

DNB Boligkreditt

A company in the DNB group

Second quarter and first half report 2020

(Unaudited)



Financial highlights

Income statement

<i>Amounts in NOK million</i>	DNB Boligkreditt AS				
	2nd quarter 2020	2nd quarter 2019	2020	January-June 2019	Full year 2019
Net interest income	997	1 192	2 276	2 377	4 763
Net other operating income	848	926	529	567	388
Of which net gains on financial instruments at fair value	833	910	502	537	330
Total operating expenses	73	(215)	(112)	(427)	(807)
Impairment of financial instruments	19	40	6	33	16
Pre-tax operating profit	1 937	1 943	2 700	2 550	4 360
Tax expense	(484)	(486)	(675)	(637)	(1 089)
Profit for the period	1 453	1 457	2 025	1 912	3 271

Balance sheet

<i>Amounts in NOK million</i>	30 June 2020	31 Dec. 2019	30 June 2019
Total assets	725 038	693 855	694 857
Loans to customers	659 489	636 786	637 818
Debt securities issued	536 452	471 715	488 867
Total equity	45 400	46 621	45 010

Key figures and alternative performance measures

	2nd quarter 2020	2nd quarter 2019	2020	January-June 2019	Full year 2019
Return on equity, annualised (%) ¹⁾	12.7	13.2	8.8	8.7	7.3
Total average spread for lending (%) ¹⁾	0.54	0.61	0.62	0.61	0.62
Impairment relative to average net loans to customers, annualised (per cent) ¹⁾	0.01	0.03	0.00	0.01	0.00
Net loans and financial commitments in stage 3, per cent of net loans ¹⁾	0.15	0.16	0.15	0.16	0.15
Net loans and financial commitments in stage 3, (NOK million) ¹⁾	995	1 033	995	1 033	982
Common equity Tier 1 capital ratio end of period (%) ²⁾	23.3	24.2	23.3	24.2	24.5
Capital ratio end of period (%) ²⁾	26.2	27.2	26.2	27.2	27.6
Common equity Tier 1 capital (NOK million)	42 030	42 120	42 030	42 120	42 132
Risk-weighted assets (NOK million) ²⁾	180 025	174 234	180 025	174 234	171 652
Number of full-time positions at end of period	6	6	6	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.

Second quarter and first half report 2020

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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 NOK1 453 million in the second quarter of 2020, compared with a profit of NOK 1 457 million in the second quarter of 2019.

Total income

Income totalled NOK 1 845 million in the second quarter of 2020, down from NOK 2 118 million in the year-earlier period.

Amounts in NOK million	2nd quarter		2nd quarter
	2020	Change	2019
Total income	1 845	(273)	2 118
Net interest income		(195)	
Net commission and fee income		(1)	
Net gains/(losses) on financial instruments at fair value		(77)	

Compared to the same period in the previous year, the net interest income is somewhat down, mainly due to a decrease 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. A net interest rate margin below the minimum level will be at DNB Bank's risk, resulting in a negative management fee (payment from DNB Bank to DNB Boligkreditt). The fee amounted to a negative NOK 101 million in the second quarter of 2020, down from NOK 195 million in the second quarter of 2019.

The company has generally recorded low impairment losses on loans. In the second quarter of 2020, the company reported net recoveries on impairment losses of NOK 19 million. The Board of Directors considers the level of impairment to be satisfactory relative to the high quality of the loan portfolio.

Funding, liquidity and balance sheet

Balance sheet

At end-June 2020, DNB Boligkreditt had total assets of NOK 725.0 billion, an increase of NOK 30.2 billion from end-June 2019.

Amounts in NOK million	30 June		30 June
	2020	Change	2019
Total assets	725 038	30 181	694 857
Loans to customers		21 671	
Financial derivatives		8 845	
Other assets		(335)	
Total liabilities	679 638	29 791	649 847
Due to credit institutions		(18 121)	
Financial derivatives		295	
Debt securities issued		47 585	
Deferred taxes		(952)	
Other liabilities		984	

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 47.6 billion from end-June 2019. The company issued covered bonds under existing programmes totalling NOK 50 billion in the first half of 2020. Total debt securities issued amounted to NOK 536.5 billion at end-June 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-June 2020, the company's equity totalled NOK 45.4 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 23.3 per cent, while the capital adequacy ratio was 26.2 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

Norway's way out of the crisis

In order to mitigate the adverse effects of the coronavirus outbreak on the Norway's economy, business community and labour market, the authorities have implemented far-reaching financial measures. The Norwegian Government has also presented an exit strategy for the coronavirus crisis, including additional measures intended to help get more people back to work and boost activity and value creation in the Norwegian business community, as well as to promote the green shift. Among the measures to be introduced are salary support for businesses that take back temporarily laid off (furloughed) employees, a reduction of the wealth tax on working capital, and more money for research, innovation and technology development.

