

DNB Boligkreditt

A company in the DNB group

Fourth quarter report 2020

(Preliminary and unaudited)



Financial highlights

Income statement

| <i>Amounts in NOK million</i> | DNB Boligkreditt AS | | | |
|---|----------------------------|---------------------|-------------------|-------------------|
| | 4th quarter 2020 | 4th quarter 2019 | Full year 2020 | Full year 2019 |
| Net interest income | 1 607 | 1 132 | 5 495 | 4 763 |
| Net other operating income | 360 | (217) | 1 103 | 388 |
| Of which net gains on financial instruments at fair value | 347 | (231) | 1 047 | 330 |
| Total operating expenses | (504) | (120) | (1 158) | (807) |
| Impairment of financial instruments | 5 | (10) | 27 | 16 |
| Pre-tax operating profit | 1 467 | 784 | 5 467 | 4 360 |
| Tax expense | (368) | (196) | (1 368) | (1 089) |
| Profit for the period | 1 100 | 589 | 4 100 | 3 271 |

Balance sheet

| <i>Amounts in NOK million</i> | 31 Dec. 2020 | 31 Dec. 2019 |
|-------------------------------|-----------------|-----------------|
| Total assets | 740 132 | 693 855 |
| Loans to customers | 676 511 | 636 786 |
| Debt securities issued | 521 195 | 471 715 |
| Total equity | 47 463 | 46 621 |

Key figures and alternative performance measures

| | 4th quarter 2020 | 4th quarter 2019 | Full year 2020 | Full year 2019 |
|--|---------------------|---------------------|-------------------|-------------------|
| Return on equity, annualised (%) ¹⁾ | 9.3 | 5.1 | 8.8 | 7.3 |
| Total average spread for lending (%) ¹⁾ | 0.88 | 0.65 | 0.75 | 0.62 |
| Impairment relative to average net loans to customers, annualised (per cent) ¹⁾ | 0.00 | (0.01) | 0.00 | 0.00 |
| Net loans and financial commitments in stage 3, per cent of net loans ¹⁾ | 0.13 | 0.15 | 0.13 | 0.15 |
| Net loans and financial commitments in stage 3, (NOK million) ¹⁾ | 851 | 982 | 851 | 982 |
| Common equity Tier 1 capital ratio end of period (%) ²⁾ | 23.6 | 24.5 | 23.6 | 24.5 |
| Capital ratio end of period (%) ²⁾ | 26.6 | 27.6 | 26.6 | 27.6 |
| Common equity Tier 1 capital (NOK million) | 42 036 | 42 132 | 42 036 | 42 132 |
| Risk-weighted assets (NOK million) ²⁾ | 177 880 | 171 652 | 177 880 | 171 652 |
| Number of full-time positions at end of period | 6 | 5 | 6 | 5 |

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

2) On 31 December 2019, Norway fully implemented the EU's capital requirements legislation CRR/CRD IV, and the so-called Basel I floor was removed. The additional capital requirements due to the transitional rules have been removed from the historical figures. The harmonised rules include the introduction of the SME discount factor.

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

Directors' report

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

Financial accounts

DNB Boligkreditt recorded a profit of NOK 1 100 million in the fourth quarter of 2020, compared with a profit of NOK 589 million in the fourth quarter of 2019.

Total income

Income totalled NOK 1 966 million in the fourth quarter of 2020, up from NOK 915 million in the year-earlier period.

| Amounts in NOK million | 4th quarter | | 4th quarter |
|---|-------------|--------|-------------|
| | 2020 | Change | 2019 |
| Total income | 1 966 | 1 051 | 915 |
| Net interest income | | 474 | |
| Net commission and fee income | | 1 | |
| Net gains/(losses) on financial instruments at fair value | | 576 | |

Compared to the same period in the previous year, the net interest income has increased, due to a combination of increased lending volume and an increase in interest rate margins. The recorded gains/losses on financial instruments reflect 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, thus the fee will fluctuate with the net interest income. The servicing agreement also ensures DNB Boligkreditt a minimum fee based on the net interest rate margin achieved on loans to customers. The fee amounted to NOK 477 million in the fourth quarter of 2020, up from NOK 101 million in the fourth quarter of 2019.

