DNB Group

# First quarter report 2020

(Unaudited)

DNB

# Financial highlights

**DNB Group**

| **Income statement**<br>*Amounts in NOK million* | 1st quarter 2020 | 1st quarter 2019 | Full year 2019 |
|---|---|---|---|
| Net interest income | 10 395 | 9 289 | 39 202 |
| Net commissions and fees | 2 237 | 2 219 | 9 716 |
| Net gains on financial instruments at fair value | 3 228 | 751 | 3 183 |
| Net financial and risk result, life insurance | (246) | 356 | 1 129 |
| Other operating income | (72) | 446 | 1 628 |
| Net other operating income | 5 148 | 3 772 | 15 655 |
| Total income | 15 543 | 13 062 | 54 857 |
| Operating expenses | (5 297) | (5 465) | (22 608) |
| Restructuring costs and non-recurring effects | (184) | (22) | (525) |
| Pre-tax operating profit before impairment | 10 063 | 7 575 | 31 724 |
| Net gains on fixed and intangible assets | 780 | 1 739 | 1 703 |
| Impairment of financial instruments | (5 771) | (316) | (2 191) |
| Pre-tax operating profit | 5 071 | 8 998 | 31 235 |
| Tax expense | (1 014) | (1 365) | (5 465) |
| Profit from operations held for sale, after taxes | (56) | (51) | (49) |
| Profit for the period | 4 000 | 7 582 | 25 721 |

| **Balance sheet**<br>*Amounts in NOK million* | 31 March 2020 | 31 Dec. 2019 | 31 March 2019 |
|---|---|---|---|
| Total assets | 3 197 365 | 2 793 294 | 2 815 716 |
| Loans to customers | 1 743 981 | 1 667 189 | 1 623 428 |
| Deposits from customers | 1 082 143 | 969 557 | 967 705 |
| Total equity | 238 233 | 242 255 | 229 207 |
| Average total assets | 3 075 226 | 2 906 775 | 2 873 594 |
| Total combined assets | 3 544 568 | 3 176 655 | 3 157 349 |

| **Key figures and alternative performance measures** | 1st quarter 2020 | 1st quarter 2019 | Full year 2019 |
|---|---|---|---|
| Return on equity, annualised (per cent) [1)] | 6.5 | 14.1 | 11.7 |
| Earnings per share (NOK) | 2.28 | 4.61 | 15.54 |
| Combined weighted total average spread for lending and deposits (per cent) [1)] | 1.38 | 1.32 | 1.33 |
| Average spread for ordinary lending to customers (per cent) [1)] | 1.94 | 1.90 | 1.84 |
| Average spread for deposits from customers (per cent) [1)] | 0.49 | 0.39 | 0.51 |
| Cost/income ratio (per cent) [1)] | 35.3 | 42.0 | 42.2 |
| Ratio of customer deposits to net loans to customers at end of period [1)] | 62.1 | 59.6 | 58.2 |
| Net loans at amortised cost and financial commitments in stage 2, per cent of net loans at amortised cost [1) 2)] | 12.24 | 6.78 | 6.88 |
| Net loans at amortised cost and financial commitments in stage 3, per cent of net loans at amortised cost [1) 2)] | 1.61 | 1.38 | 1.13 |
| Impairment relative to average net loans to customers at amortised cost, annualised (per cent) [1) 2)] | (1.41) | (0.08) | (0.14) |
| Common equity Tier 1 capital ratio at end of period (per cent) | 17.7 | 17.1 | 18.6 |
| Leverage ratio (per cent) | 6.5 | 7.1 | 7.4 |
| Share price at end of period (NOK) | 116.75 | 158.80 | 164.00 |
| Book value per share | 140.98 | 134.48 | 137.20 |
| Price/book value [1)] | 0.83 | 1.18 | 1.20 |
| Dividend per share (NOK) | | | 9.00 |
| Score from RepTrak's reputation survey in Norway (points) | 74.5 | 74.3 | 72.5 |
| Customer satisfaction index, CSI, personal customers in Norway (score) | 73.1 | 73.8 | 72.8 |
| Female representation at management levels 1-4 (%) | 39.5 | | 38.0 |

*1) Defined as alternative performance measure (APM). APMs are described on ir.dnb.no.*
*2) Figures from 1 January 2020 are recognised excluding loans at fair value. Historical figures have been adjusted accordingly.*

For additional key figures and definitions, please see the Factbook on ir.dnb.no.

# First quarter report 2020



There has been no full or partial external audit of the quarterly directors' report and accounts, though the report has been reviewed by the Audit Committee.

# Directors’ report

## First quarter financial performance

DNB entered 2020 better capitalised than ever, better financed than ever and with a higher credit rating than ever.

The outbreak of the COVID-19 pandemic towards the end of the quarter and the sharp drop in the oil price led to a significant increase in impairment losses. However, DNB’s pre-provision quarterly results were sound, the bank’s balance sheet remained strong and the capital level was solid.

The profit in the quarter was NOK 4 000 million, a decrease of NOK 3 582 million from the year-earlier period. Compared with the previous quarter, profits decreased by NOK 1 945 million. The underlying operating performance was strong, with an increase in pre-tax operating profit before impairment of 32.8 per cent compared with the first quarter last year and 42.0 per cent from the fourth quarter of 2019.

Earnings per share were NOK 2.28 in the quarter, compared with NOK 4.61 in the year-earlier period and NOK 3.57 in the fourth quarter of 2019.

The common equity Tier 1 (CET1) capital ratio was 17.7 per cent, up from 17.1 per cent a year earlier, and down from 18.6 per cent in the fourth quarter of 2019.

The leverage ratio for the Group was 6.5 per cent, down from 7.0 per cent in the first quarter of 2019, and from 7.4 per cent in the fourth quarter. The reduction reflects increased liquid assets mainly consisting of deposits with central banks and redemption of additional Tier 1 (AT1) capital.

Return on equity was negatively impacted by high impairment provisions resulting from the COVID-19 outbreak and the drop in oil price, and ended at 6.5 per cent. The comparable figures were 14.1 per cent in the first quarter of 2019, and 10.4 per cent in the fourth quarter.

There was a strong increase in total income, with 19.0 per cent growth from the first quarter of 2019, and 17.8 per cent from the fourth quarter.

Net interest income was positively affected by repricing effects and increased volumes, which led to an increase of NOK 1 106 million, or 11.9 per cent, from the first quarter of 2019, and an increase of 0.5 per cent compared with the fourth quarter.

Net other operating income amounted to NOK 5 148 million in the first quarter, up NOK 1 376 million from the same period in 2019. Due to the weakening of the NOK, there was an increase from exchange rate effects on AT1 capital and mark-to-market adjustments, which was somewhat offset by increased credit spreads in the quarter. Net commissions and fees increased by 0.8 per cent from the year-earlier period, despite the significant negative effects of the COVID-19 situation towards the latter part of the quarter. Compared with the fourth quarter, net other operating income was up NOK 2 295 million. Net commissions and fees decreased by 15.1 per cent, mainly due to a reduction in income from investment banking services, which reached a record-high level in the previous quarter.

Operating expenses were NOK 5 480 million, at the same level as the year-earlier period. The first quarter saw a decrease in pension costs of NOK 309 million. However, other operating expenses increased by NOK 169 million due to the remaining compensation payout in the DNB Norge case. Compared with the fourth quarter, operating expenses were down NOK 634 million. This was mainly due to lower pension costs and salary expenses.

Impairment losses on financial instruments amounted to NOK 5 771 million in the first quarter, an increase of NOK 5 455 million from the first quarter of 2019, and of NOK 5 594 million from the fourth quarter of 2019. The impairment losses were distributed between the two customer segments, with NOK 5 038 million in the corporate customers segment and NOK 734 million in the personal customers segment. NOK 345 million of the increase in the personal customers segment was related to a specific customer within Private Banking in stage 3. For the Group as a whole, the increase in impairment losses was caused by a combination of the COVID-19 outbreak and the fall in the oil price, which had a negative impact on the forecast for key macro variables, as well as on the overall credit quality of the impacted part of the portfolio. These two events also resulted in increased impairment losses for several individually assessed customers in stage 3 within different industries.

## Important events in the first quarter

In order to prepare for the Annual General Meeting (AGM), originally scheduled to take place in April, the share buy-back programme was ended on 11 March. A total of 19.8 million shares were repurchased in the open market. In addition, a total of 10.2 million shares owned by the Norwegian Government will be redeemed after the AGM, bringing total buy-backs to 1.89 per cent. Due to the COVID-19 pandemic, the AGM has been postponed and is now scheduled to take place on 30 June. The dividend decision and authorisation to the Board of Directors to repurchase own shares has been postponed to an extraordinary general meeting due to take place in the second half of the year.

The second part of the Fremtind merger was completed in the first quarter, which implies that personal risk products were transferred from DNB Livsforsikring and Sparebank 1 Gruppen to Fremtind with effect from 1 January.

DNB introduced a new unit class for mutual funds in the first quarter, and lowered the prices of the bank's most popular funds for the second time. This has contributed to an increase in the market share of mutual funds from 32.7 per cent in the previous quarter to 34.5 per cent in the first quarter of 2020.

In 2019, DNB prevented losses of NOK 993 million for itself and its customers through its active efforts to combat fraud and scams.

Norges Bank reduced the key policy rate twice in March, to 0.25 per cent. DNB subsequently lowered its home mortgage rates, introducing a reduction equivalent to up to 0.85 per cent for its customers.

DNB was awarded a rating of A in the category ‘climate change’ by CDP (formerly the Carbon Disclosure Project), putting it at the top of this category for the third year running.

The new brokerage service ‘Samsolgt’ from DNB’s real estate agency DNB Eiendom was awarded the DOGA Award for good service design. The DOGA Award is one of Norway’s most prestigious prizes for design and architecture projects.

Kapital, Norway's leading financial magazine, carried out its annual rating of investment banks, and DNB was ranked first and second for best analysts regardless of sector, as well as being ranked first for best stockbrokers. Overall, DNB was given the top ranking as the best investment bank.

The Supreme Court ruled in favour of the Norwegian Consumer Council in the group action brought against DNB Asset Management for the management of the DNB Norge funds.

DNB was ranked the number one fund provider in Europe, and according to a new ranking by the investor platform SharingAlpha, DNB Asset Management is one of the top fund companies in Europe.

In RepTrack's reputation survey for the first quarter, DNB scored 74.5 points, the best result to date. DNB’s goal is a result of over 70 points, which indicates ‘a well-liked bank’. This is the fifth consecutive quarter in which DNB has scored over 70 points.

