

DNB Boligkreditt AS

A company in the DNB Group

Q3

Third quarter report 2018
(Unaudited)

DNB

Financial highlights

Income statement

| <i>Amounts in NOK million</i> | DNB Boligkreditt AS | | | | |
|---|----------------------------|---------------------|-------------------|--------------|--------------|
| | 3rd quarter 2018 | 3rd quarter 2017 | January-September | | Full year |
| | 2018 | 2017 | 2018 | 2017 | 2017 |
| Net interest income | 1 238 | 1 530 | 3 859 | 4 122 | 5 664 |
| Net other operating income | (44) | (7) | (1 430) | (1 273) | (1 288) |
| Of which net gains on financial instruments at fair value | (61) | (24) | (1 476) | (1 324) | (1 354) |
| Total operating expenses | (143) | (434) | (560) | (814) | (1 243) |
| Impairment of financial instruments | 2 | (11) | 13 | (3) | (26) |
| Pre-tax operating profit | 1 052 | 1 078 | 1 881 | 2 032 | 3 107 |
| Tax expense | (263) | (269) | (470) | (508) | (777) |
| Profit for the period | 789 | 808 | 1 411 | 1 524 | 2 331 |

Balance sheet

| <i>Amounts in NOK million</i> | 30 Sept. 2018 | 31 Dec. 2017 | 30 Sept. 2017 |
|-------------------------------|------------------|-----------------|------------------|
| Total assets | 681 465 | 715 425 | 680 796 |
| Loans to customers | 627 725 | 622 169 | 619 576 |
| Debt securities issued | 454 229 | 468 236 | 435 931 |
| Total equity | 43 200 | 44 108 | 43 301 |

Key figures and alternative performance measures

| | 3rd quarter 2018 | 3rd quarter 2017 | January-September | | Full year |
|--|---------------------|---------------------|-------------------|---------|-----------|
| | 2018 | 2017 | 2018 | 2017 | 2017 |
| Return on equity, annualised (%) ¹⁾ | 7.3 | 7.5 | 4.4 | 4.9 | 5.5 |
| Total average spread for lending (%) ¹⁾ | 0.68 | 0.90 | 0.73 | 0.79 | 0.82 |
| Impairment relative to average net loans to customers, annualised (per cent) ¹⁾ | 0.00 | (0.01) | 0.00 | (0.00) | (0.00) |
| Net loans and financial commitments in stage 3, per cent of net loans ^{1) 2)} | 0.17 | 0.13 | 0.17 | 0.13 | 0.13 |
| Net loans and financial commitments in stage 3, (NOK million) ²⁾ | 1 049 | 811 | 1 049 | 811 | 818 |
| Common equity Tier 1 capital ratio, transitional rules, end of period (%) | 16.4 | 16.6 | 16.4 | 16.6 | 16.6 |
| Capital ratio, transitional rules, end of period (%) | 18.4 | 18.6 | 18.4 | 18.6 | 18.5 |
| Common equity Tier 1 capital (NOK million) | 40 908 | 40 406 | 40 908 | 40 406 | 40 789 |
| Risk-weighted assets, transitional rules (NOK million) | 248 894 | 243 894 | 248 894 | 243 894 | 246 134 |
| Number of full-time positions at end of period | 6 | 6 | 6 | 6 | 6 |

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

2) Due to the implementation of IFRS 9, the calculation method for these key figures and alternative performance measures is changed as from the second quarter of 2018. The change primarily reflects that net non-performing and doubtful loans without impairments now are included in the calculation. In addition minor adjustments has been made to historical figures.

Third quarter report 2018

| | |
|--------------------------------|---|
| Directors' report | 2 |
|--------------------------------|---|

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 Development in accumulated impairment of financial instruments..... | 9 |
| Note 4 Debt securities issued | 10 |
| Note 5 Subordinated loan capital | 12 |
| Note 6 Financial instruments at fair value..... | 12 |
| Note 7 Information on related parties..... | 13 |

Additional information

| | |
|---------------------------|----|
| Contact information | 14 |
|---------------------------|----|

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.

Implementation of IFRS 9

The new accounting rules for financial instruments (IFRS 9) are applicable as of 1 January 2018. The new standard introduces a business model-oriented approach for the classification of financial assets and an expected loss model for impairment which replaces the former incurred loss model.

Financial accounts

DNB Boligkreditt recorded a profit of NOK 789 million in the third quarter of 2018, compared with a profit of NOK 808 million in the third quarter of 2017.

Total income

Income totalled NOK 1.194 million in the third quarter of 2018, down from NOK 1.523 million in the year-earlier period.

| Amounts in NOK million | 3rd quarter | | 3rd quarter |
|---|-------------|--------|-------------|
| | 2018 | Change | 2017 |
| Total income | 1 194 | (329) | 1 523 |
| Net interest income | | (292) | |
| Net commission and fee income | | 1 | |
| Net gains/(losses) on financial instruments at fair value | | (38) | |

The decrease in net interest income was due to a narrowing of interest rate spreads.