CRR 'quick fix'

The EU has adopted certain temporary relief measures relating to the Capital Requirements Regulation for banks (CRR 2), to facilitate lending to businesses and households. The measures are intended to give banks greater flexibility to provide loans during the demanding period caused by the COVID-19 pandemic. It is still not clear how this may affect the regulatory framework for the Norwegian banking industry. Finanstilsynet is currently examining the Norwegian implementation of the EU's Banking Package, which includes the CRR 2.

Lending regulations to be evaluated

Banks' lending practices towards households are currently regulated by the Home Mortgage Regulations and the Consumer Loan Regulations. The Norwegian Ministry of Finance has asked Finanstilsynet to give advice on how banks' lending practices should be regulated after these regulations expire on 31 December 2020. The Ministry will also consider whether limits should be introduced for loans that are currently not regulated by the regulations. Finanstilsynet is to present its assessment by 28 September.

Temporary increased flexibility in the Home Mortgage Regulations

The Ministry of Finance has allowed a temporary increase in the flexibility quotas set out in the Home Mortgage Regulations to 20 per cent in the second quarter. On 11 June, the Ministry decided to extend the increased flexibility quotas to the end of the third quarter. Increased flexibility strengthens the ability of banks to help their customers through a demanding period.

New Financial Contracts Act in the pipeline

The Ministry of Justice and Public Security has presented a proposal for a new Financial Contracts Act. The draft legislation also implements new EU directives on home mortgages, payment accounts and payment services, as well as strengthening the protection and specifying the rights of the consumer and the obligations of the service provider. Among other things, it is proposed that banks be held accountable to a greater extent in cases where they fail to fulfil the obligation to assess the consumer's debt-servicing capacity or in cases where they do not decline credit applications from customers who cannot afford to service the loans. New rules are also proposed for protecting consumers against fraud when entering into financial services agreements using electronic signatures.

Macroeconomic developments

The measures to stop the spread of the coronavirus resulted in a clear decline in global GDP in the first quarter, and the drop in global GDP was probably considerably greater in the second quarter. In light of the reopening of economies in the second quarter, it seems likely that GDP reached a nadir in the second quarter in most countries. One exception is China, which was most severely affected in the first quarter.

So far, it seems that the Norwegian economy has performed better than many other advanced economies. On 16 June, DNB Markets projected a decline in mainland GDP of 4.3 per cent in 2020, 1.6 percentage points higher than projections from 5 May. Statistics Norway and Norges Bank changed their projections by approximately the same. After the Government introduced the stringent infection control measures on 12 March, the number of fully unemployed rose rapidly to a peak of 10.4 per cent. During the course of April, however, the unemployment rate fell, and by end-June it was 4.8 per cent. Norges Bank expects the percentage to decline to 3.2 per cent in 2021. The monthly GDP figures suggest that value creation picked up throughout April. Statistics Norway's survey of investments in oil and gas indicated a smaller fall in investments this year than previously estimated, and the oil price has risen from the low levels of late April to around USD 40 per barrel in the second half of June. In the housing markets, prices for existing homes fell in March and April, but rose sharply in May and June. Sales of existing homes, which had fallen in March, also picked up in April. Home prices are now 3.5 per cent higher than in the year-earlier. In May, core inflation was 3.0 per cent. Some prices were quickly affected by the weakening of the Norwegian krone in March. DNB Markets expects the weakening of the krone to contribute to core inflation remaining at the current level in the next few months, before gradually starting to fall, and estimates annual growth of 2.8 per cent in 2020. Low wage growth could bring inflation down in the time ahead. Falling energy prices are projected to contribute to the total inflation this year ending at little over 1 per cent.