The Ministry of Finance reduced the Norwegian counter-cyclical buffer requirement from 250 basis points to 100 basis points as a result of Norges Bank's assessment of the risk of a marked setback in the Norwegian economy due to the COVID-19 outbreak.

## First quarter income statement – main items

### Net interest income

| *Amounts in NOK million* | 1Q20 | 4Q19 | 1Q19 |
|---|---|---|---|
| Lending spreads, customer segments | 7 587 | 7 050 | 7 026 |
| Deposit spreads, customer segments | 1 215 | 1 521 | 899 |
| Amortisation effects and fees | 842 | 889 | 797 |
| Operational leasing | 492 | 463 | 409 |
| Contributions to the deposit guarantee and resolution funds | (334) | (391) | (274) |
| Other net interest income | 592 | 815 | 432 |
| Net interest income | 10 395 | 10 347 | 9 289 |

Net interest income increased by NOK 1 106 million, or 11.9 per cent, from the first quarter of 2019, due to increased volumes from both lending and deposits, positive repricing effects and income on equity.

Spreads in the first quarter of 2020 were positively impacted by interest rate adjustments effective from November 2019.

There was an average increase of NOK 69.8 billion, or 4.6 per cent, in the healthy loan portfolio compared with the first quarter of 2019. Adjusted for exchange rate effects, volumes were up NOK 37.9 billion, or 2.5 per cent. During the same period, deposits were up NOK 66.8 billion, or 7.2 per cent. Adjusted for exchange rate effects, there was an increase of NOK 48.6 billion, or 5.2 per cent. Average lending spreads widened by 4 basis points, and deposit spreads widened by 10 basis points compared with the first quarter of 2019. Volume-weighted spreads for the customer segments widened by 6 basis points compared with the same period in 2019.

Compared with the fourth quarter, net interest income increased by 0.5 per cent. There was a positive contribution from increased volumes and exchange rate effects, but this was partly offset by one less interest day and decreased income on equity compared with the previous quarter. There was an average increase of NOK 15.7 billion, or 1.0 per cent, in the healthy loan portfolio, and deposits were up NOK 19.7 billion, or 2.0 per cent. Volume-weighted spreads for the customer segments widened by 4 basis points compared with the fourth quarter.

### Net other operating income

| *Amounts in NOK million* | 1Q20 | 4Q19 | 1Q19 |
|---|---|---|---|
| Net commissions and fees | 2 237 | 2 636 | 2 219 |
| Basis swaps | 1 060 | (361) | (187) |
| Exchange rate effects additional Tier 1 capital | 4 097 | (742) | (88) |
| Net gains on other financial instruments at fair value | (1 928) | 656 | 1 026 |
| Net financial and risk result, life insurance | (246) | 216 | 356 |
| Net profit from associated companies | (346) | 52 | 178 |
| Other operating income | 274 | 394 | 268 |
| Net other operating income | 5 148 | 2 852 | 3 772 |

Net other operating income increased by NOK 1 376 million from the first quarter of 2019. There was a positive contribution from customer revenues in DNB Markets and asset management services. In addition, positive exchange rate effects on AT1 capital and basis swaps totaling NOK 5 431 million impacted the income in the first quarter positively compared with the same quarter a year earlier. However, this was somewhat offset by negative valuation adjustments for derivatives (CVA/DVA/FVA) and bonds due to widening credit spreads and reduced financial results from insurance, which were caused by the effect of the COVID-19 pandemic. Net commissions and fees increased by 0.8 per cent from the year-earlier period, despite significant negative effects from the COVID-19 outbreak in the latter part of March.

Compared with the fourth quarter of 2019, net other operating income increased by NOK 2 295 million. The increase mainly reflected positive exchange rate effects on AT1 capital and basis swaps. However, profits from associated companies were reduced due to development in the market conditions. Net commissions and fees decreased by NOK 399 million, or 15.1 per cent, from the fourth quarter, mainly due to a reduction in income from investment banking services, which reached a record-high level in the previous quarter.

### Operating expenses

| *Amounts in NOK million* | 1Q20 | 4Q19 | 1Q19 |
|---|---|---|---|
| Salaries and other personnel expenses | (2 792) | (3 390) | (3 001) |
| Restructuring expenses | (14) | (52) | (8) |
| Other expenses | (1 887) | (1 837) | (1 771) |
| Depreciation of fixed and intangible assets | (786) | (744) | (706) |
| Impairment of fixed and intangible assets | (1) | (91) | (1) |
| Total operating expenses | (5 480) | (6 114) | (5 487) |

Operating expenses were at the same level compared with the first quarter of 2019. There was a decrease in salaries and other personnel expenses, mainly driven by lower pension costs of NOK 309 million. At the same time, other operating expenses were up, mainly due to NOK 169 million from the remaining compensation payout in the DNB Norge case.

Compared with the fourth quarter of 2019, there was a decrease in operating expenses of NOK 634 million, or 10.4 per cent. The main factors were reduced pension costs and variable payments. Lower expenses related to travelling, restructuring and IT activities also contributed to the reduction.

The cost/income ratio was 35.3 per cent in the first quarter.

### Impairment of financial instruments

| *Amounts in NOK million* | 1Q20 | 4Q19 | 1Q19 |
|---|---|---|---|
| Personal customers | (522) | (81) | (108) |
| Commercial real estate | (143) | (70) | (39) |
| Shipping | (211) | 171 | 32 |
| Oil, gas and offshore | (2 605) | (360) | (46) |
| Other industry segments | (2 289) | 163 | (154) |
| Total impairment of financial instruments | (5 771) | (178) | (316) |

Net impairment of financial instruments amounted to NOK 5 771 million in the first quarter of 2020. This is an increase of NOK 5 455 million from the first quarter of 2019, and NOK 5 594 million from the fourth quarter of 2019. The increase can be ascribed to a combination of the COVID-19 outbreak and the fall in the oil price, which had a negative impact on the forecasts for key macro drivers, including Norwegian GDP and unemployment rates, as well as global GDP, the future oil price and rates for shipping and offshore. Aside from the macroeconomic effects, the impact can be seen in increased credit risk for many customers in stage 1 and 2 within impacted industries, as well as increased impairment for several individually assessed customers in stage 3.

Personal customers experienced an increase in impairment of NOK 414 million and NOK 441 million, respectively, compared with the first and fourth quarter of 2019. Most of the increase was related to consumer finance and was to a large extent due to a significantly more negative economic outlook for the short-term Norwegian unemployment rate. The effects of the COVID-19 outbreak only had a minor impact on loan losses for retail mortgages in the first quarter.

Impairment of financial instruments in commercial real estate increased by NOK 104 million compared with the first quarter of 2019, to NOK 143 million. Compared with the fourth quarter of 2019, the increase was NOK 73 million. The increase was primarily related to a more negative macro forecast resulting from the COVID-19 situation. However, the impairments remained at a low level and the asset quality of the commercial real estate portfolio remained strong.

There were net impairment losses of NOK 211 million within the shipping segment in the first quarter. This was an increase of NOK 243 million and NOK 382 million, respectively, compared with the first and fourth quarter of 2019. The increase was primarily related to the sub-segments container and dry bulk.

There were net impairment losses of NOK 2 605 million for the oil, gas and offshore segment in the quarter. This was an increase of NOK 2 559 million from the first quarter of 2019, and NOK 2 245 million from the fourth quarter of 2019. The oil price fall, caused by a combination of reduced demand and increased supply, had a significant negative impact on the credit quality for the oil, gas and offshore portfolio, most prominent within offshore. The increase in impairment in the quarter was a result of several factors. Firstly, DNB had a more negative outlook for the macro parameters used for estimating impairment losses for this segment. Secondly, the level of credit risk for many customers in stage 1 and 2 developed negatively. And thirdly, estimated impairment losses for individually assessed customers in stage 3 increased due to revised input parameters.

Net impairment within other industry segments was up NOK 2 135 million compared with the first quarter of 2019, and NOK 2 452 million compared with the fourth quarter of 2019, to NOK 2 289 million. Increased impairment can be seen across many industries due to the impact of the COVID-19 outbreak on both the macroeconomic situation and individual customers. However, the effect was most prominent within the travel and tourism industries with an impairment of NOK 604 million, as well as within retail industries, services, manufacturing and portfolio management, with a total impairment of NOK 1 274 million.

### Taxes

The DNB Group's tax expense for the first quarter has been estimated at NOK 1 014 million, or 20.0 per cent of pre-tax operating profits.

## Financial performance – segments

Financial governance in DNB is adapted to the different customer segments. Reported figures reflect total sales of products and services to the relevant segments.

DNB's organisational structure, including the Group Management team, was changed on 23 September 2019. The Group’s segment reporting has been changed as per the first quarter to reflect this, and now consists of the segments personal customers and corporate customers. Figures for 2019 have been adjusted accordingly.

### Personal customers

| *Income statement in NOK million* | 1Q20 | 4Q19 | 1Q19 |
|---|---|---|---|
| Net interest income | 3 706 | 3 523 | 3 380 |
| Net other operating income | 1 161 | 1 173 | 1 143 |
| Total income | 4 866 | 4 696 | 4 523 |
| Operating expenses | (2 247) | (2 249) | (2 087) |
| Pre-tax operating profit before impairment | 2 619 | 2 447 | 2 436 |
| Net gains on fixed and intangible assets | | (3) | |
| Impairment of financial instruments | (734) | (103) | (101) |
| Pre-tax operating profit | 1 886 | 2 340 | 2 335 |
| Tax expense | (471) | (585) | (584) |
| Profit for the period | 1 414 | 1 755 | 1 751 |
| **Average balance sheet items in NOK billion** | | | |
| Net loans to customers | 795.8 | 794.3 | 773.5 |
| Deposits from customers | 435.4 | 431.1 | 413.4 |
| **Key figures in per cent** | | | |
| Lending spread [1)] | 1.53 | 1.29 | 1.50 |
| Deposit spread [1)] | 0.68 | 0.87 | 0.50 |
| Return on allocated capital | 11.7 | 14.5 | 14.9 |
| Cost/income ratio | 46.2 | 47.9 | 46.1 |
| Ratio of deposits to loans | 54.7 | 54.3 | 53.4 |

*1) Calculated relative to the 3-month money market rate. See ir.dnb.no for additional information about alternative performance measures (APMs).*

The financial performance in the first quarter was affected by the COVID-19 situation. Pre-tax operating profit declined by 19.4 per cent from the previous quarter, and return on allocated capital was down 2.8 percentage points to 11.7 per cent.