The effect of financial instruments was negative in both the third quarter of 2018 and the third quarter of 2017, though it was more negative in the third quarter of 2018. The recorded loss on financial instruments reflects the effects of unrealised changes in the market value of covered bonds, derivatives and loans measured 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 115 million in the third quarter of 2018, down from NOK 411 million in the third quarter of 2017.

The company has generally recorded low impairment losses on loans. In the third quarter of 2018, the company reported net reversals on impairment losses of NOK 2 million. The Board of Directors considers the level of impairment to be satisfactory relative to the high quality of the loan portfolio.

Funding, liquidity and balance sheet

Balance sheet

At end-September 2018, DNB Boligkreditt had total assets of NOK 681.5 billion, an increase of NOK 0.7 billion or 0.1 per cent from end-September 2017.

| Amounts in NOK million | 30 Sept. | Change | 30 Sept. |
|----------------------------|----------|----------|----------|
| | 2018 | | 2017 |
| Total assets | 681 465 | 669 | 680 796 |
| Loans to customers | | 8 149 | |
| Financial derivatives | | (7 352) | |
| Other assets | | (128) | |
| Total liabilities | 638 265 | 770 | 637 495 |
| Due to credit institutions | | (21 594) | |
| Financial derivatives | | (743) | |
| Debt securities issued | | 18 298 | |
| Deferred taxes | | 4 979 | |
| Other liabilities | | (170) | |

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 18.3 billion from end-September 2017. The company issued covered bonds under existing programmes for a total of NOK 0.4 billion in the third quarter of 2018. Total debt securities issued amounted to NOK 454.2 billion at end-September 2018.

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-September 2018, the company's equity totalled NOK 43.2 billion, of which NOK 40.9 billion represented Tier 1 capital. Total primary capital in the company was NOK 45.8 billion. The Tier 1 capital ratio was 16.4 per cent, while the capital adequacy ratio was 18.4 per cent.

New regulatory framework

The Ministry of Finance confirms the removal of the Basel I floor

As discussed in the second quarter report, Finanstilsynet (the Financial Supervisory Authority of Norway) has recommended that the so-called Basel I floor is removed, and that Norway introduces lower capital requirements for lending to small and medium-sized enterprises (the SME supporting factor). The reason for this is that the distinctively Norwegian provisions are not in line with the EU's capital requirements regulations CRR/CRD IV.

There has been some uncertainty about this issue, as the Ministry of Finance has been seeking to reach an agreement with the European Commission and the EFTA countries to open up for retaining some of the distinctively Norwegian regulations when the CRR/CRD IV are incorporated in the EEA agreement. However, the Ministry of Finance has now decided that Norwegian authorities will not introduce adjustments to the distinctively Norwegian rules which will imply other rules for Norwegian banks than for banks in the EU, e.g. in the form of "floor rules" or exceptions from the SME supporting factor.

It is expected that the CRR/CRD IV will be incorporated into the EEA agreement before long, and that in the wake of this, the Ministry of Finance will implement regulatory changes in Norway in line with EU regulations.

Counter-cyclical capital buffer requirement

The counter-cyclical capital buffer represents an additional capital requirement for banks. The purpose of the buffer is to make banks more financially sound and to prevent lending practices from adding to a setback in the economy. On 20 September, the Ministry of Finance decided that the counter-cyclical buffer requirement will be kept unchanged at 2 per cent.

New Personal Data Act as of 20 July

The EU's General Data Protection Regulation (GDPR) came into force in the EU member states on 25 May 2018, and a decision was made to incorporate the regulations in the EEA agreement on 6 July 2018. The purpose of the GDPR is to ensure protection of personal data, while making it possible to exchange such information freely within the European Economic Area. The regulations retain many of the principles of the Data Protection Directive, while introducing a number of new rules. Among these are extended duties for enterprises, such as providing information on how the enterprise processes personal data, assessing the privacy impacts of actions that involve a high degree of privacy protection risk, and reporting personal data security breaches.

The Norwegian Parliament (Stortinget) has adopted a new Personal Data Act, which enforces GDPR in Norway. The new Act entered into force on 20 July 2018. New personal data regulations and separate transition regulations have also been adopted.

The government proposes an adjustment of the financial activities tax

The financial activities tax was introduced in 2017 and implies a 5 percentage point increase in employer's national insurance contributions and a 2 percentage point increase in the corporate income tax rate for the financial services industry.

In the National Budget for 2019, the government proposes a reduction in the corporate income tax from 23 to 22 per cent in 2019. However, this reduction will not include companies that

are liable to financial activities tax. The tax rate for the financial services industry will thus increase from 2 to 3 percentage points above the rate in other sectors.

