DNB Boligkreditt AS

A company in the DNB Group

FOURTH QUARTER
REPORT 2017
(Preliminary and unaudited)

Financial highlights

Income statement

DNB Boligkreditt AS

Amounts in NOK million	4th quarter 2017	4th quarter 2016	Full year 2017	Full year 2016
Net interest income	1 542	1 011	5 664	4 702
Net other operating income	(14)	(834)	(1 288)	(1 207)
Of which net gains on financial instruments at fair value	*(30)*	*(853)*	*(1 354)*	*(1 233)*
Total operating expenses	(429)	(434)	(1 243)	(2 398)
Impairment of loans and commitments	(23)	17	(26)	14
Pre-tax operating profit	1 075	(239)	3 107	1 111
Tax expense	(269)	41	(777)	(297)
Profit for the period	**807**	**(198)**	**2 331**	**815**

Balance sheet

Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Total assets	715 425	681 264
Loans to customers	622 169	603 165
Debt securities issued	468 236	439 072
Total equity	44 108	39 592

Key figures and alternative performance measures

	4th quarter 2017	4th quarter 2016	Full year 2017	Full year 2016
Return on equity, annualised (%) 1)	7.3	(2.0)	5.5	2.1
Total average spread for lending (%) 1)	0.91	0.53	0.82	0.69
Impairment relative to average net loans to customers, annualised (%) 1)	(0.01)	0.01	(0.00)	0.00
Net non-performing and net doubtful loans, per cent of net loans 1)	0.10	0.10	0.10	0.10
Non-performing and doubtful loans, per cent of gross loans 1)	0.16	0.17	0.16	0.17
Net non-performing and net doubtful loans, end of period (NOK million) 1)	602	599	602	599
Non-performing and doubtful loans, end of period (NOK million) 1)	967	1 011	967	1 011
Common equity Tier 1 capital ratio, transitional rules (%)	16.6	16.0	16.6	16.0
Capital ratio, transitional rules (%)	18.5	18.0	18.5	18.0
Common equity Tier 1 capital (NOK million)	40 788	37 451	40 788	37 451
Risk-weighted volume, transitional rules (NOK million)	246 134	234 483	246 134	234 483
Number of full-time positions at end of period	6	7	6	7

1) Defined as alternative performance measures (APM). APMs are described on ir.dnb.no.

Fourth quarter report 2017

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 807 million in the fourth quarter of 2017, compared with a loss of NOK 198 million in the fourth quarter of 2016.

Total income

Income totalled NOK 1 527 million in the fourth quarter of 2017, up from NOK 178 million in the year-earlier period.

Amounts in NOK million	4th quarter 2017	Change	4th quarter 2016
Total income	1 527	1 349	178
Net interest income		530	
Net commission and fee income		(4)	
Net gains/(losses) on financial instruments at fair value		823	

The increase in net interest income was due to widening interest rate spreads and an increase in loans to customers.

The effect of financial instruments was negative in both the fourth quarter of 2017 and the fourth quarter of 2016, though it was significantly more negative in the fourth quarter of 2016. 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.

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 410 million in the fourth quarter of 2017, down from NOK 421 million in the fourth quarter of 2016.

The company has generally recorded low impairment losses on loans. In the fourth quarter of 2017, the company reported impairment losses of NOK 23 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-December 2017, DNB Boligkreditt had total assets of NOK 715.4 billion, an increase of NOK 34.2 billion or 5.0 per cent from end-December 2016.

Amounts in NOK million	31 Dec. 2017	Change	31 Dec. 2016
Total assets	715 425	34 161	681 264
Loans to customers		19 004	
Financial derivatives		15 723	
Other assets		(566)	
Total liabilities	671 317	29 645	641 672
Due to credit institutions		7 548	
Financial derivatives		1 373	
Debt securities issued		29 164	
Deferred taxes		777	
Other liabilities		(9 217)	

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 increased by a net NOK 29.2 billion from end-December 2016. The company issued covered bonds under existing programmes for a total of NOK 18.4 billion in the fourth quarter of 2017. Total debt securities issued amounted to NOK 468 billion at end-December 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.

