issued Norwegian kroner liabilities. However, new funding issued at lower credit risk premiums will over time lead to decreased interest expenses. The fair value adjustments of the company's Norwegian kroner debt are reversed over the loans' remaining term to maturity. There was a NOK 305.0 million increase in market values in the second quarter of 2014 (negative effect on profits) due to such credit risk premium effects, compared with a NOK 199.9 million increase in market values in the second quarter of 2013 (negative effect on profits). Accumulated negative mark-to-market effects by the end of the second quarter of 2014 were NOK 804.3 million, compared with a negative NOK 188.2 million by the end of the second quarter of 2013.
- 3) DNB Boligkreditt enters into swaps to manage interest-rate risk for the fixed-rate loans and bonds issued in Norwegian kroner. Such derivatives are recorded at fair value. Additionally, the company enters into basis swaps to manage foreign currency risk from DNB Boligkreditt's long-term borrowing in foreign currencies. The swaps are entered into at the time of issuing the bonds and are continuously monitored until maturity. Hedge accounting is not used for these economic hedges. These derivatives are carried at fair value. There may be significant variations in the value of the basis swaps from day to day, due to changes in basis swap spreads which is recorded as unrealised gains and losses in the total comprehensive income for the period. There was a NOK 19.3 million decrease in market values in the second quarter of 2014 (negative effect on profits) due to such basis swap spread effects, compared with a NOK 239.8 million decrease in the second quarter of 2013 (negative effect on profits). Accumulated negative mark-to-market effects by the end of the second quarter of 2014 were NOK 489.5 million, compared with accumulated positive effects of NOK 737.7 million by the end of the second quarter of 2013.
- 4) As from 1 January 2014, DNB Boligkreditt uses hedge accounting only for the interest rate component inherent in the long-term borrowings in foreign currency. With respect to hedged liabilities, the change in fair value of the hedged item is charged to the income statement. Derivatives that are designated as hedging instruments in hedging relationships are recorded at fair value. Changes in fair value arising from hedged risk are presented under Net gains on financial derivatives, hedging. Foreign currency borrowing is hedged with swaps ensuring a high correlation between interest rates on the hedged items and the hedging instruments. In the table, the interest rate exposure of the short leg of the swap, representing a three-month unhedged interest rate exposure, is included in changes in value of the hedging instrument.

## Note 9 Operating expenses

### DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	2nd quarter 2014	2nd quarter 2013	1st half 2014	1st half 2013	Full year 2013
Ordinary salaries	1 937	2 792	5 024	5 719	10 730
Employer's national insurance contributions	338	515	1 114	1 003	2 091
Severance package	0	2 950	0	7 731	7 731
Pension expenses	1 192	938	2 965	2 446	2 056
Social expenses	222	241	518	692	1 515
<b>Salaries and other personnel expenses</b>	<b>3 690</b>	<b>7 437</b>	<b>9 620</b>	<b>17 591</b>	<b>24 124</b>
Fees <sup>1)</sup>	1 368 648	1 320 514	2 880 626	2 380 868	5 593 195
Other operating expenses	581	295	872	637	3 169
<b>Other expenses</b>	<b>1 369 229</b>	<b>1 320 809</b>	<b>2 881 498</b>	<b>2 381 505</b>	<b>5 596 364</b>
<b>Operating expenses</b>	<b>1 372 918</b>	<b>1 328 246</b>	<b>2 891 118</b>	<b>2 399 095</b>	<b>5 620 488</b>

1) Fees are mainly management fees paid to DNB Bank ASA for services rendered according to the management agreement. See also note 15.