The personal customers segment delivered solid growth in net interest income in the first quarter. Decreasing money market rates combined with the full effect of the interest rate adjustments in the fourth quarter of 2019 were the main factors behind the increase. Combined spreads on loans and deposits widened by 9 basis points from the previous quarter and by 8 basis points from the first quarter of 2019.

There was a moderate rise in average net loans of 2.9 per cent from the first quarter of 2019. The growth in the healthy home mortgage portfolio amounted to 3.3 per cent. Deposits from customers rose significantly by 5.3 per cent and the ratio of deposits to loans improved by 1.3 percentage points compared to the year-earlier period.

The COVID-19 situation affected net other operating income negatively, with falling revenues from card sales and currency withdrawals. Furthermore, the sharp fall in the financial markets gave a negative risk result from pension products, while income from real estate broking held a positive development.

Operating expenses remained relatively stable compared with the previous quarter, but increased by 7.7 per cent from the first quarter of 2019. The increase was mainly due to rising activity as well as increased costs in the real estate business. In addition, previously unallocated Group costs are with effect from 2020 allocated to the business areas.

The personal customers segment experienced impairment of financial instruments of NOK 734 million, equivalent to 0.4 per cent of net lending to customers. Stock market turmoil and negative changes in macro forecasts were underlying factors here. The increase in the first quarter is explained by impairments in stage 1 and 2 related to consumer finance, due to a significantly more negative outlook for the short-term Norwegian unemployment rate compared to the last quarter. Furthermore, there is an impairment of NOK 345 million in stage 3 related to private banking. The effects from COVID-19 only had a minor impact on loan losses for retail mortgages in the first quarter.

DNB’s market share of credit to households stood at 23.5 per cent at the end of December 2019, while the market share of total household savings was 30.2 per cent in the same period. DNB Eiendom had an average market share of 19.0 per cent this quarter.

The COVID-19 situation characterised the latter part of the quarter. DNB focused on providing its customers with relevant financial advice and keeping its digital services available to customers. During the last two weeks of March, the customer centres responded to nearly 140 000 chat and phone enquiries and received over 26 000 applications regarding deferral of mortgage payments.

## Corporate customers

| Income statement in NOK million | 1Q20 | 4Q19 | 1Q19 |
|---|---|---|---|
| Net interest income | 6 108 | 6 227 | 5 559 |
| Net other operating income | 1 728 | 2 193 | 1 884 |
| Total income | 7 836 | 8 420 | 7 443 |
| Operating expenses | (3 046) | (3 083) | (2 880) |
| Pre-tax operating profit before impairment | 4 790 | 5 337 | 4 563 |
| Net gains on fixed and intangible assets | (0) | 16 | (0) |
| Impairment of financial instruments | (5 038) | (75) | (215) |
| Profit from repossessed operations | (80) | 92 | (82) |
| Pre-tax operating profit | (329) | 5 370 | 4 265 |
| Tax expense | 82 | (1 310) | (1 042) |
| Profit from operations held for sale, after taxes | | (0) | 2 |
| Profit for the period | (246) | 4 060 | 3 226 |
| **Average balance sheet items in NOK billion** | | | |
| Net loans to customers | 792.9 | 780.7 | 746.4 |
| Deposits from customers | 559.5 | 547.1 | 514.5 |
| **Key figures in per cent** | | | |
| Lending spread [1)] | 2.37 | 2.33 | 2.32 |
| Deposit spread [1)] | 0.35 | 0.42 | 0.30 |
| Return on allocated capital | (1.0) | 16.3 | 13.7 |
| Cost/income ratio | 38.9 | 36.6 | 38.7 |
| Ratio of deposits to loans | 70.6 | 70.1 | 68.9 |

1) *Calculated relative to the 3-month money market rate. See ir.dnb.no for additional information about alternative performance measures (APMs).*

An underlying, sound pre-tax operating profit was curtailed by large impairment losses caused by the COVID-19 pandemic and the oil price fall in March.

Average loan volumes were up 6.2 per cent compared with the first quarter of 2019, primarily driven by currency effects. Underlying growth was 1.9 per cent, mainly due to the activity in the financial services industry, as well as the seafood and commercial real estate sectors. Compared with the fourth quarter of 2019, average loan volumes increased by 1.6 per cent, mainly due to a weakening of the NOK. In addition to the underlying growth, the weakening of the NOK in the quarter also contributed positively to the deposit volumes. Average customer deposit volumes were up 8.7 per cent from the first quarter of 2019. Adjusted for currency effects, the underlying volume growth from the first quarter of 2019 was 5.5 per cent. The growth in currency-adjusted average volumes was 0.9 per cent from the previous quarter.

Both lending and deposit spreads improved compared with the first quarter of 2019, contributing to an increase in net interest income of 9.9 per cent. Compared with the fourth quarter of 2019, lending spreads increased by 4 basis points, while deposit margins went down by 7 basis points, partly driven by reduced interest rates in the Small and Medium-sized customers division (SME).

Seasonally lower activity within investment banking affected the development in other operating income from the fourth quarter of 2019, while compared with the first quarter of 2019, the activity level was strong. Fixed income, Currencies and Commodities (FICC) showed considerable growth in the quarter, as the volatility in the markets in March contributed to high activity.

Operating expenses were up 5.8 per cent compared with the first quarter of 2019, primarily due to currency effects, an increase in depreciation from operating leases and increased internal allocated costs. Compared to the fourth quarter of 2019, costs were down 1.2 per cent.

Impairment of financial instruments amounted to NOK 5 038 million in the first quarter of 2020, of which 49 per cent was related to specific loan agreements in stage 3. Due to the COVID-19 pandemic and the oil price drop, macro forecasts showed a decline, causing a weakening of the overall credit quality. Several industries were heavily affected by the unstable macroeconomic situation, especially within sectors such as oil and gas and the service industries including tourism and retail.

Net stage 3 loans and financial commitments amounted to NOK 23 billion, an increase of NOK 8 billion from the fourth quarter of 2019, and NOK 5 billion from the first quarter of 2019.

Going forward, DNB will focus on completing profitable transactions across industries and working to maintain the level of activity, both through the management of government-guaranteed loans, and by use of DNB's own balance sheet. It will still be important to increase the turnover in the portfolio, reduce final hold and make more active use of portfolio management tools.

## Other operations

This segment includes the results from risk management in DNB Markets and from traditional pension products. In addition, the other operations segment includes Group items not allocated to the customer segments.

| Income statement in NOK million | 1Q20 | 4Q19 | 1Q19 |
|---|---|---|---|
| Net interest income | 582 | 597 | 350 |
| Net other operating income | 2 837 | 67 | 1 364 |
| Total income | 3 418 | 662 | 1 714 |
| Operating expenses | (765) | (1 362) | (1 138) |
| Pre-tax operating profit before impairment | 2 653 | (699) | 576 |
| Net gains on fixed and intangible assets | 780 | (7) | 1 740 |
| Impairment of financial instruments | (0) | 0 | (1) |
| Profit from repossessed operations | 80 | (92) | 82 |
| Pre-tax operating profit | 3 514 | (797) | 2 397 |
| Tax expense | (625) | 859 | 261 |
| Profit from operations held for sale, after taxes | (56) | 68 | (53) |
| Profit for the period | 2 833 | 130 | 2 605 |
| **Average balance sheet items in NOK billion** | | | |
| Net loans to customers | 145.0 | 136.7 | 123.4 |
| Deposits from customers | 55.6 | 44.6 | 49.3 |

The profit for the other operations segment was NOK 2 833 million in the first quarter of 2020.

Due to the extreme market turmoil in the latter part of the quarter, revenues from DNB Markets' risk management activities were down NOK 1 209 million compared with the same quarter last year. In addition to the record-high volatility associated with fixed-income securities, currencies and the oil price, the widening credit spreads and increased counterparty risk (XVA) contributed to the negative result. Revenues from money market activities and trading in repurchase agreements (repo trading) increased compared to the year-earlier period.

For traditional pension products with a guaranteed rate of return, net other operating income was minus NOK 63 million in the first quarter, down NOK 495 million from the year-earlier period, reflecting a decrease in profits in both the corporate and the common portfolio, due to a significant fall in the financial markets.

The solvency margin as of 31 March was 101 per cent without applying the transitional rules, a decrease from 169 per cent at the end of 2019. The main reasons for the weakened solvency margin were significantly lower risk-free interest rates, a lower capital buffer and weakened profit performance caused by the fall in the stock market. Increased volatility adjustment and an add-on to the yield curve as a result of this are having a positive impact, but are far from compensating for the effects of the interest rate drop. The solvency margin calculated at the turn of the year was based on a dividend to DNB ASA of NOK 1 337 million. The dividend payment will not be implemented until the Board of Directors and the Annual General Meeting have made a new assessment of the financial strength of the company and the market prospects. The final decision will be made in the course of 2020. Retained dividends are included as capital in the solvency margin calculation for the first quarter, strengthening the solvency margin by 8 percentage points.

The solvency margin with transitional rules, which is the company's regulatory capital requirement, was 170 per cent as at 31 March, down from 202 per cent at year-end.

The profit in the other operations segment is affected by several group items not allocated to the segments. Net other operating income in the first quarter was affected positively by exchange rate effects on additional Tier 1 capital, and mark-to-market effects related to changes in basis swap spreads. These items vary from quarter to quarter.

DNB's share of the profit in associated companies (most importantly Luminor, Vipps and Fremtind) is included in this segment. There was a reduction in profit from these companies due to the development in market conditions. However, net gains on fixed and intangible assets of NOK 780 million was realised in connection with the second part of the Fremtind merger.

## Funding, liquidity and balance sheet

At the start of 2020, there was a normal level of transactions in the international short-term funding markets, with good funding opportunities in all maturities. With limited funding needs and good liquidity, DNB was somewhat less active than normal in the first half of the quarter.

Throughout the second half of the quarter, the COVID-19 effect became more and more evident, and when the US Federal Reserve cut rates aggressively, the difference between USD LIBOR and overnight interest rates increased dramatically. In addition, funding of all maturities longer than one month became more or less non-existent for all banks. With support from central banks all over the world, short-term market funding improved towards the end of the quarter. Longer maturity transactions did not really take off before the end of the quarter, but still remained at significantly higher levels than the central bank rates.

The market for long-term funding also had a good start to 2020, and in early February, one could see several transactions at record-low cost levels. Then it all changed with the COVID-19 pandemic, and the market experienced a period with a generally low level of new issues. The covered bond market slowly started to pick up again in the middle of March, followed by the senior unsecured bond market, but both with clearly elevated spread levels.

