

SECOND QUARTER AND FIRST HALF REPORT 2016  
(Unaudited)

DNB

Q2

DNB Boligkreditt

A company in the DNB Group

# Financial highlights

## Income statement

| <i>Amounts in NOK million</i>                                    | <b>DNB Boligkreditt AS</b> |                     |              |                      |                   |
|--|----------------------------|---------------------|--------------|----------------------|-------------------|
|  | 2nd quarter<br>2016        | 2nd quarter<br>2015 | 2016         | January-June<br>2015 | Full year<br>2015 |
| Net interest income  | 1 278                      | 1 645               | 2 551        | 3 473                | 6 608             |
| Net other operating income                                       | (515)                      | 327                 | 278          | 2 099                | 4 054             |
| <i>Of which net gains on financial instruments at fair value</i> | (512)                      | 329                 | 290          | 2 108                | 4 081             |
| Operating expenses   | (753)                      | (888)               | (1 463)      | (1 927)              | (3 349)           |
| Impairments on loans and commitments                             | 4                          | 0                   | 2            | (2)                  | 2                 |
| Pre-tax operating profit   | 13                         | 1 084               | 1 367        | 3 646                | 7 315             |
| Tax expense  | (3)                        | (293)               | (342)        | (985)                | (975)             |
| <b>Profit for the period</b>                                     | <b>10</b>                  | <b>791</b>          | <b>1 026</b> | <b>2 662</b>         | <b>6 340</b>      |

## Balance sheet

| <i>Amounts in NOK million</i> | 30 June<br>2016 | 31 Dec.<br>2015 | 30 June<br>2015 |
|-------------------------------|-----------------|-----------------|-----------------|
| Total assets                  | 660 608         | 649 797         | 652 766         |
| Loans to customers            | 588 391         | 564 746         | 572 939         |
| Debt securities issued        | 456 316         | 473 745         | 469 443         |
| Total equity                  | 39 804          | 39 198          | 35 522          |

## Key figures

| <i>Per cent</i>  | 2nd quarter<br>2016 | 2nd quarter<br>2015 | 2016 | January-June<br>2015 | Full year<br>2015 |
|--|---------------------|---------------------|------|----------------------|-------------------|
| Return on equity, annualised   | 0.1                 | 9.6                 | 5.3  | 16.9                 | 18.4              |
| Combined weighted total average spread for lending <sup>1)</sup>         | 0.82                | 1.10                | 0.82 | 1.20                 | 1.11              |
| Impairment relative to average 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             | 0.11                | 0.13                | 0.11 | 0.13                 | 0.11              |
| Common equity Tier 1 capital ratio, transitional rules, at end of period | 16.3                | 14.0                | 16.3 | 14.0                 | 15.2              |
| Capital ratio, transitional rules, at end of period                      | 18.4                | 16.1                | 18.4 | 16.1                 | 17.3              |

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

# Second quarter and first half report 2016

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

# Directors' report

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

## Financial accounts

DNB Boligkreditt recorded a profit of NOK 10 million in the second quarter of 2016, compared with a profit of NOK 791 million in the second quarter of 2015.

### Total income

Income totalled NOK 763 million in the second quarter of 2016, down from NOK 1 972 million in the year-earlier period.

| Amounts in NOK million                                    | 2nd quarter |         | 2nd quarter |
|---|-------------|---------|-------------|
|   | 2016        | Change  | 2015        |
| Total income  | 763         | (1 209) | 1 972       |
| Net interest income                                       |             | (367)   |             |
| Net commission and fee income                             |             | (1)     |             |
| Net gains/(losses) on financial instruments at fair value |             | (841)   |             |

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

The recorded loss on financial instruments reflects 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 effects of financial instruments were negative in the second quarter of 2016, while there was a positive effect in the first half of 2016. The negative effect in the second quarter of 2016 was mainly due to a decrease 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 736 million in the second quarter of 2016, down from NOK 875 million in the second quarter of 2015.

The company has generally recorded low impairment losses on loans. In the second quarter of 2016, the company reported net reversals on impairment losses of NOK 4 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 2016, DNB Boligkreditt had total assets of NOK 660.6 billion, an increase of NOK 7.8 billion or 1.2 per cent from end-June 2015.

| Amounts in NOK million     | 30 June | Change   | 30 June |
|----------------------------|---------|----------|---------|
|                            | 2016    |          | 2015    |
| Total assets               | 660 608 | 7 842    | 652 766 |
| Loans to customers         |         | 15 452   |         |
| Financial derivatives      |         | (10 301) |         |
| Other assets               |         | 2 691    |         |
| Total liabilities          | 620 804 | 3 560    | 617 244 |
| Due to credit institutions |         | 11 689   |         |
| Financial derivatives      |         | 252      |         |
| Debt securities issued     |         | (13 127) |         |
| Deferred taxes             |         | 5 309    |         |
| Other liabilities          |         | (563)    |         |

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 13.2 billion from end-June 2015. The company issued covered bonds under existing programmes for a total of NOK 18.6 billion in the second quarter of 2016. Total debt securities issued amounted to NOK 456.3 billion at end-June 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-June 2016, the company's equity totalled NOK 39.8 billion, of which NOK 37.2 billion represented Tier 1 capital. Total primary capital in the company was NOK 42.0 billion. The Tier 1 capital ratio was 16.3 per cent, while the capital adequacy ratio was 18.4 per cent.

### New regulatory framework

#### Norway joins the EU financial supervisory system

Due to the high bar set by the Norwegian Constitution for transferring sovereignty to international organisations, incorporating the EU regulations establishing the European supervisory authorities into the EEA agreement has required a lengthy dialogue between Norway and the EU before a compromise could be reached. As a result of this, more than 180 relevant EU legislative acts in the

area of financial services, granting the supervisory authorities the competence to exercise direct supervisory powers over enterprises, have not been included in the EEA agreement.

On 13 June 2016, the Norwegian parliament (Storting) approved the government's negotiated proposal for a solution to this intractable problem. Since the solution required ceding sovereignty to EFTA, the matter had to be considered according to Article 115 in the Norwegian Constitution, requiring a majority vote of three-fourths of the parliament members. The parliament resolution was sanctioned by the government on 17 June. According to the agreement, the Brussels-based EFTA Surveillance Authority, ESA, will be granted competence to make legally binding decisions addressed to national supervisory authorities and individual institutions in Norway, Liechtenstein and Iceland. Decisions will be based on drafts prepared by the relevant EU supervisory authority.

