

DNB Boligkreditt AS

A company in the DNB Group



DNB

**SECOND QUARTER AND
FIRST HALF REPORT 2017**
(Unaudited)

Financial highlights

Income statement

<i>Amounts in NOK million</i>	DNB Boligkreditt AS				
	2nd quarter 2017	2nd quarter 2016	2017	January-June 2016	Full year 2016
Net interest income	1 406	1 278	2 592	2 551	4 702
Net other operating income	(330)	(515)	(1 267)	278	(1 207)
<i>Of which net gains on financial instruments at fair value</i>	<i>(348)</i>	<i>(512)</i>	<i>(1 300)</i>	<i>290</i>	<i>(1 233)</i>
Total operating expenses	(312)	(753)	(380)	(1 463)	(2 398)
Impairment of loans and commitments	(1)	4	8	2	14
Pre-tax operating profit	763	13	954	1 367	1 111
Tax expense	(191)	(3)	(239)	(342)	(297)
Profit for the period	572	10	716	1 026	815

Balance sheet

<i>Amounts in NOK million</i>	30 June 2017	31 Dec. 2016	30 June 2016
Total assets	685 120	681 264	660 608
Loans to customers	616 995	603 165	588 391
Debt securities issued	454 666	439 072	456 316
Total equity	42 492	39 592	39 804

Key figures and alternative performance measures

	2nd quarter 2017	2nd quarter 2016	2017	January-June 2016	Full year 2016
Return on equity, annualised (%) ¹⁾	5.4	0.1	3.5	5.3	2.1
Total average spread for lending (%) ¹⁾	0.81	0.78	0.73	0.80	0.69
Impairment relative to average net loans to customers, annualised (%) ¹⁾	(0.00)	0.01	0.00	0.00	0.00
Net non-performing and impaired loans, per cent of net loans ¹⁾	0.10	0.11	0.10	0.11	0.10
Non-performing and doubtful loans, per cent of gross loans ¹⁾	0.18	0.19	0.18	0.19	0.17
Non-performing and doubtful gross loans, end of period (NOK million) ¹⁾	1 103	1 147	1 103	1 147	1 011
Net non-performing and net doubtful loans, end of period (NOK million) ¹⁾	609	628	609	628	599
Common equity Tier 1 capital ratio, transitional rules (%)	16.6	16.3	16.6	16.3	16.0
Capital ratio, transitional rules (%)	18.6	18.4	18.6	18.4	18.0
Common equity Tier 1 capital (NOK million)	40 383	37 183	40 383	37 183	37 451
Risk-weighted volume, transitional rules (NOK million)	243 785	227 863	243 785	227 863	234 483
Number of full-time positions at end of period	7	7	7	7	7

1) Defined as alternative performance measures (APM). APMs are described in Additional information.

Second quarter and first half report 2017

Directors' report	2
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Accounts

Comprehensive income statement	5
Balance sheet	5
Statement of changes in equity.....	6
Cash flow statement.....	6
Note 1 Basis for preparation.....	7
Note 2 Capital adequacy.....	7
Note 3 Credit risk.....	8
Note 4 Market risk	8
Note 5 Liquidity risk	9
Note 6 Net interest income.....	9
Note 7 Net gains on financial instruments at fair value.....	10
Note 8 Operating expenses.....	10
Note 9 Loans to customers	11
Note 10 Debt securities issued	12
Note 11 Subordinated loan capital	13
Note 12 Financial instruments at fair value.....	14
Note 13 Fair value of financial instruments at amortised cost	15
Note 14 Information on related parties.....	16

Statement pursuant to the Securities Trading Act	17
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Additional information

Profit and balance sheet trends	18
Alternative performance measures	19
Contact information	20

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 572 million in the second quarter of 2017, compared with a profit of NOK 10 million in the second quarter of 2016.

Total income

Income totalled NOK 1 076 million in the second quarter of 2017, up from NOK 763 million in the year-earlier period.

Amounts in NOK million	2nd quarter		2nd quarter
	2017	Change	2016
Total income	1 076	313	763
Net interest income		128	
Net commission and fee income		22	
Net gains/(losses) on financial instruments at fair value		163	

The increase in net interest income was due to widening 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 effect of financial instruments was negative in both the second quarter of 2017 and the second quarter of 2016. The negative effect in the second quarter of 2017 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 287 million in the second quarter of 2017, down from NOK 736 million in the second quarter of 2016.