DNB's liquidity position is strong. In the fourth quarter of 2019, large volumes of long-term funding totalling almost NOK 60 billion in senior bonds were prefunded, as these were grandfathered as minimum requirement for own funds and eligible liabilities (MREL) eligible debt. DNB entered the first quarter of 2020 with more solid financing than ever, and with no long-term funding requirements for the first half of 2020.

The nominal value of long-term debt securities issued by the Group was NOK 725 billion at the end of the quarter, compared with NOK 610 billion a year earlier. The average remaining term to maturity for these debt securities was 3.6 years at end-March, compared with 4.1 years one year earlier.

The short-term liquidity requirement, Liquidity Coverage Ratio (LCR), remained stable at above 100 per cent throughout the quarter and was 128 per cent at end-March.

Total combined assets in the DNB Group were NOK 3 545 billion at end-March 2020, up from NOK 3 157 billion a year earlier. Total assets in the Group's balance sheet were NOK 3 197 billion at the end of the first quarter and NOK 2 816 billion a year earlier. Of this, total assets in DNB Livsforsikring amounted to NOK 320 billion and NOK 325 billion, respectively.

Loans to customers increased by NOK 120.6 billion, or 7.4 per cent, from end-March 2019. Customer deposits were up NOK 114.4 billion, or 11.8 per cent, during the same period. The ratio of customer deposits to net loans to customers was 62.1 per cent at end-March 2020, up from 58.2 per cent at end-December 2019.

## Risk management and capital position

The severe setback in the Norwegian economy due to the COVID-19 pandemic led to the enforcement of financial and regulatory measures from the Government in the quarter. The Norwegian Minister of Finance expressed that banks now are a part of the solution to the situation, with their ability to work with their customers in their time of need, and to provide them with credit to support the financial activity where appropriate. This is in contrast to the situation in 2008, when banks were considered a cause of the crisis.

In parallel to this, Norway was rated the world's most resilient country in 2019, being number one on a list of countries that are best equipped to recover from the COVID-19 pandemic. The resilience index, published by commercial property insurer FM Global, ranks 130 countries and territories according to their resilience to disruptive events. It ranks countries by economic productivity, political stability, control of corruption and corporate governance.

DNB's high degree of digitalisation, with few branch offices and customer service through call centres, the mobile bank app and other digital platforms, was an advantage after the COVID-19 outbreak with the subsequent lock-down of many functions in society.

Furthermore, DNB was able to maintain close to normal operations in this situation, with the use of alternative sites, remote working policies, virtual meetings, dispersed key operating functions across the bank and suspension of travel.

One of the measures to mitigate the negative economic effects of the pandemic was the reduction of the counter-cyclical capital buffer requirement for banks. In order to help counteract a tightening of the banks' lending practices, the Ministry of Finance reduced the rate from 2.5 per cent to 1 per cent on 13 March, with immediate effect. The effective reduction for DNB is 139 basis points, giving a common equity Tier 1 (CET1) capital requirement of 15.6 per cent.

At the end of March 2020, the common equity Tier 1 (CET1) capital ratio was 17.7 per cent, up from 17.1 per cent a year-earlier, and down from 18.6 per cent at end-December, leaving a comfortable margin of 2.1 percentage points to the required level.

Risk-weighted assets increased by NOK 69 billion from end-December 2019 to NOK 1 030 billion at end-March 2020. The weakening of the NOK and negative migration related to the oil price fall and the COVID-19 pandemic were the main factors behind the increase in risk-weighted assets and the reduction in CET1 capital from end-December 2019.

Until approved by the Annual General Meeting, the proposed dividend for 2019 is considered part of the equity, but not included in the CET1 capital.

The non-risk based leverage ratio was 6.5 per cent at end-March 2020, down from 7.4 per cent at end-December 2019 and from 7.0 per cent at the year-earlier period. The reduction reflects increased liquid assets mainly consisting of deposits with central banks and redemption of additional Tier 1 (AT1) capital.

### Development in CET1 capital ratio

| *Per cent* | CET1 capital ratio |
|---|---|
| **4Q19** | **18.6** |
| Profit (50 per cent after tax) | 0.2 |
| Insurance of credit risk | 0.1 |
| Non-performing loans | (0.3) |
| Fremtind part 2 (investment) | (0.2) |
| Net exchange rate effects | (0.4) |
| Counterpart exposure | (0.4) |
| Other | 0.1 |
| **1Q20** | **17.7** |

### Capital requirements

The capital adequacy regulations specify a minimum primary capital requirement based on risk-weighted assets that include credit risk, market risk and operational risk. In addition to meeting the minimum requirement, DNB must satisfy various buffer requirements (Pillar 1 and Pillar 2 requirements).

**Capital and risk**

| | 1Q20 | 4Q19 | 1Q19 |
|---|---|---|---|
| CET1 capital ratio, per cent | 17.7 | 18.6 | 17.1 |
| Tier 1 capital ratio, per cent | 19.1 | 20.8 | 18.4 |
| Capital ratio, per cent | 21.4 | 22.9 | 20.6 |
| Risk-weighted assets, NOK billion | 1 030 | 961 | 1 035 |
| Leverage ratio, per cent | 6.5 | 7.4 | 7.0 |

As the DNB Group consists of both a credit institution and an insurance company, DNB has to satisfy a cross-sectoral calculation test to demonstrate that it complies with sectoral requirements: the capital adequacy requirement in accordance with CRR/CRD IV and the Solvency II requirement. At end-March 2020, DNB complied with these requirements by a good margin, with excess capital of NOK 35.8 billion.

## New regulatory framework

### Norwegian implementation of the EU Banking Package

In the spring of 2019, the EU adopted a number of changes to the EU's capital requirements legislation for banks (CRR/CRD IV) and the Bank Recovery and Resolution Directive (BRRD), based on recommendations from the Basel Committee. The adopted legislative acts are collectively referred to as 'the Banking Package' and include CRR II, CRD V and BRRD II. The rules set out in the Banking Package will enter into force in the EU two years after being adopted, i.e. from the spring of 2021.

In February 2020, the Ministry of Finance asked Finanstilsynet (the Financial Supervisory Authority of Norway) to establish and lead a working group tasked with reviewing Norway's implementation of the EU's Banking Package. The deadline for the working group's review is 1 October 2020. The working group's mandate also includes possible improvements in light of experiences from the application of the Financial Institutions Act, which entered into force in 2016. Furthermore, the working group shall consider the relationship between Norwegian law and the CRR/CRD IV legislation.

## Financial and regulatory measures related to the coronavirus outbreak (COVID-19)

The COVID-19 outbreak has caused a severe setback for the Norwegian economy, with a sharp decline in value creation and a significant increase in the number of lay-offs and businesses experiencing a fall in turnover, wholly or partly due to various measures introduced to reduce the spread of infection. In order to help households and businesses, the Norwegian Government and parliament (Stortinget) acted quickly in the first quarter of 2020, implementing a number of effective measures to mitigate the financial consequences of the virus outbreak. Some of the most important measures are listed below.

### Significantly reduced key policy rate

At two extraordinary board meetings on 12 March and 19 March, Norges Bank lowered the key policy rate by a total of 1.25 percentage points to 0.25 per cent. Norges Bank points out that a lower key policy rate could soften the impact on the Norwegian economy and reduce the risk of long-term consequences for production and employment. Norges Bank also emphasises that Norway has sufficient scope of action in its economic policy options, good welfare schemes and solid banks. In principle, this means that Norway is well-equipped to deal with the current crisis. Norges Bank does not rule out the possibility of further reducing the interest rate.

### Extraordinary 'F-loans' to the banks

In order to ensure that the key policy rate has an effect on the money market rates during the COVID-19 pandemic, Norges Bank is offering so-called 'F-loans' in Norwegian kroner with terms of up to twelve months. The loans will be offered until the end of May 2020, or longer if necessary. The F-loans are fully allotted, at an interest rate corresponding to the current key policy rate. Norges Bank also offers banks F-loans in US dollars with a term of three months. The background for the US dollar loan is an agreement on a temporary liquidity arrangement (swap lines), which Norges Bank and other central banks have entered into with the Federal Reserve.

### Reduced counter-cyclical capital buffer requirement

On 13 March, the Ministry of Finance decided to reduce the counter-cyclical capital buffer requirement for banks from 2.5 per cent to 1 per cent with immediate effect, in line with Norges Bank's recommendation. This measure is intended to help counteract a tightening of the banks' lending practices. In its recommendation, Norges Bank underlines that Norwegian banks are profitable and solid, and have enough capital to withstand losses in the event of a strong downturn.

### New requirements for IRB models have been shelved

Finanstilsynet has been working on a circular on requirements for IRB models. However, in a news item on 13 March, Finanstilsynet stated that it will not make it a priority to finalise the circular at this moment in time, due to the turmoil caused by COVID-19. A new circular will therefore not be available for some time.

### Government loan guarantee programme for businesses

The authorities have established a Government loan guarantee programme, which will provide viable Norwegian companies with bank financing during a period of operational losses due to the virus outbreak and infection control measures. The programme means that the Government guarantees for 90 per cent of a company's loan value. The maximum loan amount for small and medium-sized enterprises is NOK 50 million, while larger companies can borrow up to NOK 150 million. The term of the loan is maximum three years, and this applies only to new loans and until 1 June 2020.

The loan guarantee programme is mainly administered by the banks by, among other things, checking that the conditions stipulated in laws and regulations are met before granting guaranteed loans. Initially, the scheme has a total guarantee facility limit of NOK 50 billion, distributed among the banks based on market shares. The Government has signalled that this limit will be extended if necessary.

### Measures to increase liquidity and access to capital in the bond market

The COVID-19 pandemic has led to low liquidity and high risk premiums in the bond market. Several large companies, regardless of industry, need a well-functioning and efficient market for corporate bonds to be able to refinance loans or secure new funding. To help large companies obtain the necessary liquidity, the Norwegian authorities have reinstated the Government Bond Fund, an instrument that was established in March 2009, during the financial crisis. The fund has now been restored based on the previously used model, but has been adapted to the problems caused by the COVID-19 pandemic.

The mandate of the Government Bond Fund includes purchasing corporate bonds, which will increase liquidity and access to capital in the bond market. The aim is for the fund to encourage other investors to participate in the market, and investments will therefore be made in cooperation with other investors and on market terms, in both primary and secondary markets. The Government Bond Fund may invest in issuers from all sectors and industries registered in Norway, including the high-yield segment. The fund has an investment limit of NOK 50 billion and is managed by Folketrygdfondet (manager of the Government Pension Fund Norway). The Ministry of Finance will evaluate the scheme's framework and mandate after the fund has been in operation for a while.