At end-December 2017, the company's equity totalled NOK 44.1 billion, of which NOK 40.8 billion represented Tier 1 capital. Total primary capital in the company was NOK 45.6 billion. The Tier 1 capital ratio was 16.6 per cent, while the capital adequacy ratio was 18.5 per cent.

New regulatory framework

International agreement on changes in banks' capital adequacy standards

In December 2017, the Basel Committee adopted changes in several parts of the Basel III standards for capital adequacy assessments, aiming, among other things, to ensure greater consistency between banks' reported capital adequacy figures and capital requirements. The changes include adjustments to the standardised approach and the IRB approach, and the introduction of a new capital floor. The new capital floor requirement will reduce differences in risk weights and result in more harmonised capital requirements across national borders. However, the changes to Basel III are not planned to take effect until 1 January 2022, with a five-year phase-in period. The EU is expected to adopt the recommendations by amending its legislation. This legislation will also be applicable in Norway through the EEA agreement.

Basel I floor to be replaced by new floor requirement

Norwegian legislation does not fully reflect the requirements in the EU's capital requirements regulations, CRR and CRD IV. The Norwegian Ministry of Finance has therefore given Finanstilsynet (the Financial Supervisory Authority of Norway) a mandate to propose how the remaining regulations should be implemented in Norway. As part of this process, Finanstilsynet will also consider a new capital floor based on the Basel Committee's proposed new standardised approach. The new floor requirement will probably replace the so-called Basel I floor, but it is unclear how it will be designed and coordinated with the EU regulations. Finanstilsynet has been given a deadline in mid-April 2018 to present its recommendations.

Home mortgage lending regulation to be reviewed

On 1 January 2017, the Ministry of Finance adopted a home mortgage lending regulation. The regulation will remain in force until 30 June 2018. It caps borrowers' loan-to-value and loan-to-income ratios, and presents requirements for instalment payment and debt-servicing capacity in the event of interest rate increases. The Ministry of Finance has given Finanstilsynet a mandate to review the regulation, including whether it should be discontinued, or be maintained in its current form or adjusted. Finanstilsynet must present its assessment within 1 March 2018.

Macroeconomic developments

Global GDP growth is expected to be 3.5 per cent in 2017, up from 3.0 per cent in 2016, reflecting higher growth in both industrialised countries and emerging economies. Persistent strong growth in demand from China and widespread optimism have contributed to a synchronous boost in growth across countries and sectors. Global growth is expected to increase further in 2018 due to a higher level of growth in emerging economies. In China, however, growth is expected to slow down somewhat as a result of retrenchment measures implemented by the authorities. Economic growth in industrialised countries is expected to remain at around 2 per cent. This is higher than the normal growth rate and will contribute to a further decline in unemployment. Parallel to this, wage growth is restrained by national and global factors in a number of countries. This puts a damper on inflation and limits the rise in interest rates.

The upturn in the US has lasted for nine years, and there are still no clear signs of a slowdown. GDP growth is assumed to be 2.3 per cent in 2017 and 2.4 per cent in 2018. The US tax reform is expected to have a limited effect on consumption, as it primarily affects high-income groups. Although it will probably contribute to a certain rise in corporate investment, the effect is expected to be moderate. The unemployment rate has dropped to 4.1 per cent and is expected to decline further in 2018. As a consequence, the Federal Reserve is likely to raise interest rates an additional three times in 2018, in spite of the fact that inflation is somewhat lower than the 2 per cent target. In addition, the Federal Reserve will probably start to scale down its balance sheet by reducing reinvestments in Treasury bills and mortgage-backed securities (MBS).

In the eurozone, GPD growth is estimated at 2.3 per cent in 2017 and is expected to remain at 2.3 per cent in 2018. The recovery is broad-based across countries and sectors, with strong growth in large member countries such as Germany and Spain. Confidence indexes for households and businesses indicate a further recovery in the eurozone, but the cool-down in China is expected to dampen the upturn from the second half of 2018. Growth will nevertheless be higher than normal, which is expected to lead to lower unemployment. Wage and price growth is also assumed to increase somewhat, reflecting less slack in the economy. In consequence of this, the European Central Bank will begin to gradually depart from its expansionary policy by finalising its asset purchases by the end of the year and gradually increasing interest rates from the second quarter of 2019.