The Norwegian parliament has asked the government to propose an amendment of the financial activities tax, whereby eliminating the raised employer's national insurance contribution, and to consider imposing value added tax on financial services and tax on margin-based income. In the proposed National Budget for 2019, the government indicates that it does not intend to examine such a model. Instead, the government recommends an alternative solution in which the added value of labour power and capital will be combined into one common tax base with one tax rate. This means that the financial activities tax will no longer appear as two separate taxes on salaries and profits, respectively. The base for the financial activities tax will be the sum of salary costs and taxable profits. The government plans to put forward a concrete proposal for a new model in conjunction with the National Budget for 2020.

New anti-money laundering regulations take effect on 15 October 2018

The new Money Laundering Act and anti-money regulations will take effect on 15 October 2018. The new regulations replace the Money Laundering Act and regulations from 2009 and incorporate the EU's fourth money-laundering directive into Norwegian law. Prevailing law is largely continued, with a tightening of the rules on some key points, including a new way of identifying beneficial owners. The rules for simplified customer due diligence will no longer involve an exception to the requirement of customer due diligence, but merely a relaxation of the general requirements. The definition of politically exposed persons (PEPs) is extended to include national PEPs, and it must also be considered whether individuals other than the customers are PEPs, e.g. beneficial owners and persons acting on behalf of the customer.

Macroeconomic developments

While 2017 globally was a year characterised by positive growth surprises, 2018 has so far shown weaker key figures and more turbulent financial markets. Higher interest rates in the United States and a stronger US dollar have contributed to increased volatility in emerging economies, especially in countries with a high level of foreign debt in US dollars. News about actual and possible increases in the US trade sanctions against a number of countries has led to uncertainty about future prospects. In the period ahead, DNB Markets expects that a further escalation of the trade war between the United States and China will curb growth not only in the two countries, but also in the rest of the world. Nevertheless, continued above-normal growth and falling unemployment rates are forecast in most major economies in the years to come. Growth in the global economy is estimated to be 3.6 per cent this year and 3.4 per cent next year.

An expansionary fiscal policy will stimulate the US economy this year and next year, while a weaker outlook for exports and investments, as a result of the trade war with China, will slow down the growth. Due to a tight labour market and rising inflation, many expect the Federal Reserve to further raise the key policy rate, once this year and four times in 2019.

Growth in the eurozone has been disappointing so far this year, but is still above normal. The trade war between the United States and China will probably affect the eurozone negatively through a weaker global demand, but the effects are expected to be moderate. The European Central Bank has announced that it will gradually depart from its expansionary monetary policy by finalising its asset purchases at the end of the year, and that no interest rate increases will be implemented until after the summer of 2019.

The British economy has slowed down, and inflation has fallen faster than expected. The Brexit negotiations are at a critical phase this autumn, and uncertainty puts a damper on the economic activity. DNB Markets believes that the Bank of England will raise interest rates gradually in the time ahead, and does not expect the next interest rate hike until the end of next year.

The upswing in the Norwegian economy is expected to continue this year, despite a marked drop in housing investment. According to DNB Markets, solid growth in business investments, on top of a strong momentum in consumption and exports, contribute to increasing the growth in the mainland economy to 2.3 per cent this year. A significant boost in oil investments is predicted for the period ahead, and the domestic demand is expected to remain solid, while the trade war between China and the United States slows down the increase. However, the implications are assumed to be relatively moderate as long as a global trade war is avoided. DNB Markets forecasts a growth in the mainland economy of close to 2 per cent over the next few years. Higher manufacturing growth has been reflected in stronger employment growth and lower unemployment. The annual wage settlements point to moderate wage growth this year as well, though lower unemployment and strong profitability in a number of export industries could indicate rising wage

growth next year. Core inflation remained low earlier in the year, but rose to 1.9 per cent in August. Norges Bank raised the key policy rate by 0.25 percentage points to 0.75 per cent in September, and has indicated further rate hikes twice a year over the next few years.

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 has minimal effects for the company.

The increase in the Norwegian Central Bank's interest rate from 0.5 per cent to 0.75 per cent, followed by DNB's announcement of an increase in borrowing and deposit prices effective from 4 November, will have a positive effect on margins. The annual increase in lending volumes is anticipated to be 3 to 4 per cent in 2018 and 2019.

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 at about the same level as in 2017. Overall, this provides a further solid basis for DNB Boligkreditt's funding activities.

Oslo, 24 October 2018

The Board of Directors of DNB Boligkreditt AS



Reidar Bolme
(chair of the board)



Jørn E. Pedersen



Toril Steinmo



Per Sagbakken
(chief executive officer)

