

DNB Boligkreditt AS

A company in the DNB Group

Second quarter and first half
report 2019 (Unaudited)

Q2

DNB

Financial highlights

Income statement

<i>Amounts in NOK million</i>	DNB Boligkreditt AS				
	2nd quarter 2019	2nd quarter 2018	2019	January-June 2018	Full year 2018
Net interest income	1 192	1 178	2 377	2 621	5 183
Net other operating income	926	(842)	567	(1 386)	(2 128)
Of which net gains on financial instruments at fair value	910	(858)	537	(1 415)	(2 190)
Total operating expenses	(215)	(58)	(427)	(417)	(771)
Impairment of financial instruments	40	3	33	11	15
Pre-tax operating profit	1 943	281	2 550	829	2 299
Tax expense	(486)	(70)	(637)	(207)	(575)
Profit for the period	1 457	211	1 912	622	1 724

Balance sheet

<i>Amounts in NOK million</i>	30 June 2019	31 Dec. 2018	30 June 2018
Total assets	694 857	695 819	683 396
Loans to customers	637 818	628 901	624 042
Debt securities issued	488 867	478 548	461 603
Total equity	45 010	43 608	42 366

Key figures and alternative performance measures

	2nd quarter 2019	2nd quarter 2018	2019	January-June 2018	Full year 2018
Return on equity, annualised (%) ¹⁾	13.2	2.0	8.7	2.9	4.0
Total average spread for lending (%) ¹⁾	0.61	0.65	0.61	0.76	0.73
Impairment relative to average net loans to customers, annualised (per cent) ¹⁾	0.03	0.00	0.01	0.00	0.00
Net loans and financial commitments in stage 3, per cent of net loans ^{1) 2)}	0.16	0.17	0.16	0.17	0.16
Net loans and financial commitments in stage 3, (NOK million) ²⁾	1 033	1 077	1 033	1 077	1 019
Common equity Tier 1 capital ratio, transitional rules, end of period (%)	16.6	16.5	16.6	16.5	16.9
Capital ratio, transitional rules, end of period (%)	18.6	18.5	18.6	18.5	18.9
Common equity Tier 1 capital (NOK million)	42 120	40 945	42 120	40 945	42 143
Risk-weighted assets, transitional rules (NOK million)	253 736	247 827	253 736	247 827	250 087
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.

Second quarter and first half report 2019

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

Directors' report

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

Financial accounts

DNB Boligkreditt recorded a profit of NOK 1 457 million in the second quarter of 2019, compared with a profit of NOK 211 million in the second quarter of 2018.

Total income

Income totalled NOK 2 118 million in the second quarter of 2019, up from NOK 336 million in the year-earlier period.

Amounts in NOK million	2nd quarter		2nd quarter	
	2019	Change	2018	
Total income	2 118	1 782	336	
Net interest income		14		
Net commission and fee income		(1)		
Net gains/(losses) on financial instruments at fair value		1 768		

The significant increase in total income compared to the same period in the previous year is mainly due to mark-to-market adjustments on basis swaps and other financial instruments. In the second quarter of 2019 the recorded gain on financial instruments was NOK 910 million of which NOK 869 million was related to basis swaps. In the second quarter of 2018 a loss of NOK 858 million was recorded of which NOK 663 million was related to basis swaps. 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 fee amounted to NOK 195 million in the second quarter of 2019, up from NOK 39 million in the second quarter of 2018.

The company has generally recorded low impairment losses on loans. In the second quarter of 2019, the company reported a net reversal of impairment losses of NOK 40 million. The reversal is mainly due to a recalibration of the DNB Group's IFRS 9 model. The Board of Directors considers the level of impairment to be satisfactory relative to the high quality of the loan portfolio.

Funding, liquidity and balance sheet

Balance sheet

At end-June 2019, DNB Boligkreditt had total assets of NOK 694.9 billion, an increase of NOK 11.5 billion or 1.7 per cent from end-June 2018.