### Compensation scheme for companies severely affected by the virus outbreak

The authorities have introduced a compensation scheme whereby the state assumes part of the costs inflicted on Norwegian companies by the COVID-19 outbreak and the infection control measures. The main objective is to prevent unnecessary bankruptcies and preserve jobs. The size of the compensation will depend, among other things, on how much the company's turnover has fallen, the size of the company's unavoidable fixed costs and whether the company has been ordered to close by the authorities.

The scheme will initially apply in March, April and May, and disbursements will be made in arrears based on the actual turnover in the months in question. The scheme will have a scope of NOK 10-20 billion per month, depending on the number of companies using it. Companies can apply for support through a digital portal. The processing of applications is largely automated and based on data available from business registers, so it will not take long from the application is submitted to the money is deposited in the company's account.

### Temporary increased flexibility in the Home Mortgage Regulations

On 23 March, the Ministry of Finance decided to increase the flexibility quota in the Home Mortgage Regulations to 20 per cent. The change will apply in the second quarter of 2020, with the possibility of an extension. The Ministry also specifies that banks may grant deferred payment of interest and instalments for up to six months. The purpose of this measure is to boost the banks' ability to help mortgage customers through a difficult time. This may be people who are laid off or face a period of reduced income, or self-employed individuals who have provided their home as collateral for loans and are now in need of capital.

### Other financial measures

The Government and Stortinget have also implemented a number of other targeted measures to secure income for employees and liquidity for companies, and to prevent mass redundancies and bankruptcies. The measures include changes in lay-off regulations, amended rules for sick pay, deferral and relief in value-added tax and employer's national insurance contributions, deferred payment of companies' withholding tax, a stimulus package for Norwegian aviation, increased grants to entrepreneurs and growth companies, road project investments, initiatives directed at the fisheries industry and investments in carbon capture and storage. The Government has also decided that the GIEK - the Norwegian Guarantee Institute for Export Credits - may, temporarily, offer short-term export credit insurance to several countries.

In addition to these measures, the Government has announced that it will consider more measures in the coming months, to boost activity in the Norwegian economy as the virus outbreak subsides and infection control measures are downgraded.

## Macroeconomic developments

There was a marked change in the macroeconomic situation in the first quarter, as a result of the measures against the spread of the COVID-19 situation.

Three factors have had an impact on the Norwegian economy. Firstly, the downturn in the international economy led to lower demand for Norwegian goods and services. In addition, the strict measures imposed internationally led to disrupted value chains and supply lines, which affected Norwegian production capacity. Secondly, the decline in international activity led to lower oil prices. The drop in oil prices was also exacerbated by the fact that OPEC and Russia failed to reach agreement on production cuts, resulting in a price war. The oil price peaked in early January this year at USD 68.9 per barrel, but plummeted to a low of USD 22.74 per barrel at the end of the first quarter. Since then, OPEC and Russia, along with several others, have agreed to implement production cuts, causing a slight rise in oil prices. The reduced oil price led to oil companies on the Norwegian continental shelf making considerable cutbacks in their investment plans. This in turn affected the demand for goods and services from the Norwegian supplier industry. In addition, this industry is facing lower demand from the oil and gas sector in other countries. Thirdly, the stringent measures implemented by the Norwegian authorities directly reduced the level of activity in the Norwegian economy.

From the end of 2016 until the middle of 2019, the Norwegian economy experienced a moderate upswing. This recovery came after an economic downturn that was not serious in historical terms. Developments during 2019 indicated that the upturn was over even before the outbreak of coronavirus in Norway. In the fourth quarter of 2019, mainland GDP growth was 0.7 per cent, measured as an annual rate, and the slowdown in activity was relatively broad-based. Growth in the latter half of 2019 was thus clearly lower than projected trend growth. The coronavirus outbreak caused growth prospects to deteriorate during February and March. From 12 March to 19 March, Norges Bank reduced its key policy rate by a total of 1.25 percentage points. On 27 March, the Ministry of Finance estimated a decline in mainland GDP growth of about 2 per cent this year. This was a downward adjustment of one percentage point compared with the estimate published a week earlier. The downward adjustment reflected the spread of the coronavirus, the escalation of national and international infection control measures, and lower oil prices.

Measures in Norway and abroad to prevent the spread of the coronavirus have led to a dramatic fall in the demand for labour. According to figures from the Norwegian Labour and Welfare Administration (NAV), the number of registered unemployed persons increased from 65 000 on 11 March to 291 000 on 7 April. On top of this, 13 000 people were participating in labour market measures. The housing market saw a marked slowdown in both the number of homes put up for sale and the number of homes sold in March. Both were about 14.5 per cent lower than in March last year. Housing prices for existing homes fell by 1.4 per cent from February to March, but were up 2.7 per cent year-over-year in the first quarter. There is reason to expect lower sales in the time ahead, but a limited impact on prices.

## Future prospects

The Group's financial ambitions, including the overriding financial target of a return on equity (ROE) above 12 per cent, remain unchanged. However, due to the recent developments in the macroeconomic environment, these will unlikely be achieved in 2020.

In the period from 2020 to 2022, the annual increase in lending and deposit volumes is expected to be around 3 to 4 per cent. It is DNB's ambition to have a cost/income ratio below 40 per cent.

The reduction in interest rates on customer loans of up to 85 basis points from 5 April will have an effect on the interest income from the second quarter. The reduced rates on deposits will not take effect until late May. Alongside this, net commissions and fees will be impacted by lower revenues from money transfers and banking services due to lower business and travel activity. We also expect a reduction in fees from real estate broking.

The turbulent market situation with lower equity values is expected to give lower income from asset management services and defined contribution pensions.

The tax rate for the full year is expected to be 20 per cent in 2020 and 21 per cent in 2021.

The current common equity Tier 1 (CET1) capital ratio requirement for DNB after the reduction in the counter-cyclical buffer in March, is 15.6 per cent, including a management buffer (Pillar 2 Guidance) of 1.0 per cent. The CET1 capital ratio was

17.7 per cent at 31 March 2020. Due to the changes in the capital requirement, DNB's target is no longer 17.9 per cent, but rather to ensure a margin above the at any time applicable requirement from Finanstilsynet.

The Group's dividend policy remains unchanged, with a payout ratio of more than 50 per cent in cash dividends and an ambition of an increase in the nominal dividend per share each year. In addition to dividend payments, repurchases of own shares will be used as a flexible tool to allocate excess capital to DNB's owners. Due to the COVID-19 pandemic, the Annual General Meeting has been postponed and the dividend decision and authorisation to the Board of Directors to repurchase own shares will be considered at an extraordinary general meeting due to take place in December 2020, at the latest.

Oslo, 29 April 2020
The Board of Directors of DNB ASA

Olaug Svarva
(Chair of the Board)

Tore Olaf Rimmereid
(Vice Chair of the Board)

Karl-Christian Agerup

Gro Bakstad

Carl A. Løvvik

Jorunn Løvås

Jaan Ivar Semlitsch

Kjerstin R. Braathen
(Group Chief Executive Officer, CEO)

# Income statement

| Amounts in NOK million | 1st quarter 2020 | 1st quarter 2019 | Full year 2019 |
|---|---|---|---|
| | | | **DNB Group** |
| Interest income, amortised cost | 15 978 | 14 231 | 60 225 |
| Other interest income | 1 406 | 1 330 | 5 123 |
| Interest expenses, amortised cost | (5 704) | (6 030) | (23 661) |
| Other interest expenses | (1 284) | (241) | (2 486) |
| **Net interest income** | **10 395** | **9 289** | **39 202** |
| Commission and fee income | 3 148 | 3 107 | 13 484 |
| Commission and fee expenses | (910) | (887) | (3 768) |
| Net gains on financial instruments at fair value | 3 228 | 751 | 3 183 |
| Net financial result, life insurance | (355) | 256 | 696 |
| Net risk result, life insurance | 109 | 100 | 433 |
| Profit from investments accounted for by the equity method | (346) | 178 | 410 |
| Net gains on investment properties | (26) | 5 | 92 |
| Other income | 300 | 263 | 1 126 |
| **Net other operating income** | **5 148** | **3 772** | **15 655** |
| **Total income** | **15 543** | **13 062** | **54 857** |
| Salaries and other personnel expenses | (2 807) | (3 009) | (12 603) |
| Other expenses | (1 887) | (1 771) | (7 472) |
| Depreciation and impairment of fixed and intangible assets | (787) | (706) | (3 058) |
| **Total operating expenses** | **(5 480)** | **(5 487)** | **(23 133)** |
| **Pre-tax operating profit before impairment** | **10 063** | **7 575** | **31 724** |
| Net gains on fixed and intangible assets | 780 | 1 739 | 1 703 |
| Impairment of financial instruments | (5 771) | (316) | (2 191) |
| **Pre-tax operating profit** | **5 071** | **8 998** | **31 235** |
| Tax expense | (1 014) | (1 365) | (5 465) |
| Profit from operations held for sale, after taxes | (56) | (51) | (49) |
| **Profit for the period** | **4 000** | **7 582** | **25 721** |
| | | | |
| Portion attributable to shareholders | 3 570 | 7 339 | 24 603 |
| Portion attributable to non-controlling interests | (2) | | (5) |
| Portion attributable to additional Tier 1 capital holders | 433 | 243 | 1 123 |
| **Profit for the period** | **4 000** | **7 582** | **25 721** |
| | | | |
| Earnings/diluted earnings per share (NOK) | 2.28 | 4.61 | 15.54 |
| Earnings per share excluding operations held for sale (NOK) | 2.32 | 4.64 | 15.57 |

# Comprehensive income statement

| Amounts in NOK million | DNB Group<br>1st quarter 2020 | 1st quarter 2019 | Full year 2019 |
|---|---|---|---|
| **Profit for the period** | **4 000** | **7 582** | **25 721** |
| Actuarial gains and losses [1] | (288) | | (3) |
| Property revaluation | 42 | 1 | 278 |
| Items allocated to customers (life insurance) | (42) | (1) | (278) |
| Financial liabilities designated at FVTPL, changes in credit risk | 615 | (147) | 232 |
| Tax | (82) | 37 | (63) |
| Items that will not be reclassified to the income statement | 245 | (110) | 165 |
| Currency translation of foreign operations | 13 345 | (1 151) | 462 |
| Currency translation reserve reclassified to the income statement | | | |
| Hedging of net investment | (11 745) | 915 | (459) |
| Hedging reserve reclassified to the income statement | | | |
| Financial assets at fair value through OCI | (354) | 5 | 59 |
| Tax | 3 025 | (230) | (208) |
| Items that may subsequently be reclassified to the income statement | 4 271 | (461) | (147) |
| **Other comprehensive income for the period** | **4 516** | **(572)** | **19** |
| **Comprehensive income for the period** | **8 516** | **7 011** | **25 740** |