Comprehensive income statement

| | | DNB Boligkreditt AS | | | | |
|--|------|---------------------|---------------------|---------------------------|---------------------------|-------------------|
| <i>Amounts in NOK million</i> | Note | 3rd quarter 2018 | 3rd quarter 2017 | January-September 2018 | January-September 2017 | Full year 2017 |
| Interest income, amortised cost | | 3 441 | 3 425 | 10 224 | 10 087 | 13 532 |
| Other interest income | | 274 | 335 | 815 | 1 059 | 1 363 |
| Interest expenses, amortised cost | | (2 166) | (2 152) | (6 491) | (6 474) | (8 630) |
| Other interest expenses | | (312) | (78) | (688) | (550) | (601) |
| Net interest income | | 1 238 | 1 530 | 3 859 | 4 122 | 5 664 |
| Commission and fee income | | 17 | 16 | 46 | 49 | 64 |
| Commission and fee expenses | | (0) | (0) | (3) | (2) | (3) |
| Net gains on financial instruments at fair value | | (61) | (24) | (1 476) | (1 324) | (1 354) |
| Other income | 7 | 1 | 1 | 2 | 3 | 5 |
| Net other operating income | | (44) | (7) | (1 430) | (1 273) | (1 288) |
| Total income | | 1 194 | 1 523 | 2 429 | 2 849 | 4 376 |
| Salaries and other personnel expenses | | (3) | (3) | (9) | (10) | (16) |
| Other expenses | 7 | (140) | (431) | (552) | (804) | (1 227) |
| Total operating expenses | | (143) | (434) | (560) | (814) | (1 243) |
| Impairment of financial instruments | | 2 | (11) | 13 | (3) | (26) |
| Pre-tax operating profit | | 1 052 | 1 078 | 1 881 | 2 032 | 3 107 |
| Tax expense | | (263) | (269) | (470) | (508) | (777) |
| Profit for the period | | 789 | 808 | 1 411 | 1 524 | 2 331 |
| Other comprehensive income that will not be reclassified to profit or loss | | 59 | | (20) | | |
| Tax | | (15) | | 5 | | |
| Total comprehensive income for the period | | 834 | 808 | 1 396 | 1 524 | 2 331 |

Balance sheet

| | | DNB Boligkreditt AS | | |
|-------------------------------------|------|---------------------|-----------------|------------------|
| <i>Amounts in NOK million</i> | Note | 30 Sept. 2018 | 31 Dec. 2017 | 30 Sept. 2017 |
| Assets | | | | |
| Due from credit institutions | 7 | 6 857 | 26 705 | 6 983 |
| Loans to customers | 3, 6 | 627 725 | 622 169 | 619 576 |
| Financial derivatives | 6 | 46 883 | 66 550 | 54 235 |
| Other assets | | (0) | 1 | 2 |
| Total assets | | 681 465 | 715 425 | 680 796 |
| Liabilities and equity | | | | |
| Due to credit institutions | 7 | 156 894 | 179 595 | 178 488 |
| Financial derivatives | 6 | 12 799 | 13 673 | 13 542 |
| Debt securities issued | 4, 6 | 454 229 | 468 236 | 435 931 |
| Payable taxes | | 462 | 0 | 508 |
| Deferred taxes | | 8 925 | 4 723 | 3 946 |
| Other liabilities | | 67 | 207 | 196 |
| Provisions | | 33 | 28 | 28 |
| Subordinated loan capital | 5 | 4 856 | 4 856 | 4 855 |
| Total liabilities | | 638 265 | 671 317 | 637 495 |
| Share capital | | 4 157 | 4 157 | 4 157 |
| Share premium | | 31 563 | 31 563 | 31 563 |
| Other equity | | 7 480 | 8 388 | 7 581 |
| Total equity | | 43 200 | 44 108 | 43 301 |
| Total liabilities and equity | | 681 465 | 715 425 | 680 796 |

Statement of changes in equity

DNB Boligkreditt AS

| <i>Amounts in NOK million</i> | Share capital | Share premium | Liability credit reserve | Other equity | Total equity |
|---|---------------|---------------|--------------------------|--------------|---------------|
| Balance sheet as at 31 Dec. 2016 | 3 857 | 28 863 | | 6 872 | 39 592 |
| Profit for the period | | | | 1 524 | 1 524 |
| Comprehensive income for the period | | | | 1 524 | 1 524 |
| Share issue | 300 | 2 700 | | | 3 000 |
| Group contribution paid | | | | (815) | (815) |
| Balance sheet as at 30 Sept. 2017 | 4 157 | 31 563 | | 7 581 | 43 301 |
| Balance sheet as at 31 Dec. 2017 | 4 157 | 31 563 | | 8 388 | 44 108 |
| Implementation of IFRS 9 | | | (348) | 345 | (4) |
| Balance sheet as at 1 Jan. 2018 | 4 157 | 31 563 | (348) | 8 732 | 44 104 |
| Profit for the period | | | | 1 411 | 1 411 |
| Financial liabilities designated at FVTPL, changes in credit risk | | | (20) | | (20) |
| Tax on other comprehensive income | | | 5 | | 5 |
| Comprehensive income for the period | | | (15) | 1 411 | 1 396 |
| Group contribution paid | | | | (2 300) | (2 300) |
| Balance sheet as at 30 Sept. 2018 | 4 157 | 31 563 | (363) | 7 843 | 43 200 |

Share capital

All shares and voting rights of the company are held by DNB Bank ASA. Share capital at the beginning of 2018 was NOK 4 157 million (41 570 000 shares at NOK 100).