Amounts in NOK million	30 June		30 June	
	2019	Change	2018	
Total assets	694 857	11 461	683 396	
Loans to customers		13 776		
Financial derivatives		(1 206)		
Other assets		(1 108)		
Total liabilities	649 847	8 817	641 030	
Due to credit institutions		(15 685)		
Financial derivatives		(358)		
Debt securities issued		27 264		
Deferred taxes		(3 226)		
Other liabilities		822		

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 net NOK 27.3 billion from end-June 2018. The company issued covered bonds under existing programmes totaling NOK 5.3 billion in the second quarter of 2019. Total debt securities issued amounted to NOK 488.9 billion at end-June 2019.

Risk and capital adequacy

The company has established guidelines and limits for management and control of the different types of risk.

Currency risk is eliminated through the use of financial derivatives. Interest rate and liquidity risk is managed in accordance with stipulations concerning covered bonds in the Financial Institutions Act and guidelines and limits approved by the Board of Directors. The company's overall financial risk is considered to be low.

Changes in the market value of the company's bonds due to credit risk are monitored on a daily basis.

The servicing agreement with DNB Bank comprises administration, bank production, IT operations and financial and liquidity management. The fee structure in the servicing agreement shall ensure a stable return on equity, but does not take the effects of unrealised gains or losses on financial instruments into consideration. Operational risk is assessed to be low.

Negative developments in the housing market affect the company. A decline in housing prices will reduce the value of the company's cover pool relative to the statutory asset coverage

requirement. Quarterly stress tests are carried out to estimate the effects of a negative development in housing prices. A short-term measure to meet a significant fall in housing prices will be to supply DNB Boligkreditt with more substitute collateral. The Board of Directors considers the company's total risk exposure to be low.

At end-June 2019, the company's equity totalled NOK 45.0 billion, of which NOK 42.1 billion represented Tier 1 capital. Total primary capital in the company was NOK 47.3 billion. The Tier 1 capital ratio was 16.6 per cent, while the capital adequacy ratio was 18.6 per cent.

New regulatory framework

Clarification of capital requirements/Changes in capital requirements for banks

On 25 June, the Ministry of Finance circulated for comment a proposal for amendments to the capital requirements for banks. The purpose of the proposal is to prevent a weakening of the capital level of Norwegian banks when the Norwegian legislation is scheduled to be harmonised with the EU's capital requirements legislation, CRR/CRD IV, in the autumn of 2019. This legislation was incorporated into the EEA Agreement in March, and implies, among other things, that the Basel I floor, which is unique to Norway, must be removed and that the capital requirement for loans to small and medium-sized enterprises (the SME supporting factor) must be reduced.

This alignment with EEA legislation means that DNB and other banks using internal ratings-based (IRB) models may apply lower risk weights in their risk calculations. The Ministry of Finance proposes to offset this effect by increasing the systemic risk buffer requirement from 3 to 4.5 per cent, with effect from 31 December 2019 for IRB banks. For other banks, the Ministry further proposes that the increased requirement may be phased in up until the end of 2021.

The Ministry is also considering introducing temporary minimum requirements for the average risk-weighting of home mortgages and commercial real estate loans of 20 and 35 per cent, respectively. This measure will thus primarily affect foreign banks operating in Norway, as the risk-weighting in these banks can be low. The deadline for comments to the proposals is 30 September 2019.

Sustainable finance high on the agenda in the EU

The European Commission's action plan on sustainable finance includes a number of different initiatives, and the pace of development is high. The Commission has, among other things, presented draft legislation for establishing a classification system for sustainable economic activities, including an EU standard for green bonds, a proposal that establishes financial benchmarks for carbon footprints and a proposal that imposes more stringent requirements for disclosures relating to sustainable investments and sustainability risks.

The work with the classification system will form a particularly important foundation when the financial services industry is to assess which activities and industries that can be considered sustainable.