Norway's accession to the European cooperation on financial supervision means that the Norwegian financial services industry will remain fully integrated in the internal market through the EEA agreement. This is good news for DNB and the broader industry. However, it is unclear how quickly the solution negotiated between the EU and the EFTA countries will enter into force.

### Macroeconomic developments

According to the OECD, overall growth in real gross domestic product (GDP) in the G20 area remained stable at 0.7 per cent in the first quarter of 2016. GDP growth accelerated in the euro area in the first quarter of the year, picking up in Germany, France and Italy. There was also increasing growth in Australia, Canada, India (to 2.1 per cent, its highest rate in over five years), Japan and Mexico. By contrast, growth continued to slow in, among others, China and the United Kingdom. Also, the first figures released indicated a slowdown for the US economy, though recent figures show rising growth. Compared with the first quarter of 2015, GDP growth for the G20 area remained stable at 3.0 per cent, with India recording the highest growth rate (8.0 per cent) and Brazil the lowest (minus 5.1 per cent).

Norwegian mainland GDP rose by 0.3 per cent in the first quarter of 2016, mostly due to a rise in electricity production. Parallel to the release of the first quarter figures, growth in the second half of 2015 was revised down. Hence, the underlying growth seemed a bit more sluggish than before. However, Norges Bank's regional network reported a few positive signals, and unemployment was stable at 4.6 per cent in the second half of 2015 and the first quarter of 2016. Fiscal policy has been even more expansionary, and it is likely that Norges Bank will cut its policy rate from 0.50 per cent to 0.25 per cent in September. Consumer confidence is still low, but has risen over the last months. Existing home price growth has picked up and was 7.3 per cent year-on-year in May.

On 23 June, the people of the UK voted to leave the European Union. The Brexit vote initially caused severe market movements,

but most of the turmoil faded the following week. Most formal assessments agree that the UK would be worse off economically if it were to leave the EU, as higher trade and financial barriers would lead to lower output and incomes. Furthermore, IMF's staff analysis and assessments indicate that it is unlikely that any EU economies would gain from the UK's exit.

In 2015, 20 per cent of Norwegian goods exports were to the UK, representing mostly crude oil and natural gas. 8 per cent of traditional goods exports were to the UK, mainly manufactured goods, amounting to 1.1 per cent of mainland GDP. Exports of services to the UK were a little higher than traditional goods exports, but were dominated by ocean transport services and services to the UK petroleum sector. Most services exports to the UK will probably be little affected by the Brexit. Even allowing for indirect exports to the UK and lower international growth, the effects on the Norwegian economy through the international trade channel seem to be limited. Higher risk premiums in financial markets and greater uncertainty for enterprises and households may deepen the negative effects. At the time of writing, the financial markets seem to be normalising, with repriced levels for GBP and yield curves. Risk premiums, for example on currency basis swaps, rose immediately after the referendum, but seem to have started to revert. Without severe and long-lasting effects in the financial markets, Brexit will probably have a limited effect on the Norwegian economy.

### Future prospects

The Norwegian mainland economy stagnated in the second half of last year, and annual growth ended at 1.0 per cent. There are prospects of even lower growth in 2016.

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. Accommodative monetary and fiscal policies support the economy during the process to adapt to lower oil prices. As oil prices have partly recovered and are expected to rise further, 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 impairment in 2017 is expected to be at the same level.


In the second quarter of 2016 DNB Boligkreditt completed an equity issue to meet the authorities' requirement of 15.5 per cent common equity Tier 1 capital 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. Overall, this provides a further solid basis for DNB Boligkreditt's funding activities.

Oslo, 11 July 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

|  |       | DNB Boligkreditt AS |                     |                |                      |                   |
|--|-------|---------------------|---------------------|----------------|----------------------|-------------------|
| <i>Amounts in NOK million</i>                    | Note  | 2nd quarter<br>2016 | 2nd quarter<br>2015 | 2016           | January-June<br>2015 | Full year<br>2015 |
| Total interest income                            | 6     | 3 611               | 4 503               | 7 279          | 9 204                | 17 598            |
| Total interest expenses                          | 6     | (2 333)             | (2 858)             | (4 728)        | (5 731)              | (10 990)          |
| <b>Net interest income</b>                       | 6     | <b>1 278</b>        | <b>1 645</b>        | <b>2 551</b>   | <b>3 473</b>         | <b>6 608</b>      |
| Commission and fee income                        |       | (3)                 | (3)                 | (12)           | (10)                 | (28)              |
| Commission and fee expenses                      |       | (1)                 | (0)                 | (1)            | (1)                  | (2)               |
| Net gains on financial instruments at fair value | 7     | (512)               | 329                 | 290            | 2 108                | 4 081             |
| Other income                                     |       | 1                   | 1                   | 2              | 2                    | 3                 |
| <b>Net other operating income</b>                |       | <b>(515)</b>        | <b>327</b>          | <b>278</b>     | <b>2 099</b>         | <b>4 054</b>      |
| <b>Total income</b>                              |       | <b>763</b>          | <b>1 972</b>        | <b>2 829</b>   | <b>5 571</b>         | <b>10 662</b>     |
| Salaries and other personnel expenses            | 8     | (3)                 | (3)                 | (8)            | (9)                  | (17)              |
| Other expenses                                   | 8, 14 | (750)               | (885)               | (1 455)        | (1 918)              | (3 332)           |
| <b>Total operating expenses</b>                  | 8     | <b>(753)</b>        | <b>(888)</b>        | <b>(1 463)</b> | <b>(1 927)</b>       | <b>(3 349)</b>    |
| Impairment of loans and commitments              | 9     | 4                   | 0                   | 2              | 2                    | 2                 |
| <b>Pre-tax operating profit</b>                  |       | <b>13</b>           | <b>1 084</b>        | <b>1 367</b>   | <b>3 646</b>         | <b>7 315</b>      |
| Tax expense                                      |       | (3)                 | (293)               | (342)          | (985)                | (975)             |
| <b>Profit for the period</b>                     |       | <b>10</b>           | <b>791</b>          | <b>1 026</b>   | <b>2 662</b>         | <b>6 340</b>      |
| Other comprehensive income                       |       |                     |                     |                |                      | (2)               |
| <b>Total comprehensive income for the period</b> |       | <b>10</b>           | <b>791</b>          | <b>1 026</b>   | <b>2 662</b>         | <b>6 338</b>      |