Cash flow statement

| <i>Amounts in NOK million</i> | January-September 2018 | January-September 2017 | Full year 2017 |
|--|------------------------|------------------------|-----------------|
| Operating activities | | | |
| Net payments on loans to customers | (3 543) | (6 239) | (6 835) |
| Interest received from customers | 10 984 | 11 021 | 14 789 |
| Net received/payments on loans from credit institutions | (2 876) | 26 391 | 7 765 |
| Interest received from credit institutions | 42 | 59 | 67 |
| Interest paid to credit institutions | (2 215) | (1 997) | (2 676) |
| Net payments on the sale of financial assets for investment or trading | | 0 | (20) |
| Net receipts on commissions and fees | 44 | 47 | 62 |
| Payments for operating expenses | (698) | (1 024) | (1 440) |
| Taxes paid | | (8 328) | (8 328) |
| Net cash flow relating to operating activities | 1 737 | 19 931 | 3 385 |
| Investing activities | | | |
| Net purchase of loan portfolio | (2 423) | (9 947) | (12 025) |
| Net cash flow relating to investing activities | (2 423) | (9 947) | (12 025) |
| Financing activities | | | |
| Receipts on issued bonds and commercial paper | 56 355 | 55 234 | 76 131 |
| Payments on redeemed bonds and commercial paper | (52 738) | (61 803) | (62 590) |
| Interest payments on issued bonds and commercial paper | (4 757) | (5 152) | (6 620) |
| Interest payments on subordinated loan capital | (96) | (98) | (128) |
| Share issue | | 3 000 | 3 000 |
| Group contribution receipts/payments | 1 900 | (1 087) | (1 087) |
| Net cash flow from financing activities | 664 | (9 906) | 8 706 |
| Net cash flow | (23) | 78 | 66 |
| Cash as at 1 January | 86 | 20 | 20 |
| Net receipts/payments of cash | (23) | 78 | 66 |
| Cash at end of period | 63 | 99 | 86 |

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 and 22 Transition to IFRS 9 in the annual report for 2017.

IFRS 9 Financial Instruments

IFRS 9 entered into force during the first quarter of 2018 and is the new standard for financial instruments that replaces IAS 39. DNB Boligkreditt AS applied the standard as of 1 January 2018. Comparative information has not been restated. For additional information on IFRS 9 adoption, see note 22 Transition to IFRS 9 in the annual report for 2017. Disclosures related to the line item Loans to customers in the balance sheet and the line item Impairment of loans and commitments in the comprehensive income statement for the third quarter of 2017 can be found in note 9 Loans to customers in the third quarter report of 2017.

Note 2 Capital adequacy

| Primary capital | DNB Boligkreditt AS | |
|--|---------------------|-----------------|
| | 30 Sept. 2018 | 31 Dec. 2017 |
| <i>Amounts in NOK million</i> | | |
| Share capital | 4 157 | 4 157 |
| Other equity | 37 647 | 39 951 |
| Total equity | 41 804 | 44 108 |
| Deductions | | |
| Expected losses exceeding actual losses, IRB-portfolios | (828) | (1 070) |
| Value adjustments due to the requirements for prudent valuation (AVA) | (409) | (258) |
| Adjustments for unrealised losses/(gains) on liabilities measured at fair value | 363 | 348 |
| Adjustments for unrealised losses/(gains) arising from the institution's own credit risk related to derivative liabilities (DVA) | (22) | (9) |
| Allocated group contributions for payment | | (2 331) |
| Common equity Tier 1 capital | 40 908 | 40 789 |
| Term subordinated loan capital | 4 850 | 4 850 |
| Tier 2 capital | 4 850 | 4 850 |
| Total eligible primary capital | 45 758 | 45 639 |
| Risk-weighted assets, transitional rules | 248 894 | 246 134 |
| Minimum capital requirement, transitional rules | 19 912 | 19 691 |
| Common equity Tier 1 capital ratio, transitional rules (%) | 16.4 | 16.6 |
| Capital ratio, transitional rules (%) | 18.4 | 18.5 |

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 assets and capital requirements