The company has generally recorded low impairment losses on loans. In the second quarter of 2017, the company reported impairment losses of NOK 1 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 2017, DNB Boligkreditt had total assets of NOK 685.1 billion, an increase of NOK 24.5 billion or 3.7 per cent from end-June 2016.

Amounts in NOK million	30 June	Change	30 June
	2017		2016
Total assets	685 120	24 512	660 608
Loans to customers		28 604	
Financial derivatives		(5 380)	
Other assets		1 288	
Total liabilities	642 628	21 824	620 804
Due to credit institutions		30 024	
Financial derivatives		2 360	
Debt securities issued		(1 650)	
Deferred taxes		(8 555)	
Other liabilities		(355)	

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 1.7 billion from end-June 2016. The company issued covered bonds under existing programmes for a total of NOK 1.2 billion in the second quarter of 2017. Total debt securities issued amounted to NOK 455 billion at end-June 2017.

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.

In the first quarter of 2017, DNB Boligkreditt issued shares through a private placement aimed at DNB Bank for a total of NOK 3 billion. At end-June 2017, the company's equity totalled NOK 42.5 billion, of which NOK 40.4 billion represented Tier 1 capital. Total primary capital in the company was NOK 45.2 billion. The Tier 1 capital ratio was 16.6 per cent, while the capital adequacy ratio was 18.6 per cent.

New regulatory framework

New rules on deposit guarantee scheme and crisis management for banks

The Ministry of Finance has proposed new legislation to the Norwegian parliament (Stortinget) for banking crisis resolution and the deposit guarantee scheme. The amending legislation will implement the EU Bank Recovery and Resolution Directive (BRRD) and the revised directive on Deposit Guarantee Schemes (DGS) in Norway. Both directives are EEA relevant, but have not yet been included in the EEA Agreement.

Among other things, the Ministry of Finance proposes that plans be drawn up for the recovery and crisis management of individual banks, and that Finanstilsynet be given new tools to intervene at an early stage when banks have financial problems. Among the proposed crisis resolution measures, internal recapitalisation (bail-in) is the most significant change compared with current legislation. Bail-in implies that parts of the debt of the bank in resolution are converted to equity, whereby losses are covered and the bank is capitalised to a level where operations can be continued.

Norway currently has one of the best capitalised deposit guarantee funds in Europe. In line with the EU directives, the Ministry of Finance proposes to transfer the capital to two new funds that will fund the deposit guarantee and resolution measures. The directives require that the funds represent minimum 1.8 per cent of guaranteed deposits in 2024. The level of capital in both Norwegian funds already exceeds the target set by the EU.

In addition, the Ministry of Finance proposes to retain the requirement of annual payments from the banks to the funds. Payments from DNB to the funds will be higher than today. This is mainly due to the fact that the duty to contribute to the resolution fund will also apply to DNB's mortgage institutions. Payments to the new funds will be more strongly differentiated according to risk, which implies that the banks with the highest risk level must pay a larger share.

Non-risk based capital requirement, leverage ratio

As a supplement to the risk-weighted capital requirements and as a measure to counter adjustments and gaps in the regulations, a non-risk based capital requirement, "leverage ratio", will also be introduced. The Ministry of Finance has set a minimum requirement of 3 per cent as of 30 June 2017. All banks must have a buffer on top of the minimum requirement of minimum 2 per cent. Systemically important banks must have an additional buffer of minimum 1 per cent. As a systemically important bank in Norway, the total requirement for DNB will thus be 6 per cent. The additional buffer requirements will not apply to DNB Boligkreditt, which means that 3 per cent will be the effective requirement.

Macroeconomic developments

Global GDP growth ended at 3.0 per cent in 2016 and looks set to be slightly higher this year. Growth will probably increase further in 2018. A rise is expected for both industrialised countries and emerging economies, though the level of growth is expected to remain low in the industrial countries. Nevertheless, a further decline in unemployment is anticipated in these countries, while price inflation will remain below the central banks' targets.

The Chinese economy continued to grow strongly in 2016, by 6.7 per cent, which was in line with the authorities' ambition of a growth rate between 6.5 and 7.0 per cent. The pace of growth has slowed somewhat in 2017, with a weaker development within real estate and infrastructure investments. Growth is expected to decelerate further during the year, but large parts of the economy, including consumption, remain strong and contribute to a relatively moderate slowdown. Due to factors

such as high debt levels and unprofitable investments, there is a risk of a crisis further ahead in time. 2016 was a quite good year for the Japanese economy, which grew by 1.0 per cent from the year before. A slightly lower future growth rate is expected, reflecting the limited growth potential caused, among other things, by demographic factors.