*1) Pension commitments and pension funds in the defined-benefit schemes have been recalculated. Calculations for the first quarter have been updated with new calculation assumptions in accordance with guidance notes from the Norwegian Accounting Standards Board as of 31 March 2020.*

# Balance sheet

| Amounts in NOK million | Note | DNB Group 31 March 2020 | 31 Dec. 2019 | 31 March 2019 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and deposits with central banks | | 415 565 | 304 746 | 353 045 |
| Due from credit institutions | | 170 649 | 102 961 | 99 260 |
| Loans to customers | 5, 6, 7, 8 | 1 743 981 | 1 667 189 | 1 623 428 |
| Commercial paper and bonds | 8 | 421 579 | 376 323 | 388 515 |
| Shareholdings | 8 | 23 465 | 36 247 | 38 132 |
| Financial assets, customers bearing the risk | 8 | 84 791 | 98 943 | 85 192 |
| Financial derivatives | 8 | 237 176 | 125 076 | 109 086 |
| Investment properties | | 18 136 | 17 403 | 16 591 |
| Investments accounted for by the equity method | | 18 799 | 16 559 | 21 067 |
| Intangible assets | | 5 450 | 5 454 | 5 396 |
| Deferred tax assets | | 1 212 | 1 224 | 1 038 |
| Fixed assets | | 20 129 | 19 098 | 15 121 |
| Assets held for sale | | 1 239 | 1 274 | 1 138 |
| Other assets | | 35 196 | 20 798 | 58 706 |
| **Total assets** | | **3 197 365** | **2 793 294** | **2 815 716** |
| **Liabilities and equity** | | | | |
| Due to credit institutions | | 364 570 | 202 782 | 234 446 |
| Deposits from customers | 8 | 1 082 143 | 969 557 | 967 705 |
| Financial derivatives | 8 | 201 831 | 115 682 | 98 652 |
| Debt securities issued | 8, 9 | 923 028 | 870 170 | 877 858 |
| Insurance liabilities, customers bearing the risk | | 84 791 | 98 943 | 85 192 |
| Liabilities to life insurance policyholders | | 197 747 | 206 876 | 206 848 |
| Payable taxes | | 8 001 | 10 710 | 3 226 |
| Deferred taxes | | 51 | 48 | 4 402 |
| Other liabilities | | 53 595 | 39 125 | 71 614 |
| Liabilities held for sale | | 223 | 423 | 224 |
| Provisions | | 3 396 | 1 726 | 2 381 |
| Pension commitments | | 4 009 | 3 903 | 3 614 |
| Subordinated loan capital | 8, 9 | 35 749 | 31 095 | 30 347 |
| **Total liabilities** | | **2 959 133** | **2 551 038** | **2 586 509** |
| | | | | |
| Additional Tier 1 capital | | 18 174 | 26 729 | 15 595 |
| Non-controlling interests | | 50 | 45 | |
| Share capital | | 15 605 | 15 706 | 15 885 |
| Share premium | | 22 609 | 22 609 | 22 609 |
| Other equity | | 181 795 | 177 167 | 175 118 |
| **Total equity** | | **238 233** | **242 255** | **229 207** |
| **Total liabilities and equity** | | **3 197 365** | **2 793 294** | **2 815 716** |

# Statement of changes in equity

**DNB Group**

| *Amounts in NOK million* | Non-controlling interests | Share capital | Share premium | Additional Tier 1 capital | Net translation reserve | Liability credit reserve | Other equity | Total equity |
|---|---|---|---|---|---|---|---|---|
| **Balance sheet as at 31 Dec. 2018** | | **15 944** | **22 609** | **16 194** | **5 063** | **(176)** | **164 333** | **223 966** |
| Profit for the period | | | | 243 | | | 7 339 | 7 582 |
| Actuarial gains and losses | | | | | | | 5 | 5 |
| Financial liabilities designated at FVTPL, changes in credit risk | | | | | | (147) | | (147) |
| Currency translation of foreign operations | | | | | (1 151) | | | (1 151) |
| Hedging of net investment | | | | | 915 | | | 915 |
| Tax on other comprehensive income | | | | | (229) | 37 | (1) | (193) |
| Comprehensive income for the period | | | | 243 | (465) | (110) | 7 343 | 7 011 |
| Interest payments additional Tier 1 capital | | | | (832) | | | | (832) |
| Currency movements taken to income | | | | (10) | | | 10 | |
| Repurchased under share buy-back programme | | (59) | | | | | (878) | (937) |
| **Balance sheet as at 31 March 2019** | | **15 885** | **22 609** | **15 595** | **4 598** | **(287)** | **170 807** | **229 207** |
| | | | | | | | | |
| **Balance sheet as at 31 Dec. 2019** | **45** | **15 706** | **22 609** | **26 729** | **4 872** | **(2)** | **172 297** | **242 255** |
| Profit for the period | (2) | | | 433 | | | 3 570 | 4 000 |
| Actuarial gains and losses | | | | | | | (288) | (288) |
| Financial assets at fair value through OCI | | | | | | | (354) | (354) |
| Financial liabilities designated at FVTPL, changes in credit risk | | | | | | 615 | | 615 |
| Currency translation of foreign operations | 7 | | | | 13 338 | | | 13 345 |
| Hedging of net investment | | | | | (11 745) | | | (11 745) |
| Tax on other comprehensive income | | | | | 2 936 | (154) | 161 | 2 943 |
| Comprehensive income for the period | 5 | | | 433 | 4 529 | 461 | 3 088 | 8 516 |
| Interest payments additional Tier 1 capital | | | | (1 055) | | | | (1 055) |
| Additional Tier 1 capital redeemed 1) | | | | (10 024) | | | | (10 024) |
| Currency movements interest payments and redemption additional Tier 1 capital | | | | 2 091 | | | (1 971) | 120 |
| Repurchased under share buy-back programme | | (100) | | | | | (1 481) | (1 581) |
| **Balance sheet as at 31 March 2020** | **50** | **15 605** | **22 609** | **18 174** | **9 401** | **459** | **171 936** | **238 233** |

1) *Two additional Tier 1 capital instruments of NOK 2 700 million and USD 750 million, issued by the DNB Group's subsidiary DNB Bank ASA in 2015, were redeemed in the first quarter of 2020.*

# Cash flow statement

| Amounts in NOK million | | January-March | DNB Group<br>Full year |
|---|---|---|---|
| | 2020 | 2019 | 2019 |
| **Operating activities** | | | |
| Net payments on loans to customers | (14 619) | (32 537) | (71 034) |
| Interest received from customers | 14 381 | 14 466 | 57 236 |
| Net receipts on deposits from customers | 71 778 | 42 573 | 41 353 |
| Interest paid to customers | (1 654) | (1 645) | (11 181) |
| Net receipts on loans to credit institutions | 127 211 | 77 548 | 41 486 |
| Interest received from credit institutions | 692 | 1 178 | 3 640 |
| Interest paid to credit institutions | (999) | (1 328) | (4 286) |
| Net receipts/(payments) on the sale of financial assets for investment or trading | 26 705 | 25 090 | (17 531) |
| Interest received on bonds and commercial paper | 288 | 1 130 | 5 049 |
| Net receipts on commissions and fees | 3 268 | 2 790 | 9 414 |
| Payments to operations | (6 295) | (4 571) | (18 136) |
| Taxes paid | (668) | (772) | (2 022) |
| Receipts on premiums | 3 607 | 3 896 | 14 446 |
| Net receipts/(payments) on premium reserve transfers | (4 368) | 523 | (625) |
| Payments of insurance settlements | (3 660) | (3 338) | (13 523) |
| Other net receipts/(payments) | (6 970) | 877 | (4 313) |
| **Net cash flow from operating activities** | **208 696** | **125 878** | **29 974** |
| **Investing activities** | | | |
| Net receipts/(payments) on the acquisition or disposal of fixed assets | (933) | 1 241 | (2 599) |
| Net receipts/(payments) on investment properties | 26 | 16 | (271) |
| Net disposal/(investment) in long-term shares | (937) | | 3 260 |
| Dividends received on long-term investments in shares | 49 | | 1 140 |
| **Net cash flow from investment activities** | **(1 795)** | **1 257** | **1 530** |
| **Financing activities** | | | |
| Receipts on issued bonds and commercial paper | 334 710 | 373 533 | 1 097 101 |
| Payments on redeemed bonds and commercial paper | (400 960) | (292 981) | (954 715) |
| Interest payments on issued bonds and commercial paper | (4 653) | (5 516) | (16 908) |
| Receipts on the raising of subordinated loan capital | | | 9 |
| Redemptions of subordinated loan capital | | | (9) |
| Interest payments on subordinated loan capital | (241) | (274) | (413) |
| Net receipts/(payments) on issue or redemption of additional Tier 1 capital | (10 024) | | 10 436 |
| Interest payments on additional Tier 1 capital | (1 055) | (832) | (1 052) |
| Lease payments | (75) | (160) | (442) |
| Repurchased shares | (1 581) | (937) | (3 778) |
| Dividend payments | | | (13 105) |
| **Net cash flow from funding activities** | **(83 879)** | **72 831** | **117 123** |
| **Effects of exchange rate changes on cash and cash equivalents** | **(3 076)** | **(1 314)** | **(174)** |
| **Net cash flow** | **119 946** | **198 652** | **148 453** |
| Cash as at 1 January | 307 751 | 159 298 | 159 298 |
| Net receipts/payments of cash | 119 946 | 198 652 | 148 453 |
| Cash at end of period *) | 427 697 | 357 951 | 307 751 |

| | | | |
|---|---|---|---|
| **) Of which: Cash and deposits with central banks* | *415 565* | *353 045* | *304 746* |
| *Deposits with credit institutions with no agreed period of notice [1)]* | *12 132* | *4 906* | *3 006* |

*1) Recorded under "Due from credit institutions" in the balance sheet.*

## Note 1 Basis for preparation

The quarterly financial statements for the Group 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 consolidated 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 by the Group, can be found in note 1 Accounting principles in the annual report for 2019.