DNB Boligkreditt AS

| <i>Amounts in NOK million</i> | Nominal exposure | EAD ¹⁾ | Risk-weighted assets | Capital requirement | Capital requirement |
|---|------------------|-------------------|----------------------|---------------------|---------------------|
| | 30 Sept. 2018 | 30 Sept. 2018 | 30 Sept. 2018 | 30 Sept. 2018 | 31 Dec. 2017 |
| IRB approach | | | | | |
| Corporate | 5 269 | 5 269 | 2 608 | 209 | 221 |
| Retail - residential property | 654 898 | 654 898 | 140 442 | 11 235 | 11 245 |
| Total credit risk, IRB approach | 660 168 | 660 168 | 143 050 | 11 444 | 11 467 |
| Standardised approach | | | | | |
| Institutions | 36 730 | 30 729 | 6 146 | 492 | 693 |
| Corporate | 19 574 | 19 526 | 6 881 | 550 | 531 |
| Retail - residential property | 19 428 | 17 705 | 6 254 | 500 | 422 |
| Retail - other exposures | 493 | 328 | 270 | 22 | 20 |
| Other assets | | | | | |
| Total credit risk, standardised approach | 76 224 | 68 288 | 19 551 | 1 564 | 1 666 |
| Total credit risk | 736 392 | 728 456 | 162 600 | 13 008 | 13 132 |
| Credit value adjustment (CVA) | | | | | 1 345 |
| Operational risk | | | 9 267 | 741 | 741 |
| Total risk-weighted assets and capital requirements before transitional rules | | | 171 867 | 13 749 | 15 218 |
| Additional capital requirements according to transitional rules | | | 77 027 | 6 162 | 4 472 |
| Total risk-weighted assets and capital requirements | | | 248 894 | 19 912 | 19 691 |

1) EAD, exposure at default

Note 3 Development in accumulated impairment of financial instruments

The quality of DNB Boligkredit's loan portfolio is high with a large share of loans in stage 1. The following tables reconcile the opening and closing balances for accumulated impairment of loans to customers at amortised cost and financial commitments. Reconciling items includes the following:

- Transfers between stages due to significant changes in credit risk. The transfers are presumed to occur before the subsequent remeasurement of the allowance
- Changes due to transfers between 12-month expected credit loss in stage 1 and lifetime expected credit loss in stages 2 and 3
- Increases and decreases in expected credit loss resulting from changes in input parameters and assumptions, including macro forecasts, as well as the effect of partial repayments on existing facilities and the unwinding of the time value of discounts due to the passage of time
- Changes in allowance due to the origination of new financial instruments during the period
- Changes in allowance due to the derecognition of financial instruments during the period
- Write-offs, exchange rate movements and other changes affecting the expected credit loss

| Loans to customers at amortised cost | DNB Boligkredit | | | |
|---|------------------------|-------------|-------------|--------------|
| <i>Amounts in NOK million</i> | Stage 1 | Stage 2 | Stage 3 | Total |
| Accumulated impairment as at 30 June 2018 | (32) | (40) | (69) | (141) |
| Transfer to stage 1 | (11) | 10 | 1 | |
| Transfer to stage 2 | 1 | (4) | 3 | |
| Transfer to stage 3 | 0 | 0 | (0) | |
| Originated and purchased during the period | (4) | (1) | | (5) |
| Increased expected credit loss | (7) | (18) | (13) | (38) |
| Decreased (reversed) expected credit loss | 20 | 5 | 16 | 41 |
| Derecognition | 0 | 5 | | 5 |
| Write-offs | | 0 | 0 | 0 |
| Other | | | | |
| Accumulated impairment as at 30 September 2018 | (33) | (44) | (61) | (138) |

| Loans to customers at amortised cost | DNB Boligkredit | | | |
|---|------------------------|-------------|-------------|--------------|
| <i>Amounts in NOK million</i> | Stage 1 | Stage 2 | Stage 3 | Total |
| Accumulated impairment as at 1 January 2018 | (43) | (37) | (74) | (154) |
| Transfer to stage 1 | (33) | 27 | 6 | |
| Transfer to stage 2 | 3 | (26) | 23 | |
| Transfer to stage 3 | 0 | 1 | (1) | (0) |
| Originated and purchased during the period | (10) | (1) | | (11) |
| Increased expected credit loss | (18) | (48) | (53) | (119) |
| Decreased (reversed) expected credit loss | 67 | 27 | 36 | 130 |
| Derecognition | 0 | 13 | | 13 |
| Write-offs | 0 | 0 | 2 | 2 |
| Other | | | | |
| Accumulated impairment as at 30 September 2018 | (33) | (44) | (61) | (138) |

Note 4 Debt securities issued

| Debt securities issued | DNB Boligkreditt AS | | |
|---|---------------------|-----------------|------------------|
| | 30 Sept. 2018 | 31 Dec. 2017 | 30 Sept. 2017 |
| <i>Amounts in NOK million</i> | | | |
| Listed covered bonds, nominal amount | 371 669 | 379 635 | 351 010 |
| Private placements under the bond programme, nominal amount | 68 927 | 70 812 | 67 094 |
| Total bonds, nominal amount | 440 595 | 450 446 | 418 104 |
| Accrued interest | 2 801 | 3 033 | 2 620 |
| Unrealised losses ¹⁾ | 10 833 | 14 757 | 15 208 |
| Adjustments | 13 634 | 17 790 | 17 827 |
| Total debt securities issued | 454 229 | 468 236 | 435 931 |

