FIRST QUARTER REPORT 2016
(Unaudited)

DNB

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DNB Boligkreditt

A company in the DNB Group

Financial highlights

Income statement

Amounts in NOK million	1st quarter 2016	1st quarter 2015	Full year 2015
		DNB Boligkreditt AS	
Net interest income	1 273	1 828	6 608
Net other operating income	793	1 772	4 054
Of which net gains on financial instruments at fair value	*802*	*1 779*	*4 081*
Operating expenses	(709)	(1 039)	(3 349)
Impairments on loans and commitments	(2)	2	2
Pre-tax operating profit	1 354	2 562	7 315
Tax expense	(339)	(692)	(975)
Profit for the period	**1 016**	**1 870**	**6 340**

Balance sheet

Amounts in NOK million	31 March 2016	31 Dec. 2015	31 March 2015
Total assets	646 917	649 797	649 865
Loans to customers	573 099	564 746	561 501
Debt securities issued	451 971	473 745	484 829
Total equity	40 214	39 198	31 277

Key figures

Per cent	1st quarter 2016	1st quarter 2015	Full year 2015
Return on equity, annualised	10.2	24.8	18.4
Combined weighted total average spread for lending [1)]	0.82	1.31	1.11
Impairment relative to average net loans to customers, annualised	(0.00)	0.00	0.00
Net non-performing and impaired loans, per cent of net loans	0.11	0.14	0.11
Common equity Tier 1 capital ratio, transitional rules, at end of period	15.0	12.5	15.2
Capital ratio, transitional rules, at end of period	17.2	14.7	17.3

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

First quarter report 2016

Accounts

Additional information

There has been no full or partial external audit of the quarterly directors' report and accounts.

Directors' report

DNB Boligkreditt AS is the DNB Group's vehicle for the issue of covered bonds based on residential mortgages. The company's offices are located in Oslo. DNB Boligkreditt is a wholly-owned subsidiary of DNB Bank ASA and is reported as part of the Personal Banking Norway business area in DNB's consolidated accounts. Based on developments in international capital markets, DNB Boligkreditt has come to play a key role in ensuring long-term favourable funding for the Group. The rating agencies' assessments are of significance to the company's funding terms. DNB Boligkreditt's covered bond programmes are rated AAA by Moody's and Standard & Poor's.

Financial accounts

DNB Boligkreditt recorded a profit of NOK 1 016 million in the first quarter of 2016, compared with a profit of NOK 1 870 million in the first quarter of 2015.

Total income

Income totalled NOK 2 066 million in the first quarter of 2016, down from NOK 3 600 million in the year-earlier period.

Amounts in NOK million	1st quarter 2016	Change	1st quarter 2015
Total income	2 066	(1 534)	3 600
Net interest income		(555)	
Net commission and fee income		(2)	
Net gains/(losses) on financial instruments at fair value		(977)	

The decline in net interest income was due to narrowing interest rate spreads.

The recorded gains 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. The positive effects of financial instruments were significant in the first quarter of 2016, but somewhat lower than in the first quarter of 2015. The positive effect was mainly due to an increase in the market value of basis swaps.

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 691 million in the first quarter of 2016, down from NOK 1 024 million in the first quarter of 2015.

The company has generally recorded low impairment losses on loans. In the first quarter of 2016, the company reported impairment losses of NOK 2 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-March 2016, DNB Boligkreditt had total assets of NOK 646.9 billion, a reduction of NOK 2.9 billion or 0.5 per cent from end-March 2015.

Amounts in NOK million	31 March 2016	Change	31 March 2015
Total assets	646 917	(2 948)	649 865
Loans to customers		11 598	
Financial derivatives		(14 479)	
Other assets		(67)	
Total liabilities	606 703	(11 884)	618 587
Due to credit institutions		20 393	
Financial derivatives		(1 644)	
Debt securities issued		(32 858)	
Deferred taxes		2 477	
Other liabilities		(252)	

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 32.9 billion from end-March 2015. The company issued covered bonds under existing programmes for a total of NOK 25.5 billion in the first quarter of 2016. Total debt securities issued amounted to NOK 452.0 billion at end-March 2016.

Risk and capital adequacy

The company has established guidelines and limits for management and control of the different types of risk.

Currency risk is eliminated through the use of financial derivatives. Interest rate and liquidity risk is managed in accordance with stipulations concerning covered bonds in the Financial Institutions Act and guidelines and limits approved by the Board of Directors. The company's overall financial risk is considered to be low.

Changes in the market value of the company's bonds due to credit risk are monitored on a daily basis.

The servicing agreement with DNB Bank comprises administration, bank production, IT operations and financial and liquidity management. The fee structure in the servicing agreement shall ensure a stable return on equity, but does not take the effects of unrealised gains or losses on financial instruments into consideration. Operational risk is assessed to be low.