The British 'No' to further EU membership had fewer negative consequences than expected in the short term. Growth slowed down, however, from 1.8 per cent in 2016 to an estimated 1.5 per cent in 2017, and is expected to decline to 1.1 per cent in 2018, reflecting a reduction in consumption and investment due to the uncertainty surrounding Brexit. A significant weakening of the British pound has caused a temporary increase in inflation, which made the Bank of England raise its key policy rate to 0.5 per cent in November 2017. Inflation is expected to decline due to weaker growth and higher unemployment, and the key policy rate is therefore expected to remain at 0.5 per cent over the coming years. Uncertainty regarding the process around Brexit and the results thereof makes future prospects more unpredictable than normal.

GDP for Mainland Norway was up by an estimated 1.8 per cent in 2017, after increasing by only 1.0 per cent in 2016. The rise was due to a less negative effect of oil investments, higher consumption and a marked increase in housing investment. Growth is anticipated to rise further to 2 per cent in 2018, driven by corporate and petroleum investment. Over the next few years, the upswing in the Norwegian economy will probably be curbed by lower housing investment and a more neutral contribution from fiscal policy. Higher manufacturing growth has also been reflected in lower unemployment. The unemployment rate has declined gradually since the summer of 2016, mainly due to a lower labour force participation rate. Throughout 2017, employment growth also picked up and contributed to a further drop in the unemployment rate. A slight rise in employment is expected in the period ahead, resulting in a certain reduction in the unemployment rate.

The seasonally adjusted housing price index fell after reaching a peak in March, and annual growth rates in December 2017 were negative at -1.1 per cent for Norway and -10.5 per cent for Oslo. Low interest rates and a more positive situation in the Norwegian economy, with falling unemployment and rising income growth, will nevertheless limit the downward trend in housing prices, which are expected to show modest growth from 2019.

Inflation, in terms of annual growth in the consumer price index, declined more than expected in 2017. The core inflation rate ended at 1.4 per cent, while total inflation was 1.8 per cent. In 2018, core inflation is expected to be 1.5 per cent, which is well below Norges Bank's inflation target. In light of continued low inflation and a weak housing market, Norges Bank is not expected to raise its key policy rate until September 2019. In its monetary policy report from December 2017, the central bank indicated that the policy rate hike may be implemented in December 2018.

Future prospects

DNB Boligkreditt is well-positioned for new regulatory requirements resulting from the implementation of IFRS 9 and the revised Basel regulations. The latter is expected to have minimal effects for the company.

Lending volumes are expected to rise by 4 to 5 per cent in 2018 and 2019. Average impairment losses are expected to be at normalised levels in 2018.

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 2018 is expected to be somewhat higher than in 2017. Overall, this provides a further solid basis for DNB Boligkreditt's funding activities.

Oslo, 31 January 2018
The Board of Directors of DNB Boligkreditt AS

Reidar Bolme
(chairman)

Jørn E. Pedersen

Eva-Lill Strandskogen

Per Sagbakken
(chief executive officer)

Comprehensive income statement

Amounts in NOK million	Note	4th quarter 2017	4th quarter 2016	Full year 2017	Full year 2016
		DNB Boligkreditt AS			
Total interest income	6	3 749	3 613	14 895	14 487
Total interest expenses	6	(2 207)	(2 601)	(9 231)	(9 785)
Net interest income	6	**1 542**	**1 011**	**5 664**	**4 702**
Commission and fee income		15	19	64	25
Commission and fee expenses		(1)	(0)	(3)	(2)
Net gains on financial instruments at fair value	7	(30)	(853)	(1 354)	(1 233)
Other income	14	1	1	5	3
Net other operating income		**(14)**	**(834)**	**(1 288)**	**(1 207)**
Total income		**1 527**	**178**	**4 376**	**3 495**
Salaries and other personnel expenses	8	(5)	(1)	(16)	(12)
Other expenses	8, 14	(423)	(433)	(1 227)	(2 386)
Total operating expenses	8	**(429)**	**(434)**	**(1 243)**	**(2 398)**
Impairment of loans and commitments	9	(23)	17	(26)	14
Pre-tax operating profit		**1 075**	**(239)**	**3 107**	**1 111**
Tax expense		(269)	41	(777)	(297)
Profit for the period		**807**	**(198)**	**2 331**	**815**
Other comprehensive income		0	(1)	0	(1)
Total comprehensive income for the period		**807**	**(200)**	**2 331**	**814**