In the so-called Banking Package, the EU has also adopted that banks must disclose sustainability and ESG (Environmental, Social and Governance) risks within 2022. The European Banking Authority (EBA) will prepare a report in 2021 concerning ESG risk management in banks, including how supervisory authorities can follow up on this in their supervisory activities (Supervisory Review and Evaluation Process – SREP). The EBA shall also, within 2025, report on whether it is appropriate to give banks a capital requirements discount for 'green' assets and/or increased capital requirements for 'brown' assets.

Home Mortgage Regulations under consideration

The current Home Mortgage Regulations expire on 31 December 2019. The Ministry of Finance has asked Finanstilsynet (the Financial Supervisory Authority of Norway) to provide an assessment of whether the Regulations should be continued, and if so, whether adjustments of individual elements are required. Finanstilsynet will also look at the need for changing the wording of the Regulations in light of the new requirements for banks' lending practices for consumer loans.

Macroeconomic developments

Recent GDP growth among trading partners has been higher than projected, but growth prospects have deteriorated further. There were reductions for all major economies except for the eurozone, which remained unchanged. The global level is still not much below the historical average since 2002, pointing towards global growth slightly below normal. On the other hand, the global recession risk has risen somewhat over the past month. The renewed setback was hardly a surprise after the escalation of the trade war between the US and China in May with increased possibility of a further build-up in both tariff and non-tariff barriers between the two economies. Combined with a somewhat higher Brexit risk, this seems likely to have increased the political uncertainty recently. The weaker outlook has weighed on DNB Markets/the markets' policy rate expectations.

In the US, the Federal Reserve (Fed) decided at the June meeting to keep the Fed funds rate unchanged at 2.25-2.50 per cent as expected.

The view of the economy is only marginally weaker than in May, as consumer demand has picked up.

In the eurozone, the GDP rose by 0.4 per cent from the fourth quarter to the first quarter. This was a significantly stronger development than the market had expected and 0.2 percentage points above the forecast from the European Central Bank (ECB).

In Norway, capacity utilisation appears to be rising, while inflation has been higher than Norges Bank's inflation target. This development is the main reason for Norges Bank to gradually remove the monetary policy stimuli. Petroleum investments are a major growth driver this year, and the investments survey for the second quarter was more upbeat than in the first quarter, for 2020 investments as well. Norges Bank's Regional Network Survey confirmed relatively strong actual growth and a solid outlook for the next six months. Exports of traditional goods rose markedly in the second half of 2018, but growth has slowed down in 2019 – probably partly due to the slowdown abroad. The wage settlements concluded agreements that set a benchmark wage growth at 3.2 per cent for 2019. So far this year, core inflation has been above the inflation target of 2.0 per cent, but it is slowing down. Both LFS unemployment and registered unemployment are trending lower. In April, DNB Markets forecasted mainland GDP to increase by 2.4 per cent in 2019 and 2.1 per cent in 2020. In June, Norges Bank decided to increase the key policy rate by 25 basis points, and announced that there is a high probability of another rate hike in September.

Future prospects

The increase in Norges Bank's key policy rate from 0.75 per cent to 1.00 per cent, followed by DNB's announcement of an increase in loan rates effective from 8 May, will have full effect in the third quarter. The second rate hike announcement from Norges Bank from 1.00 per cent to 1.25 per cent, and DNB's subsequent announcement of increased loan rates effective from 8 August, will have a positive effect on net interest income from the third quarter.

The annual increase in lending volumes is anticipated to be 3 to 4 per cent in 2019 and 2020.

The common equity Tier 1 (CET1) capital ratio according to Basel I (transitional rules), was 16.6 per cent as at 30 June 2019, while the CET1 capital ratio according to Basel III was 24.2 per

cent. The proposal from the Ministry of Finance of 25 June to increase the systemic risk buffer implies a higher capital requirement for the company. However, the removal of the Basel I floor will at the same time reduce the risk weighted assets and increase the capital ratio by year-end 2019. DNB Boligkreditt is well positioned for new regulatory requirements.

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 2019 is expected to be at about the same level as in 2018. Overall, this provides a further solid basis for DNB Boligkreditt's funding activities.