In the United States, the cyclical upturn looks set to continue. There was weak growth in the first quarter, though this was probably due to temporary factors. The level of activity is expected to pick up next year as a result of an expansionary fiscal policy. The rate of unemployment has declined further, while employment growth has been somewhat weaker in recent months. Overall, the labour market is still strong. Wage growth is nevertheless moderate and price inflation is just below the Federal Reserve's 2 per cent target. An expansionary monetary policy has supported the US recovery in recent years. However, monetary policy is expected to be normalised in the coming period. The Federal Reserve raised its policy rate in both March and June and is expected to implement further rate increases in December this year and twice next year. In addition, the Federal Reserve will probably start to scale down its balance sheet by reducing reinvestments in Treasury bills and mortgage-backed securities during the year.

In the euro area, GDP growth in the first quarter was higher than expected and confidence indexes for households and businesses indicate a further recovery. Business investment is up and will probably represent a higher share of GDP after many years of sluggish growth. However, the confidence indexes appear to focus too strongly on activity levels. Moreover, consumption is expected to decline in step with higher inflation and lower growth in households' real income. Wage growth is still low and inflation is likely to remain below the central bank target for a long time. The European Central Bank will probably continue to pursue an expansionary monetary policy for many years and to gradually scale down its asset purchases, which will not end until 2019.

In the UK, there will probably be significantly weaker growth in the period ahead as a result of uncertainty about the exit agreement with the EU and new trade agreements. This will probably contribute to lowering both consumption and investments. In consequence of weaker growth, the Bank of England will keep its policy rate unchanged for a long time, in spite of the temporary high inflation resulting from the depreciating pound in the aftermath of the Brexit vote. Uncertainty regarding the process around Brexit and the results thereof makes future prospects more unpredictable than normal.

GDP growth for Mainland Norway was significantly stronger in the first quarter of the year than throughout last year and also showed signs of being broadly based. A less pronounced drop in oil investments and a certain rise in private consumption are expected to provide a slight increase in growth this year. From next year onwards, the upswing will be curbed by lower housing investment and a more neutral contribution from fiscal policy. Unemployment seems to have peaked. The unemployment rate has dropped from its highest level, as measured by both Statistics Norway's labour force survey and the Norwegian Labour and Welfare Administration's statistics of registered unemployed people. Employment growth has also increased somewhat, but is still moderate.

The tightening of the home mortgage lending regulation as of 1 January 2017 has contributed to prices levelling off during the first six months of this year. Combined with greater housebuilding activity and the fact that mortgage rates appear to have bottomed out, this is expected to result in housing prices levelling off over the next few years. A general improvement in the Norwegian economy and continued low interest rates limit the downside in housing prices.

Future prospects

Lending volumes are expected to be stable in 2017 and 2018. In 2019, total lending volume growth is expected to rise by 2 to 3 per cent. Average impairment losses are expected to be at normalised levels in 2017.

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 2017 is expected to be somewhat lower than in 2016. Overall, this provides a further solid basis for DNB Boligkreditt's funding activities.

Oslo, 11 July 2017

The Board of Directors of DNB Boligkreditt AS



Kjerstin R. Braathen
(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 2017	2nd quarter 2016	2017	January-June 2016	Full year 2016
Total interest income	6	3 722	3 611	7 386	7 279	14 487
Total interest expenses	6	(2 317)	(2 333)	(4 793)	(4 728)	(9 785)
Net interest income	6	1 406	1 278	2 592	2 551	4 702
Commission and fee income		18	(3)	33	(12)	25
Commission and fee expenses		(0)	(1)	(2)	(1)	(2)
Net gains on financial instruments at fair value	7	(348)	(512)	(1 300)	290	(1 233)
Other income	14	1	1	2	2	3
Net other operating income		(330)	(515)	(1 267)	278	(1 207)
Total income		1 076	763	1 326	2 829	3 495
Salaries and other personnel expenses	8	(3)	(3)	(7)	(8)	(12)
Other expenses	8, 14	(309)	(750)	(373)	(1 455)	(2 386)
Total operating expenses	8	(312)	(753)	(380)	(1 463)	(2 398)
Impairment of loans and commitments	9	(1)	4	8	2	14
Pre-tax operating profit		763	13	954	1 367	1 111
Tax expense		(191)	(3)	(239)	(342)	(297)
Profit for the period		572	10	716	1 026	815
Other comprehensive income						(1)
Total comprehensive income for the period		572	10	716	1 026	814