Balance sheet

Amounts in NOK million	Note	31 Dec. 2017	31 Dec. 2016
		DNB Boligkreditt AS	
Assets			
Due from credit institutions	12, 13, 14	26 705	27 110
Loans to customers	9, 12, 13	622 169	603 165
Financial derivatives	12, 13	66 550	50 827
Other assets		1	162
Total assets		**715 425**	**681 264**
Liabilities and equity			
Due to credit institutions	13, 14	179 595	172 048
Financial derivatives	12, 13	13 673	12 300
Debt securities issued	10, 12, 13	468 236	439 072
Payable taxes		0	8 852
Deferred taxes		4 723	3 946
Other liabilities		207	569
Provisions		28	28
Subordinated loan capital	11, 13	4 856	4 857
Total liabilities		**671 317**	**641 672**
Share capital		4 157	3 857
Share premium		31 563	28 863
Other equity		8 388	6 872
Total equity		**44 108**	**39 592**
Total liabilities and equity		**715 425**	**681 264**

Statement of changes in equity

					DNB Boligkreditt AS
Amounts in NOK million	Share capital	Share premium	Actuarial gains and losses	Other equity	Total equity
Balance sheet as at 31 December 2015	**3 497**	**25 623**	**2**	**10 076**	**39 198**
Profit for the period				815	815
Other comprehensive income					
Total comprehensive income for the period			**(1)**	**815**	**814**
Group contribution paid				(4 020)	(4 020)
Share issue	360	3 240			3 600
Balance sheet as at 31 December 2016	**3 857**	**28 863**	**1**	**6 871**	**39 592**
Profit for the period				2 331	2 331
Total comprehensive income for the period				**2 331**	**2 331**
Group contribution paid				(815)	(815)
Share issue	300	2 700			3 000
Balance sheet as at 31 December 2017	**4 157**	**31 563**	**1**	**8 387**	**44 108**

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 (41 570 000 shares) and share premium was increased by NOK 2 700 million to NOK 31 563 million.

Cash flow statement

		DNB Boligkreditt AS
Amounts in NOK million	Full year 2017	Full year 2016
Operating activities		
Net payments on loans to customers	(6 835)	(19 335)
Interest received from customers	14 789	14 481
Net receipts on loans from credit institutions	7 765	31 535
Interest received from credit institutions	67	44
Interest paid to credit institutions	(2 676)	(2 440)
Net receipts/payments on the sale of financial assets for investment or trading	(20)	13 810
Net receipts on commissions and fees	62	23
Payments for operating expenses	(1 440)	(2 311)
Taxes paid	(8 328)	(0)
Net cash flow relating to operating activities	**3 385**	**35 806**
Investing activities		
Net purchase of loan portfolio	(12 025)	(19 804)
Net cash flow relating to investing activities	**(12 025)**	**(19 804)**
Financing activities		
Receipts on issued bonds and commercial paper	76 131	64 045
Payments on redeemed bonds and commercial paper	(62 590)	(76 464)
Interest payments on issued bonds and commercial paper	(6 620)	(7 409)
Interest payments on subordinated loan capital	(128)	(133)
Share issue	3 000	3 600
Group contribution receipts/payments	(1 087)	300
Net cash flow from financing activities	**8 706**	**(16 061)**
Net cash flow	**66**	**(59)**
Cash as at 1 January	20	79
Net receipts/payments of cash	66	(59)
Cash at end of period	86	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 can be found in note 1 Accounting principles in the annual report for 2016.

Approved standards and interpretations that have not yet entered into force

IFRS 9 Financial Instruments
The new rules are applicable from 1 January 2018. See note 1 Accounting principles in the annual report for 2016 for a more detailed description.