The company has generally recorded low impairment losses on loans. In the fourth quarter of 2020, the company reported net recoveries on impairment of financial instruments of NOK 5 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 2020, DNB Boligkreditt had total assets of NOK 740.1 billion, an increase of NOK 46.3 billion from end-December 2019.

| Amounts in NOK million | 31 Dec. | | 31 Dec. |
|----------------------------|---------|----------|---------|
| | 2020 | Change | 2019 |
| Total assets | 740 132 | 46 277 | 693 855 |
| Loans to customers | | 39 725 | |
| Financial derivatives | | (14 082) | |
| Other assets | | 20 634 | |
| Total liabilities | 692 669 | 45 434 | 647 235 |
| Due to credit institutions | | (2 978) | |
| Financial derivatives | | (348) | |
| Debt securities issued | | 49 480 | |
| Deferred taxes | | (4 092) | |
| Other liabilities | | 3 372 | |

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 were up by net NOK 49.5 billion from end-December 2019. The company issued covered bonds under existing programmes totalling NOK 84.3 billion in 2020. Total debt securities issued amounted to NOK 521.2 billion at end-December 2020.

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 will 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 2020, the company's equity totalled NOK 47.5 billion, of which NOK 42.0 billion represented Tier 1 capital. Total primary capital in the company was NOK 47.2 billion. The Tier 1 capital ratio was 23.6 per cent, while the capital adequacy ratio was 26.6 per cent. The increased capital ratios compared to prior periods is due to the removal of the Basel I floor with effect from 31 December 2019.

New regulatory framework

Loan guarantee programme extended until the summer of 2021

In connection with the COVID-19 pandemic, the Norwegian Government has introduced a number of schemes, programmes and regulatory changes for employees, employers and self-employed persons. The loan guarantee programme means that the Government provides a guarantee for 90 per cent of the amount when new bank loans are issued to companies facing an acute liquidity crisis as a direct or indirect consequence of the pandemic.

On 13 November 2020, the Norwegian Ministry of Finance decided that the loan guarantee programme is to be extended until 30 June 2021. Furthermore, the Ministry indicated that it may allow terms of up to six years for guaranteed loans, and that banks may give their loan customers interest-only periods of up to three years.

Counter-cyclical capital buffer requirement remains unchanged

On 13 March 2020, the Ministry of Finance decided to reduce the counter-cyclical capital buffer requirement from 2.5 per cent to 1 per cent. The reduction was made in connection with the COVID-19 pandemic and the infection control measures that had led to a sharp decline in activity in the Norwegian economy. On 17 December 2020, the Ministry decided to keep the requirement unchanged at 1 per cent. These decisions were made on the advice of the Norwegian central bank, Norges Bank. Norges Bank's current assessment of economic developments, projected losses and banks' expected lending capacity indicates that advice will be given on increasing the buffer requirement in the course of 2021. In a somewhat longer perspective, Norges Bank envisages that the buffer requirement will once again be back at the 2.5 per cent level.

Regulation of banks' lending practices

Banks' lending practices towards households are currently regulated by the Home Mortgage Regulations and the Consumer Loan Regulations. On 9 December 2020, the Government decided to extend the applicable provisions of these regulations for a new period of four years, with a mid-term evaluation after two years. However, the two separate regulations will be combined into one common set of regulations on lending. The Government decided against following Finanstilsynet's recommendation to expand the regulatory scope to include loans secured by collateral other than property. However, this will be assessed in the evaluation to be performed in the autumn of 2022.

Changes in capital requirements for banks as of 1 January 2021

The EU's capital requirements legislation, CRR/CRD IV, entered into effect in Norway as on 31 December 2019. This meant, among other things, the removal of the Basel I floor. To counteract this easing of the capital requirements, the systemic risk buffer requirement was increased from 3 to 4.5 per cent with effect from 31 December 2020. The buffer requirement has only been made applicable to exposures in Norway. The smaller banks have until 31 December 2022 to meet the increased requirement.

In order to ensure that risk weights for home mortgages and commercial property loans are not set too low, the Ministry of Finance has introduced temporary floors of 20 and 35 per cent, respectively, for the average risk weighting of such loans. This measure is aimed at foreign banks with operations in Norway and is important for ensuring equal terms of competition. DNB Boligkredit's risk weights are already above these levels and are thus not affected.

DNB Boligkredit is still considered a systemically important financial institution in Norway, and as such it must meet a special buffer requirement of 2 per cent (O-SII buffer requirement). The change means that the systemic importance buffer becomes a separate requirement, in line with CRR/CRD IV, and not an add-on to the

systemic risk buffer as it was before.

The relevant EU/EEA authorities, the Standing Committee of the EFTA States and the European Systemic Risk Board (ESRB) have endorsed the Ministry's justification for the increased buffer requirement. In the Ministry's view, no corresponding assessment is required from the EU/EEA authorities for the other changes. The Ministry will ask the ESRB to recommend that other countries' authorities approve the Norwegian systemic risk buffer and floor requirements, so that they may also be made applicable for foreign banks in Norway (reciprocity).