Negative developments in the housing market affect the company. A decline in housing prices will reduce the value of the company's cover pool relative to the statutory asset coverage requirement. Quarterly stress tests are carried out to estimate the effects of a negative development in housing prices. A short-term measure to meet a significant fall in housing prices will be to supply DNB Boligkreditt with more substitute collateral. The Board of Directors considers the company's total risk exposure to be low.

At end-March 2016, the company's equity totalled NOK 40.2 billion, of which NOK 33.6 billion represented Tier 1 capital. Total primary capital in the company was NOK 38.4 billion. The Tier 1 capital ratio was 15.0 per cent, while the capital adequacy ratio was 17.2 per cent.

New regulatory framework

Finanstilsynet recommends 3 per cent leverage ratio requirement for mortgage institutions

The Basel Committee has proposed the introduction of a leverage ratio requirement of minimum 3 per cent as a supplement to capital requirements based on risk-weighting of the bank's exposures.

In the EU, the ambition is to introduce the requirement with effect from 2018, though the EU has not yet come to a decision on the level of the ratio. By year-end 2016, the European Commission will submit a proposal to the Parliament and the Council for new regulations relating to the leverage ratio. The proposal will be based on advice from the European Banking Authority, EBA, which is expected to be presented in July 2016. The Commission's proposal will probably clarify the scope of action of the national supervisory authorities.

In a letter to the Ministry of Finance dated 31 March 2016, Finanstilsynet recommends deferring the introduction of the leverage ratio until the EU regulations have been finalised. Parallel to this, Finanstilsynet has prepared a consultation paper and draft regulations, which was part of its mandate from the Ministry of

Finance.

At year-end 2015, the aggregate leverage ratio of Norwegian banks was 7.1 per cent, while DNB ASA reported a leverage ratio of 6.7 per cent. If a minimum leverage ratio requirement is to be stipulated, Finanstilsynet is of the opinion that it should be set at a level not much below the actual level in Norwegian financial services groups and banks. However, the requirement should not be set so high that the risk-weighted capital will no longer function as the binding capital constraint. The Ministry concurs and has stated that it intends to set the leverage ratio requirement at a level which does not result in higher capital requirements for Norwegian institutions.

Against this background, Finanstilsynet proposes a minimum requirement of 6 per cent for banks and banking groups, as well as for financial services groups, with the exception of groups which predominantly comprise insurance operations. It has also been proposed that this requirement should apply to other institutions, with the exception of mortgage institutions. Finanstilsynet proposes that the level for mortgage institutions be set at 3 per cent.

It is recommended that the requirement be based on the same definition of leverage ratio that will apply to the rest of Europe. In light of the consultation round and the subsequent assessment of consultative statements, Finanstilsynet assumes that the new regulations in Norway will enter into force no earlier than shortly before the Commission presents its final draft proposal.

Institution-specific counter-cyclical capital buffer rate

According to the EU regulations, mutual recognition of counter-cyclical capital buffer requirements is mandatory as of 1 January 2016. This implies that all financial institutions comprised by this requirement must calculate their institution-specific counter-cyclical buffer requirement based on prevailing requirements in the countries in which the institution has operations. This stipulation has not yet been introduced in Norway, where the requirement is 1 per cent (1.5 per cent as of 30 June 2016) of total risk-weighted assets, including international exposures.

Pillar 2 requirements

Pillar 2 in the EU capital requirements regulations, CRD IV, is a key element in the supervision of banks. According to Pillar 2, the individual bank must assess the risks associated with its operations and consider the need for capital. The supervisory authorities may order banks to hold own funds in excess of the statutory minimum requirements, to reduce risk or make other changes to their operations.

The Pillar 2 requirements relate to risk factors which are not covered by Pillar 1 and must be met in their entirety with common equity Tier 1 capital. Finanstilsynet's review (SREP) of the DNB Group in 2015 resulted in a Pillar 2 capital requirement of 0.5 per cent of risk-weighted assets for DNB Boligkreditt AS. The total common equity Tier 1 capital requirement was 13.5 per cent at year-end 2015 and will be 15.5 per cent at year-end 2016, reflecting an increase in Pillar 1 buffer requirements during 2016. The requirement may be adjusted in the event of future changes in the Pillar 2 add-on or buffer requirements, cf. the effects of the introduction of an institution-specific counter-cyclical buffer.

The Ministry of Finance states that automatic restrictions on dividend payments etc. according to prevailing Norwegian law shall only enter into force if the Pillar 1 requirements are breached. Nevertheless, Finanstilsynet may, based on a concrete assessment, implement corresponding or other measures in the event of breach of the total capital requirements, including the Pillar 2 add-on.

Macroeconomic developments

Growth in the global economy is continuing at a moderate pace. Some loss of growth momentum in advanced economies and continuing headwinds for emerging markets have lowered prospects for a global rebound. Renewed global asset market volatility at the start of the year also weighed on the outlook. According to the latest IMF figures, global GDP is expected to increase by 3.2 per cent in 2016 and 3.5 per cent in 2017, which is 0.2 and 0.1 percentage points lower than the IMF's January forecasts. In 2015, GDP growth was 3.1 per cent.