Impact for DNB Boligkreditt
Classification and measurement
The business model assessment and the contractual cash flow analysis are completed for Boligkreditt. The company has a “Hold to collect” business model and all financial assets, except derivatives, pass the contractual cash flow test. They will be measured at amortised cost as under the current IAS 39 rules, while the derivatives are measured at fair value through profit and loss. Boligkreditt has under IAS 39 utilised the fair value option for fixed-rate loans. The company has decided to continue to utilise the fair value options under IFRS 9.

Impairment
The implementation impact calculated on 1 January 2018 is immaterial. The impact will be recognised as a change in the collective impairment provision in the balance sheet with the offsetting entry recognised directly in equity, hence there will be no impact on the income statement. A separate disclosure with transition information will be included in the annual report for 2017.

Note 2 Capital adequacy

Primary capital	**DNB Boligkreditt AS**	
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Share capital	4 157	3 857
Other equity	39 950	35 735
Total equity	44 107	39 592
Deductions		
Expected losses exceeding actual losses, IRB-portfolios	(1 070)	(1 053)
Value adjustments due to the requirements for prudent valuation (AVA)	(258)	(287)
Adjustments for unrealised losses/(gains) on liabilites recorded at fair value	348	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	(2 331)	(815)
Common equity Tier 1 capital	40 788	37 451
Term subordinated loan capital	4 850	4 850
Tier 2 capital	4 850	4 850
Total eligible primary capital	45 638	42 301
Risk-weighted volume, transitional rules	246 134	234 483
Minimum capital requirement, transitional rules	19 691	18 759
Common equity Tier 1 capital ratio, transitional rules (%)	16.6	16.0
Capital ratio, transitional rules (%)	18.5	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.

Note 2 Capital adequacy (continued)

Specification of risk-weighted volume and capital requirements

DNB Boligkreditt AS

Amounts in NOK million	Nominal exposure 31 Dec. 2017	EAD [1] 31 Dec. 2017	Risk-weighted volume 31 Dec. 2017	Capital requirement 31 Dec. 2017	Capital requirement 31 Dec. 2016
IRB approach					
Corporate	5 501	5 501	2 763	221	249
Retail - residential property	647 933	647 933	140 568	11 245	10 872
Total credit risk, IRB approach	653 434	653 434	143 331	11 467	11 121
Standardised approach					
Institutions	47 951	21 977	4 395	352	281
Corporate	18 893	18 841	6 631	531	511
Retail - residential property	16 237	14 943	5 280	422	383
Retail - other exposures	461	312	254	20	18
Other assets					13
Total credit risk, standardised approach	83 541	56 072	16 560	1 325	1 206
Total credit risk	736 975	709 506	159 891	12 791	12 327
Credit value adjustment (CVA)			16 808	1 345	2 126
Operational risk			7 079	566	872
Total risk-weighted volume and capital requirements before transitional rules			183 778	14 702	15 325
Additional capital requirements according to transitional rules			62 356	4 988	3 433
Total risk-weighted volume and capital requirements			246 134	19 691	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

				DNB Boligkreditt AS
Amounts in NOK million	4th quarter 2017	4th quarter 2016	Full year 2017	Full year 2016
Interest on amounts due from credit institutions	11	23	65	50
Interest on loans to customers	3 684	3 534	14 613	14 216
Front-end fees etc.	0	1	2	3
Other interest income	54	54	215	217
Total interest income	**3 749**	**3 613**	**14 895**	**14 487**
Interest on amounts due to credit institutions	(679)	(735)	(2 676)	(2 440)
Interest on debt securities issued	(1 841)	(2 038)	(7 512)	(8 772)
Interest on subordinated loan capital	(30)	(34)	(126)	(134)
Net interest income/expenses, derivatives	343	205	1 084	1 560
Total interest expenses	**(2 207)**	**(2 601)**	**(9 231)**	**(9 785)**
Net interest income	**1 542**	**1 011**	**5 664**	**4 702**