With effect for the first quarter of 2020, the Group has changed the composition of reportable segments. For further information, see note 2 Segments.

## Note 2 Segments

According to DNB's management model, the operating segments are independent profit centres that are fully responsible for their profit after tax and for achieving the targeted returns on allocated capital. DNB has the following operating segments: Personal customers, Corporate customers, Risk management and Traditional pension products. The Risk management and Traditional pension products segments are included in Other operations. DNB’s share of profit in associated companies (most importantly Luminor, Vipps and Fremtind) is included in Other operations. With effect from the first quarter of 2020, DNB has changed the composition of reportable segments, as the Small and medium-sized enterprises and Large corporates and international customers have been combined into the reportable segment Corporate customers. Figures for 2019 have been adjusted accordingly.

### Income statement, first quarter

**DNB Group**

| | Personal customers | | Corporate customers | | Other operations | | Eliminations | | DNB Group | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1st quarter | | 1st quarter | | 1st quarter | | 1st quarter | | 1st quarter | |
| *Amounts in NOK million* | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| Net interest income | 3 706 | 3 380 | 6 108 | 5 559 | 582 | 350 | | | 10 395 | 9 289 |
| Net other operating income | 1 161 | 1 143 | 1 728 | 1 884 | 2 837 | 1 364 | (577) | (617) | 5 148 | 3 772 |
| Total income | 4 866 | 4 523 | 7 836 | 7 443 | 3 418 | 1 714 | (577) | (617) | 15 543 | 13 062 |
| Operating expenses | (2 247) | (2 087) | (3 046) | (2 880) | (765) | (1 138) | 577 | 617 | (5 481) | (5 487) |
| Pre-tax operating profit before impairment | 2 619 | 2 436 | 4 790 | 4 563 | 2 653 | 576 | | | 10 063 | 7 575 |
| Net gains on fixed and intangible assets | | | (0) | (0) | 780 | 1 740 | | | 780 | 1 739 |
| Impairment of financial instruments | (734) | (101) | (5 038) | (215) | (0) | (1) | | | (5 771) | (316) |
| Profit from repossessed operations | | | (80) | (82) | 80 | 82 | | | | |
| Pre-tax operating profit | 1 886 | 2 335 | (329) | 4 265 | 3 514 | 2 397 | | | 5 071 | 8 998 |
| Tax expense | (471) | (584) | 82 | (1 042) | (625) | 261 | | | (1 014) | (1 365) |
| Profit from operations held for sale, after taxes | | | | 2 | (56) | (53) | | | (56) | (51) |
| Profit for the period | 1 414 | 1 751 | (246) | 3 226 | 2 833 | 2 605 | | | 4 000 | 7 582 |

For further details about the reportable segments, quarterly results and explanatory comments, see the directors’ report.

## Note 3 Capital adequacy

Capital adequacy is calculated and reported in accordance with the EU capital requirements regulations for banks and investment firms (CRR/CRD IV). The regulatory consolidation deviates from consolidation in the accounts and comprises the parent company, subsidiaries and associated companies within the financial sector, excluding insurance companies. Associated companies are consolidated pro rata.

| **Primary capital** | **DNB Bank ASA** | | **DNB Bank Group** | | **DNB Group** | |
|---|---|---|---|---|---|---|
| *Amounts in NOK million* | 31 March 2020 | 31 Dec. 2019 | 31 March 2020 | 31 Dec. 2019 | 31 March 2020 | 31 Dec. 2019 |
| Total equity excluding profit for the period | 177 276 | 187 993 | 223 606 | 229 619 | 234 663 | 242 255 |
| Effect from regulatory consolidation | | | (199) | (198) | (4 956) | (4 963) |
| Additional Tier 1 capital instruments included in total equity | (17 995) | (26 048) | (17 995) | (26 048) | (17 995) | (26 048) |
| Net accrued interest on additional Tier 1 capital instruments | (134) | (510) | (134) | (510) | (134) | (510) |
| Common equity Tier 1 capital instruments | 159 147 | 161 434 | 205 278 | 202 862 | 211 578 | 210 734 |
| Deductions | | | | | | |
| Goodwill | (2 431) | (2 376) | (3 006) | (2 946) | (4 711) | (4 651) |
| Deferred tax assets that are not due to temporary differences | (457) | (457) | (896) | (868) | (896) | (868) |
| Other intangible assets | (942) | (1 016) | (1 569) | (1 626) | (1 569) | (1 626) |
| Dividends payable etc. | | | (25 000) | (25 000) | (15 671) | (17 625) |
| Significant investments in financial sector entities [1] | | | | | (6 168) | (4 254) |
| Expected losses exceeding actual losses, IRB portfolios | (439) | (1 633) | (1 191) | (2 502) | (1 191) | (2 502) |
| Value adjustments due to the requirements for prudent valuation (AVA) | (825) | (532) | (1 283) | (810) | (1 283) | (810) |
| Adjustments for unrealised losses/(gains) on debt measured at fair value | (74) | 57 | (459) | 2 | (459) | 2 |
| Adjustments for unrealised losses/(gains) arising from the institution's own credit risk related to derivative liabilities (DVA) | (983) | (460) | (170) | (96) | (170) | (96) |
| Common equity Tier 1 capital | 152 996 | 155 017 | 171 703 | 169 016 | 179 459 | 178 304 |
| Common equity Tier 1 capital incl. 50 per cent of profit for the period | 154 916 | 155 017 | 173 729 | 169 016 | 181 904 | 178 304 |
| Additional Tier 1 capital instruments | 17 995 | 26 048 | 17 995 | 26 048 | 17 995 | 26 048 |
| Deduction of holdings of Tier 1 instruments in insurance companies [2] | | | | | (1 500) | (1 500) |
| Non-eligible Tier 1 capital, DNB Group [3] | | | | | (1 732) | (2 561) |
| Tier 1 capital | 170 990 | 181 065 | 189 698 | 195 064 | 194 221 | 200 291 |
| Tier 1 capital incl. 50 per cent of profit for the period | 172 911 | 181 065 | 191 724 | 195 064 | 196 667 | 200 291 |
| Perpetual subordinated loan capital | 6 933 | 5 774 | 6 933 | 5 774 | 6 933 | 5 774 |
| Term subordinated loan capital | 28 539 | 24 943 | 28 539 | 24 943 | 28 539 | 24 943 |
| Deduction of holdings of Tier 2 instruments in insurance companies [2] | | | | | (5 750) | (5 761) |
| Non-eligible Tier 2 capital, DNB Group [3] | | | | | (5 916) | (5 032) |
| Additional Tier 2 capital instruments | 35 472 | 30 717 | 35 472 | 30 717 | 23 806 | 19 925 |
| Total eligible capital | 206 462 | 211 783 | 225 170 | 225 781 | 218 027 | 220 216 |
| Total eligible capital incl. 50 per cent of profit for the period | 208 383 | 211 783 | 227 196 | 225 781 | 220 473 | 220 216 |
| Risk-weighted assets | 850 580 | 804 721 | 993 153 | 924 869 | 1 029 758 | 960 691 |
| Minimum capital requirement | 68 046 | 64 378 | 79 452 | 73 990 | 82 381 | 76 855 |
| Common equity Tier 1 capital ratio (%) | 18.2 | 19.3 | 17.5 | 18.3 | 17.7 | 18.6 |
| Tier 1 capital ratio (%) | 20.3 | 22.5 | 19.3 | 21.1 | 19.1 | 20.8 |
| Capital ratio (%) | 24.5 | 26.3 | 22.9 | 24.4 | 21.4 | 22.9 |
| Common equity Tier 1 capital ratio excluding 50 per cent of profit for the period (%) | 18.0 | | 17.3 | | 17.4 | |
| Tier 1 capital ratio excluding 50 per cent of profit for the period (%) | 20.1 | | 19.1 | | 18.9 | |
| Capital ratio excluding 50 per cent of profit for the period (%) | 24.3 | | 22.7 | | 21.2 | |

*1) Deductions are made for significant investments in financial sector entities when the total value of the investments exceeds 10 per cent of common equity Tier 1 capital. The amounts that are not deducted are given a risk weight of 250 per cent. The increased deduction is due to the investment in Fremtind.*

*2) Investments in Tier 1 and Tier 2 instruments issued by the Group's insurance companies are deducted from the Group's Tier 1 and Tier 2 capital.*

*3) The amount of Tier 1 and Tier 2 capital in DNB Bank ASA that are not included in DNB Bank ASA that are not included in consolidated own funds in accordance with Articles 85-88 of the CRR.*

## Note 3 Capital adequacy (continued)

The majority of the credit portfolios are reported according to the IRB approach. Exposures to central governments, institutions, equity positions and other assets are, however, reported according to the standardised approach.

### Specification of risk-weighted assets and capital requirements

**DNB Group**

| *Amounts in NOK million* | Nominal exposure 31 March 2020 | EAD [1] 31 March 2020 | Average risk weights in per cent 31 March 2020 | Risk-weighted assets 31 March 2020 | Capital requirement 31 March 2020 | Capital requirement 31 Dec. 2019 |
|---|---|---|---|---|---|---|
| IRB approach | | | | | | |
| Corporate | 1 061 876 | 884 941 | 48.6 | 430 494 | 34 440 | 30 537 |
| Specialised lending (SL) | 13 842 | 13 372 | 56.7 | 7 578 | 606 | 503 |
| Retail - mortgages | 803 916 | 803 916 | 21.8 | 175 034 | 14 003 | 13 893 |
| Retail - other exposures | 96 627 | 80 958 | 25.4 | 20 558 | 1 645 | 1 653 |
| Securitisation | | | | | | |
| Total credit risk, IRB approach | 1 976 261 | 1 783 187 | 35.5 | 633 663 | 50 693 | 46 586 |
| Standardised approach | | | | | | |
| Central government | 436 397 | 453 350 | 0.1 | 361 | 29 | 6 |
| Institutions | 237 142 | 179 366 | 16.6 | 29 800 | 2 384 | 2 300 |
| Corporate | 199 491 | 165 061 | 74.3 | 122 579 | 9 806 | 9 320 |
| Retail - mortgages | 65 958 | 62 345 | 49.0 | 30 577 | 2 446 | 2 245 |
| Retail - other exposures | 146 476 | 54 638 | 73.9 | 40 379 | 3 230 | 2 812 |
| Equity positions | 22 412 | 22 374 | 219.3 | 49 076 | 3 926 | 3 852 |
| Other assets | 24 238 | 23 445 | 75.3 | 17 648 | 1 412 | 1 279 |
| Total credit risk, standardised approach | 1 132 114 | 960 579 | 30.2 | 290 421 | 23 234 | 21 814 |
| Total credit risk | 3 108 374 | 2 743 767 | 33.7 | 924 084 | 73 927 | 68 400 |
| Market risk | | | | | | |
| Position risk, debt instruments | | | | 9 837 | 787 | 842 |
| Position risk, equity instruments | | | | 557 | 45 | 30 |
| Currency risk | | | | 127 | 10 | 1 |
| Commodity risk | | | | 14 | 1 | 0 |
| Credit value adjustment risk (CVA) | | | | 4 789 | 383 | 354 |
| Total market risk | | | | 15 325 | 1 226 | 1 227 |
| Operational risk | | | | 90 350 | 7 228 | 7 228 |
| Total risk-weighted assets and capital requirements | | | | 1 029 758 | 82 381 | 76 855 |

1) *EAD, exposure at default.*

# Note 4 Measurement of expected credit loss (ECL)

In light of the spread of COVID-19, a variety of measures have been taken by the Group to assist individuals and businesses in handling the financial consequences of the virus outbreak, primarily by offering payment waivers to customers. Furthermore, the business-related and financial impacts on the various business segments as well as Government relief programmes have been considered when measuring expected credit losses (ECL) on loans to customers, loan commitments, financial guarantees and other financial instruments subject to the IFRS 9 impairment rules.