Pillar 2 process to be evaluated by Finanstilsynet

In a letter dated 8 December 2020, the Ministry of Finance asked Finanstilsynet to evaluate the determination of the Pillar 2 capital requirement for banks. In particular, the Ministry pointed out the importance of maintaining transparency and ensuring a systematic structuring of the Pillar 2 requirement, and that it may be appropriate to regulate the framework for the Pillar 2 process through legislation. The Ministry also made clear that Finanstilsynet should show how a bank's overall Pillar 2 requirement is made up of requirements for offsetting different risks, and how and to what extent Pillar 2 add-ons have been based on supervisory discretion. The letter of assignment highlighted several aspects of the determination of Pillar 2 requirements and what is referred to as Pillar 2 Guidance (P2G). In addition, the Ministry asked Finanstilsynet to compare its methods for setting the Norwegian Pillar 2 requirements, including their levels, with those of a selection of relevant European countries.

New act on sustainability-related disclosures circulated for public comment

The EU has adopted two regulations, on sustainability-related disclosures in the financial services sector and on the establishment of a framework for a classification system (taxonomy) to facilitate sustainable investment, respectively. The requirements are comprehensive and detailed, and it is assumed that they will result in a significant increase in the financial service industry's use of resources.

The regulations have not yet been incorporated into the EEA Agreement, but Finanstilsynet has, at the request of the Ministry of Finance, looked into how they can be introduced in Norway, so that their entry into force can follow the EU timeline. Finanstilsynet proposes that the disclosure requirements and reporting obligations are put into effect through a new act on sustainability-related disclosures. The purpose of gathering all the requirements in one act is to achieve a better overview of the various rules in this area, and greater harmonisation. In addition, a new act will reflect the increased societal importance of disclosures of this kind and clarify the connection between the various disclosure requirements and reporting obligations.

Macroeconomic developments

Last spring, the coronavirus pandemic led to severe restrictions on economic activity, which in turn resulted in a dramatic downturn in the global economy.

In response to the crisis, powerful economic measures were introduced, in both fiscal and monetary policy. Central banks injected large amounts of liquidity into the markets, increased purchases of securities and reduced interest rates wherever possible. As things stand, it would seem that the monetary policy stimuli will to a large extent be maintained throughout 2021. In due course, as the pandemic is gradually brought under control, the time will come when the central banks can reduce the stimuli.

The Norwegian economy recovered rapidly after the sharp fall in the second quarter, but will experience a slightly lower rate of growth in early 2021 due to the recent increase in COVID-19 infection rates. During the autumn, there have been two sides to

developments in activity. Growth in the third quarter was stronger than expected, with an increase of 5.2 per cent. In addition, the monthly national accounts figures for October showed that mainland GDP had increased by 1.2 per cent from September. Activity levels were thus relatively high at the start of the fourth quarter. However, in November, new restrictions were introduced that affected activity, and mainland GDP fell by 0.9 per cent. Some of the increase in GDP in October and decrease in November is due to a temporary upturn in the fishing industry in October and a fall in electricity production in November. The infection control measures are likely to last for some time in the first quarter of 2021 and are expected to result in a sluggish start to the year, before a reopening, supported by the vaccination programme, contributes to a strong second half.

A significant decrease in interest rates contributed to the rapid decline in the prices of existing homes in March quickly turning into price growth from May and for the rest of the year. Overall, house prices rose by 4.5 per cent last year, and current indications are that price growth may exceed 10 per cent during the first quarter of this year. The level of activity in the housing market has also been high, with a record-high turnover, among other things.

As early as June, Norges Bank signalled that interest rates could be raised towards the end of 2022 or in early 2023. In December, it predicted that an interest rate hike was highly probable in early 2022. It therefore looks as if Norges Bank will be ahead of the central banks of other industrialised countries when it comes to interest rate hikes.

Future prospects

The immediate recovery of the Norwegian economy progressed at a rapid pace in the quarter, but is expected to somewhat decrease in pace going forward. DNB Boligkreditt's activity level was less impacted by the COVID-19 pandemic than expected in the fourth quarter. Housing prices were up and operating income was strong with very low impairment losses.

In the period 2021 to 2023, the annual increase in lending volumes is expected to be around 3 to 4 per cent.

The common equity Tier 1 (CET1) capital ratio was 23.6 per cent as at 31 December 2020. The very high ratio is due to the removal of the Basel I floor as from year-end 2019. The CET1 capital ratio requirement for DNB Boligkreditt is 15.55 per cent, while the Tier 1 requirement is 17.05 per cent. This is after the reduction in the counter-cyclical buffer in March of 1.5 per cent, and including a management buffer (Pillar 2 Guidance) of 0.75 per cent. From year-end 2020 the company's capital requirement was increased by the change in the systemic risk buffer of 1.5 per cent.