In the United States, growth slowed in the fourth quarter of 2015, primarily reflecting developments in resource extraction and manufacturing. As in other countries, petroleum investment continued to fall sharply in the face of low oil prices. In addition, the appreciation of the US dollar over the past two years has contributed to a decline in exports and curbed growth in other manufacturing sectors. However, the rise in employment is still strong, and unemployment has fallen below 5.0 per cent. Some rebound is expected in the period ahead. The Federal Reserve raised its policy rate in December 2015, marking the start of a rate hike cycle. So far, the prospects for further rate increases this year have fallen substantially, but it is still likely that policy rates will be raised further before the end of the year.

The moderate growth in the euro area continued in the fourth quarter of 2015. The upturn is firmly established in several countries, and unemployment has come down from elevated levels. Towards the end of 2015, there were signs of a slowdown, primarily in the manufacturing sector. This continued into 2016. Weaker growth among euro area trading partners and vulnerabilities in the European banking sector are weighing on growth prospects. The benefits from the fall in energy prices look set to decline, and financial conditions have been tightening since mid-2014 despite the accommodative monetary policy. Thus, growth may slow somewhat in 2016 and 2017.

The Bank of Japan introduced negative interest rates on marginal excess reserve deposits in February. The move did not prevent a rise for the yen. The recent appreciation of the yen and weaker demand from emerging market economies may restrain activity in Japan during the first half of 2016. A scheduled increase in the consumption tax rate of 2 percentage points in 2017 may lower GDP growth further if it comes into effect.

China, now the world's largest economy on a purchasing-power-parity basis, is navigating a momentous but complex transition towards more sustainable growth based on consumption and services. Ultimately, that process will benefit both China and the rest of the world. Given China's important role in global trade, however, bumps along the way could have substantial spillover effects, especially on emerging markets and developing economies. Growth in China is projected to slow to 6.4 per cent this year and 5.9 per cent in 2017, but there will be considerable downside risks.

Norwegian Mainland GDP rose by 1.0 per cent in 2015, which was lower than most forecasts. The economy remained at a virtual standstill in the second half of 2015, primarily reflecting lower demand from the petroleum sector. The fall in the price of oil has exacerbated the decline in petroleum investments, dampened the rise in costs in the supplier industry, curbed optimism among companies and households, and reduced government and private revenues. Unemployment has risen and was 4.8 per cent in January 2016 according to the Labour Force Survey. There are, however, large regional and occupational variations in unemployment.

Unemployment has been stable in the eastern and middle part of the country, while the western and coastal parts have experienced a marked rise in unemployment. Corresponding differences are also observed in the housing markets. Overall, existing home prices rose 5.1 per cent from the first quarter of 2015 to the first quarter of 2016. In Oslo, housing prices increased by 9.0 per cent year-on-year in the first quarter, while Stavanger experienced a 6.7 per cent decline.

Weak prospects and rising unemployment have contributed to curbing wage growth. After mandatory mediations, the partners in the benchmark wage settlements came to an agreement that indicates wage growth of 2.4 per cent in 2016, the lowest nominal level since 1935. The decline in wage growth and the depreciation of the Norwegian krone improve the cost competitiveness of Norwegian companies.

Future prospects

Recent developments in the Norwegian economy indicate a slow speed into 2016. In addition, growth in the mainland economy may be lower than the previously forecasted 1.2 per cent. Norges Bank has responded to the growth prospects by lowering its policy rate to 0.5 per cent and signalled another 25 basis point rate cut in the second half of 2016. The central bank has also indicated the possibility of a zero policy rate. Accommodative monetary and fiscal policies support the economy during the process to adapt to lower oil prices. As oil prices are expected to partly recover, there are prospects of increased growth for the mainland economy.

Lending volumes are expected to rise at an annual rate of 2 to 3 per cent, while volume-weighted spreads are anticipated to be stable. Average impairment losses are expected to be at normalised levels in 2016, and the impairment in 2017 is expected to be at the same level.

DNB Boligkreditt is well capitalised, but will build additional capital in accordance with the authorities' requirement of 15.5 per cent by year-end 2016.

Covered bonds have gained a leading position as a funding vehicle for Norwegian banks. Norwegian covered bonds still seem attractive, with relatively low credit and market risk. The volume of covered bond issues in 2016 is expected to be somewhat lower than in 2015. As a total, this provides a further solid basis for DNB Boligkreditt's funding activities.