Note 7 Net gains on financial instruments at fair value

	DNB Boligkreditt AS			
Amounts in NOK million	4th quarter 2017	4th quarter 2016	Full year 2017	Full year 2016
Net gains on loans at fair value (fixed-rate loans) [1]	(28)	(385)	128	(540)
Net gains on financial liabilities (long-term borrowing in NOK) [2]	102	375	(24)	(38)
Total gains on financial instruments, designated as at fair value	74	(9)	104	(578)
Net gains on foreign exchange and financial derivatives, trading [3] [4]	(149)	(839)	(1 653)	(640)
Net gains on financial derivatives, hedging [4] [5]	(1 122)	(5 510)	(6 276)	(1 458)
Net gains on financial liabilities, hedged items [5]	1 167	5 505	6 471	1 444
Net gains on financial instruments at fair value	**(30)**	**(853)**	**(1 354)**	**(1 233)**

Changes in market values with effect on profits, attributed to	**DNB Boligkreditt AS**			
Amounts in NOK million	4th quarter 2017	4th quarter 2016	Full year 2017	Full year 2016
Own credit risk premium [2]	9	75	(272)	(510)
Basis swap spread [3]	(33)	(1 227)	(1 187)	(1 191)
CVA/DVA [4]	5	246	48	212

Accumulated mark-to-market effects, attributed to	**DNB Boligkreditt AS**	
Amounts in NOK million	31 Dec. 2017	31 Dec. 2016
Own credit risk premium [2]	(465)	(192)
Basis swap spread [3]	663	1 850
CVA/DVA [4]	(359)	(408)

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

	DNB Boligkreditt AS			
Amounts in NOK million	4th quarter 2017	4th quarter 2016	Full year 2017	Full year 2016
Salaries	(2)	(2)	(8)	(8)
Other personnel expenses	(4)	1	(8)	(4)
Fees [1]	(423)	(433)	(1 224)	(2 383)
Other operating expenses	(0)	(0)	(3)	(3)
Total operating expenses	**(429)**	**(434)**	**(1 243)**	**(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

Amounts in NOK million	DNB Boligkreditt AS 31 Dec. 2017	 31 Dec. 2016
Loans at amortised cost:		
Loans to customers at amortised cost, nominal amount	580 345	551 317
Individual impairment	(41)	(39)
Loans to customers, after individual impairment	580 305	551 278
Accrued interest	614	555
Individual impairments on accrued interest	(33)	(34)
Loans to customers, at amortised cost	580 886	551 800
Loans at fair value:		
Loans to customers at fair value, nominal amount	40 679	50 866
Individual impairments	0	0
Loans to customers, after individual impairment	40 679	50 866
Accrued interest	60	78
Adjustment to fair value	623	495
Loans to customers, at fair value	41 362	51 438
Collective impairment	(79)	(72)
Loans to customers	**622 169**	**603 165**

Impairment allowances

Amounts in NOK million	DNB Boligkreditt AS 31 Dec. 2017	 31 Dec. 2016
Individual impairment	(41)	(39)
Individual impairment of accrued interest and amor.effects	(33)	(34)
Collective impairment	(79)	(72)
Impairment allowances as at end of period	**(153)**	**(146)**

Impairment expenses

Amounts in NOK million	4th quarter 2017	4th quarter 2016	DNB Boligkreditt AS Full year 2017	 Full year 2016
Individual impairment	(18)	(3)	(23)	(12)
Collective impairment [1)]	(7)	19	(6)	24
Recoveries of previous write-offs	1	0	4	3
Impairment expenses	**(23)**	**17**	**(26)**	**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

Amounts in NOK million	DNB Boligkreditt AS 31 Dec. 2017	31 Dec. 2016
Listed covered bonds, nominal amount	379 635	355 932
Private placements under the bond programme, nominal amount	70 812	59 859
Total bonds, nominal amount	450 446	415 791
Accrued interest	3 033	3 581
Unrealised losses [1)]	14 757	19 701
Adjustments	17 790	23 282
Total debt securities issued	**468 236**	**439 072**