## Note 10 Loans to customers

### DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	30 June 2014	31 Dec. 2013	30 June 2013
Loans to customers at amortised cost, nominal amount	472 877 577	458 345 160	451 245 069
– Individual impairments	51 426	54 887	29 962
Loans to customers, net of impairment allowances	472 826 151	458 290 273	451 215 107
+ Accrued interest	795 255	859 045	927 124
– Individual impairments on accrued interest	45 443	43 323	37 842
<b>Loans to customers, at amortised cost</b>	<b>473 575 963</b>	<b>459 105 995</b>	<b>452 104 389</b>
Loans to customers at fair value, nominal amount	67 112 495	71 906 903	74 980 502
– Individual impairments	3 995	3 450	8 338
Loans to customers, net of impairment allowances	67 108 500	71 903 453	74 972 164
+ Accrued interest	126 380	145 334	153 233
+ Adjustment to fair value	2 122 494	1 235 801	1 181 022
<b>Loans to customers, at fair value</b>	<b>69 357 374</b>	<b>73 284 589</b>	<b>76 306 419</b>
– Collective impairments	113 468	106 571	114 309
<b>Total loans to customers</b>	<b>542 819 869</b>	<b>532 284 013</b>	<b>528 296 500</b>

### Impairment allowances

### DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	30 June 2014	31 Dec. 2013	30 June 2013
Individual impairments	55 421	58 337	38 300
Individual impairments on accrued interest	45 443	43 323	37 842
Collective impairments	113 468	106 571	114 309
<b>Impairment allowances as at end of period</b>	<b>214 332</b>	<b>208 230</b>	<b>190 451</b>



## Note 10 Loans to customers (continued)

### Impairment expenses for the period

DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	2nd quarter 2014	2nd quarter 2013	1st half 2014	1st half 2013	Full year 2013
Individual impairments	7 992	2 872	5 960	6 159	35 473
Collective impairments <sup>1)</sup>	(1 568)	2 052	6 898	(7 837)	(15 575)
Recoveries of previous write-offs	(575)	(1 655)	(1 112)	(2 179)	(3 637)
<b>Impairment expenses for the period</b>	<b>5 849</b>	<b>3 269</b>	<b>11 746</b>	<b>(3 857)</b>	<b>16 260</b>

1) Based on the DNB Group's calculation model and statistics. Further information about collective impairments can be found in note 1 Accounting principles.

## Note 11 Debt securities issued

### Debt securities issued

DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	30 June 2014	31 Dec. 2013	30 June 2013
Listed covered bonds, nominal amount	336 635 325	355 746 021	361 107 412
Private placements under the bond programme, nominal amount	53 527 630	48 460 758	42 088 242
Total bonds, nominal amount	390 162 955	404 206 779	403 195 654
Accrued interest	3 331 532	4 222 277	2 878 048
Unrealised gains/losses	21 133 398	12 022 396	11 762 225
Total adjustments	24 464 931	16 244 672	14 640 274
<b>Total debt securities issued</b>	<b>414 627 886</b>	<b>420 451 451</b>	<b>417 835 927</b>

Unrealised gains/losses comprise of adjustments for net gain/loss 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

<i>Amounts in NOK 1 000</i>	Balance sheet 30 June 2014	Issued 2014	Matured/ redeemed 2014	Exchange rate movements 2014	Changes in adjustments 2014	Balance sheet 31 Dec. 2013
Bond debt, nominal amount	390 162 955	23 313 400	(39 096 820)	1 739 596	-	404 206 779
Total adjustments	24 464 931	-	-	-	8 220 259	16 244 672
<b>Total debt securities issued</b>	<b>414 627 886</b>	<b>23 313 400</b>	<b>(39 096 820)</b>	<b>1 739 596</b>	<b>8 220 259</b>	<b>420 451 451</b>

### Maturity of debt securities issued

DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	NOK	Foreign currency	Total
2014	5 141 680	-	5 141 680
2015	3 889 000	40 977 419	44 866 419
2016	9 698 000	58 475 914	68 173 914
2017	11 625 000	45 434 320	57 059 320
2018	23 000 000	46 544 521	69 544 521
2019	21 622 000	21 979 884	43 601 884
2020 and later	11 000 000	90 775 217	101 775 216
<b>Total bond debt</b>	<b>85 975 680</b>	<b>304 187 276</b>	<b>390 162 955</b>