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 the next couple of years is however expected to be lower than in the previous years due to the Group's issuing of non-preferred senior debt to meet the Minimum Requirement for own funds and Eligible Liabilities (MREL).

Oslo, 9 February 2021

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 | 4th quarter 2020 | 4th quarter 2019 | Full year 2020 | Full year 2019 |
| Interest income, amortised cost | | 2 864 | 4 452 | 13 440 | 16 051 |
| Other interest income | | 277 | 297 | 1 130 | 1 153 |
| Interest expenses, amortised cost | | (472) | (1 301) | (3 485) | (4 273) |
| Other interest expenses | | (1 063) | (2 316) | (5 590) | (8 168) |
| Net interest income | | 1 607 | 1 132 | 5 495 | 4 763 |
| Commission and fee income | | 15 | 14 | 61 | 61 |
| Commission and fee expenses | | (1) | (1) | (3) | (3) |
| Net gains on financial instruments at fair value | | 347 | (231) | 1 047 | 330 |
| Other income | | (2) | | (2) | 0 |
| Net other operating income | | 360 | (217) | 1 103 | 388 |
| Total income | | 1 966 | 915 | 6 598 | 5 152 |
| Salaries and other personnel expenses | | (3) | (3) | (11) | (11) |
| Other expenses | 7 | (501) | (117) | (1 146) | (796) |
| Total operating expenses | | (504) | (120) | (1 158) | (807) |
| Impairment of financial instruments | 3 | 5 | (10) | 27 | 16 |
| Pre-tax operating profit | | 1 467 | 784 | 5 467 | 4 360 |
| Tax expense | | (368) | (196) | (1 368) | (1 089) |
| Profit for the period | | 1 100 | 589 | 4 100 | 3 271 |
| Other comprehensive income that will not be reclassified to profit or loss ¹⁾ | | 0 | 329 | 18 | 279 |
| Tax | | 0 | (82) | (4) | (70) |
| Total comprehensive income for the period | | 1 100 | 835 | 4 113 | 3 480 |

1) The measurement category for debt securities issued in Norwegian kroner with floating rates has been changed from FVTPL to amortised cost as of 31 December 2019. A gain of NOK 238 million before tax (NOK 179 million after tax) was recognised in the Comprehensive income statement in 2019, due to the correction. Comparative information has not been restated. The correction does not impact the CET1 capital ratio.

Balance sheet

DNB Boligkreditt AS

| <i>Amounts in NOK million</i> | Note | 31 Dec. 2020 | 31 Dec. 2019 |
|-------------------------------------|------|-----------------|-----------------|
| Assets | | | |
| Due from credit institutions | 7 | 26 175 | 5 537 |
| Loans to customers | 3, 6 | 676 511 | 636 786 |
| Financial derivatives | 6 | 37 442 | 51 524 |
| Other assets | | 5 | 9 |
| Total assets | | 740 132 | 693 855 |
| Liabilities and equity | | | |
| Due to credit institutions | 7 | 150 423 | 153 401 |
| Financial derivatives | 6 | 9 580 | 9 928 |
| Debt securities issued | 4, 6 | 521 195 | 471 715 |
| Payable taxes | | 5 464 | 2 103 |
| Deferred taxes | | 655 | 4 747 |
| Other liabilities | | 114 | 99 |
| Provisions | | 32 | 30 |
| Subordinated loan capital | 5 | 5 206 | 5 210 |
| Total liabilities | | 692 669 | 647 235 |
| Share capital | | 5 257 | 5 257 |
| Share premium | | 31 719 | 31 719 |
| Other equity | | 10 487 | 9 645 |
| Total equity | | 47 463 | 46 621 |
| Total liabilities and equity | | 740 132 | 693 855 |

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 December 2018 | 4 157 | 31 563 | (269) | 8 157 | 43 608 |
| Profit for the period | | | | 3 271 | 3 271 |
| Actuarial gains and losses | | | | (1) | (1) |
| Financial liabilities designated at FVTPL, changes in credit risk | | | 280 | | 280 |
| Tax on other comprehensive income | | | (70) | 0 | (70) |
| Comprehensive income for the period | | | 210 | 3 270 | 3 480 |
| Share issue | 1 100 | 9 900 | | | 11 000 |
| Group contribution paid | | (9 744) | | (1 724) | (11 468) |
| Balance sheet as at 31 December 2019 | 5 257 | 31 719 | (59) | 9 704 | 46 621 |
| Profit for the period | | | | 4 100 | 4 100 |
| Actuarial gains and losses | | | | (2) | (2) |
| Financial liabilities designated at FVTPL, changes in credit risk | | | 20 | | 20 |
| Tax on other comprehensive income | | | (5) | 0 | (4) |
| Comprehensive income for the period | | | 15 | 4 098 | 4 113 |
| Group contribution paid | | | | (3 270) | (3 270) |
| Balance sheet as at 31 December 2020 | 5 257 | 31 719 | (44) | 10 531 | 47 463 |