Norges Bank reduced the key policy rate from 1.50 per cent to 0.00 per cent in three phases. In its June Monetary Policy Report, the Norges Bank presented a policy rate path that would suggest a rise in interest rates from the second half of 2022. In addition to cutting the key policy rate, Norges Bank has provided substantial liquidity stimulus packages, primarily in NOK, but also in USD. Moreover, Norges Bank intervened in the currency markets twice in March. In fiscal policy, support was first given to businesses and households to compensate for loss of income. Then, in step with the reopening of the economy, the measures have turned more towards stimulating aggregate demand. The authorities have also introduced special measures for, among other things, air transport and the oil and gas sector. The fiscal stimulus packages are estimated to amount to 5.5 per cent of the mainland economy. In addition, deadlines for paying tax and fees have been extended, and favourable loan schemes and guarantees have been offered.

Future prospects

The reduction in interest rates on customer loans following Norges Bank's 150 basis point reduction in the key policy rate will have a negative effect on net interest income, effective from the second quarter.

In the period 2020 to 2022, 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 23.3 per cent as at 30 June 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. 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. But from year-end 2020 the company's capital requirement will be increased by the change in the systemic risk buffer of 1.5 per cent, increasing the CET1 capital ratio requirement to 17.05 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 Minimum Requirement for own funds and Eligible Liabilities (MREL).

Oslo, 12 July 2020

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 2020	2nd quarter 2019	2020	January-June 2019	Full year 2019
Interest income, amortised cost		3 242	3 837	7 737	7 438	16 051
Other interest income		283	284	573	566	1 153
Interest expenses, amortised cost		(1 043)	(991)	(2 511)	(1 904)	(4 273)
Other interest expenses		(1 484)	(1 939)	(3 522)	(3 723)	(8 168)
Net interest income		997	1 192	2 276	2 377	4 763
Commission and fee income		15	16	29	31	61
Commission and fee expenses		(1)	(0)	(2)	(2)	(3)
Net gains on financial instruments at fair value		833	910	502	537	330
Other income					0	0
Net other operating income		848	926	529	567	388
Total income		1 845	2 118	2 805	2 944	5 152
Salaries and other personnel expenses		(4)	(3)	(5)	(6)	(11)
Other expenses	7	77	(212)	(107)	(422)	(796)
Total operating expenses		73	(215)	(112)	(427)	(807)
Impairment of financial instruments	3	19	40	6	33	16
Pre-tax operating profit		1 937	1 943	2 700	2 550	4 360
Tax expense		(484)	(486)	(675)	(637)	(1 089)
Profit for the period		1 453	1 457	2 025	1 912	3 271
Other comprehensive income that will not be reclassified to profit or loss ¹⁾		(71)	29	33	(57)	279
Tax		18	(7)	(8)	14	(70)
Total comprehensive income for the period		1 400	1 479	2 050	1 870	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	30 June 2020	31 Dec. 2019	30 June 2019
Assets				
Due from credit institutions	7	7 539	5 537	7 878
Loans to customers	3, 6	659 489	636 786	637 818
Financial derivatives	6	58 004	51 524	49 159
Other assets		6	9	2
Total assets		725 038	693 855	694 857
Liabilities and equity				
Due to credit institutions	7	119 547	153 401	137 668
Financial derivatives	6	11 956	9 928	11 661
Debt securities issued	4, 6	536 452	471 715	488 867
Payable taxes		1 687	2 103	627
Deferred taxes		4 747	4 747	5 699
Other liabilities		15	99	87
Provisions		30	30	29
Subordinated loan capital	5	5 205	5 210	5 209
Total liabilities		679 638	647 235	649 847
Share capital		5 257	5 257	5 257
Share premium		31 719	31 719	31 719
Other equity		8 424	9 645	8 034
Total equity		45 400	46 621	45 010
Total liabilities and equity		725 038	693 855	694 857

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				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
Balance sheet as at 31 December 2019	5 257	31 719	(59)	9 704	46 621
Profit for the period				2 025	2 025
Financial liabilities designated at FVTPL, changes in credit risk			33		33
Tax on other comprehensive income			(8)		(8)
Comprehensive income for the period			25	2 025	2 050
Group contribution paid				(3 270)	(3 270)
Balance sheet as at 30 June 2020	5 257	31 719	(34)	8 459	45 400