Balance sheet

		DNB Boligkreditt AS		
<i>Amounts in NOK million</i>	Note	30 June 2017	31 Dec. 2016	30 June 2016
Assets				
Due from credit institutions	12, 13, 14	5 056	27 110	3 759
Loans to customers	9, 12, 13	616 995	603 165	588 391
Financial derivatives	12, 13	63 071	50 827	68 451
Other assets		(1)	162	7
Total assets		685 120	681 264	660 608
Liabilities and equity				
Due to credit institutions	13, 14	165 276	172 048	135 252
Financial derivatives	12, 13	13 430	12 300	11 070
Debt securities issued	10, 12, 13	454 666	439 072	456 316
Payable taxes		239	8 852	342
Deferred taxes		3 946	3 946	12 501
Other liabilities		186	569	437
Provisions		28	28	29
Subordinated loan capital	11, 13	4 856	4 857	4 856
Total liabilities		642 628	641 672	620 804
Share capital		4 157	3 857	3 857
Share premium		31 563	28 863	28 863
Other equity		6 772	6 872	7 084
Total equity		42 492	39 592	39 804
Total liabilities and equity		685 120	681 264	660 608

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
Balance sheet as at 31 December 2015	3 497	25 623	2	10 076	39 198
Profit for the period				1 026	1 026
Total comprehensive income for the period				1 026	1 026
Group contribution paid				(4 020)	(4 020)
Share issue	360	3 240			3 600
Balance sheet as at 30 June 2016	3 857	28 863	2	7 082	39 804
Balance sheet as at 31 December 2016	3 857	28 863	1	6 871	39 592
Profit for the period				716	716
Total comprehensive income for the period				716	716
Group contribution paid				(815)	(815)
Share issue	300	2 700			3 000
Balance sheet as at 30 June 2017	4 157	31 563	1	6 772	42 492

Share capital

All shares and voting rights of the company are held by DNB Bank ASA. Share capital at the beginning of 2017 was NOK 3 857 million (38 570 000 shares at NOK 100).

In March 2017 3 000 000 shares were issued to DNB Bank ASA. Issue price per share was NOK 100. After the issuance, share capital was increased by NOK 300 million to NOK 4 157 million (38 570 000 shares) and share premium was increased by NOK 2 700 million to NOK 31 563 million.

Cash flow statement

<i>Amounts in NOK million</i>	2017	January-June 2016	Full year 2016
Operating activities			
Net payments on loans to customers	(4 678)	(10 310)	(19 335)
Interest received from customers	7 369	7 347	14 481
Net receipts on loans to/from credit institutions	15 014	18 124	31 535
Interest received from credit institutions	43	7	44
Interest paid to credit institutions	(1 320)	(1 062)	(2 440)
Net receipts/payments on the sale of financial assets for investment or trading	(1)	8 508	13 810
Net receipts/payments on commissions and fees	31	(14)	23
Payments for operating expenses	(598)	(1 353)	(2 311)
Taxes paid	(8 328)		
Net cash flow relating to operating activities	7 533	21 249	35 806
Investing activities			
Net purchase of loan portfolio	(9 001)	(13 240)	(19 804)
Net cash flow relating to investing activities	(9 001)	(13 240)	(19 804)
Financing activities			
Receipts on issued bonds and commercial paper	42 210	44 097	64 045
Payments on redeemed bonds and commercial paper	(39 015)	(52 164)	(76 464)
Interest payments on issued bonds and commercial paper	(3 591)	(3 799)	(7 409)
Interest payments on subordinated loan capital	(66)	(67)	(133)
Share issue	3 000	3 600	3 600
Group contribution receipts/payments	(1 087)	300	300
Net cash flow from financing activities	1 453	(8 032)	(16 061)
Net cash flow	(15)	(24)	(59)
Cash as at 1 January	20	79	79
Net payments of cash	(15)	(24)	(59)
Cash at end of period	5	56	20

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, judgments 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 2016.