Oslo, 10 July 2019

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	2nd quarter 2019	2nd quarter 2018	2019	January-June 2018	Full year 2018
Interest income, amortised cost		3 837	3 400	7 438	6 782	13 843
Other interest income		284	272	566	540	1 107
Interest expenses, amortised cost		(2 167)	(2 146)	(4 237)	(4 325)	(8 704)
Other interest expenses		(762)	(348)	(1 390)	(376)	(1 063)
Net interest income		1 192	1 178	2 377	2 621	5 183
Commission and fee income		16	16	31	29	62
Commission and fee expenses		(0)	(1)	(2)	(2)	(3)
Net gains on financial instruments at fair value		910	(858)	537	(1 415)	(2 190)
Other income			1	0	2	3
Net other operating income		926	(842)	567	(1 386)	(2 128)
Total income		2 118	336	2 944	1 235	3 055
Salaries and other personnel expenses		(3)	(3)	(6)	(6)	(12)
Other expenses	7	(212)	(56)	(422)	(411)	(759)
Total operating expenses		(215)	(58)	(427)	(417)	(771)
Impairment of financial instruments	3	40	3	33	11	15
Pre-tax operating profit		1 943	281	2 550	829	2 299
Tax expense		(486)	(70)	(637)	(207)	(575)
Profit for the period		1 457	211	1 912	622	1 724
Other comprehensive income that will not be reclassified to profit or loss		29	19	(57)	(79)	107
Tax		(7)	(5)	14	20	(27)
Total comprehensive income for the period		1 479	225	1 870	562	1 804

Balance sheet

		DNB Boligkreditt AS		
<i>Amounts in NOK million</i>	Note	30 June 2019	31 Dec. 2018	30 June 2018
Assets				
Due from credit institutions	7	7 878	15 820	8 964
Loans to customers	3, 6	637 818	628 901	624 042
Financial derivatives	6	49 159	51 088	50 365
Other assets		2	10	24
Total assets		694 857	695 819	683 396
Liabilities and equity				
Due to credit institutions	7	137 668	147 204	153 353
Financial derivatives	6	11 661	11 606	12 019
Debt securities issued	4, 6	488 867	478 548	461 603
Payable taxes		627	3 832	184
Deferred taxes		5 699	5 693	8 925
Other liabilities		87	87	57
Provisions		29	33	33
Subordinated loan capital	5	5 209	5 209	4 856
Total liabilities		649 847	652 211	641 030
Share capital		5 257	4 157	4 157
Share premium		31 719	31 563	31 563
Other equity		8 034	7 888	6 646
Total equity		45 010	43 608	42 366
Total liabilities and equity		694 857	695 819	683 396

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 1 Jan. 2018	4 157	31 563	(348)	8 732	44 104
Profit for the period				622	622
Financial liabilities designated at FVTPL, changes in credit risk			(79)		(79)
Tax on other comprehensive income			20		20
Comprehensive income for the period			(59)	622	562
Group contribution paid				(2 300)	(2 300)
Balance sheet as at 30 June 2018	4 157	31 563	(408)	7 054	42 366
Balance sheet as at 31 Dec. 2018	4 157	31 563	(269)	8 157	43 608
Profit for the period				1 912	1 912
Financial liabilities designated at FVTPL, changes in credit risk			(57)		(57)
Tax on other comprehensive income			14		14
Comprehensive income for the period			(43)	1 912	1 870
Share issue	1 100	9 900			11 000
Group contribution paid		(9 744)		(1 724)	(11 468)
Balance sheet as at 30 June 2019	5 257	31 719	(311)	8 346	45 010

Share capital

All shares and voting rights of the company are held by DNB Bank ASA. Share capital at the beginning of 2019 was NOK 4 157 million (41 570 000 shares at NOK 100).

In April 2019, 11 000 000 shares were issued to DNB Bank ASA. Issue price per share was NOK 100. After the issuance, share capital was increased by NOK 1 100 million to NOK 5 257 million (52 570 000 shares).