Share capital

All shares and voting rights of the company are held by DNB Bank ASA. Share capital at the beginning of 2020 was NOK 5 257 million (52 570 000 shares at NOK 100).

Cash flow statement

DNB Boligkreditt AS

Amounts in NOK million

| | Full year 2020 | Full year 2019 |
|--|-------------------|-------------------|
| Operating activities | | |
| Net payments on loans to customers | 10 083 | (6 366) |
| Interest received from customers | 14 870 | 16 933 |
| Net received/paid on loans from credit institutions | (23 662) | 16 464 |
| Interest received from credit institutions | 35 | 112 |
| Interest paid to credit institutions | (2 144) | (3 281) |
| Net receipts on commissions and fees | 58 | 58 |
| Payments for operating expenses | (1 111) | (899) |
| Taxes paid | (2 104) | |
| Net cash flow relating to operating activities | (3 975) | 23 021 |
| Investing activities | | |
| Net purchase of loan portfolio | (49 166) | (1 516) |
| Net cash flow relating to investing activities | (49 166) | (1 516) |
| Financing activities | | |
| Receipts on issued bonds and commercial paper | 123 295 | 46 419 |
| Payments on redeemed bonds and commercial paper | (59 243) | (54 971) |
| Interest payments on issued bonds and commercial paper | (7 546) | (8 518) |
| Interest payments on subordinated loan capital | (138) | (160) |
| Share issue | | 11 000 |
| Group contribution payments | (3 270) | (15 290) |
| Net cash flow from financing activities | 53 099 | (21 520) |
| Net cash flow | (43) | (15) |
| Cash as at 1 January | 45 | 60 |
| Net receipts/payments of cash | (43) | (15) |
| Cash at end of period | 2 | 45 |

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, the 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 2019.

Note 2 Capital adequacy

Capital adequacy is calculated and reported in accordance with the EU capital requirements regulations for banks and investment firms (CRR/CRD IV).

| Own funds | DNB Boligkreditt AS | |
|--|---------------------|-----------------|
| | 31 Dec. 2020 | 31 Dec. 2019 |
| <i>Amounts in NOK million</i> | | |
| Share capital | 5 257 | 5 257 |
| Other equity | 42 206 | 41 364 |
| Total equity | 47 463 | 46 621 |
| Deductions | | |
| Expected losses exceeding actual losses, IRB-portfolios | (960) | (862) |
| Value adjustments due to the requirements for prudent valuation (AVA) | (406) | (404) |
| Adjustments for unrealised losses/(gains) on liabilities measured at fair value | 44 | 59 |
| Adjustments for unrealised losses/(gains) arising from the institution's own credit risk related to derivative liabilities (DVA) | (10) | (12) |
| Allocated group contributions for payment | (4 095) | (3 271) |
| Common equity Tier 1 capital | 42 036 | 42 132 |
| Term subordinated loan capital | 5 200 | 5 200 |
| Tier 2 capital | 5 200 | 5 200 |
| Own funds | 47 236 | 47 332 |
| Risk-weighted assets | 177 880 | 171 652 |
| Minimum capital requirement | 14 230 | 13 732 |
| Common equity Tier 1 capital ratio (%) | 23.6 | 24.5 |
| Capital ratio (%) | 26.6 | 27.6 |