# Balance sheet

|                                     |           | DNB Boligkreditt AS |                 |                 |
|-------------------------------------|-----------|---------------------|-----------------|-----------------|
| <i>Amounts in NOK million</i>       | Note      | 30 June<br>2016     | 31 Dec.<br>2015 | 30 June<br>2015 |
| <b>Assets</b>                       |           |                     |                 |                 |
| Due from credit institutions        | 12,13, 14 | 3 759               | 468             | 1 075           |
| Loans to customers                  | 9,12,13   | 588 391             | 564 746         | 572 939         |
| Financial derivatives               | 12, 14    | 68 451              | 84 583          | 78 752          |
| Other assets                        |           | 7                   | 1               | 1               |
| <b>Total assets</b>                 |           | <b>660 608</b>      | <b>649 797</b>  | <b>652 766</b>  |
| <b>Liabilities and equity</b>       |           |                     |                 |                 |
| Due to credit institutions          | 13, 14    | 135 252             | 113 813         | 123 563         |
| Financial derivatives               | 12, 14    | 11 070              | 9 651           | 10 818          |
| Debt securities issued              | 10,12,13  | 456 316             | 473 745         | 469 443         |
| Payable taxes                       |           | 342                 | 0               | 1 000           |
| Deferred taxes                      |           | 12 501              | 8 181           | 7 192           |
| Other liabilities                   |           | 437                 | 322             | 344             |
| Provisions                          |           | 29                  | 30              | 27              |
| Subordinated loan capital           | 11,13     | 4 856               | 4 857           | 4 857           |
| <b>Total liabilities</b>            |           | <b>620 804</b>      | <b>610 599</b>  | <b>617 244</b>  |
| Share capital                       |           | 3 857               | 3 497           | 3 497           |
| Share premium                       |           | 28 863              | 25 623          | 25 623          |
| Other equity                        |           | 7 084               | 10 078          | 6 402           |
| <b>Total equity</b>                 |           | <b>39 804</b>       | <b>39 198</b>   | <b>35 522</b>   |
| <b>Total liabilities and equity</b> |           | <b>660 608</b>      | <b>649 797</b>  | <b>652 766</b>  |

# Statement of changes in equity

| DNB Boligkreditt AS                              |               |               |                            |               |               |
|--|---------------|---------------|----------------------------|---------------|---------------|
| <i>Amounts in NOK million</i>                    | Share capital | Share premium | Actuarial gains and losses | Other equity  | Total equity  |
| <b>Balance sheet as at 31 December 2014</b>      | <b>3 077</b>  | <b>21 843</b> |                            | <b>4 487</b>  | <b>29 407</b> |
| Profit for the period                            |               |               |                            | 2 662         | 2 662         |
| <b>Total comprehensive income for the period</b> |               |               |                            | <b>2 662</b>  | <b>2 662</b>  |
| Group contribution paid                          |               |               |                            | (747)         | (747)         |
| Share issue                                      | 420           | 3 780         |                            |               | 4 200         |
| <b>Balance sheet as at 30 June 2015</b>          | <b>3 497</b>  | <b>25 623</b> |                            | <b>6 402</b>  | <b>35 522</b> |
| <b>Balance sheet as at 31 December 2015</b>      | <b>3 497</b>  | <b>25 623</b> | <b>2</b>                   | <b>10 076</b> | <b>39 198</b> |
| Profit for the period                            |               |               |                            | 1 026         | 1 026         |
| <b>Total comprehensive income for the period</b> |               |               |                            | <b>1 026</b>  | <b>1 026</b>  |
| Group contribution paid                          |               |               |                            | (4 020)       | (4 020)       |
| Share issue                                      | 360           | 3 240         |                            |               | 3 600         |
| <b>Balance sheet as at 30 June 2016</b>          | <b>3 857</b>  | <b>28 863</b> | <b>2</b>                   | <b>7 082</b>  | <b>39 804</b> |

## 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).

In June 2016 3 600 000 shares were issued to DNB Bank ASA. Issue price per share was NOK 100. After the issuance, share capital was increased by NOK 360 million to NOK 3 857 million (38 570 000 shares) and share premium was increased by NOK 3 240 million to NOK 28 863 million.