Note 2 Capital adequacy

Primary capital	DNB Boligkreditt AS	
	30 June 2017	31 Dec. 2016
<i>Amounts in NOK million</i>		
Share capital	4 157	3 857
Other equity	37 619	35 735
Total equity	41 776	39 592
Deductions		
Expected losses exceeding actual losses, IRB-portfolios	(1 072)	(1 053)
Value adjustments due to the requirements for prudent valuation (AVA)	(337)	(287)
Adjustments for unrealised losses/(gains) on liabilities recorded at fair value	24	24
Adjustments for unrealised losses/(gains) arising from the institution's own credit risk related to derivative liabilities (DVA)	(9)	(9)
Allocated group contributions for payment		(815)
Common equity Tier 1 capital	40 383	37 451
Term subordinated loan capital	4 850	4 850
Tier 2 capital	4 850	4 850
Total eligible primary capital	45 233	42 301
Risk-weighted volume, transitional rules	243 785	234 483
Minimum capital requirement, transitional rules	19 503	18 759
Common equity Tier 1 capital ratio, transitional rules (%)	16.6	16.0
Capital ratio, transitional rules (%)	18.6	18.0

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 ¹⁾	Risk- weighted volume	Capital requirement	Capital requirement
	30 June 2017	30 June 2017	30 June 2017	30 June 2017	31 Dec. 2016
<i>Amounts in NOK million</i>					
IRB approach					
Corporate	5 668	5 668	2 866	229	249
Retail - residential property	633 105	633 105	137 251	10 980	10 872
Total credit risk, IRB approach	638 773	638 773	140 117	11 209	11 121
Standardised approach					
Institutions	47 222	43 236	8 647	692	281
Corporate	18 977	18 943	6 677	534	511
Retail - residential property	16 397	15 153	5 365	429	383
Retail - other exposures	7 323	6 950	2 570	206	18
Other assets					13
Total credit risk, standardised approach	89 919	84 282	23 259	1 861	1 206
Total credit risk	728 692	723 055	163 375	13 070	12 327
Credit value adjustment (CVA)			44 361	3 549	2 126
Operational risk			10 903	872	872
Total risk-weighted volume and capital requirements before transitional rules			218 640	17 491	15 325
Additional capital requirements according to transitional rules			25 146	2 012	3 433
Total risk-weighted volume and capital requirements			243 785	19 503	18 759

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 11-12 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 Bank ASA with a total limit of NOK 190 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.

From 2016 Q2 DNB Boligkreditt, as a subsidiary of a systemic important institution in Norway, has a regulatory LCR requirement of 100%, which is fulfilled.

Note 6 Net interest income

<i>Amounts in NOK million</i>	DNB Boligkreditt AS				
	2nd quarter 2017	2nd quarter 2016	2017	January-June 2016	Full year 2016
Interest on amounts due from credit institutions	14	4	37	7	50
Interest on loans to customers	3 653	3 552	7 239	7 162	14 216
Front-end fees etc.	0	1	1	1	3
Other interest income	54	54	108	108	217
Total interest income	3 722	3 611	7 386	7 279	14 487
Interest on amounts due to credit institutions	(654)	(550)	(1 320)	(1 062)	(2 440)
Interest on debt securities issued	(1 911)	(2 196)	(3 816)	(4 576)	(8 772)
Interest on subordinated loan capital	(32)	(33)	(65)	(66)	(134)
Net interest income/expenses, derivatives	280	446	407	975	1 560
Total interest expenses	(2 317)	(2 333)	(4 793)	(4 728)	(9 785)
Net interest income	1 406	1 278	2 592	2 551	4 702

Note 7 Net gains on financial instruments at fair value

<i>Amounts in NOK million</i>	DNB Boligkreditt AS				
	2nd quarter 2017	2nd quarter 2016	2017	January-June 2016	Full year 2016
Net gains on loans at fair value (fixed-rate loans) ¹⁾	30	(60)	163	169	(540)
Net gains on financial liabilities (long-term borrowing in NOK) ²⁾	(27)	(123)	(191)	(405)	(38)
Total gains on financial instruments, designated as at fair value	3	(184)	(28)	(237)	(578)
Net gains on foreign exchange and financial derivatives, trading ³⁾⁴⁾	(407)	(324)	(1 387)	469	(640)
Net gains on financial derivatives, hedging ⁴⁾⁵⁾	(2 095)	1 206	(4 384)	4 888	(1 458)
Net gains on financial liabilities, hedged items ⁵⁾	2 150	(1 210)	4 499	(4 830)	1 444
Net gains on financial instruments at fair value	(348)	(512)	(1 300)	290	(1 233)

Changes in market values with effect on profits, attributed to

<i>Amounts in NOK million</i>	DNB Boligkreditt AS				
	2nd quarter 2017	2nd quarter 2016	2017	January-June 2016	Full year 2016
Own credit risk premium ²⁾	(88)	(221)	(281)	(254)	(510)
Basis swap spread ³⁾	(308)	(439)	(1 078)	610	(1 191)
CVA/DVA ⁴⁾	17	(49)	21	(146)	212

Accumulated mark-to-market effects, attributed to

<i>Amounts in NOK million</i>	DNB Boligkreditt AS		
	30 June 2017	31 Dec. 2016	30 June 2016
Own credit risk premium ²⁾	(473)	(192)	64
Basis swap spread ³⁾	771	1 850	3 651
CVA/DVA ⁴⁾	(387)	(408)	(766)

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.