Oslo, 27 April 2016
The Board of Directors of DNB Boligkreditt AS

Bjørn Erik Næss
(chairman)

Jørn E. Pedersen

Eva-Lill Strandskogen

Per Sagbakken
(chief executive officer)

Comprehensive income statement

Amounts in NOK million	Note	DNB Boligkreditt AS 1st quarter 2016	1st quarter 2015	Full year 2015
Total interest income	6	3 668	4 701	17 598
Total interest expenses	6	(2 396)	(2 873)	(10 990)
Net interest income	6	**1 273**	**1 828**	**6 608**
Commission and fee income		(9)	(8)	(28)
Commission and fee expenses		(1)	(0)	(2)
Net gains on financial instruments at fair value	7	802	1 779	4 081
Other income		1	1	3
Net other operating income		**793**	**1 772**	**4 054**
Total income		**2 066**	**3 600**	**10 662**
Salaries and other personnel expenses	8	(5)	(6)	(17)
Other expenses	8, 14	(704)	(1 033)	(3 332)
Total operating expenses	8	**(709)**	**(1 039)**	**(3 349)**
Impairment of loans and commitments	9	(2)	2	2
Pre-tax operating profit		**1 354**	**2 562**	**7 315**
Tax expense		(339)	(692)	(975)
Profit for the period		**1 016**	**1 870**	**6 340**
Other comprehensive income				(2)
Total comprehensive income for the period		**1 016**	**1 870**	**6 338**

Balance sheet

Amounts in NOK million	Note	DNB Boligkreditt AS 31 March 2016	31 Dec. 2015	31 March 2015
Assets				
Due from credit institutions	13, 14	735	468	801
Loans to customers	9,12,13	573 099	564 746	561 501
Financial derivatives	12, 14	73 082	84 583	87 561
Other assets		1	1	1
Total assets		**646 917**	**649 797**	**649 865**
Liabilities and equity				
Due to credit institutions	13, 14	130 108	113 813	109 715
Financial derivatives	12, 14	10 732	9 651	12 376
Debt securities issued	10,12,13	451 971	473 745	484 829
Payable taxes		339	0	710
Deferred taxes		8 181	8 181	5 704
Other liabilities		487	322	368
Provisions		30	30	27
Subordinated loan capital	11,13	4 857	4 857	4 857
Total liabilities		**606 703**	**610 599**	**618 587**
Share capital		3 497	3 497	3 077
Share premium		25 623	25 623	21 843
Other equity		11 094	10 078	6 357
Total equity		**40 214**	**39 198**	**31 277**
Total liabilities and equity		**646 917**	**649 797**	**649 865**

Statement of changes in equity

					DNB Boligkreditt AS
Amounts in NOK million	Share capital	Share premium	Actuarial gains and losses	Other equity	Total equity
Balance sheet as at 31 December 2014	**3 077**	**21 843**	**0**	**4 487**	**29 407**
Profit for the period				1 870	1 870
Total comprehensive income for the period				**1 870**	**1 870**
Balance sheet as at 31 March 2015	**3 077**	**21 843**	**0**	**6 357**	**31 277**
Balance sheet as at 31 December 2015	**3 497**	**25 623**	**2**	**10 076**	**39 198**
Profit for the period				1 016	1 016
Total comprehensive income for the period				**1 016**	**1 016**
Balance sheet as at 31 March 2016	**3 497**	**25 623**	**2**	**11 092**	**40 214**

Share capital

All shares and voting rights of the company are held by DNB Bank ASA. Share capital at the beginning of 2016 was NOK 3 497 million (34 970 000 shares at NOK 100).

Cash flow statement

			DNB Boligkreditt AS
	January - March		Full year
Amounts in NOK million	2016	2015	2015
Operating activities			
Net receipts/payments on loans to customers	(1 532)	(469)	12 362
Interest received from customers	3 639	4 744	17 832
Net receipts/payments on loans to/from credit institutions	15 975	(10 228)	(5 803)
Interest received from credit institutions	3	3	12
Interest paid to credit institutions	(512)	(574)	(2 280)
Net receipts/payments on the sale of financial assets for investment or trading	8 053	(0)	(32)
Net payments on commissions and fees	(10)	(8)	(11)
Payments for operating expenses	(544)	(1 127)	(3 500)
Net cash flow relating to operating activities	**25 075**	**(7 660)**	**18 580**
Investing activities			
Net purchase of loan portfolio	(6 570)	(5 849)	(23 203)
Net cash flow relating to investing activities	**(6 570)**	**(5 849)**	**(23 203)**
Financing activities			
Receipts on issued bonds and commercial paper	25 523	16 073	75 226
Payments on redeemed bonds and commercial paper	(42 036)	(80)	(66 533)
Interest payments on issued bonds and commercial paper	(2 011)	(2 363)	(8 784)
Interest payments on subordinated loan capital	(34)	(38)	(147)
Share issue			4 200
Group contribution receipts			738
Net cash flow from financing activities	**(18 557)**	**13 591**	**4 699**
Net cash flow	**(52)**	**82**	**76**
Cash as at 1 January	79	3	3
Net receipts/payments of cash	(52)	82	76
Cash at end of period	27	85	79

Note 1 Basis for preparation

The quarterly financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board and as adopted by the European Union. When preparing the financial statements, management makes estimates, judgment and assumptions that affect the application of the accounting principles and the carrying amount of assets, liabilities, income and expenses. Estimates and assumptions are subject to continual evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be probable on the balance sheet date. A description of the accounting policies, significant estimates and areas where judgment is applied appear in note 1 Accounting principles in the annual report for 2015.