# Cash flow statement

| DNB Boligkreditt AS   |                 |                   |                 |
|---|-----------------|-------------------|-----------------|
| <i>Amounts in NOK million</i>   | 2016            | January-June 2015 | Full year 2015  |
| <b>Operating activities</b>   |                 |                   |                 |
| Net receipts/payments on loans to customers                                     | (10 310)        | (4 604)           | 12 362          |
| Interest received from customers  | 7 347           | 9 319             | 17 832          |
| Net receipts/payments on loans to/from credit institutions                      | 18 124          | 3 272             | (5 803)         |
| Interest received from credit institutions                                      | 7               | 7                 | 12              |
| Interest paid to credit institutions  | (1 062)         | (1 227)           | (2 280)         |
| Net receipts/payments on the sale of financial assets for investment or trading | 8 508           | 0                 | (32)            |
| Net payments on commissions and fees  | (14)            | (11)              | (11)            |
| Payments for operating expenses   | (1 353)         | (2 039)           | (3 500)         |
| <b>Net cash flow relating to operating activities</b>                           | <b>21 249</b>   | <b>4 717</b>      | <b>18 580</b>   |
| <b>Investing activities</b>   |                 |                   |                 |
| Net purchase of loan portfolio  | (13 240)        | (13 845)          | (23 203)        |
| <b>Net cash flow relating to investing activities</b>                           | <b>(13 240)</b> | <b>(13 845)</b>   | <b>(23 203)</b> |
| <b>Financing activities</b>   |                 |                   |                 |
| Receipts on issued bonds and commercial paper                                   | 44 097          | 31 804            | 75 226          |
| Payments on redeemed bonds and commercial paper                                 | (52 164)        | (22 992)          | (66 533)        |
| Interest payments on issued bonds and commercial paper                          | (3 799)         | (4 539)           | (8 784)         |
| Interest payments on subordinated loan capital                                  | (67)            | (75)              | (147)           |
| Share issue   | 3 600           | 4 200             | 4 200           |
| Group contribution receipts   | 300             | 738               | 738             |
| <b>Net cash flow from financing activities</b>                                  | <b>(8 032)</b>  | <b>9 136</b>      | <b>4 699</b>    |
| <b>Net cash flow</b>  | <b>(24)</b>     | <b>8</b>          | <b>76</b>       |
| Cash as at 1 January  | 79              | 3                 | 3               |
| Net receipts/payments of cash   | (24)            | 8                 | 76              |
| Cash at end of period   | 56              | 11                | 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  | DNB Boligkreditt AS |                 |
|--|---------------------|-----------------|
|  | 30 June<br>2016     | 31 Dec.<br>2015 |
| <i>Amounts in NOK million</i>  |                     |                 |
| Share capital  | 3 857               | 3 497           |
| Other equity   | 34 921              | 35 701          |
| Total equity   | 38 778              | 39 198          |
| Deductions   |                     |                 |
| Expected losses exceeding actual losses, IRB-portfolios  | (1 018)             | (967)           |
| Value adjustments due to the requirements for prudent valuation (AVA)  | (333)               | (385)           |
| Adjustments for unrealised losses/(gains) on liabilities recorded at fair value  | (239)               | (232)           |
| Adjustments for unrealised losses/(gains) arising from the institution's own credit risk related to derivative liabilities (DVA) | (5)                 | (2)             |
| Allocated group contributions for payment  |                     | (4 020)         |
| Common equity Tier 1 capital   | 37 183              | 33 592          |
| Term subordinated loan capital   | 4 850               | 4 850           |
| Tier 2 capital   | 4 850               | 4 850           |
| Total eligible primary capital   | 42 033              | 38 442          |
| Risk-weighted volume, transitional rules   | 227 863             | 221 648         |
| Minimum capital requirement, transitional rules  | 18 229              | 17 732          |
| Common equity Tier 1 capital ratio, transitional rules (%)   | 16.3                | 15.2            |
| Capital ratio, transitional rules (%)  | 18.4                | 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 |                   |                      |                     |                     |
|---|---------------------|-------------------|----------------------|---------------------|---------------------|
|   | Nominal exposure    | EAD <sup>1)</sup> | Risk-weighted volume | Capital requirement | Capital requirement |
|   | 30 June<br>2016     | 30 June<br>2016   | 30 June<br>2016      | 30 June<br>2016     | 31 Dec.<br>2015     |
| <i>Amounts in NOK million</i>   |                     |                   |                      |                     |                     |
| IRB approach  |                     |                   |                      |                     |                     |
| Corporate   | 5 922               | 5 922             | 3 096                | 248                 | 262                 |
| Retail - residential property   | 601 493             | 601 493           | 132 873              | 10 630              | 10 195              |
| Total credit risk, IRB approach   | 607 415             | 607 415           | 135 968              | 10 877              | 10 457              |
| Standardised approach   |                     |                   |                      |                     |                     |
| Institutions  | 23 014              | 20 388            | 4 078                | 326                 | 501                 |
| Corporate   | 17 947              | 17 911            | 6 375                | 510                 | 477                 |
| Retail - residential property   | 13 312              | 12 262            | 4 362                | 349                 | 331                 |
| Retail - other exposures  | 6 368               | 5 986             | 2 246                | 180                 | 18                  |
| Other assets  | 7                   | 7                 | 7                    | 1                   | 0                   |
| Total credit risk, standardised approach                                      | 60 648              | 56 554            | 17 067               | 1 365               | 1 327               |
| Total credit risk   | 668 063             | 663 968           | 153 035              | 12 243              | 11 785              |
| Credit value adjustment (CVA)   |                     |                   | 30 253               | 2 420               | 2 913               |
| Operational risk  |                     |                   | 12 740               | 1 019               | 1 019               |
| Total risk-weighted volume and capital requirements before transitional rules |                     |                   | 196 028              | 15 682              | 15 717              |
| Additional capital requirements according to transitional rules               |                     |                   | 31 835               | 2 547               | 2 014               |
| Total risk-weighted volume and capital requirements                           |                     |                   | 227 863              | 18 229              | 17 732              |

1) EAD, exposure at default



## Note 3 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 4 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 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 has received, as a subsidiary of a systemic important institution in Norway, a regulatory LCR requirement of 100%. This is fulfilled from the beginning of July.

## Note 6 Net interest income

| <i>Amounts in NOK million</i>                    | DNB Boligkreditt AS |                     |                |                      |                   |
|--|---------------------|---------------------|----------------|----------------------|-------------------|
|  | 2nd quarter<br>2016 | 2nd quarter<br>2015 | 2016           | January-June<br>2015 | Full year<br>2015 |
| Interest on amounts due from credit institutions | 4                   | 4                   | 7              | 7                    | 12                |
| Interest on loans to customers                   | 3 552               | 4 439               | 7 162          | 9 077                | 17 352            |
| Front-end fees etc.                              | 1                   | 4                   | 1              | 8                    | 11                |
| Other interest income                            | 54                  | 56                  | 108            | 112                  | 223               |
| <b>Total interest income</b>                     | <b>3 611</b>        | <b>4 503</b>        | <b>7 279</b>   | <b>9 204</b>         | <b>17 598</b>     |
| Interest on amounts due to credit institutions   | (317)               | (454)               | (635)          | (845)                | (1 531)           |
| Interest on debt securities issued               | (2 196)             | (2 483)             | (4 576)        | (5 080)              | (10 223)          |
| Interest on subordinated loan capital            | (33)                | (36)                | (66)           | (74)                 | (146)             |
| Net interest income/expenses, derivatives        | 213                 | 116                 | 548            | 269                  | 910               |
| <b>Total interest expenses</b>                   | <b>(2 333)</b>      | <b>(2 858)</b>      | <b>(4 728)</b> | <b>(5 731)</b>       | <b>(10 990)</b>   |
| <b>Net interest income</b>                       | <b>1 278</b>        | <b>1 645</b>        | <b>2 551</b>   | <b>3 473</b>         | <b>6 608</b>      |