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

<i>Amounts in NOK million</i>	2020	January-June 2019	Full year 2019
Operating activities			
Net payments on loans to customers	7 660	(7 642)	(6 366)
Interest received from customers	8 641	7 839	16 933
Net received/payments on loans from credit institutions	(35 903)	(1 596)	16 464
Interest received from credit institutions	35	49	112
Interest paid to credit institutions	(1 360)	(1 335)	(3 281)
Net receipts on the sale of financial assets for investment or trading			
Net receipts on commissions and fees	27	30	58
Payments for operating expenses	(101)	(470)	(899)
Taxes paid	(1 100)		
Net cash flow relating to operating activities	(22 100)	(3 126)	23 021
Investing activities			
Net purchase of loan portfolio	(29 425)	(1 031)	(1 516)
Net cash flow relating to investing activities	(29 425)	(1 031)	(1 516)
Financing activities			
Receipts on issued bonds and commercial paper	88 950	38 208	46 419
Payments on redeemed bonds and commercial paper	(28 931)	(25 720)	(54 971)
Interest payments on issued bonds and commercial paper	(5 180)	(3 966)	(8 518)
Interest payments on subordinated loan capital	(88)	(76)	(160)
Share issue		11 000	11 000
Group contribution receipts/payments	(3 270)	(15 290)	(15 290)
Net cash flow from financing activities	51 481	4 156	(21 520)
Net cash flow	(44)	(1)	(15)
Cash as at 1 January	45	60	60
Net receipts/payments of cash	(44)	(1)	(15)
Cash at end of period	0	59	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).

Primary capital	DNB Boligkreditt AS	
	30 June 2020	31 Dec. 2019
<i>Amounts in NOK million</i>		
Share capital	5 257	5 257
Other equity	38 118	41 364
Total equity	43 375	46 621
Deductions		
Expected losses exceeding actual losses, IRB-portfolios	(834)	(862)
Value adjustments due to the requirements for prudent valuation (AVA)	(537)	(404)
Adjustments for unrealised losses/(gains) on liabilities measured at fair value	34	59
Adjustments for unrealised losses/(gains) arising from the institution's own credit risk related to derivative liabilities (DVA)	(8)	(12)
Allocated group contributions for payment		(3 271)
Common equity Tier 1 capital	42 030	42 132
Term subordinated loan capital	5 200	5 200
Tier 2 capital	5 200	5 200
Total eligible primary capital	47 230	47 332
Risk-weighted assets	180 025	171 652
Minimum capital requirement	14 402	13 732
Common equity Tier 1 capital ratio (%)	23.3	24.5
Capital ratio (%)	26.2	27.6

Specification of risk-weighted assets and capital requirements

	DNB Boligkreditt AS				
	Nominal exposure	EAD ¹⁾	Risk- weighted assets	Capital requirement	Capital requirement
	30 June 2020	30 June 2020	30 June 2020	30 June 2020	31 Dec. 2019
<i>Amounts in NOK million</i>					
IRB approach					
Corporate	1 939	1 939	759	61	194
Retail - residential property	690 078	690 078	147 357	11 789	11 417
Total credit risk, IRB approach	692 017	692 017	148 116	11 849	11 612
Standardised approach					
Institutions	54 788	54 788	10 958	877	556
Corporate	20 154	20 139	5 474	438	419
Retail - residential property	27 650	25 249	8 866	709	619
Retail - other exposures	386	250	187	15	14
Other assets	105	92	132	11	9
Total credit risk, standardised approach	103 084	100 517	25 617	2 049	1 617
Total credit risk	795 101	792 534	173 734	13 899	13 229
Credit value adjustment (CVA)					
Operational risk			6 291	503	503
Total risk-weighted assets and capital requirements			180 025	14 402	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	2nd quarter 2020				2nd quarter 2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Accumulated impairment as at 31 March	(17)	(33)	(60)	(110)	(41)	(40)	(48)	(129)
Transfer to stage 1	(10)	9	1		(10)	9	1	
Transfer to stage 2	0	(5)	5		1	(4)	3	
Transfer to stage 3								
Originated and purchased during the period	(4)	(0)		(4)	(2)	(1)		(3)
Increased expected credit loss ¹⁾	(5)	(7)	(17)	(29)	(1)	(14)	(21)	(36)
Decreased (reversed) expected credit loss ¹⁾	16	10	14	40	42	17	8	67
Derecognition	0	8		8		7		7
Write-offs			4	4			1	1
Accumulated impairment as at 30 June	(19)	(19)	(53)	(91)	(12)	(26)	(56)	(94)

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

Amounts in NOK million	Jan.-June 2020				Jan.-June 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	(16)	13	3		(22)	19	3	
Transfer to stage 2	1	(11)	10		2	(9)	7	
Transfer to stage 3						1	(1)	
Originated and purchased during the period	(6)	(1)		(7)	(8)	(1)	-	(9)
Increased expected credit loss ¹⁾	(11)	(19)	(34)	(64)	(11)	(30)	(41)	(82)
Decreased (reversed) expected credit loss ¹⁾	25	16	26	67	60	23	23	106
Derecognition	0	11		11		11	-	11
Write-offs		0	6	6	-		1	1
Accumulated impairment as at 30 June	(19)	(19)	(53)	(91)	(12)	(26)	(56)	(94)