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

Amounts in NOK million	Balance sheet 31 Dec. 2017	Issued 2017	Matured/ redeemed 2017	Exchange rate movements 2017	Changes in adjustments 2017	Balance sheet 31 Dec. 2016
Bond debt, nominal amount	450 446	73 606	(60 688)	21 738		415 791
Adjustments	17 790				(5 492)	23 282
Total debt securities issued	**468 236**	**73 606**	**(60 688)**	**21 738**	**(5 492)**	**439 072**

Maturity of debt securities issued

DNB Boligkreditt AS

Amounts in NOK million	NOK	Foreign currency	Total
2018	13 450	58 772	72 222
2019	16 600	42 723	59 323
2020	19 000	35 320	54 320
2021	16 500	50 630	67 130
2022 and later	18 120	179 331	197 451
Total bond debt	**83 670**	**366 776**	**450 446**

Debt securities issued - matured/redeemed during the period

DNB Boligkreditt AS

Amounts in NOK million ISIN Code	Currency	Matured redeemed amount	Interest	Issued	Matured		Remaining nominal amount 31 Dec. 2017	31 Dec. 2016
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
NO0010503931	NOK	8 650	Floating	2009	2017	Matured		8 650
XS0537686288	EUR	13 624	Fixed	2010	2017	Matured		13 624
XS0651781923	USD	60	Fixed	2011	2017	Matured		60
Private	EUR	91	Fixed	2011	2017	Called		91
XS1351966574	EUR	227	Fixed	2016	2017	Matured		227
XS1380677002	EUR	454	Fixed	2016	2017	Matured		454
Total debt securities issued, nominal value		**60 688**						**60 688**

Note 10 Debt securities issued (continued)

Cover pool

Amounts in NOK million	DNB Boligkreditt AS 31 Dec. 2017	 31 Dec. 2016
Pool of eligible loans	617 756	599 579
Market value of eligible derivatives	52 878	38 527
Total collateralised assets	**670 634**	**638 106**
Debt securities issued, carrying value	468 236	439 072
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(465)	(192)
Debt securities issued, valued according to regulation [1)]	**467 771**	**438 880**
Collateralisation (per cent)	143.4	145.4

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 31 Dec. 2017	 31 Dec. 2016
Term subordinated loan capital	NOK	850	3 month Nibor + 400 bp	2009	2019	850	850
Term subordinated loan capital	NOK	4 000	3 month Nibor + 170 bp	2013	2023	4 000	4 000
Accrued interest						6	7
Total subordinated loan capital						**4 856**	**4 857**

Note 12 Financial instruments at fair value

Amounts in NOK million	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	DNB Boligkreditt AS Total
Assets as at 31 December 2017				
Due from credit institutions		25 983		25 983
Loans to customers			41 362	41 362
Financial derivatives		66 550		66 550
Liabilities as at 31 December 2017				
Debt securities issued		85 517		85 517
Financial derivatives		13 673		13 673

Amounts in NOK million	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	DNB Boligkreditt AS Total
Assets as at 31 December 2016				
Due from credit institutions		26 237		26 237
Loans to customers			51 438	51 438
Financial derivatives		50 827		50 827
Liabilities as at 31 December 2016				
Debt securities issued		81 579		81 579
Financial derivatives		12 300		12 300

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 25 983 million as at 31 December 2017. For a further description of the instruments and valuation techniques, see the annual report for 2016.

Financial instruments at fair value, level 3

Amounts in NOK million	DNB Boligkreditt AS Loans to customers
Carrying amount as at 31 December 2016	**51 438**
Net gains recognised in the income statement	111
Additions/purchases	4 284
Sales	(345)
Settled	(14 125)
Carrying amount as at 31 December 2017	**41 362**

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.

	DNB Boligkreditt AS			
	31 December 2017		31 December 2016	
Amounts in NOK million	Carrying amount	Fair value	Carrying amount	Fair value
Due from credit institutions	721	721	872	872
Loans to customers	580 807	580 807	551 727	551 727
Total financial assets	581 528	581 528	552 599	552 599
Due to credit institutions	179 595	179 595	172 048	172 048
Debt securities issued	382 719	387 535	357 493	360 674
Subordinated loan capital	4 856	4 868	4 857	4 869
Total financial liabilities	567 170	571 998	534 398	537 591

Amounts in NOK million	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	Total
Assets as at 31 December 2017				
Due from credit institutions		721		721
Loans to customers			580 807	580 807
Liabilities as at 31 December 2017				
Due to credit institutions		179 595		179 595
Debt securities issued		387 535		387 535
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 2017, loan portfolios representing NOK 12.0 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 1 158 million in 2017 (NOK 2 328 million in 2016).