Note 2 Capital adequacy

Primary capital

Amounts in NOK million	DNB Boligkreditt AS 31 March 2016	31 Dec. 2015
Share capital	3 497	3 497
Other equity	35 701	35 701
Total equity	39 198	39 198
Deductions		
Expected losses exceeding actual losses, IRB-portfolios	(991)	(967)
Value adjustments due to the requirements for prudent valuation (AVA)	(369)	(385)
Adjustments for unrealised losses/(gains) on liabilites recorded at fair value	(239)	(232)
Adjustments for unrealised losses/(gains) arising from the institution's own credit risk related to derivative liabilities (DVA)	(3)	(2)
Allocated group contributions for payment	(4 020)	(4 020)
Common equity Tier 1 capital	33 576	33 592
Term subordinated loan capital	4 850	4 850
Tier 2 capital	4 850	4 850
Total eligible primary capital	38 426	38 442
Risk-weighted volume, transitional rules	223 164	221 648
Minimum capital requirement, transitional rules	17 853	17 732
Common equity Tier 1 capital ratio, transitional rules (%)	15.0	15.2
Capital ratio, transitional rules (%)	17.2	17.3

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

Specification of risk-weighted volume and capital requirements

DNB Boligkreditt AS

Amounts in NOK million	Nominal exposure 31 March 2016	EAD [1] 31 March 2016	Risk-weighted volume 31 March 2016	Capital requirement 31 March 2016	Capital requirement 31 Dec. 2015
IRB approach					
Corporate	6 001	6 001	3 219	257	262
Retail - residential property	590 109	590 109	130 581	10 446	10 195
Total credit risk, IRB approach	596 110	596 110	133 800	10 704	10 457
Standardised approach					
Institutions	20 713	20 713	4 143	331	501
Corporate	17 471	17 440	6 168	493	477
Retail - residential property	13 107	12 087	4 281	342	331
Retail - other exposures	421	267	226	18	18
Other assets	1	1	1	0	0
Total credit risk, standardised approach	51 713	50 509	14 819	1 186	1 327
Total credit risk	647 823	646 619	148 619	11 890	11 785
Credit value adjustment (CVA)			29 244	2 340	2 913
Operational risk			12 740	1 019	1 019
Total risk-weighted volume and capital requirements before transitional rules			190 603	15 248	15 717
Additional capital requirements according to transitional rules			32 561	2 605	2 014
Total risk-weighted volume and capital requirements			223 164	17 853	17 732

1) EAD, exposure at default

Note 3 Credit risk

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 4 Market risk

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 unrealised 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 stabilising markets or because the maturity dates of the instruments are approaching.

Note 5 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 11-2 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 quarter 2016 can be characterized as sound.

Note 6 Net interest income

	DNB Boligkreditt AS		
Amounts in NOK million	1st quarter 2016	1st quarter 2015	Full year 2015
Interest on amounts due from credit institutions	3	3	12
Interest on loans to customers	3 610	4 638	17 352
Front-end fees etc.	1	4	11
Other interest income	54	55	223
Total interest income	**3 668**	**4 701**	**17 598**
Interest on amounts due to credit institutions	(318)	(391)	(1 531)
Interest on debt securities issued	(2 380)	(2 597)	(10 223)
Interest on subordinated loan capital	(34)	(38)	(146)
Net interest income/expenses, derivatives	335	153	910
Total interest expenses	**(2 396)**	**(2 873)**	**(10 990)**
Net interest income	**1 273**	**1 828**	**6 608**

Note 7 Net gains on financial instruments at fair value

	DNB Boligkreditt AS		
Amounts in NOK million	1st quarter 2016	1st quarter 2015	Full year 2015
Net gains on loans at fair value (fixed-rate loans) 1)	229	(397)	(672)
Net gains on financial liabilities (long-term borrowing in NOK) 2)	(282)	423	1 605
Total gains on financial instruments, designated as at fair value	(53)	26	933
Net gains on foreign exchange and financial derivatives, trading 3) 4)	794	2 105	3 290
Net gains on financial derivatives, hedging 4) 5)	3 681	751	(4 802)
Net gains on financial liabilities, hedged items 5)	(3 620)	(1 103)	4 659
Net gains on financial instruments at fair value	**802**	**1 779**	**4 081**