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.

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.

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

<i>Amounts in NOK million</i>	DNB Boligkreditt AS				
	2nd quarter 2017	2nd quarter 2016	2017	January-June 2016	Full year 2016
Salaries	(2)	(2)	(4)	(4)	(8)
Other personnel expenses	(1)	(1)	(3)	(4)	(4)
Fees ¹⁾	(307)	(749)	(371)	(1 453)	(2 383)
Other operating expenses	(2)	(2)	(2)	(2)	(3)
Total operating expenses	(312)	(753)	(380)	(1 463)	(2 398)

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>	DNB Boligkreditt AS		
	30 June 2017	31 Dec. 2016	30 June 2016
Loans at amortised cost:			
Loans to customers at amortised cost, nominal amount	570 119	551 317	530 681
Individual impairment	(37)	(39)	(46)
Loans to customers, after individual impairment	570 081	551 278	530 635
Accrued interest	549	555	516
Individual impairments on accrued interest	(34)	(34)	(36)
Loans to customers, at amortised cost	570 597	551 800	531 116
Loans at fair value:			
Loans to customers at fair value, nominal amount	45 739	50 866	55 926
Individual impairments			
Loans to customers, after individual impairment	45 739	50 866	55 926
Accrued interest	62	78	86
Adjustment to fair value	658	495	1 353
Loans to customers, at fair value	46 460	51 438	57 365
Collective impairment	(62)	(72)	(90)
Loans to customers	616 995	603 165	588 391

Impairment allowances

<i>Amounts in NOK million</i>	DNB Boligkreditt AS		
	30 June 2017	31 Dec. 2016	30 June 2016
Individual impairment	(37)	(39)	(46)
Individual impairment of accrued interest and amor.effects	(34)	(34)	(36)
Collective impairment	(62)	(72)	(90)
Impairment allowances as at end of period	(134)	(145)	(171)

Impairment expenses

<i>Amounts in NOK million</i>	DNB Boligkreditt AS				
	2nd quarter 2017	2nd quarter 2016	2017	January-June 2016	Full year 2016
Individual impairment	1	(4)	(2)	(7)	(12)
Collective impairment ¹⁾	(3)	7	9	6	24
Recoveries of previous write-offs	1	1	2	2	3
Impairment expenses	(1)	4	8	2	14

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 2016.

Note 10 Debt securities issued

Debt securities issued	DNB Boligkreditt AS		
	30 June 2017	31 Dec. 2016	30 June 2016
<i>Amounts in NOK million</i>			
Listed covered bonds, nominal amount	368 484	355 932	367 239
Private placements under the bond programme, nominal amount	67 430	59 859	59 187
Total bonds, nominal amount	435 914	415 791	426 427
Accrued interest	2 286	3 581	2 835
Unrealised gains ¹⁾	16 466	19 701	27 054
Adjustments	18 752	23 282	29 889
Total debt securities issued	454 666	439 072	456 316

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 sheet 30 June 2017	Issued 2017	Matured/ redeemed 2017	Exchange rate movements 2017	Changes in adjustments 2017	Balance sheet 31 Dec. 2016
<i>Amounts in NOK million</i>						
Bond debt, nominal amount	435 914	42 210	(37 582)	15 495		415 791
Adjustments	18 752				(4 530)	23 282
Total debt securities issued	454 666	42 210	(37 582)	15 495	(4 530)	439 072

Maturity of debt securities issued	DNB Boligkreditt AS		
	NOK	Foreign currency	Total
<i>Amounts in NOK million</i>			
2017	8 650	14 534	23 184
2018	13 450	58 274	71 724
2019	16 600	41 709	58 309
2020	19 000	35 004	54 004
2021 and later	23 500	205 194	228 694
Total bond debt	81 200	354 714	435 914