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 Sept. 2018 | Issued 2018 | Matured/ redeemed 2018 | Exchange rate movements 2018 | Other changes 2018 | Balance sheet 31 Dec. 2017 |
| <i>Amounts in NOK million</i> | | | | | | |
| Bond debt, nominal amount | 440 595 | 56 355 | (54 278) | (11 929) | | 450 446 |
| Value adjustments | 13 634 | | | | (4 156) | 17 790 |
| Total debt securities issued | 454 229 | 56 355 | (54 278) | (11 929) | (4 156) | 468 236 |

| Maturity of debt securities issued | DNB Boligkreditt AS | | |
|------------------------------------|---------------------|---------------------|----------------|
| | NOK | Foreign currency | Total |
| <i>Amounts in NOK million</i> | | | |
| 2018 | | 15 038 | 15 038 |
| 2019 | 16 600 | 41 357 | 57 957 |
| 2020 | 19 000 | 34 258 | 53 258 |
| 2021 | 26 500 | 48 748 | 75 248 |
| 2022 and later | 18 120 | 220 974 | 239 094 |
| Total bond debt | 80 220 | 360 375 | 440 595 |

Note 4 Debt securities issued (continued)

DNB Boligkreditt AS

| ISIN Code | Currency | Matured redeemed amount | Interest | Issued | Matured | Remaining nominal amount | |
|--|----------|-------------------------------|----------|--------|---------|--------------------------|-----------------|
| | | | | | | 30 Sept. 2018 | 31 Dec. 2017 |
| CH0110819445 | CHF | 1 680 | Fixed | 2010 | 2018 | Matured | 1 680 |
| XS0592277429 | EUR | 98 | Floating | 2011 | 2018 | Matured | 98 |
| XS0746565877 | EUR | 492 | Fixed | 2012 | 2018 | Matured | 492 |
| XS0822752233 | EUR | 246 | Fixed | 2012 | 2018 | Matured | 246 |
| XS0864911259 | EUR | 197 | Floating | 2012 | 2018 | Matured | 197 |
| NO0010669864 | NOK | 3 500 | Floating | 2013 | 2018 | Matured | 3 500 |
| NO0010669864 | NOK | 500 | Floating | 2014 | 2018 | Matured | 500 |
| XS0876790808 | SEK | 1 499 | Floating | 2013 | 2018 | Matured | 1 499 |
| XS0877571884 | EUR | 14 749 | Fixed | 2013 | 2018 | Matured | 14 749 |
| XS0899701212 | USD | 82 | Floating | 2013 | 2018 | Matured | 82 |
| US25600WAD20/US25600XAB47 | USD | 16 397 | Fixed | 2013 | 2018 | Matured | 16 397 |
| Private | EUR | 344 | Fixed | 2008 | 2018 | Matured | 344 |
| Private | EUR | 49 | Fixed | 2008 | 2018 | Matured | 49 |
| Private | EUR | 147 | Fixed | 2008 | 2018 | Matured | 147 |
| Private | EUR | 197 | Fixed | 2008 | 2018 | Matured | 197 |
| Private | EUR | 98 | Fixed | 2008 | 2018 | Matured | 98 |
| Private | EUR | 147 | Fixed | 2008 | 2018 | Matured | 147 |
| XS0618699994 | EUR | 492 | Floating | 2011 | 2018 | Matured | 492 |
| NO0010634777 | NOK | 2 000 | Fixed | 2012 | 2018 | Matured | 2 000 |
| NO0010634777 | NOK | 500 | Fixed | 2013 | 2018 | Matured | 500 |
| XS0846052396 | EUR | 885 | Floating | 2012 | 2018 | Matured | 885 |
| XS0914395222 | EUR | 1 652 | Floating | 2013 | 2018 | Matured | 1 652 |
| XS0934222521 | EUR | 98 | Fixed | 2013 | 2018 | Matured | 98 |
| Private | EUR | 197 | Fixed | 2008 | 2018 | Called | 197 |
| XS0378505514 | JPY | 364 | Fixed | 2008 | 2018 | Matured | 364 |
| Private | EUR | 197 | Fixed | 2008 | 2018 | Called | 197 |
| Private | EUR | 147 | Fixed | 2008 | 2018 | Called | 147 |
| Private | EUR | 197 | Fixed | 2008 | 2018 | Called | 197 |
| XS0536317620 | EUR | 79 | Fixed | 2010 | 2018 | Matured | 79 |
| XS0647110245 | EUR | 49 | Fixed | 2011 | 2018 | Matured | 49 |
| NO0010622087 | NOK | 1 950 | Floating | 2011 | 2018 | Matured | 1 950 |
| NO0010622087 | NOK | 2 500 | Floating | 2012 | 2018 | Matured | 2 500 |
| NO0010622087 | NOK | 500 | Floating | 2013 | 2018 | Matured | 500 |
| NO0010622087 | NOK | 2 000 | Floating | 2014 | 2018 | Matured | 2 000 |
| XS0952098407 | EUR | 49 | Fixed | 2013 | 2018 | Matured | 49 |
| Total debt securities issued, nominal value | | 54 278 | | | | | 54 278 |