## Note 7 Net gains on financial instruments at fair value

| Amounts in NOK million  | DNB Boligkreditt AS |                     |                      |                      |                   |
|---|---------------------|---------------------|----------------------|----------------------|-------------------|
|   | 2nd quarter<br>2016 | 2nd quarter<br>2015 | January-June<br>2016 | January-June<br>2015 | Full year<br>2015 |
| Net gains on loans at fair value (fixed-rate loans) <sup>1)</sup>                 | (60)                | (618)               | 169                  | (1 015)              | (672)             |
| Net gains on financial liabilities (long-term borrowing in NOK) <sup>2)</sup>     | (123)               | 610                 | (405)                | 1 033                | 1 605             |
| Total gains on financial instruments, designated as at fair value                 | (184)               | (8)                 | (237)                | 18                   | 933               |
| Net gains on foreign exchange and financial derivatives, trading <sup>3) 4)</sup> | (324)               | 446                 | 469                  | 2 551                | 3 290             |
| Net gains on financial derivatives, hedging <sup>4) 5)</sup>                      | 1 206               | (5 545)             | 4 888                | (4 794)              | (4 802)           |
| Net gains on financial liabilities, hedged items <sup>5)</sup>                    | (1 210)             | 5 436               | (4 830)              | 4 333                | 4 659             |
| <b>Net gains on financial instruments at fair value</b>                           | <b>(512)</b>        | <b>329</b>          | <b>290</b>           | <b>2 108</b>         | <b>4 081</b>      |

- 1) DNB Boligkreditt's fixed-rate loans are measured at fair value. Reduced interest rates, including credit risk 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 220.6 million increase in market values in the second quarter of 2016 (negative effect on profits) due to such credit risk premium effects, compared with a NOK 174.7 million decrease in market values in the second quarter of 2015 (positive effect on profits). Accumulated positive mark-to-market effects by the end of the second quarter 2016 were NOK 63.8 million, compared with a negative NOK 526.2 million by the end of the second 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 439.0 million decrease in market values in the second quarter of 2016 (negative effect on profits) due to such basis swap spread effects, compared with a NOK 334.1 million increase in the second quarter of 2015 (positive effect on profits). Accumulated positive mark-to-market effects by the end of the second quarter 2016 were NOK 3 651.0 million, compared with accumulated positive effects of NOK 1 856.6 million by the end of the second 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 second quarter of 2016 negative effects of NOK 48.6 million have been recognised in the income statement due to CVA and DVA effect, compared with negative effects of NOK 21.3 million in the second quarter of 2015. Accumulated negative value adjustment by the end of the second quarter 2016 was NOK 766.1 million, compared with accumulated negative value adjustment of NOK 540.0 million by the end of the second 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

| Amounts in NOK million          | DNB Boligkreditt AS |                     |                      |                      |                   |
|---------------------------------|---------------------|---------------------|----------------------|----------------------|-------------------|
|                                 | 2nd quarter<br>2016 | 2nd quarter<br>2015 | January-June<br>2016 | January-June<br>2015 | Full year<br>2015 |
| Salaries                        | (2)                 | (1)                 | (4)                  | (5)                  | (8)               |
| Other personnel expenses        | (1)                 | (2)                 | (4)                  | (5)                  | (9)               |
| Fees <sup>1)</sup>              | (749)               | (885)               | (1 453)              | (1 917)              | (3 329)           |
| Other operating expenses        | (2)                 | (0)                 | (2)                  | (1)                  | (3)               |
| <b>Total operating expenses</b> | <b>(753)</b>        | <b>(888)</b>        | <b>(1 463)</b>       | <b>(1 927)</b>       | <b>(3 349)</b>    |

- 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

| <i>Amounts in NOK million</i>                        | <b>DNB Boligkreditt AS</b> |                 |                 |
|--|----------------------------|-----------------|-----------------|
|  | 30 June<br>2016            | 31 Dec.<br>2015 | 30 June<br>2015 |
| <b>Loans at amortised cost:</b>                      |                            |                 |                 |
| Loans to customers at amortised cost, nominal amount | 530 681                    | 506 576         | 492 152         |
| – Individual impairment                              | (46)                       | (46)            | (50)            |
| Loans to customers, after individual impairment      | 530 635                    | 506 531         | 492 102         |
| + Accrued interest                                   | 516                        | 583             | 674             |
| – Individual impairments on accrued interest         | (36)                       | (42)            | (45)            |
| Loans to customers, at amortised cost                | 531 116                    | 507 072         | 492 731         |
| <b>Loans at fair value:</b>                          |                            |                 |                 |
| Loans to customers at fair value, nominal amount     | 55 926                     | 56 492          | 78 533          |
| – Individual impairments                             |                            | (1)             | (1)             |
| Loans to customers, after individual impairment      | 55 926                     | 56 492          | 78 532          |
| + Accrued interest                                   | 86                         | 95              | 127             |
| + Adjustment to fair value                           | 1 353                      | 1 184           | 1 646           |
| Loans to customers, at fair value                    | 57 365                     | 57 770          | 80 305          |
| – Collective impairment                              | (90)                       | (96)            | (98)            |
| <b>Loans to customers</b>                            | <b>588 391</b>             | <b>564 746</b>  | <b>572 939</b>  |

| <i>Amounts in NOK million</i>                    | <b>DNB Boligkreditt AS</b> |                 |                 |
|--|----------------------------|-----------------|-----------------|
|  | 30 June<br>2016            | 31 Dec.<br>2015 | 30 June<br>2015 |
| <b>Impairment allowances</b>                     |                            |                 |                 |
| Individual impairment                            | (46)                       | (47)            | (51)            |
| Individual impairment of accrued interest        | (36)                       | (42)            | (45)            |
| Collective impairment                            | (90)                       | (96)            | (98)            |
| <b>Impairment allowances as at end of period</b> | <b>(171)</b>               | <b>(185)</b>    | <b>(194)</b>    |

| <i>Amounts in NOK million</i>       | <b>DNB Boligkreditt AS</b> |                     |          |                      |                   |
|-------------------------------------|----------------------------|---------------------|----------|----------------------|-------------------|
|                                     | 2nd quarter<br>2016        | 2nd quarter<br>2015 | 2016     | January-June<br>2015 | Full year<br>2015 |
| Individual impairment               | (4)                        | (1)                 | (7)      | (5)                  | (8)               |
| Collective impairment <sup>1)</sup> | 7                          | 0                   | 6        | 5                    | 6                 |
| Recoveries of previous write-offs   | 1                          | 1                   | 2        | 2                    | 4                 |
| <b>Impairment expenses</b>          | <b>4</b>                   | <b>(0)</b>          | <b>2</b> | <b>2</b>             | <b>2</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 in the annual report for 2015.