Cash flow statement

<i>Amounts in NOK million</i>	2019	January-June 2018	Full year 2018
Operating activities			
Net payments on loans to customers	(7 642)	(521)	(3 565)
Interest received from customers	7 839	7 290	14 876
Net received/payments on loans from credit institutions	(1 596)	(8 518)	(21 530)
Interest received from credit institutions	49	33	64
Interest paid to credit institutions	(1 335)	(1 504)	(2 989)
Net receipts on commissions and fees	30	27	59
Payments for operating expenses	(470)	(586)	(704)
Net cash flow relating to operating activities	(3 126)	(3 779)	(13 790)
Investing activities			
Net purchase of loan portfolio	(1 031)	(1 600)	(3 453)
Net cash flow relating to investing activities	(1 031)	(1 600)	(3 453)
Financing activities			
Receipts on issued bonds and commercial paper	38 208	55 974	90 935
Payments on redeemed bonds and commercial paper	(25 720)	(49 456)	(69 393)
Interest payments on issued bonds and commercial paper	(3 966)	(2 992)	(6 447)
Receipts on subordinated loan capital			350
Interest payments on subordinated loan capital	(76)	(63)	(128)
Share issue	11 000		
Group contribution receipts/payments	(15 290)	1 900	1 900
Net cash flow from financing activities	4 156	5 363	17 217
Net cash flow	(1)	(16)	(26)
Cash as at 1 January	60	86	86
Net receipts/payments of cash	(1)	(16)	(26)
Cash at end of period	59	70	60

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 2018.

DNB Boligkreditt applied the hedge accounting requirements of IFRS 9 Financial Instruments as of 1 January 2019. Hedging relationships in DNB Boligkreditt that qualified for hedge accounting in accordance with IAS 39 Financial Instruments: Recognition and Measurement also qualify for hedge accounting under IFRS 9.

Note 2 Capital adequacy

Primary capital	DNB Boligkreditt AS	
	30 June 2019	31 Dec. 2018
<i>Amounts in NOK million</i>		
Share capital	5 257	4 157
Other equity	37 841	39 451
Total equity	43 098	43 608
Deductions		
Expected losses exceeding actual losses, IRB-portfolios	(839)	(842)
Value adjustments due to the requirements for prudent valuation (AVA)	(432)	(405)
Adjustments for unrealised losses/(gains) on liabilities measured at fair value	311	269
Adjustments for unrealised losses/(gains) arising from the institution's own credit risk related to derivative liabilities (DVA)	(18)	(20)
Allocated group contributions for payment		(468)
Common equity Tier 1 capital	42 120	42 143
Term subordinated loan capital	5 200	5 200
Tier 2 capital	5 200	5 200
Total eligible primary capital	47 320	47 343
Risk-weighted assets, transitional rules	253 736	250 087
Minimum capital requirement, transitional rules	20 299	20 007
Common equity Tier 1 capital ratio, transitional rules (%)	16.6	16.9
Capital ratio, transitional rules (%)	18.6	18.9

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

	Nominal exposure 30 June 2019	EAD ¹⁾ 30 June 2019	Risk- weighted assets 30 June 2019	Capital requirement 30 June 2019	Capital requirement 31 Dec. 2018
<i>Amounts in NOK million</i>					
IRB approach					
Corporate	5 051	5 051	2 464	197	203
Retail - residential property	659 079	659 079	142 081	11 366	11 330
Total credit risk, IRB approach	664 130	664 130	144 544	11 564	11 533
Standardised approach					
Institutions	42 918	36 828	7 366	589	569
Corporate	20 069	20 018	7 065	565	557
Retail - residential property	29 339	27 032	9 640	771	539
Retail - other exposures	321	209	157	13	21
Other assets					
Total credit risk, standardised approach	92 647	84 087	24 227	1 938	1 686
Total credit risk	756 777	748 217	168 771	13 502	13 220
Credit value adjustment (CVA)					
Operational risk			5 463	437	437
Total risk-weighted assets and capital requirements before transitional rules					
			174 234	13 939	13 657
Additional capital requirements according to transitional rules					
			79 502	6 360	6 350
Total risk-weighted assets and capital requirements			253 736	20 299	20 007