Cover pool

DNB Boligkreditt AS

| Amounts in NOK million | 30 Sept. | 31 Dec. | 30 Sept. |
|---|----------------|----------------|----------------|
| | 2018 | 2017 | 2017 |
| Pool of eligible loans | 623 585 | 617 756 | 615 984 |
| Market value of eligible derivatives | 34 084 | 52 878 | 40 693 |
| Total collateralised assets | 657 669 | 670 634 | 656 677 |
| Debt securities issued, carrying value | 454 229 | 468 236 | 435 931 |
| Less valuation changes attributable to changes in credit risk on debt carried at fair value | (484) | (465) | (474) |
| Debt securities issued, valued according to regulation ¹⁾ | 453 745 | 467 771 | 435 458 |
| Collateralisation (per cent) | 144.9 | 143.4 | 150.8 |

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 5 Subordinated loan capital

| <i>Amounts in NOK million</i> | Currency | Nominal amount | Interest rate | Issue date | Maturity date | DNB Boligkreditt AS | | |
|--|----------|----------------|------------------------|------------|---------------|---------------------|--------------|---------------|
| | | | | | | 30 Sept. 2018 | 31 Dec. 2017 | 30 Sept. 2017 |
| Term subordinated loan capital | NOK | 850 | 3 month Nibor + 400 bp | 2009 | 2024 | 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 | 6 | 5 |
| Total subordinated loan capital | | | | | | 4 856 | 4 856 | 4 855 |

Note 6 Financial instruments at fair value

| <i>Amounts in NOK million</i> | Valuation | | | Total |
|--|--|---|--|--------|
| | based on quoted prices in an active market Level 1 | based on observable market data Level 2 | based on other than observable market data Level 3 | |
| Assets as at 30 September 2018 | | | | |
| Loans to customers | | | 40 297 | 40 297 |
| Financial derivatives | | 46 883 | | 46 883 |
| Liabilities as at 30 September 2018 | | | | |
| Debt securities issued | | 81 629 | | 81 629 |
| Financial derivatives | | 12 799 | | 12 799 |

| <i>Amounts in NOK million</i> | Valuation | | | Total |
|--|--|---|--|--------|
| | based on quoted prices in an active market Level 1 | based on observable market data Level 2 | based on other than observable market data Level 3 | |
| Assets as at 30 September 2017 | | | | |
| Due from credit institutions | | 6 156 | | 6 156 |
| Loans to customers | | | 44 296 | 44 296 |
| Financial derivatives | | 54 235 | | 54 235 |
| Liabilities as at 30 September 2017 | | | | |
| Debt securities issued | | 85 456 | | 85 456 |
| Financial derivatives | | 13 542 | | 13 542 |

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 2017 | 41 362 |
| Implementation impact from IFRS 9 at 1 January 2018 | (1 051) |
| Net gains recognised in the income statement | (437) |
| Additions/purchases | 9 803 |
| Sales | (113) |
| Settled | (9 267) |
| Carrying amount as at 30 September 2018 | 40 297 |

Note 7 Information on related parties

DNB Bank ASA

In the first three quarters of 2018, loan portfolios representing NOK 2.4 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 494 million for the first three quarters of 2018 (NOK 748 million for the first three quarters of 2017).

At end-September the bank had invested NOK 5.7 billion in covered bonds issued by DNB Boligkreditt.

In the first three quarters of 2018 DNB Boligkreditt entered into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The value of the repos amounted to NOK 6.0 billion at end-September 2018.

The company has a long-term overdraft facility in DNB Bank ASA with a limit of NOK 220 billion.

DNB Livsforsikring AS

At end-September 2018 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 2.1 million for the first three quarters of 2018.

Contact information

DNB Boligkreditt AS

Mailing address P.O.Box 1600 Sentrum, NO-0021 Oslo
Visiting address Dronning Eufemias gate 30, Oslo
Telephone +47 915 04800
Internet dnb.no
Organisation number NO 985 621 551 MVA

Chief executive officer

Per Sagbakken
Tel: +47 906 61 159
per.sagbakken@dnb.no

Financial reporting

Roar Sørensen
Tel: +47 934 79 616
roar.sorensen@dnb.no

DNB ASA

Mailing address P.O.Box 1600 Sentrum, NO-0021 Oslo
Visiting address Dronning Eufemias gate 30, Oslo
Telephone +47 915 04800
Internet dnb.no
Organisation number NO 981 276 957 MVA

DNB Bank ASA

Mailing address P.O.Box 1600 Sentrum, NO-0021 Oslo
Visiting address Dronning Eufemias gate 30, Oslo
Telephone +47 915 04800
Internet dnb.no
Organisation number NO 984 851 006 MVA

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.

We are here.
So you can stay ahead.

DNB Boligkreditt AS

Mailing address:
P.O.Box 1600 Sentrum
N-0021 Oslo

Visiting address:
Dronning Eufemias gate 30
Bjørvika, Oslo

dnb.no