## Note 10 Debt securities issued

| Debt securities issued                                      | DNB Boligkreditt AS |                 |                 |
|---|---------------------|-----------------|-----------------|
|   | 30 June<br>2016     | 31 Dec.<br>2015 | 30 June<br>2015 |
| <i>Amounts in NOK million</i>                               |                     |                 |                 |
| Listed covered bonds, nominal amount                        | 367 239             | 386 944         | 391 111         |
| Private placements under the bond programme, nominal amount | 59 187              | 59 419          | 53 638          |
| Total bonds, nominal amount                                 | 426 427             | 446 362         | 444 749         |
| Accrued interest  | 2 835               | 4 602           | 3 369           |
| Unrealised losses <sup>1)</sup>                             | 27 054              | 22 780          | 21 325          |
| Adjustments   | 29 889              | 27 383          | 24 694          |
| <b>Total debt securities issued</b>                         | <b>456 316</b>      | <b>473 745</b>  | <b>469 443</b>  |

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

| Changes in debt securities issued   | DNB Boligkreditt AS                 |                |                              |                                       |                                   |                                     |
|-------------------------------------|-------------------------------------|----------------|------------------------------|---------------------------------------|-----------------------------------|-------------------------------------|
|                                     | Balance<br>sheet<br>30 June<br>2016 | Issued<br>2016 | Matured/<br>redeemed<br>2016 | Exchange<br>rate<br>movements<br>2016 | Changes in<br>adjustments<br>2016 | Balance<br>sheet<br>31 Dec.<br>2015 |
| <i>Amounts in NOK million</i>       |                                     |                |                              |                                       |                                   |                                     |
| Bond debt, nominal amount           | 426 427                             | 44 097         | (52 164)                     | (11 869)                              |                                   | 446 362                             |
| Adjustments                         | 29 889                              |                |                              |                                       | 2 506                             | 27 383                              |
| <b>Total debt securities issued</b> | <b>456 316</b>                      | <b>44 097</b>  | <b>(52 164)</b>              | <b>(11 869)</b>                       | <b>2 506</b>                      | <b>473 745</b>                      |

| Maturity of debt securities issued | DNB Boligkreditt AS |                     |                |
|------------------------------------|---------------------|---------------------|----------------|
|                                    | NOK                 | Foreign<br>currency | Total          |
| <i>Amounts in NOK million</i>      |                     |                     |                |
| 2016                               |                     | 23 555              | 23 555         |
| 2017                               | 10 690              | 50 530              | 61 220         |
| 2018                               | 13 450              | 57 127              | 70 577         |
| 2019                               | 16 600              | 40 513              | 57 113         |
| 2020                               | 19 000              | 34 631              | 53 631         |
| 2021 and later                     | 18 000              | 142 331             | 160 331        |
| <b>Total bond debt</b>             | <b>77 740</b>       | <b>348 687</b>      | <b>426 427</b> |

| Debt securities issued - matured/redeemed during the period | DNB Boligkreditt AS |               |                               |          |        |         |   |                 |
|---|---------------------|---------------|-------------------------------|----------|--------|---------|---|-----------------|
|   | ISIN Code           | Currency      | Matured<br>redeemed<br>amount | Interest | Issued | Matured | Remaining nominal amount<br>30 June<br>2016 | 31 Dec.<br>2015 |
| NO0010495575  | NOK                 | 5 740         | Floating                      | 2010     | 2016   | Matured |   | 5 740           |
|   | EUR                 | 48            | Fixed                         | 2011     | 2016   | Called  |   | 48              |
| XS0618702962  | EUR                 | 480           | Floating                      | 2011     | 2016   | Matured |   | 480             |
| AU0000DBNHA1  | AUD                 | 3 860         | Fixed                         | 2011     | 2016   | Matured |   | 3 860           |
| 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          |
| <b>Total debt securities issued, nominal value</b>          |                     | <b>52 164</b> |                               |          |        |         |   | <b>52 164</b>   |

| Cover pool  | DNB Boligkreditt AS |                 |                 |
|---|---------------------|-----------------|-----------------|
|   | 30 June<br>2016     | 31 Dec.<br>2015 | 30 June<br>2015 |
| <i>Amounts in NOK million</i>   |                     |                 |                 |
| Pool of eligible loans  | 584 855             | 561 517         | 569 681         |
| Market value of eligible derivatives  | 57 381              | 74 932          | 67 934          |
| <b>Total collateralised assets</b>  | <b>642 236</b>      | <b>636 449</b>  | <b>637 615</b>  |
| Debt securities issued, carrying value  | 451 971             | 473 745         | 469 443         |
| Less valuation changes attributable to changes in credit risk on debt carried at fair value | 64                  | 361             | (500)           |
| <b>Debt securities issued, valued according to regulation <sup>1)</sup></b>                 | <b>452 034</b>      | <b>474 106</b>  | <b>468 943</b>  |
| Collateralisation (per cent)  | 142.1               | 134.2           | 136.0           |

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

| <i>Amounts in NOK million</i>          | Currency | Nominal amount | Interest rate          | Issue date | Maturity date | DNB Boligkreditt AS |              |              |
|--|----------|----------------|------------------------|------------|---------------|---------------------|--------------|--------------|
|  |          |                |                        |            |               | 30 June 2016        | 31 Dec. 2015 | 30 June 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                       |          |                |                        |            |               | 6                   | 7            | 7            |
| <b>Total subordinated loan capital</b> |          |                |                        |            |               | <b>4 856</b>        | <b>4 857</b> | <b>4 857</b> |

## Note 12 Financial instruments at fair value

| <i>Amounts in NOK million</i>         | Valuation based on quoted prices in an active market Level 1 | Valuation based on observable market data Level 2 | DNB Boligkreditt AS  |        |
|---------------------------------------|--|---|--|--------|
|                                       |  |   | Valuation based on other than observable market data Level 3 | Total  |
| <b>Assets as at 30 June 2016</b>      |  |   |  |        |
| Due from credit institutions          |  | 2 634   |  | 2 634  |
| Loans to customers                    |  |   | 57 365   | 57 365 |
| Financial derivatives                 |  | 68 451  |  | 68 451 |
| <b>Liabilities as at 30 June 2016</b> |  |   |  |        |
| Debt securities issued                |  | 79 692  |  | 79 692 |
| Financial derivatives                 |  | 11 070  |  | 11 070 |

| <i>Amounts in NOK million</i>         | Valuation based on quoted prices in an active market Level 1 | Valuation based on observable market data Level 2 | DNB Boligkreditt AS  |        |
|---------------------------------------|--|---|--|--------|
|                                       |  |   | Valuation based on other than observable market data Level 3 | Total  |
| <b>Assets as at 30 June 2015</b>      |  |   |  |        |
| Loans to customers                    |  |   | 80 306   | 80 306 |
| Financial derivatives                 |  | 78 752  |  | 78 752 |
| <b>Liabilities as at 30 June 2015</b> |  |   |  |        |
| Debt securities issued                |  | 96 979  |  | 96 979 |
| Financial derivatives                 |  | 10 818  |  | 10 818 |