## Note 11 Debt securities issued (continued)

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

DNB Boligkreditt AS

Amounts in NOK 1 000

ISIN Code	Matured/ redeemed amount	Currency	Interest	Issued	Matured		30 June 2014	31 Dec. 2013
NO0010477706	157 000	NOK	Floating	2008	2015	Called	390 000	547 000
NO0010485337	4 688 500	NOK	Floating	2009	2014	Called	-	4 688 500
NO0010495575	26 000	NOK	Floating	2010	2016	Called	9 698 000	9 724 000
NO0010503923	7 226 000	NOK	Floating	2009	2017	Called	-	7 226 000
NO0010503931	9 032 000	NOK	Floating	2010	2017	Called	8 800 000	16 832 000
NO0010378730	286 320	NOK	Fixed	2007	2014	Called	4 621 180	4 907 500
NO0010524390	9 200 000	NOK	Floating	2009	2016	Called	-	9 200 000
NO0010526809	6 480 000	NOK	Floating	2009	2017	Called	-	6 480 000
NO0010571946	2 001 000	NOK	Floating	2010	2015	Called	3 249 000	5 250 000
<b>Total debt securities issued, nominal value</b>							<b>26 758 180</b>	<b>64 855 000</b>

### Cover pool

DNB Boligkreditt AS

Amounts in NOK 1 000

	30 June 2014	31 Dec. 2013	30 June 2013
Pool of eligible loans	538 298 481	527 558 128	524 735 332
Market value of eligible derivatives	42 128 790	33 798 995	19 006 014
Supplementary assets	-	-	-
<b>Total collateralised assets</b>	<b>580 427 271</b>	<b>561 357 123</b>	<b>543 741 346</b>
Debt securities issued, carrying value	414 627 886	420 451 451	417 835 927
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(837 449)	(413 808)	(417 331)
<b>Debt securities issued, valued according to regulation <sup>1)</sup></b>	<b>413 790 437</b>	<b>420 037 643</b>	<b>417 418 597</b>
Collateralisation (per cent)	140.3	133.6	130.3

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 2-28 and 2-31 of the Financial Institutions Act with appurtenant regulations.

## Note 12 Subordinated capital

DNB Boligkreditt AS

Amounts in NOK 1 000	Nominal	Currency	Interest rate	Issue date	Maturity date	30 June 2014	31 Dec. 2013	30 June 2013
Term subordinated loan capital	1 200 000	NOK	3 month Nibor + 152 bp	2008	2018	-	-	1 200 000
Term subordinated loan capital	850 000	NOK	3 month Nibor + 400 bp	2009	2019	850 000	850 000	850 000
Term subordinated loan capital	4 000 000	NOK	3 month Nibor + 170 bp	2013	2023	4 000 000	4 000 000	-
Accrued interest						10 279	10 381	7 842
<b>Total</b>						<b>4 860 279</b>	<b>4 860 381</b>	<b>2 057 842</b>

## Note 13 Financial instruments at fair value

The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

### Level 1

Valuation based on quoted, unadjusted prices in active markets for identical assets and liabilities. DNB Boligkreditt has no financial instruments in this category.

### Level 2

Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Valuation of interest rate swaps and currency swaps is based on level 2 techniques. The valuation is based on swap curves that are based on observable market prices. Credit risk is considered to have an insignificant effect on the fair value.

Debt securities issued in Norwegian kroner are also measured at fair value based on level 2 techniques. The valuation of the bonds is primarily based on observable market data in the form of interest rate curves and credit margins.

### Level 3

Techniques for which inputs that have a significant effect on the recorded fair value are not based on observable market data.

Loans to customers at fixed interest rates are measured at fair value based on level 3 techniques. The fair value of the loans are determined by discounting expected future cash flows over the term of the loans. The credit margin constitutes a major part of adjustments to fair value. However, the competition and transparency in the market in the form of interest rate barometers within this market segment implies that there is relatively little uncertainty to the margins applied in the valuation of these loans.

### As at 30 June 2014

Amounts in NOK 1 000	Valuation			DNB Boligkreditt AS	
	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	Accrued interest <sup>1)</sup>	Total
<b>Assets</b>					
Loans to customers	-	-	69 234 989	126 380	69 361 369
Financial derivatives	-	53 671 921	-	-	53 671 921
<b>Liabilities</b>					
Debt securities issued	-	88 340 308	-	527 521	88 867 829
Financial derivatives	-	11 543 131	-	-	11 543 131

1) For financial derivatives, accrued interest on financial derivatives is included in the level 2- and level 3 amounts.