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		
	30 June 2020	31 Dec. 2019	30 June 2019
<i>Amounts in NOK million</i>			
Listed covered bonds, nominal amount	437 524	382 950	396 241
Private placements under the bond programme, nominal amount	70 457	66 064	67 807
Total bonds, nominal amount	507 981	449 015	464 048
Accrued interest	2 143	3 032	2 128
Unrealised losses ¹⁾	26 328	19 669	22 691
Adjustments	28 471	22 701	24 819
Total debt securities issued	536 452	471 715	488 867

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 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	507 981	50 000	(26 486)	35 452		449 015
Value adjustments	28 471				5 770	22 701
Total debt securities issued	536 452	50 000	(26 486)	35 452	5 770	471 715

Maturity of debt securities issued	DNB Boligkreditt AS		
	NOK	Foreign currency	Total
<i>Amounts in NOK million</i>			
2020	13 000	18 005	31 005
2021	26 500	56 166	82 666
2022	75 500	75 966	151 466
2023	257	73 763	74 020
2024 and later	12 120	156 705	168 825
Total bond debt	127 377	380 604	507 981

Debt securities issued - matured/redeemed during the period	DNB Boligkreditt AS						
	ISIN Code	Currency	Matured redeemed amount	Interest	Issued	Matured	Remaining nominal amount 30 June 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
Total debt securities issued, nominal value		26 486					26 486

Note 4 Debt securities issued (continued)

Cover pool

<i>Amounts in NOK million</i>	DNB Boligkreditt AS		
	30 June 2020	31 Dec. 2019	30 June 2019
Pool of eligible loans	655 559	632 580	633 274
Market value of eligible derivatives	46 049	41 595	37 499
Total collateralised assets	701 608	674 176	670 773
Debt securities issued, carrying value	536 452	471 715	488 867
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(46)	(78)	(447)
Debt securities issued, valued according to regulation ¹⁾	536 406	471 637	488 419
Collateralisation (per cent)	130.8	142.9	137.3

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	Call date	Maturity date	DNB Boligkreditt AS		
							30 June 2020	31 Dec. 2019	30 June 2019
Term subordinated loan capital	NOK	1 900	3 month Nibor + 160 bp	2018	2023	2028	1 900	1 900	1 900
Term subordinated loan capital	NOK	3 300	3 month Nibor + 160 bp	2018	2023	2028	3 300	3 300	3 300
Accrued interest							5	10	9
Total subordinated loan capital							5 205	5 210	5 209

Note 6 Financial instruments at fair value

<i>Amounts in NOK million</i>	DNB Boligkreditt AS			Total
	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	
Assets as at 30 June 2020				
Loans to customers			41 142	41 142
Financial derivatives		58 004		58 004
Liabilities as at 30 June 2020				
Debt securities issued ¹⁾		17 247		17 247
Financial derivatives		11 956		11 956

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. Comparative information has not been restated.

<i>Amounts in NOK million</i>	DNB Boligkreditt AS			Total
	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	
Assets as at 30 June 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

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	93	
Additions/purchases	2 762	
Sales	(45)	
Settled	(3 401)	
Carrying amount as at 30 June 2019	40 684	
Carrying amount as at 31 December 2019	41 489	
Net gains recognised in the income statement	1 288	
Additions/purchases	5 172	
Sales	(72)	
Settled	(6 736)	
Carrying amount as at 30 June 2020	41 142	

Note 7 Information on related parties

DNB Bank ASA

In the first half of 2020, loan portfolios representing NOK 29.4 billion (NOK 1.0 billion in the first half of 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 63 million in the first half of 2020 (NOK 390 million in the first half of 2019).

At end-June 2020 the bank had invested NOK 61.5 billion in covered bonds issued by DNB Boligkreditt.

In the first half of 2020 DNB Boligkreditt entered into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The value of the repos amounted to NOK 6.3 billion at end-June 2020.

DNB Boligkreditt AS has a long-term overdraft facility in DNB Bank ASA with a limit of NOK 150 billion.

DNB Livsforsikring AS

At end-June 2020 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 2020 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, 12 July 2020

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 ir.dnb.no.

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

DNB Boligkreditt AS

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