1) *DNB Boligkreditt's fixed-rate loans are measured at fair value. Reduced interest rates, including credit margins, will increase the fair value of already originated loans. 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 33.8 million increase in market values in the first quarter of 2016 (negative effect on profits) due to such credit risk premium effects, compared with a NOK 262.2 million decrease in market values in the first quarter of 2015 (positive effect on profits). Accumulated positive mark-to-market effects by the end of the first quarter 2016 were NOK 284.3 million, compared with a negative NOK 700.9 million by the end of the first quarter 2015.*
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 (see footnote 4). There may be significant variations in the value of the basis swaps from day to day, due to changes in basis swap spreads which are recorded as unrealised gains and losses in the total comprehensive income for the period. There was a NOK 1 049.1 million increase in market values in the first quarter of 2016 (positive effect on profits) due to such basis swap spread effects, compared with a NOK 1 481.6 million increase in the first quarter of 2015 (positive effect on profits). Accumulated positive mark-to-market effects by the end of the first quarter 2016 were NOK 4 090.1 million, compared with accumulated positive effects of NOK 1 522.6 million by the end of the first quarter 2015.*
4) *All derivatives are measured at fair value. As part of this valuation a credit value adjustment (CVA) and debit value adjustment (DVA) is estimated to incorporate the counterparty credit risk as well as its own credit risk. During the first quarter of 2016 negative effects of NOK 97.7 million have been recognised in the income statement due to CVA and DVA effect, compared with positive effects of NOK 18.5 million in the first quarter of 2015. Accumulated negative value adjustment by the end of the first quarter 2016 was NOK 717.5 million, compared with accumulated negative value adjustment of NOK 518.7 million by the end of the first quarter 2015.*
5) *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 (see footnote 4). 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 8 Operating expenses

	DNB Boligkreditt AS		
Amounts in NOK million	1st quarter 2016	1st quarter 2015	Full year 2015
Salaries	(2)	(3)	(8)
Other personnel expenses	(3)	(3)	(9)
Fees 1)	(704)	(1 032)	(3 329)
Other operating expenses	(0)	(0)	(3)
Total operating expenses	**(709)**	**(1 039)**	**(3 349)**

1) *Fees are mainly management fees paid to DNB Bank ASA for services rendered according to the management agreement. See also note 14 Information on related parties.*

Note 9 Loans to customers

Amounts in NOK million	31 March 2016	31 Dec. 2015	31 March 2015
	DNB Boligkreditt AS		
Loans at amortised cost:			
Loans to customers at amortised cost, nominal amount	515 559	506 576	488 582
– Individual impairment	(46)	(46)	(48)
Loans to customers, after individual impairment	515 514	506 531	488 533
+ Accrued interest	606	583	747
– Individual impairments on accrued interest	(40)	(42)	(46)
Loans to customers, at amortised cost	516 081	507 072	489 234
Loans at fair value:			
Loans to customers at fair value, nominal amount	55 609	56 492	69 975
– Individual impairments	(3)	(1)	(4)
Loans to customers, after individual impairment	55 606	56 492	69 971
+ Accrued interest	96	95	130
+ Adjustment to fair value	1 413	1 184	2 263
Loans to customers, at fair value	57 116	57 770	72 364
– Collective impairment	(97)	(96)	(98)
Loans to customers	**573 099**	**564 746**	**561 501**

Impairment allowances

Amounts in NOK million	31 March 2016	31 Dec. 2015	31 March 2015
	DNB Boligkreditt AS		
Individual impairment	(48)	(47)	(53)
Individual impairment of accrued interest	(40)	(42)	(46)
Collective impairment	(97)	(96)	(98)
Impairment allowances as at end of period	**(185)**	**(185)**	**(196)**

Impairment expenses

Amounts in NOK million	1st quarter 2016	1st quarter 2015	Full year 2015
	DNB Boligkreditt AS		
Individual impairment	(2)	(4)	(8)
Collective impairment [1]	(1)	5	6
Recoveries of previous write-offs	1	1	4
Impairment expenses	**(2)**	**2**	**2**

1) *Based on the DNB Group's calculation model and statistics. Further information about collective impairments can be found in Note 1 Accounting principles in the annual report for 2015.*

Note 10 Debt securities issued

Debt securities issued

Amounts in NOK million	31 March 2016	31 Dec. 2015	31 March 2015
	DNB Boligkreditt AS		
Listed covered bonds, nominal amount	362 520	386 944	397 113
Private placements under the bond programme, nominal amount	59 577	59 419	55 848
Total bonds, nominal amount	422 097	446 362	452 961
Accrued interest	3 743	4 602	4 442
Unrealised losses [1)]	26 131	22 780	27 426
Adjustments	29 874	27 383	31 868
Total debt securities issued	**451 971**	**473 745**	**484 829**

1) Unrealised losses comprise of adjustments for net gain attributable to hedged risk on debt securities that are accounted for as hedged items and mark-to-market adjustments on debt securities that are designated as at fair value through profit or loss (fair value option).