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. 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 movements and other changes affecting the expected credit loss

Loans to customers at amortised cost (quarterly figures)

Amounts in NOK million	2nd quarter 2019				2nd quarter 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Accumulated impairment as at 31 March	(41)	(40)	(48)	(129)	(35)	(37)	(74)	(146)
Transfer to stage 1	(10)	9	1	(0)	(9)	8	1	
Transfer to stage 2	1	(4)	3	(0)	1	(17)	16	
Transfer to stage 3	0	0	(0)	0	0	0	(0)	
Originated and purchased during the period	(2)	(1)		(3)	(4)	(0)		(4)
Increased expected credit loss ¹⁾	(1)	(14)	(21)	(37)	(5)	(15)	(24)	(44)
Decreased (reversed) expected credit loss ¹⁾	42	17	8	67	20	17	15	52
Derecognition	(0)	7		7		8		8
Write-offs		0	1	1			1	1
Other					(0)	(4)	(4)	(8)
Accumulated impairment as at 30 June	(12)	(26)	(56)	(94)	(32)	(40)	(69)	(141)

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

Amounts in NOK million	Jan.-June 2019				Jan.-June 2018			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Accumulated impairment as at 31 December / 1 January	(35)	(39)	(48)	(122)	(43)	(37)	(74)	(154)
Transfer to stage 1	(22)	19	3		(21)	17	4	
Transfer to stage 2	2	(9)	7		2	(22)	20	
Transfer to stage 3	0	1	(1)		0	1	(1)	
Originated and purchased during the period	(8)	(1)		(9)	(6)	(0)		(6)
Increased expected credit loss ¹⁾	(11)	(30)	(41)	(82)	(11)	(30)	(39)	(80)
Decreased (reversed) expected credit loss ¹⁾	60	23	23	106	47	23	19	90
Derecognition	(0)	11		11		8		8
Write-offs		0	1	1			2	2
Other								
Accumulated impairment as at 30 June	(12)	(26)	(56)	(94)	(32)	(40)	(69)	(141)

1) DNB has performed a recalibration of the IFRS 9 models used for stage 1 and stage 2 loans in the second quarter of 2019. 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		
	30 June 2019	31 Dec. 2018	30 June 2018
<i>Amounts in NOK million</i>			
Listed covered bonds, nominal amount	396 241	391 085	376 030
Private placements under the bond programme, nominal amount	67 807	70 409	69 955
Total bonds, nominal amount	464 048	461 495	445 985
Accrued interest	2 128	2 985	2 037
Unrealised losses ¹⁾	22 691	14 068	13 581
Adjustments	24 819	17 053	15 619
Total debt securities issued	488 867	478 548	461 603

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

Changes in debt securities issued	DNB Boligkreditt AS					
	Balance sheet 30 June 2019	Issued 2019	Matured/ redeemed 2019	Exchange rate movements 2019	Other changes 2019	Balance sheet 31 Dec. 2018
<i>Amounts in NOK million</i>						
Bond debt, nominal amount	464 048	38 208	(27 651)	(8 004)		461 495
Value adjustments	24 819				7 766	17 053
Total debt securities issued	488 867	38 208	(27 651)	(8 004)	7 766	478 548

Maturity of debt securities issued	DNB Boligkreditt AS		
	NOK	Foreign currency	Total
<i>Amounts in NOK million</i>			
2019	14 850	15 378	30 228
2020	19 000	35 324	54 324
2021	26 500	50 112	76 612
2022	25 500	67 651	93 151
2023 and later	5 377	204 356	209 733
Total bond debt	91 227	372 821	464 048