Specification of risk-weighted assets and capital requirements

| | DNB Boligkreditt AS | | | | |
|---|---------------------|-------------------|----------------------|---------------------|---------------------|
| | Nominal exposure | EAD ¹⁾ | Risk-weighted assets | Capital requirement | Capital requirement |
| | 31 Dec. 2020 | 31 Dec. 2020 | 31 Dec. 2020 | 31 Dec. 2020 | 31 Dec. 2019 |
| <i>Amounts in NOK million</i> | | | | | |
| IRB approach | | | | | |
| Corporate | 489 | 489 | 179 | 14 | 194 |
| Retail - secured by immovable property | 738 985 | 738 985 | 155 390 | 12 431 | 11 417 |
| Total credit risk, IRB approach | 739 473 | 739 473 | 155 569 | 12 446 | 11 612 |
| Standardised approach | | | | | |
| Institutions | 44 425 | 44 425 | 8 885 | 711 | 556 |
| Corporate | 19 656 | 19 645 | 5 337 | 427 | 419 |
| Retail | 560 | 437 | 327 | 26 | 14 |
| Retail - secured by immovable property | 856 | 801 | 283 | 23 | 619 |
| Other assets | 63 | 51 | 76 | 6 | 9 |
| Total credit risk, standardised approach | 65 560 | 65 359 | 14 908 | 1 193 | 1 617 |
| Total credit risk | 805 033 | 804 832 | 170 477 | 13 638 | 13 229 |
| Credit value adjustment (CVA) | | | | | |
| Operational risk | | | 7 403 | 592 | 503 |
| Total risk-weighted assets and capital requirements | | | 177 880 | 14 230 | 13 732 |

1) EAD, exposure at default

Note 3 Development in accumulated impairment of financial instruments

The quality of DNB Boligkreditt'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. Reconciling items include 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 effect from consolidation and other changes affecting the expected credit loss.

Loans to customers at amortised cost (quarterly figures)

| Amounts in NOK million | 4th quarter 2020 | | | | 4th quarter 2019 | | | |
|---|------------------|-------------|-------------|-------------|------------------|-------------|-------------|--------------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Accumulated impairment as at 30 Sept. | (14) | (16) | (45) | (75) | (12) | (25) | (63) | (99) |
| Transfer to stage 1 | (6) | 4 | 2 | | (6) | 5 | 1 | |
| Transfer to stage 2 | | (3) | 3 | | 0 | (3) | 2 | |
| Transfer to stage 3 | 0 | 0 | (0) | | 0 | 0 | (0) | |
| Originated and purchased during the period | (2) | (0) | | (2) | (1) | (0) | | (2) |
| Increased expected credit loss ¹⁾ | (2) | (4) | (12) | (19) | (3) | (12) | (21) | (36) |
| Decreased (reversed) expected credit loss ¹⁾ | 10 | 4 | 12 | 27 | 9 | 4 | 17 | 29 |
| Derecognition | 0 | 3 | | 3 | | 3 | | 3 |
| Write-offs | 0 | 0 | 0 | 1 | 0 | 0 | 2 | 2 |
| Accumulated impairment as at 31 Dec. | (14) | (13) | (40) | (66) | (12) | (28) | (63) | (103) |

Loans to customers at amortised cost (year-to-date figures)

| Amounts in NOK million | Full year 2020 | | | | Full year 2019 | | | |
|---|----------------|-------------|-------------|--------------|----------------|-------------|-------------|--------------|
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| Accumulated impairment as at 31 Dec. | (12) | (28) | (63) | (103) | (35) | (39) | (48) | (122) |
| Transfer to stage 1 | (31) | 24 | 7 | | (38) | 32 | 6 | |
| Transfer to stage 2 | 2 | (20) | 18 | | 3 | (15) | 12 | |
| Transfer to stage 3 | 0 | 1 | (1) | | 0 | 1 | (1) | |
| Originated and purchased during the period | (10) | (2) | | (12) | (11) | (2) | | (12) |
| Increased expected credit loss ¹⁾ | (16) | (31) | (60) | (108) | (16) | (53) | (82) | (151) |
| Decreased (reversed) expected credit loss ¹⁾ | 54 | 26 | 51 | 131 | 84 | 30 | 48 | 162 |
| Derecognition | 0 | 18 | | 18 | | 17 | | 17 |
| Write-offs | 0 | | 8 | 9 | 0 | 0 | 4 | 4 |
| Accumulated impairment as at 31 Dec. | (14) | (13) | (40) | (66) | (12) | (28) | (63) | (103) |

1) In the second quarter of 2019, DNB performed a recalibration of the IFRS 9 models used for stage 1 and stage 2 loans. The net effect of the recalibration is a decrease in expected credit loss of approximately NOK 40 million. As the recalibration resulted in both increases and decreases on a financial instrument level, the effect is included in the flows 'increased expected credit loss' and 'decreased (reversed) expected credit loss'.