Changes in debt securities issued

Amounts in NOK million	Balance sheet 31 March 2016	Issued 2016	Matured/ redeemed 2016	Exchange rate movements 2016	Changes in adjustments 2016	Balance sheet 31 Dec. 2015
	DNB Boligkreditt AS					
Bond debt, nominal amount	422 097	25 523	(42 036)	(7 753)		446 362
Adjustments	29 874				2 491	27 383
Total debt securities issued	**451 971**	**25 523**	**(42 036)**	**(7 753)**	**2 491**	**473 745**

Maturity of debt securities issued

Amounts in NOK million	NOK	Foreign currency	Total
	DNB Boligkreditt AS		
2016	5 740	28 195	33 935
2017	10 690	51 224	61 914
2018	13 450	57 475	70 925
2019	16 600	41 073	57 673
2020	16 000	35 117	51 117
2021 and later	18 000	128 533	146 533
Total bond debt	**80 480**	**341 617**	**422 097**

Debt securities issued - matured/redeemed during the period

Amounts in NOK million ISIN Code	Currency	Matured redeemed amount	Interest	Issued	Matured		Remaining nominal amount 31 March 2016	Remaining nominal amount 31 Dec. 2015
							DNB Boligkreditt AS	
XS0576372691	EUR	19 206	Fixed	2011	2016	Matured		19 206
XS0589651388	EUR	240	Floating	2011	2016	Matured		240
XS0596703875	EUR	2 881	Floating	2011	2016	Matured		2 881
XS0596703875	EUR	1 921	Floating	2011	2016	Matured		1 921
XS0596703875	EUR	192	Floating	2011	2016	Matured		192
XS0609014575	USD	17 596	Fixed	2011	2016	Matured		17 596
Total debt securities issued, nominal value		**42 036**						**42 036**

Cover pool

Amounts in NOK million	31 March 2016	31 Dec. 2015	31 March 2015
	DNB Boligkreditt AS		
Pool of eligible loans	568 954	561 517	557 191
Market value of eligible derivatives	62 350	74 932	75 186
Total collateralised assets	**631 304**	**636 449**	**632 377**
Debt securities issued, carrying value	451 971	473 745	484 829
Less valuation changes attributable to changes in credit risk on debt carried at fair value	291	361	(676)
Debt securities issued, valued according to regulation [1)]	**452 262**	**474 106**	**484 153**
Collateralisation (per cent)	139.6	134.2	130.6

1) The debt securities issued are bonds with preferred rights in the appurtenant cover pool. The composition and calculation of values in the cover pool are defined in Sections 11-8 and 11-11 of the Financial Institutions Act with appurtenant regulations.

Note 11 Subordinated loan capital

						DNB Boligkreditt AS		
Amounts in NOK million	Currency	Nominal amount	Interest rate	Issue date	Maturity date	31 March 2016	31 Dec. 2015	31 March 2015
Term subordinated loan capital	NOK	850	3 month Nibor + 400 bp	2009	2019	850	850	850
Term subordinated loan capital	NOK	4 000	3 month Nibor + 170 bp	2013	2023	4 000	4 000	4 000
Accrued interest						7	7	7
Total subordinated loan capital						**4 857**	**4 857**	**4 857**

Note 12 Financial instruments at fair value

				DNB Boligkreditt AS
Amounts in NOK million	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	Total
Assets as at 31 March 2016				
Loans to customers			57 118	57 118
Financial derivatives		73 082		73 082
Liabilities as at 31 March 2016				
Debt securities issued		82 729		82 729
Financial derivatives		10 732		10 732

				DNB Boligkreditt AS
Amounts in NOK million	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	Total
Assets as at 31 March 2015				
Loans to customers			72 369	72 369
Financial derivatives		87 561		87 561
Liabilities as at 31 March 2015				
Debt securities issued		97 739		97 739
Financial derivatives		12 376		12 376

For a further description of the instruments and valuation techniques, see the annual report for 2015

Financial instruments at fair value, level 3

	DNB Boligkreditt AS
Amounts in NOK million	Loans to customers
Carrying amount as at 31 December 2015	**57 771**
Net gains recognised in the income statement	231
Additions/purchases	1 821
Sales	(38)
Settled	(2 666)
Carrying amount as at 31 March 2016	**57 118**

Note 13 Fair value of financial instruments at amortised cost

Most assets and liabilities in the DNB Boligkreditt'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. For a further description of valuation methods, see the annual report for 2015.

DNB Boligkreditt AS

	31 March 2016		31 March 2015	
Amounts in NOK million	Carrying amount	Fair value	Carrying amount	Fair value
Due from credit institutions	735	735	801	801
Loans to customers	515 981	515 981	489 328	489 328
Total financial assets	516 716	516 716	490 130	490 130
Due to credit institutions	130 108	130 108	109 715	109 715
Debt securities issued	369 242	371 305	387 090	392 142
Subordinated loan capital	4 857	4 868	4 857	4 868
Total financial liabilities	504 206	506 281	501 663	506 726

Amounts in NOK million	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	Total
Assets as at 31 March 2016				
Due from credit institutions		735		735
Loans to customers			515 981	515 981
Liabilities as at 31 March 2016				
Due to credit institutions		130 108		130 108
Debt securities issued		371 305		371 305
Subordinated loan capital			4 868	4 868

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 of its 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 14 Information on related parties

DNB Bank ASA

During the first quarter of 2016, loan portfolios of NOK 6.6 billion were transferred from the bank to DNB Boligkreditt in accordance with the "Agreement relating to transfer of loan portfolio between DNB Bank ASA and DNB Boligkreditt AS".

The management fee paid to the bank for purchased services is recognised as "Other expences" in the statement of comprehensive income and amounted to NOK 691 million for the first quarter of 2016 (NOK 1 024 million for the first quarter of 2015).