In the second quarter of 2016 DNB Boligkreditt entered into repurchase agreements (repos) with the bank as counterparty. The fair value of the repos is presented in level 2 and amounted to NOK 2 634 million at end-June 2016. For a further description of the instruments and valuation techniques, see the annual report for 2015

### Financial instruments at fair value, level 3

| <i>Amounts in NOK million</i>                 | DNB Boligkreditt AS |
|---|---------------------|
|   | Loans to customers  |
| <b>Carrying amount as at 31 December 2015</b> | <b>57 771</b>       |
| Net gains recognised in the income statement  | 160                 |
| Additions/purchases                           | 4 576               |
| Sales   | (100)               |
| Settled                                       | (5 042)             |
| <b>Carrying amount as at 30 June 2016</b>     | <b>57 365</b>       |

## 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.

| <i>Amounts in NOK million</i>      | <b>DNB Boligkreditt AS</b> |                |                 |                |
|------------------------------------|----------------------------|----------------|-----------------|----------------|
|                                    | 30 June 2016               |                | 30 June 2015    |                |
|                                    | Carrying amount            | Fair value     | Carrying amount | Fair value     |
| Due from credit institutions       | 1 125                      | 1 125          | 1 075           | 1 075          |
| Loans to customers                 | 531 026                    | 531 026        | 492 826         | 492 826        |
| <b>Total financial assets</b>      | <b>532 151</b>             | <b>532 151</b> | <b>493 901</b>  | <b>493 901</b> |
| Due to credit institutions         | 135 252                    | 135 252        | 123 563         | 123 563        |
| Debt securities issued             | 376 624                    | 378 870        | 372 464         | 376 939        |
| Subordinated loan capital          | 4 856                      | 4 868          | 4 857           | 4 863          |
| <b>Total financial liabilities</b> | <b>516 732</b>             | <b>518 990</b> | <b>500 884</b>  | <b>505 365</b> |

| <i>Amounts in NOK million</i>         | Valuation based on quoted prices in an active market | Valuation based on observable market data | Valuation based on other than observable market data | Total   |
|---------------------------------------|--|---|--|---------|
|                                       | Level 1  | Level 2                                   | Level 3  |         |
| <b>Assets as at 30 June 2016</b>      |  |   |  |         |
| Due from credit institutions          |  | 1 125                                     |  | 1 125   |
| Loans to customers                    |  |   | 531 026  | 531 026 |
| <b>Liabilities as at 30 June 2016</b> |  |   |  |         |
| Due to credit institutions            |  | 135 252                                   |  | 135 252 |
| Debt securities issued                |  | 378 870                                   |  | 378 870 |
| 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**

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### **DNB Bank ASA**

During the first half of 2016, loan portfolios of NOK 13.2 billion were transferred from the bank to DNB Boligkreditt in accordance with the "Agreement relating to transfer of loan portfolio between DNB Bank ASA and DNB Boligkreditt AS".

The management fee paid to the bank for purchased services is recognised as "Other expenses" in the statement of comprehensive income and amounted to NOK 1 427 million for the first half of 2016 (NOK 1 899 million for the first half of 2015).

At end-June, the bank had invested NOK 3.5 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 do not constitute a guarantee in respect of amounts due and payable under the Covered Bonds. The agreement was cancelled on DNB Boligkreditt's initiative in the second quarter of 2016.

In the second quarter of 2016 DNB Boligkreditt entered into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The value of the repos amounted to NOK 2.6 billion at end-June 2016.

### **DNB Livsforsikring AS**

At end-June 2016, DNB Livsforsikring's holding of listed DNB Boligkreditt bonds was valued at NOK 1.8 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 1.7 million for the first half of 2016.



# 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 2016 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:

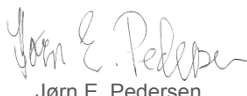
- overview of important events that occurred during the accounting period and their impact on the half-yearly financial statements
- description of the principal risks and uncertainties facing the company over the next accounting period
- description of major transactions with related parties.

Oslo, 11 July 2016

The Board of Directors of DNB Boligkreditt AS



Bjørn Erik Næss  
(chairman)



Jørn E. Pedersen



Eva-Lill Strandskogen



Per Sagbakken  
(chief executive officer)

# Key figures

|  | <b>DNB Boligkreditt AS</b> |                     |         |                      |                   |
|--|----------------------------|---------------------|---------|----------------------|-------------------|
|  | 2nd quarter<br>2016        | 2nd quarter<br>2015 | 2016    | January-June<br>2015 | Full year<br>2015 |
| <b>Rate of return/profitability</b>                                    |                            |                     |         |                      |                   |
| Return on equity, annualised (%) <sup>1)</sup>                         | 0.1                        | 9.6                 | 5.3     | 16.9                 | 18.4              |
| <b>Financial strength at end of period</b>                             |                            |                     |         |                      |                   |
| Common equity Tier 1 capital ratio, transitional rules (%)             | 16.3                       | 14.0                | 16.3    | 14.0                 | 15.2              |
| Capital ratio, transitional rules (%)                                  | 18.4                       | 16.1                | 18.4    | 16.1                 | 17.3              |
| Common equity Tier 1 capital (NOK million)                             | 37 183                     | 31 207              | 37 183  | 31 207               | 33 592            |
| Risk-weighted volume, transitional rules (NOK million)                 | 227 863                    | 223 632             | 227 863 | 223 632              | 221 648           |
| <b>Loan portfolio and impairment</b>                                   |                            |                     |         |                      |                   |
| Impairment relative to average net loans to customers, annualised      | 0.00                       | (0.00)              | 0.00    | (0.00)               | 0.00              |
| Non-performing and doubtful loans, per cent of gross loans             | 0.19                       | 0.22                | 0.19    | 0.22                 | 0.19              |
| Non-performing and doubtful gross loans, end of period (NOK million)   | 1 147                      | 1 283               | 1 147   | 1 283                | 1 058             |
| Net non-performing and net doubtful loans, per cent of net loans       | 0.11                       | 0.13                | 0.11    | 0.13                 | 0.11              |
| Net non-performing and net doubtful loans, end of period (NOK million) | 628                        | 756                 | 628     | 756                  | 634               |
| <b>Staff</b>   |                            |                     |         |                      |                   |
| Number of full-time positions at end of period                         | 8                          | 8                   | 8       | 8                    | 8                 |