## Note 14 Fair value of financial instruments at amortised cost

Most assets and liabilities in the DNB Boligkredit's balance sheet are carried at amortised cost.

Amortised cost is the historical cost of the asset or liability at initial recognition, adjusted for repayments of principal, amortisations based on the effective interest rate method and impairments. The value is not based on current market conditions, but rather accounted for based on the originally agreed terms, so in general there will be a difference between the amortised cost value and market value.

The difference is mainly related to changes in credit risk. Fair value includes both positive and negative value changes in credit risk while amortised cost is not adjusted for positive value changes and only to some extent adjusted for negative value changes through impairment.

The table shows estimated fair values of items carried at amortised cost. Values are measured based on the valuation methods described in note 13.

Fair value of financial instruments at amortised cost	DNB Boligkredit AS	
	Carrying value 30 June 2014	Fair value 30 June 2014
<i>Amounts in NOK 1 000</i>		
Due from credit institutions	4 633 095	4 633 095
Loans to customers	473 672 832	473 672 832
<b>Total financial assets</b>	<b>478 305 928</b>	<b>478 305 928</b>
Due to credit institutions	135 149 516	135 149 516
Debt securities issued	325 760 057	331 652 665
Subordinated loan capital	4 860 279	4 942 249
<b>Total financial liabilities</b>	<b>465 769 852</b>	<b>471 744 430</b>

As at 30 June 2014	DNB Boligkredit 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	Accrued interest	Total
<i>Amounts in NOK 1 000</i>					
<b>Assets</b>					
Lending to and deposits with credit institutions	-	4 633 095	-	-	4 633 095
Loans to customers	-	-	472 877 577	795 255	473 672 832
<b>Liabilities</b>					
Loans due to credit institutions	-	135 149 516	-	-	135 149 516
Debt securities issued	-	328 848 654	-	2 804 011	331 652 665
Subordinated loan capital	-	-	4 931 970	10 279	4 942 249

For floating rate loans to customers, the interest rates and margins are changed when the market rates change. The customers have to be notified of all changes in advance of the changes being put into effect, so there is a short period of time where the terms of the loans diverge from market rates. However this delay in timing is considered to have an immaterial effect to the total value of the loans hence the carrying value of these loans are considered to be a relevant measure for fair value.

Debt securities issued that are carried at amortised cost are subject to hedge accounting. As from 1 January 2014, hedge accounting for long-term borrowings in foreign currency is limited to interest rate risk. The hedging relationship between the bonds and their designated interest rate swaps are considered to be effective and accounted for as fair value hedges. The amortised cost value is adjusted by the fair value change of the hedged risk. Changes in credit risk are not subject to hedge accounting.

Subordinated loan capital is at floating interest rates and carried at amortised cost. Loans due to credit institutions are mainly at floating interest rates and carried at amortised cost, which is considered not to diverge significantly from fair value.

## **Note 15      Related parties**

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DNB Boligkreditt AS is a subsidiary within the DNB Group. During the quarter many transactions, mostly related to the ordinary course of business, take place between DNB Boligkreditt and other group entities. All transactions are at markets terms. Major transactions with related parties:

### **DNB Bank ASA**

DNB Bank ASA (the bank) is the parent of DNB Boligkreditt. As part of ordinary business transactions, a large number of banking transactions are entered into between DNB Boligkreditt and the bank, including loans, deposits and financial derivatives used in currency and interest rate risk management. All transactions are carried out at market terms, and regulated in the "Agreement relating to transfer of loan portfolio between DNB Bank ASA and DNB Boligkreditt AS" (the transfer agreement) and the "Contract concerning purchase of management services" (the management agreement).

The transfer agreement regulates the transfer of loan portfolios qualifying as collateral for the issue of covered bonds. During the second quarter of 2014, portfolios of NOK 4.7 billion were transferred from the bank to DNB Boligkreditt.