At end-December, the bank had invested NOK 12.1 billion in covered bonds issued by DNB Boligkreditt.

In 2017 DNB Boligkreditt entered into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The value of the repos amounted to NOK 26.0 billion at end-December 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-December 2017, DNB Livsforsikring's holding of DNB Boligkreditt bonds was valued at NOK 1.9 billion.

DNB Næringskreditt AS

The fee received for services rendered to DNB Næringskreditt is recognised as “Other income” in the income statement and amounted to NOK 3.5 million in 2017.

Profit and balance sheet trends

Comprehensive income statement

DNB Boligkreditt AS

Amounts in NOK million	4th quarter 2017	3rd quarter 2017	2nd quarter 2017	1st quarter 2017	4th quarter 2016
Total interest income	3 749	3 760	3 722	3 663	3 613
Total interest expenses	(2 207)	(2 230)	(2 317)	(2 477)	(2 601)
Net interest income	**1 542**	**1 530**	**1 406**	**1 187**	**1 011**
Commission and fee income	15	16	18	15	19
Commission and fee expenses	(1)	(0)	(0)	(1)	(0)
Net gains on financial instruments at fair value	(30)	(24)	(348)	(951)	(853)
Other income	1	1	1	1	1
Net other operating income	**(14)**	**(7)**	**(330)**	**(937)**	**(834)**
Total income	**1 527**	**1 523**	**1 076**	**250**	**178**
Salaries and other personnel expenses	(5)	(3)	(3)	(4)	(1)
Other expenses	(423)	(431)	(309)	(64)	(433)
Total operating expenses	**(429)**	**(434)**	**(312)**	**(68)**	**(434)**
Impairment of loans and commitments	(23)	(11)	(1)	9	17
Pre-tax operating profit	**1 075**	**1 078**	**763**	**191**	**(239)**
Tax expense	(269)	(269)	(191)	(48)	41
Profit for the period	**807**	**808**	**572**	**143**	**(198)**
Other comprehensive income	0				(1)
Total comprehensive income for the period	**807**	**808**	**572**	**143**	**(200)**

Balance Sheet

DNB Boligkreditt AS

Amounts in NOK million	31 Dec. 2017	30 Sept. 2017	30 June 2017	31 March 2017	31 Dec. 2016
Assets					
Due from credit institutions	26 705	6 983	5 056	31 641	27 110
Loans to customers	622 169	619 576	616 995	610 304	603 165
Financial derivatives	66 550	54 235	63 071	52 375	50 827
Other assets	1	2	(1)	1	162
Total assets	**715 425**	**680 796**	**685 120**	**694 321**	**681 264**
Liabilities and equity					
Due to credit institutions	179 595	178 488	165 276	155 050	172 048
Financial derivatives	13 673	13 542	13 430	13 039	12 300
Debt securities issued	468 236	435 931	454 666	465 862	439 072
Payable taxes	0	508	239	8 647	8 852
Deferred taxes	4 723	3 946	3 946	3 946	3 946
Other liabilities	207	196	186	157	569
Provisions	28	28	28	28	28
Subordinated loan capital	4 856	4 855	4 856	4 856	4 857
Total liabilities	**671 317**	**637 495**	**642 628**	**651 586**	**641 672**
Share capital	4 157	4 157	4 157	4 157	3 857
Share premium	31 563	31 563	31 563	31 563	28 863
Other equity	8 388	7 581	6 772	7 015	6 872
Total equity	**44 108**	**43 301**	**42 492**	**42 735**	**39 592**
Total liabilities and equity	**715 425**	**680 796**	**685 120**	**694 321**	**681 264**

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Annual and quarterly reports

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

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