At end-March, the bank had invested NOK 6.3 billion in covered bonds issued by DNB Boligkreditt.

DNB Livsforsikring AS

At end-March 2016, DNB Livsforsikring's holding of listed DNB Boligkreditt bonds was valued at NOK 1.9 billion.

DNB Næringskreditt AS

The fee received for services rendered to DNB Næringskreditt is recognised as "Other income" in the income statement and amounted to NOK 1.0 million for the first quarter of 2016.

Key figures

	DNB Boligkreditt AS		
	1st quarter 2016	1st quarter 2015	Full year 2015
Rate of return/profitability			
Return on equity, annualised (%) 1)	10.2	24.8	18.4
Financial strength at end of period			
Common equity Tier 1 capital ratio, transitional rules (%)	15.0	12.5	15.2
Capital ratio, transitional rules (%)	17.2	14.7	17.3
Common equity Tier 1 capital (NOK million)	33 576	27 240	33 592
Risk-weighted volume, transitional rules (NOK million)	223 164	217 870	221 648
Loan portfolio and impairment			
Impairment relative to average net loans to customers, annualised	(0.00)	0.00	0.00
Non-performing and doubtful loans, per cent of gross loans	0.18	0.23	0.19
Non-performing and doubtful gross loans, end of period (NOK million)	1 045	1 278	1 058
Net non-performing and net doubtful loans, per cent of net loans	0.11	0.14	0.11
Net non-performing and net doubtful loans, end of period (NOK million)	624	760	634
Staff			
Number of full-time positions at end of period	8	8	8

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

Profit and balance sheet trends

Comprehensive income statement					**DNB Boligkreditt AS**
Amounts in NOK million	1st quarter 2016	4th quarter 2015	3rd quarter 2015	2nd quarter 2015	1st quarter 2015
Total interest income	3 668	4 003	4 391	4 503	4 701
Total interest expenses	(2 396)	(2 515)	(2 744)	(2 858)	(2 873)
Net interest income	**1 273**	**1 488**	**1 647**	**1 645**	**1 828**
Commission and fee income	(9)	(11)	(7)	(3)	(8)
Commission and fee expenses	(1)	(0)	(0)	(0)	(0)
Net gains on financial instruments at fair value	802	466	1 507	329	1 779
Other income	1	1	1	1	1
Net other operating income	**793**	**455**	**1 500**	**327**	**1 772**
Total income	**2 066**	**1 943**	**3 147**	**1 972**	**3 600**
Salaries and other personnel expenses	(5)	(5)	(3)	(3)	(6)
Other expenses	(704)	(661)	(754)	(885)	(1 033)
Total operating expenses	**(709)**	**(665)**	**(757)**	**(888)**	**(1 039)**
Impairment of loans and commitments	(2)	(5)	6	0	2
Pre-tax operating profit	**1 354**	**1 273**	**2 396**	**1 084**	**2 562**
Tax expense	(339)	657	(647)	(293)	(692)
Profit for the period	**1 016**	**1 929**	**1 749**	**791**	**1 870**
Other comprehensive income		(2)			
Total comprehensive income for the period	**1 016**	**1 927**	**1 749**	**791**	**1 870**

Balance Sheet					**DNB Boligkreditt AS**
Amounts in NOK million	31 March 2016	31 Dec. 2015	30 Sept. 2015	30 June 2015	31 March 2015
Assets					
Due from credit institutions	735	468	947	1 075	801
Loans to customers	573 099	564 746	580 294	572 939	561 501
Financial derivatives	73 082	84 583	82 425	78 752	87 561
Other assets	1	1	14	1	1
Total assets	**646 917**	**649 797**	**663 680**	**652 766**	**649 865**
Liabilities and equity					
Due to credit institutions	130 108	113 813	105 382	123 563	109 715
Financial derivatives	10 732	9 651	11 148	10 818	12 376
Debt securities issued	451 971	473 745	495 895	469 443	484 829
Payable taxes	339	0	1 632	1 000	710
Deferred taxes	8 181	8 181	7 207	7 192	5 704
Other liabilities	487	322	261	344	368
Provisions	30	30	27	27	27
Subordinated loan capital	4 857	4 857	4 857	4 857	4 857
Total liabilities	**606 703**	**610 599**	**626 409**	**617 244**	**618 587**
Share capital	3 497	3 497	3 497	3 497	3 077
Share premium	25 623	25 623	25 623	25 623	21 843
Other equity	11 094	10 078	8 151	6 402	6 357
Total equity	**40 214**	**39 198**	**37 271**	**35 522**	**31 277**
Total liabilities and equity	**646 917**	**649 797**	**663 680**	**652 766**	**649 865**

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Annual and quarterly reports

DNB Boligkreditt AS is part of the DNB Bank Group and the DNB Group. Annual and quarterly reports for DNB Boligkreditt AS, the DNB Bank Group and the DNB Group are available on dnb.no.

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