Pursuant to the management agreement, DNB Boligkreditt purchases services from the bank, including administration, bank production, distribution, customer contact, IT operations, financial and liquidity management. DNB Boligkreditt pays a monthly management fee for these services based on the lending volume under management and the achieved lending spreads. The management fee paid is recognised as "Other expenses" in the statement of comprehensive income and amounted to NOK 1 365 million for the second quarter of 2014 (NOK 1 315 million for the second quarter of 2013).

In the balance sheet "Due from credit institutions" and "Due to credit institutions" are solely outstandings with DNB Bank. All derivative contracts are with DNB Bank as counterparty. At end-June, the bank had invested NOK 24.1 billion in covered bonds issued by DNB Boligkreditt.

In the fourth quarter of 2013, DNB Boligkreditt entered into a "Revolving Credit Facility Agreement (RCF)" with DNB Bank ASA. Subject to the terms of this RCF, DNB Bank makes available to DNB Boligkreditt a revolving credit facility at all times equal to DNB Boligkreditt's payment obligations in NOK for the next 12 months in respect of issued Covered Bonds and related derivative hedge agreements. DNB Boligkreditt shall apply all amounts borrowed by it under the RCF towards payments under Covered Bonds and related derivative contracts entered into for hedging purposes for those Covered Bonds. DNB Boligkreditt may not make use of the RCF for the fulfillment of payment obligations related to the ordinary (re-) purchase of Covered Bonds (if any), or to derivative agreements related to such Covered Bonds. The obligations of DNB Bank towards DNB Boligkreditt under the RCF does not constitute a guarantee in respect of amounts due and payable under the Covered Bonds.

### **DNB Livsforsikring ASA**

As part of the company's ordinary investment activity, DNB Livsforsikring has subscribed for covered bonds issued by DNB Boligkreditt. At end-June 2014, DNB Livsforsikring's holding of listed DNB Boligkreditt bonds was valued at NOK 3.2 billion.

### **DNB Næringskreditt AS**

DNB Næringskreditt has no employees and purchases administrative services from DNB Boligkreditt. The fee received for such services is recognised as "Other income" in the income statement and amounted to NOK 0.7 million for the second quarter of 2014.

## **Note 16      Contingencies and post balance sheet events**

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DNB Boligkreditt is not involved in any legal actions

# Key figures

## DNB Boligkreditt AS

	2nd quarter 2014	2nd quarter 2013	1st half 2014	1st half 2013	Full year 2013 <sup>2)</sup>
1. Return on equity, annualised (%) <sup>1)</sup>	1.1	1.0	0.9	2.7	3.6
2. Core (Tier 1) capital ratio at end of period (%) <sup>2)</sup>	12.5	10.2	12.5	10.2	11.2
3. Capital adequacy ratio at end of period (%) <sup>2)</sup>	14.4	11.0	14.4	11.0	13.3
4. Core capital at end of period (NOK 1000)	28 425 960	22 258 413	28 425 960	22 258 413	24 932 637
5. Risk-weighted volume at end of period (NOK 1000)	228 014 214	218 817 359	228 014 214	218 817 359	222 032 203
6. Impairment relative to net loans to customers, annualised	0.00	0.00	0.00	0.00	0.00
7. Non-performing and impaired loans, per cent of gross loans	0.26	0.22	0.26	0.22	0.24
8. Non-performing and impaired loans gross (NOK 1 000)	1 409 069	1 181 923	1 409 069	1 181 923	1 258 443
9. Net non-performing and impaired loans, per cent of net loans	0.15	0.12	0.15	0.12	0.14
10. Net non-performing and impaired loans at end of period (NOK 1 000)	796 513	652 345	796 513	652 345	729 033
11. Number of full-time positions at end of period	7	11	7	11	9

1) Average equity is calculated on the basis of book value of equity.

2) Due to changes in principles, some comparative figures have been restated. See further details in note 1 Accounting principles in the Annual Report 2013.