Note 4 Debt securities issued

| Debt securities issued | DNB Boligkreditt AS | |
|---|---------------------|-----------------|
| | 31 Dec. 2020 | 31 Dec. 2019 |
| <i>Amounts in NOK million</i> | | |
| Listed covered bonds, nominal amount | 430 280 | 382 950 |
| Private placements under the bond programme, nominal amount | 64 832 | 66 064 |
| Total bonds, nominal amount | 495 112 | 449 015 |
| Accrued interest | 2 836 | 3 032 |
| Unrealised losses ¹⁾ | 23 247 | 19 669 |
| Adjustments | 26 083 | 22 701 |
| Total debt securities issued | 521 195 | 471 715 |

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 31 Dec. 2020 | Issued 2020 | Matured/ redeemed 2020 | Exchange rate movements 2020 | Other changes 2020 | Balance sheet 31 Dec. 2019 |
| <i>Amounts in NOK million</i> | | | | | | |
| Bond debt, nominal amount | 495 112 | 83 863 | (57 771) | 20 005 | | 449 015 |
| Value adjustments | 26 083 | | | | 3 382 | 22 701 |
| Total debt securities issued | 521 195 | 83 863 | (57 771) | 20 005 | 3 382 | 471 715 |

| Maturity of debt securities issued | DNB Boligkreditt AS | | |
|------------------------------------|---------------------|---------------------|----------------|
| | NOK | Foreign currency | Total |
| <i>Amounts in NOK million</i> | | | |
| 2021 | 26 500 | 53 954 | 80 454 |
| 2022 | 75 500 | 71 813 | 147 313 |
| 2023 | 257 | 70 095 | 70 352 |
| 2024 | 8 000 | 36 890 | 44 890 |
| 2025 and later | 14 120 | 137 983 | 152 103 |
| Total bond debt | 124 377 | 370 735 | 495 112 |

Note 4 Debt securities issued (continued)

| 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. 2020 | 31 Dec. 2019 |
| Private | EUR | 247 | Fixed | 2010 | 2020 | Redeemed | 247 |
| Private | EUR | 39 | Fixed | 2010 | 2020 | Redeemed | 39 |
| Private | EUR | 148 | Floating | 2013 | 2020 | Matured | 148 |
| Private | EUR | 99 | Floating | 2015 | 2020 | Matured | 99 |
| XS1190460508 | GBP | 5 804 | Floating | 2015 | 2020 | Matured | 5 804 |
| Private | EUR | 449 | Fixed | 2008 | 2020 | Matured | 449 |
| Private | EUR | 247 | Fixed | 2010 | 2020 | Redeemed | 247 |
| Private | EUR | 247 | Fixed | 2010 | 2020 | Redeemed | 247 |
| Private | EUR | 493 | Fixed | 2010 | 2020 | Redeemed | 493 |
| Private | EUR | 197 | Fixed | 2010 | 2020 | Redeemed | 197 |
| NO0010672405 | NOK | 5 000 | Floating | 2014 | 2020 | Matured | 5 000 |
| XS1181877173 | SEK | 472 | Fixed | 2015 | 2020 | Matured | 472 |
| XS1181877504 | SEK | 567 | Floating | 2015 | 2020 | Matured | 567 |
| XS1226740964 | EUR | 493 | Fixed | 2015 | 2020 | Matured | 493 |
| XS1238975798 | USD | 10 984 | Fixed | 2015 | 2020 | Matured | 10 984 |
| NO0010672405 | EUR | 1 000 | Floating | 2016 | 2020 | Matured | 1 000 |
| Private | EUR | 109 | Fixed | 2009 | 2020 | Matured | 109 |
| XS0522599678 | EUR | 109 | Floating | 2010 | 2020 | Matured | 109 |
| Private | EUR | 218 | Fixed | 2010 | 2020 | Redeemed | 218 |
| XS0529463365 | EUR | 544 | Fixed | 2010 | 2020 | Matured | 544 |
| Private | EUR | 109 | Fixed | 2010 | 2020 | Redeemed | 109 |
| XS0529463365 | EUR | 653 | Fixed | 2010 | 2020 | Matured | 653 |
| Private | EUR | 54 | Fixed | 2013 | 2020 | Matured | 54 |
| Private | EUR | 221 | Fixed | 2009 | 2020 | Redeemed | 221 |
| Private | EUR | 221 | Fixed | 2010 | 2020 | Redeemed | 221 |
| Private | EUR | 221 | Fixed | 2010 | 2020 | Matured | 221 |
| XS0563829331 | EUR | 111 | Fixed | 2010 | 2020 | Matured | 111 |
| Private | EUR | 166 | Fixed | 2010 | 2020 | Redeemed | 166 |
| Private | EUR | 111 | Fixed | 2010 | 2020 | Redeemed | 111 |
| Private | EUR | 941 | Fixed | 2010 | 2020 | Matured | 941 |
| Private | EUR | 664 | Fixed | 2010 | 2020 | Matured | 664 |
| NO0010721111 | NOK | 2 000 | Floating | 2014 | 2020 | Matured | 2 000 |
| NO0010721111 | NOK | 3 000 | Floating | 2015 | 2020 | Matured | 3 000 |
| XS1308759718 | EUR | 13 834 | Fixed | 2015 | 2020 | Matured | 13 834 |
| NO0010721111 | NOK | 8 000 | Floating | 2016 | 2020 | Matured | 8 000 |
| Total debt securities issued, nominal value | | 57 771 | | | | | 57 771 |