Debt securities issued - matured/redeemed during the period						DNB Boligkreditt AS		
<i>Amounts in NOK million</i>	ISIN Code	Currency	Matured redeemed amount	Interest	Issued	Matured	Remaining nominal amount	
							30 June 2019	31 Dec. 2018
Private		EUR	119	Fixed	2009	2019	Matured	119
Private		EUR	50	Fixed	2009	2019	Matured	50
XS0446707803		CHF	882	Fixed	2009	2019	Matured	882
XS1023622175		EUR	9 940	Floating	2014	2019	Matured	9 940
NO0010430143		NOK	1 500	Fixed	2008	2019	Matured	1 500
NO0010430143		NOK	250	Fixed	2012	2019	Matured	250
XS0794233865		EUR	14 910	Fixed	2012	2019	Matured	14 910
Total debt securities issued, nominal value			27 651					27 651

Cover pool	DNB Boligkreditt AS		
	30 June 2019	31 Dec. 2018	30 June 2018
<i>Amounts in NOK million</i>			
Pool of eligible loans	633 274	623 859	619 834
Market value of eligible derivatives	37 499	39 482	38 346
Total collateralised assets	670 773	663 342	658 180
Debt securities issued, carrying value	488 867	478 548	461 603
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(447)	(358)	(544)
Debt securities issued, valued according to regulation ¹⁾	488 419	478 189	461 060
Collateralisation (per cent)	137.3	138.7	142.8

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

							DNB Boligkreditt AS		
<i>Amounts in NOK million</i>	Currency	Nominal amount	Interest rate	Issue date	Call date	Maturity date	30 June 2019	31 Dec. 2018	30 June 2018
Term subordinated loan capital	NOK	850	3 month Nibor + 400 bp	2009	2018	2024			850
Term subordinated loan capital	NOK	4 000	3 month Nibor + 170 bp	2013	2018	2023			4 000
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							9	9	6
Total subordinated loan capital							5 209	5 209	4 856

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 30 June 2019						
Loans to customers			40 684	40 684		
Financial derivatives		49 159		49 159		
Liabilities as at 30 June 2019						
Debt securities issued		92 448		92 448		
Financial derivatives		11 661		11 661		

				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 30 June 2018						
Loans to customers			38 649	38 649		
Financial derivatives		50 365		50 365		
Liabilities as at 30 June 2018						
Debt securities issued		84 149		84 149		
Financial derivatives		12 019		12 019		

Financial instruments at fair value, level 3

		DNB Boligkreditt AS
<i>Amounts in NOK million</i>		Loans to customers
Carrying amount as at 31 December 2018		41 275
Net gains recognised in the income statement		93
Additions/purchases		2 762
Sales		(45)
Settled		(3 401)
Carrying amount as at 30 June 2019		40 684

Note 7 Information on related parties

DNB Bank ASA

In the first half of 2019, loan portfolios representing NOK 1.0 billion (NOK 1.6 in the first half of 2018) 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 390 million in the first half of 2019 (NOK 379 million in the first half of 2018).

At end-June the bank had invested NOK 13.9 billion in covered bonds issued by DNB Boligkreditt.

In the first half of 2019 DNB Boligkreditt entered into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The value of the repos amounted to NOK 6.1 billion at end-June 2019.

The company has a long-term overdraft facility in DNB Bank ASA with a limit of NOK 160 billion.

DNB Livsforsikring AS

At end-June 2019 DNB Livsforsikring's holding of DNB Boligkreditt bonds was valued at NOK 1.4 billion.

Statement

pursuant to Section 5-6 of the Securities Trading Act

We hereby confirm that the half-yearly financial statements for the company for the period 1 January through 30 June 2019 to the best of our knowledge have been prepared in accordance with IAS 34 Interim Financial Reporting, as adopted by the European Union, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole.

To the best of our knowledge, the half-yearly report gives a true and fair:

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

Oslo, 10 July 2019

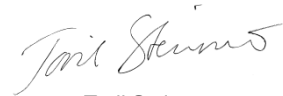
The Board of Directors of DNB Boligkreditt AS



Reidar Bolme
(chair of the board)



Jørn E. Pedersen



Toril Steinmo



Per Sagbakken
(chief executive officer)

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Other sources of information

Annual and quarterly reports

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

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

DNB Boligkreditt AS

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