Debt securities issued - matured/redeemed during the period	DNB Boligkreditt AS							
	ISIN Code	Currency	Matured redeemed amount	Interest	Issued	Matured	Remaining nominal amount 30 June 2017	31 Dec. 2016
<i>Amounts in NOK million</i>								
XS0478979551	EUR	13 624	Fixed	2010	2017	Matured		13 624
CH0134637187	CHF	1 482	Fixed	2011	2017	Matured		1 482
XS0764964556	EUR	454	Fixed	2012	2017	Matured		454
XS0504565366	EUR	1 817	Floating	2010	2017	Matured		1 817
NO0010598857	NOK	2 040	Fixed	2011	2017	Matured		2 040
XS0728790402	EUR	18 165	Fixed	2012	2017	Matured		18 165
Total debt securities issued, nominal value		37 582						37 582

Note 10 Debt securities issued (continued)

Cover pool	DNB Boligkreditt AS		
	30 June 2017	31 Dec. 2016	30 June 2016
<i>Amounts in NOK million</i>			
Pool of eligible loans	614 128	599 579	584 855
Market value of eligible derivatives	49 640	38 527	57 381
Total collateralised assets	663 768	638 106	642 236
Debt securities issued, carrying value	454 666	439 072	451 971
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(473)	(192)	64
Debt securities issued, valued according to regulation ¹⁾	454 193	438 880	452 034
Collateralisation (per cent)	146.1	145.4	142.1

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

Amounts in NOK million	Currency	Nominal amount	Interest rate	Issue date	Maturity date	DNB Boligkreditt AS		
						30 June 2017	31 Dec. 2016	30 June 2016
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	6
Total subordinated loan capital						4 856	4 857	4 856

Note 12 Financial instruments at fair value

<i>Amounts in NOK million</i>	DNB Boligkreditt AS			Total
	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	
Assets as at 30 June 2017				
Due from credit institutions		3 987		3 987
Loans to customers			46 460	46 460
Financial derivatives		63 071		63 071
Liabilities as at 30 June 2017				
Debt securities issued		82 979		82 979
Financial derivatives		13 430		13 430

<i>Amounts in NOK million</i>	DNB Boligkreditt AS			Total
	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	
Assets as at 30 June 2016				
Due from credit institutions		2 634		2 634
Loans to customers			57 365	57 365
Financial derivatives		68 451		68 451
Liabilities as at 30 June 2016				
Debt securities issued		79 692		79 692
Financial derivatives		11 070		11 070

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 3 987 million as at 30 June 2017. For a further description of the instruments and valuation techniques, see the annual report for 2016.

Financial instruments at fair value, level 3

<i>Amounts in NOK million</i>	DNB Boligkreditt AS
	Loans to customers
Carrying amount as at 31 December 2016	51 438
Net gains recognised in the income statement	148
Additions/purchases	3 162
Sales	(207)
Settled	(8 081)
Carrying amount as at 30 June 2017	46 460

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 2016.

<i>Amounts in NOK million</i>	30 June 2017		DNB Boligkreditt AS 30 June 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Due from credit institutions	1 068	1 068	1 125	1 125
Loans to customers	570 535	570 535	531 026	531 026
Total financial assets	571 603	571 603	532 151	532 151
Due to credit institutions	165 276	165 276	135 252	135 252
Debt securities issued	371 687	375 863	376 624	378 870
Subordinated loan capital	4 856	4 868	4 856	4 868
Total financial liabilities	541 820	546 007	516 732	518 990

<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	Valuation based on other than observable market data Level 3	Total
Assets as at 30 June 2017				
Due from credit institutions		1 068		1 068
Loans to customers			570 535	570 535
Liabilities as at 30 June 2017				
Due to credit institutions		165 276		165 276
Debt securities issued		375 863		375 863
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

In the first half of 2017, loan portfolios of NOK 9.0 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 337 million for the first half of 2017 (NOK 1 428 million for the first half of 2016).

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

In the first half of 2017 DNB Boligkreditt entered into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The value of the repos amounted to NOK 4.0 billion at end-June 2017.

The company has a long-term overdraft facility in DNB Bank ASA with a limit of NOK 190 billion.

DNB Livsforsikring AS

At end-June 2017, 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 2.0 million in the first half of 2017.