| Cover pool | DNB Boligkreditt AS | |
|---|---------------------|-----------------|
| | 31 Dec. 2020 | 31 Dec. 2019 |
| Amounts in NOK million | | |
| Pool of eligible loans | 673 513 | 632 580 |
| Market value of eligible derivatives | 27 862 | 41 595 |
| Total collateralised assets | 701 375 | 674 176 |
| Debt securities issued, carrying value | 521 195 | 471 715 |
| Less valuation changes attributable to changes in credit risk on debt carried at fair value | (59) | (78) |
| Debt securities issued, valued according to regulation ¹⁾ | 521 137 | 471 637 |
| Collateralisation (per cent) | 134.6 | 142.9 |

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

| | | | | | | | DNB Boligkreditt AS | |
|--|----------|----------------|------------------------|------------|-----------|---------------|---------------------|--------------|
| <i>Amounts in NOK million</i> | Currency | Nominal amount | Interest rate | Issue date | Call date | Maturity date | 31 Dec. 2020 | 31 Dec. 2019 |
| Term subordinated loan capital | NOK | 1 900 | 3 month Nibor + 160 bp | 2018 | 2023 | 2028 | 1 900 | 1 900 |
| Term subordinated loan capital | NOK | 3 300 | 3 month Nibor + 160 bp | 2018 | 2023 | 2028 | 3 300 | 3 300 |
| Accrued interest | | | | | | | 6 | 10 |
| Total subordinated loan capital | | | | | | | 5 206 | 5 210 |

Note 6 Financial instruments at fair value

| | | | | | DNB Boligkreditt AS | |
|---|--|---|--|--------|---------------------|--|
| <i>Amounts in NOK million</i> | Valuation based on quoted prices in an active market Level 1 | Valuation based on observable market data Level 2 | Valuation based on other than observable market data Level 3 | Total | | |
| Assets as at 31 December 2020 | | | | | | |
| Loans to customers | | | 40 934 | 40 934 | | |
| Financial derivatives | | 37 442 | | 37 442 | | |
| Liabilities as at 31 December 2020 | | | | | | |
| Debt securities issued | | 17 177 | | 17 177 | | |
| Financial derivatives | | 9 580 | | 9 580 | | |

| | | | | | DNB Boligkreditt AS | |
|---|--|---|--|--------|---------------------|--|
| <i>Amounts in NOK million</i> | Valuation based on quoted prices in an active market Level 1 | Valuation based on observable market data Level 2 | Valuation based on other than observable market data Level 3 | Total | | |
| Assets as at 31 December 2019 | | | | | | |
| Loans to customers | | | 41 489 | 41 489 | | |
| Financial derivatives | | 51 524 | | 51 524 | | |
| Liabilities as at 31 December 2019 | | | | | | |
| Debt securities issued | | 16 948 | | 16 948 | | |
| Financial derivatives | | 9 928 | | 9 928 | | |

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 2018 | 41 275 |
| Net gains recognised in the income statement | (172) |
| Additions/purchases | 7 585 |
| Sales | (49) |
| Settled | (7 150) |
| Carrying amount as at 31 December 2019 | 41 489 |
| Net gains recognised in the income statement | 949 |
| Additions/purchases | 8 718 |
| Sales | (113) |
| Settled | (10 109) |
| Carrying amount as at 31 December 2020 | 40 934 |

Note 7 Information on related parties

DNB Bank ASA

In 2020, loan portfolios representing NOK 49.2 billion (NOK 1.5 billion in 2019) 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 1 047 million in 2020 (NOK 728 million in 2019).

At end-December 2020 the bank had invested NOK 59.9 billion in covered bonds issued by DNB Boligkreditt.

In 2020 DNB Boligkreditt entered into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The value of the repos amounted to NOK 25.8 billion at end-December 2020.

DNB Boligkreditt AS has a long-term overdraft facility in DNB Bank ASA with a limit of NOK 180 billion.

DNB Livsforsikring AS

At end-December 2020 DNB Livsforsikring's holding of DNB Boligkreditt bonds was valued at NOK 1.5 billion.

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Other sources of information

Annual and quarterly reports

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

**We are here.
So you can stay ahead.**

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