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

# Profit and balance sheet trends

## Comprehensive income statement

| <i>Amounts in NOK million</i>                    | <b>DNB Boligkreditt AS</b> |                     |                     |                     |                     |
|--|----------------------------|---------------------|---------------------|---------------------|---------------------|
|  | 2nd quarter<br>2016        | 1st quarter<br>2016 | 4th quarter<br>2015 | 3rd quarter<br>2015 | 2nd quarter<br>2015 |
| Total interest income                            | 3 611                      | 3 668               | 4 003               | 4 391               | 4 503               |
| Total interest expenses                          | (2 333)                    | (2 396)             | (2 515)             | (2 744)             | (2 858)             |
| <b>Net interest income</b>                       | <b>1 278</b>               | <b>1 273</b>        | <b>1 488</b>        | <b>1 647</b>        | <b>1 645</b>        |
| Commission and fee income                        | (3)                        | (9)                 | (11)                | (7)                 | (3)                 |
| Commission and fee expenses                      | (1)                        | (1)                 | (0)                 | (0)                 | (0)                 |
| Net gains on financial instruments at fair value | (512)                      | 802                 | 466                 | 1 507               | 329                 |
| Other income                                     | 1                          | 1                   | 1                   | 1                   | 1                   |
| <b>Net other operating income</b>                | <b>(515)</b>               | <b>793</b>          | <b>455</b>          | <b>1 500</b>        | <b>327</b>          |
| <b>Total income</b>                              | <b>763</b>                 | <b>2 066</b>        | <b>1 943</b>        | <b>3 147</b>        | <b>1 972</b>        |
| Salaries and other personnel expenses            | (3)                        | (5)                 | (5)                 | (3)                 | (3)                 |
| Other expenses                                   | (750)                      | (704)               | (661)               | (754)               | (885)               |
| <b>Total operating expenses</b>                  | <b>(753)</b>               | <b>(709)</b>        | <b>(665)</b>        | <b>(757)</b>        | <b>(888)</b>        |
| Impairment of loans and commitments              | 4                          | (2)                 | (5)                 | 6                   | 0                   |
| <b>Pre-tax operating profit</b>                  | <b>13</b>                  | <b>1 354</b>        | <b>1 273</b>        | <b>2 396</b>        | <b>1 084</b>        |
| Tax expense                                      | (3)                        | (339)               | 657                 | (647)               | (293)               |
| <b>Profit for the period</b>                     | <b>10</b>                  | <b>1 016</b>        | <b>1 929</b>        | <b>1 749</b>        | <b>791</b>          |
| Other comprehensive income                       |                            |                     | (2)                 |                     |                     |
| <b>Total comprehensive income for the period</b> | <b>10</b>                  | <b>1 016</b>        | <b>1 927</b>        | <b>1 749</b>        | <b>791</b>          |

## Balance Sheet

| <i>Amounts in NOK million</i>       | <b>DNB Boligkreditt AS</b> |                  |                 |                  |                 |
|-------------------------------------|----------------------------|------------------|-----------------|------------------|-----------------|
|                                     | 30 June<br>2016            | 31 March<br>2016 | 31 Dec.<br>2015 | 30 Sept.<br>2015 | 30 June<br>2015 |
| <b>Assets</b>                       |                            |                  |                 |                  |                 |
| Due from credit institutions        | 3 759                      | 735              | 468             | 947              | 1 075           |
| Loans to customers                  | 588 391                    | 573 099          | 564 746         | 580 294          | 572 939         |
| Financial derivatives               | 68 451                     | 73 082           | 84 583          | 82 425           | 78 752          |
| Other assets                        | 7                          | 1                | 1               | 14               | 1               |
| <b>Total assets</b>                 | <b>660 608</b>             | <b>646 917</b>   | <b>649 797</b>  | <b>663 680</b>   | <b>652 766</b>  |
| <b>Liabilities and equity</b>       |                            |                  |                 |                  |                 |
| Due to credit institutions          | 135 252                    | 130 108          | 113 813         | 105 382          | 123 563         |
| Financial derivatives               | 11 070                     | 10 732           | 9 651           | 11 148           | 10 818          |
| Debt securities issued              | 456 316                    | 451 971          | 473 745         | 495 895          | 469 443         |
| Payable taxes                       | 342                        | 339              | 0               | 1 632            | 1 000           |
| Deferred taxes                      | 12 501                     | 8 181            | 8 181           | 7 207            | 7 192           |
| Other liabilities                   | 437                        | 487              | 322             | 261              | 344             |
| Provisions                          | 29                         | 30               | 30              | 27               | 27              |
| Subordinated loan capital           | 4 856                      | 4 857            | 4 857           | 4 857            | 4 857           |
| <b>Total liabilities</b>            | <b>620 804</b>             | <b>606 703</b>   | <b>610 599</b>  | <b>626 409</b>   | <b>617 244</b>  |
| Share capital                       | 3 857                      | 3 497            | 3 497           | 3 497            | 3 497           |
| Share premium                       | 28 863                     | 25 623           | 25 623          | 25 623           | 25 623          |
| Other equity                        | 7 084                      | 11 094           | 10 078          | 8 151            | 6 402           |
| <b>Total equity</b>                 | <b>39 804</b>              | <b>40 214</b>    | <b>39 198</b>   | <b>37 271</b>    | <b>35 522</b>   |
| <b>Total liabilities and equity</b> | <b>660 608</b>             | <b>646 917</b>   | <b>649 797</b>  | <b>663 680</b>   | <b>652 766</b>  |

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## **Other sources of information**

### **Annual and quarterly reports**

DNB Boligkreditt AS is part of the DNB Bank Group and the DNB Group. Annual and quarterly reports for DNB Boligkreditt AS, the DNB Bank Group and the DNB Group are available on [dnb.no](http://dnb.no).

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When it matters the most.

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