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 2017 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 2017

The Board of Directors of DNB Boligkreditt AS



Kjerstin R. Braathen
(chairman)



Jørn E. Pedersen



Eva-Lill Strandskogen



Per Sagbakken
(chief executive officer)

Profit and balance sheet trends

Comprehensive income statement

	DNB Boligkreditt AS				
<i>Amounts in NOK million</i>	2nd quarter 2017	1st quarter 2017	4th quarter 2016	3rd quarter 2016	2nd quarter 2016
Total interest income	3 722	3 663	3 613	3 595	3 611
Total interest expenses	(2 317)	(2 477)	(2 601)	(2 455)	(2 333)
Net interest income	1 406	1 187	1 011	1 139	1 278
Commission and fee income	18	15	19	19	(3)
Commission and fee expenses	(0)	(1)	(0)	(0)	(1)
Net gains on financial instruments at fair value	(348)	(951)	(853)	(669)	(512)
Other income	1	1	1	0	1
Net other operating income	(330)	(937)	(834)	(651)	(515)
Total income	1 076	250	178	489	763
Salaries and other personnel expenses	(3)	(4)	(1)	(3)	(3)
Other expenses	(309)	(64)	(433)	(498)	(750)
Total operating expenses	(312)	(68)	(434)	(501)	(753)
Impairment of loans and commitments	(1)	9	17	(4)	4
Pre-tax operating profit	763	191	(239)	(16)	13
Tax expense	(191)	(48)	41	4	(3)
Profit for the period	572	143	(198)	(12)	10
Other comprehensive income			(1)		
Total comprehensive income for the period	572	143	(200)	(12)	10

Balance Sheet

	DNB Boligkreditt AS				
<i>Amounts in NOK million</i>	30 June 2017	31 March 2017	31 Dec. 2016	30 Sept. 2016	30 June 2016
Assets					
Due from credit institutions	5 056	31 641	27 110	35 211	3 759
Loans to customers	616 995	610 304	603 165	598 809	588 391
Financial derivatives	63 071	52 375	50 827	48 886	68 451
Other assets	(1)	1	162	36	7
Total assets	685 120	694 321	681 264	682 943	660 608
Liabilities and equity					
Due to credit institutions	165 276	155 050	172 048	155 978	135 252
Financial derivatives	13 430	13 039	12 300	12 051	11 070
Debt securities issued	454 666	465 862	439 072	457 019	456 316
Payable taxes	239	8 647	8 852	338	342
Deferred taxes	3 946	3 946	3 946	12 501	12 501
Other liabilities	186	157	569	378	437
Provisions	28	28	28	30	29
Subordinated loan capital	4 856	4 856	4 857	4 857	4 856
Total liabilities	642 628	651 586	641 672	643 151	620 804
Share capital	4 157	4 157	3 857	3 857	3 857
Share premium	31 563	31 563	28 863	28 863	28 863
Other equity	6 772	7 015	6 872	7 071	7 084
Total equity	42 492	42 735	39 592	39 791	39 804
Total liabilities and equity	685 120	694 321	681 264	682 943	660 608

Alternative performance measures

DNB Boligkredit's alternative performance measures (APMs) present useful information which supplements the financial statements. These measures are not defined under IFRS and may not be directly comparable with other companies' adjusted measures. The APMs are not intended to be a substitute for, or superior to, any IFRS measures of performance, but have been included to provide insight into DNB Boligkredit's performance and represent important measures for how management governs the company and its business activities.

Key financial ratios regulated by IFRS or other legislation (CRR/CRD) are not considered APMs, neither are non-financial data. DNB Boligkredit's APMs are presented in the financial highlights. APMs are shown with comparable figures for earlier periods.

DNB Boligkredit's APMs and definitions

Return on equity (ROE)

This measure gives relevant information on DNB Boligkredit's profitability by measuring the ability to generate profits from the shareholders' investments.

- Return on equity (ROE) is calculated as: Shareholders' share of profits for the period divided by average equity excluding additional Tier 1 capital.

Average interest rate spread

This measure gives relevant information on DNB Boligkredit's net interest income by measuring the respective average interest income relative to the average funding costs.

- Average spread for ordinary lending to customers is calculated as: Margin income on performing loans relative to average performing loans for the period. Margin income is defined as interest income on the loans less total interest expenses on long- and short-term funding.

Net non-performing and net doubtful loans and guarantees in per cent of net loans, Impairment relative to average net loans to customers and Individual impairment relative to average net loans to customers

These ratios are included to show DNB Boligkredit's provisions relating to credit exposure.

- Calculated as: Net non-performing and net doubtful loans plus guarantees divided by net loans.
- Calculated as: Impairment divided by average annualised net loans to customers.
- Calculated as: Individual impairment divided by average annualised net loans to customers.

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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.

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Here for you. Every day.
When it matters the most.



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