# Profit and balance sheet trends

## Statement of comprehensive income

DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	2nd quarter 2014	1st quarter 2014	4th quarter 2013	3rd quarter 2013	2nd quarter 2013
Total interest income	5 197 994	5 143 823	5 284 862	5 252 837	5 117 951
Total interest expenses	3 276 052	3 133 518	3 244 207	3 295 404	3 403 727
<b>Net interest income</b>	<b>1 921 942</b>	<b>2 010 305</b>	<b>2 040 655</b>	<b>1 957 432</b>	<b>1 714 224</b>
Commission and fee income	9 712	10 297	9 998	17 152	18 813
Commission and fee expenses	434	482	501	510	525
Net gains (losses) on financial instruments at fair value	(162 194)	(563 919)	(286 390)	(16 841)	(323 877)
Other income	749	1 409	1 002	444	2 514
<b>Net other operating income</b>	<b>(152 167)</b>	<b>(552 695)</b>	<b>(275 891)</b>	<b>244</b>	<b>(303 075)</b>
<b>Total income</b>	<b>1 769 775</b>	<b>1 457 610</b>	<b>1 764 764</b>	<b>1 957 676</b>	<b>1 411 150</b>
Salaries and other personnel expenses	3 690	5 930	1 899	4 634	7 437
Other expenses	1 369 229	1 512 270	1 642 036	1 572 824	1 320 809
<b>Total operating expenses</b>	<b>1 372 918</b>	<b>1 518 200</b>	<b>1 643 935</b>	<b>1 577 458</b>	<b>1 328 246</b>
Impairments on loans and commitments	5 849	5 897	8 287	11 830	3 269
<b>Pre-tax operating profit</b>	<b>391 008</b>	<b>(66 488)</b>	<b>112 542</b>	<b>368 388</b>	<b>79 634</b>
Taxes	105 572	(17 952)	(170 600)	103 879	22 163
<b>Profit for the period</b>	<b>285 436</b>	<b>(48 536)</b>	<b>283 143</b>	<b>264 509</b>	<b>57 471</b>
Other comprehensive income	-	-	3 509	-	-
<b>Total comprehensive income for the period</b>	<b>285 436</b>	<b>(48 536)</b>	<b>286 652</b>	<b>264 509</b>	<b>57 471</b>

## Balance sheet

DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	30 June 2014	31 March 2014	31 Dec. 2013	30 Sept. 2013	30 June 2013
<b>Assets</b>					
Due from credit institutions	4 633 095	742 392	347 081	1 697 703	1 079 534
Loans to customers	542 819 869	536 324 695	532 284 013	529 690 392	528 296 500
Financial derivatives	53 671 921	44 695 557	45 786 413	38 830 597	25 822 278
Other assets	761	4 821	2 199	13 843	12 907
Deferred tax assets	-	-	-	-	-
<b>Total assets</b>	<b>601 125 646</b>	<b>581 767 465</b>	<b>578 419 706</b>	<b>570 232 535</b>	<b>555 211 219</b>
<b>Liabilities and equity</b>					
Due to credit institutions	135 149 516	129 332 329	115 105 033	104 542 294	104 476 837
Financial derivatives	11 543 131	10 832 740	11 987 418	12 319 938	6 816 367
Debt securities issued	414 627 886	410 855 422	420 451 451	427 275 903	417 835 927
Payable taxes	108	108	108	425 357	321 478
Deferred taxes	5 535 512	193 940	211 892	159 460	159 460
Other liabilities	486 886	556 036	612 370	536 242	890 490
Provisions	19 876	19 876	25 500	36 545	38 428
Subordinated loan capital	4 860 279	4 859 999	4 860 381	2 057 897	2 057 842
<b>Total liabilities</b>	<b>572 223 194</b>	<b>556 650 449</b>	<b>553 254 154</b>	<b>547 353 637</b>	<b>532 596 830</b>
Share capital	3 077 000	2 727 000	2 727 000	2 527 000	2 527 000
Share premium	21 843 000	18 693 000	18 693 000	16 893 000	16 893 000
Other equity	3 982 452	3 697 016	3 745 552	3 458 898	3 194 389
<b>Total equity</b>	<b>28 902 452</b>	<b>25 117 016</b>	<b>25 165 552</b>	<b>22 878 898</b>	<b>22 614 389</b>
<b>Total liabilities and equity</b>	<b>601 125 646</b>	<b>581 767 465</b>	<b>578 419 706</b>	<b>570 232 535</b>	<b>555 211 219</b>

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





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