## Forbearance

Following the business-related and financial impacts of the COVID-19 outbreak, DNB has offered several customers payment waivers in order to provide temporary relief from the current situation, primarily by granting reduced or deferred instalment payments.

The Group has a policy that payment waivers directly related to COVID-19 combined with an otherwise healthy financial situation for the customer shall not result in forbearance. However, when payment waivers are combined with high credit risk and an expectation that the forbearance measures are not temporary, reclassification to the forbearance category should still be performed. The gross carrying amount of loans and financial commitments classified in the forbearance category was NOK 36 528 million as at 31 March 2020, compared with NOK 34 469 million as at 31 December 2019.

## Segmentation, macro scenarios and credit cycle index

The assessment of significant increases in credit risk and the calculation of ECL incorporate past, present and forward-looking information. Following the COVID-19 outbreak, the level of uncertainty in assessing forward-looking information has increased substantially. Simultaneously, the oil price has declined sharply, and the unresolved state of the OPEC coordination has added further complexity to the process of establishing forward-looking information. The uncertainty encompasses the magnitude and duration of the business-related and financial impacts as well as the impact of the various financial support and relief measures being implemented by the Government.

In order to reflect the effect of macro drivers in a reasonable and supportable manner, DNB’s portfolio is divided into 22 segments with shared credit risk characteristics. The forecast periods incorporated in the segments vary between three and four years, and forecasts are prepared for each year in the forecast period. The macroeconomic forecasts for each segment have been carefully considered in the expert credit judgement forum to ensure that they reflect the expected impact of the economic consequences of the COVID-19 outbreak. Macro forecasts are usually collected from DNB Markets and supplementary internal sources. Following the rapid change in the economic situation during the first quarter of 2020, forecasts from various external sources have also been considered. When selecting the macroeconomic forecasts, consideration has been given to both the reliability of the source and the timeliness of the update. The Norwegian Ministry of Finance is the main source for unemployment rates for Norway and Norwegian mainland GDP rates. Furthermore, rates for global GDP and emerging countries’ GDP are based on an average of projections made by several external analysts.

Due consideration has been given to all aspects of the situation when assessing the duration of the financial and business-related consequences of the COVID-19 outbreak. In general, the estimated adverse economic impact is incorporated into the first year of the period. The remaining forecast periods are expected to be substantially less affected by the economic consequences and are thus anticipated to revert to expectations more aligned with the pre-COVID-19 forecasts.

When the expected business-related and financial impacts in the updated macro forecasts are not reflected in projection of the credit cycle in a way that represents the management’s view, professional judgement has been applied to ensure that this is better reflected in the credit cycle index used.

### Sensitivity

To calculate expected credit losses in stages 1 and 2, DNB uses a range of macroeconomic variables. Each variable is given several alternative scenarios of probability.

Macroeconomic variables are interrelated, in that changes in a forecast in one variable will most likely affect forecasts in the other variables. Furthermore, a weakening of the macro forecasts would normally imply more customers migrating from stages 1 and 2 to stages 2 and 3. Comparative sensitivity analyses for each macroeconomic variable will therefore, in isolation, not provide relevant sensitivity information.

DNB has simulated an alternative low scenario for relevant macro forecasts. The scenario represents a possible downside compared with the base scenario. Each macroeconomic variable is given alternative weaker expectations for each period in the forecast period. The table below shows the average change in the macro variables in the alternative scenario compared with the base scenario in the forecast period, in per cent. In the simulated alternative scenario, as presented in the table below, the ECL in stages 1 and 2 would increase by approximately 75 per cent compared with the ECL in stages 1 and 2 at 31 March 2020.

The following table provides an overview of the macro forecasts that are included in the loan loss model. The table includes the average downside in per cent that is imposed on each macro variable in the alternative scenario.

## Note 4 Measurement of expected credit loss (ECL) (continued)

**Selected macro variables used in base scenario and alternative scenario**

| *Per cent* | **DNB Group**<br>Average change from base to alternative scenario |
|---|---|
| Global GDP, year-to-year growth | (46) |
| Emerging countries' GDP, year-to-year growth | (32) |
| Oil price, USD per barrel | (14) |
| Norwegian mainland GDP, year-to-year growth | (198) |
| Norwegian consumer price index, year-to-year growth | (5) |
| Norwegian house price index, year-to-year growth | (312) |
| Norwegian registered unemployment rate, per cent | 36 |
| NIBOR 3-month interest rate, per cent | 13 |
| Swedish GDP, year-to-year growth | (213) |
| Norwegian commercial real estate rental price, NOK per sqm | (10) |
| Salmon price, NOK per kg | (9) |
| Floater spot rate, USD per day | (10) |
| Utilisation rate rig | (10) |
| Very large crude carriers spot rate, USD per day | (25) |
| Capesize spot rate, USD per day | (21) |
| Very large gas carrier spot rate, USD per day | (35) |

One of the most significant exposures in stages 1 and 2 is lending to personal customers. This lending includes mortgage lending, credit card lending and consumer financing. In addition to specific customer attributes, the portfolio's ECL is forecasted based on the Norwegian house price index, the Norwegian interest rate, the household debt level and the unemployment rate. In the simulated alternative scenario, where all of these input parameters are given more adverse projections, the ECL in stages 1 and 2 would increase by approximately 178 per cent for the personal customer portfolio compared with the ECL measured at 31 March 2020 for the same portfolio and stages.

DNB has furthermore investigated the effect of non-linearity in the ECL for stages 1 and stage 2. If the base scenario alone is used to calculate expected credit losses, thereby excluding the fan that represents the range of alternative scenarios, the ECL at 31 March 2020 would decrease by 17 per cent.

### Significant increase in credit risk (staging)

To assess significant increase in credit risk, the Group considers changes in the probability of a default occurring during the expected life of a financial instrument. Debt levels are expected to rise, and this will typically affect credit risk assessments.

The assessment of a significant increase in credit risk is based on a combination of quantitative and qualitative indicators and back stops. The extension or deferral of payments from borrowers does not automatically result in instruments being considered to have a significantly increased credit risk. Careful consideration is given to whether the credit risk has significantly increased and borrowers are unlikely to restore their creditworthiness, or whether the borrowers are only experiencing a temporary liquidity constraint, for instance due to COVID-19 lockdown measures. On a general level, a change in macro outlook will influence the assessment of a significant increase in customers' credit risk, as this impacts the overall view of the economic situation for the relevant segment.

### Measurement of expected credit loss for credit-impaired financial instruments

The Group has carefully considered the need to update the expected credit loss estimate on credit-impaired financial instruments as of 31 March 2020. When necessary, significant exposures have been re-calculated following the updated economic situation. The business-related and financial impacts on the exposure, as well as the assessed relief expected to be provided through established Government programmes, are incorporated into the net present value of the discounted estimated future cash flows.

#### Sensitivity

If the value of collaterals on all stage 3 exposures were reduced by 10 per cent, the stage 3 ECL at 31 March 2020 would increase by approximately NOK 2.1 billion.

## Note 5 Development in gross carrying amount and maximum exposure

The following tables reconcile the opening and closing balances for gross carrying amount and the maximum exposure for loans to customers at amortised cost and financial commitments. Maximum exposure is the gross carrying amount of loans to customers plus off-balance exposure, which mainly includes guarantees, unutilised credit lines and loan offers. Reconciling items include the following:

- Transfers between stages due to significant changes in credit risk.
- Changes due to the derecognition of loans and financial commitments during the period.
- Changes due to the origination of new financial instruments during the period.
- Exchange rate effect from consolidation and other changes affecting the gross carrying amount and maximum exposure.

### Loans to customers at amortised cost (quarterly figures) — DNB Group

| | 1st quarter 2020 | | | | 1st quarter 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| *Amounts in NOK million* | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Gross carrying amount as at 31 Dec.** | **1 503 609** | **88 347** | **24 308** | **1 616 264** | **1 435 014** | **82 321** | **27 846** | **1 545 180** |
| Transfer to stage 1 | 11 490 | (10 902) | (587) | | 17 288 | (16 972) | (316) | |
| Transfer to stage 2 | (80 265) | 80 791 | (526) | | (19 457) | 20 436 | (980) | |
| Transfer to stage 3 | (2 920) | (7 122) | 10 043 | | (438) | (966) | 1 405 | |
| Originated and purchased | 127 687 | 9 933 | | 137 620 | 116 519 | 1 023 | 244 | 117 787 |
| Derecognition | (78 640) | (5 784) | (358) | (84 781) | (80 585) | (5 330) | (1 038) | (86 954) |
| Exchange rate movements | 25 980 | 2 985 | 690 | 29 656 | (3 867) | (173) | (35) | (4 075) |
| Other | | | | | 252 | | | 252 |
| **Gross carrying amount as at 31 March** | **1 506 942** | **158 248** | **33 570** | **1 698 760** | **1 464 725** | **80 340** | **27 126** | **1 572 190** |

### Financial commitments (quarterly figures) — DNB Group

| | 1st quarter 2020 | | | | 1st quarter 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| *Amounts in NOK million* | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Maximum exposure as at 31 Dec.** | **621 594** | **23 794** | **3 343** | **648 730** | **627 302** | **29 462** | **4 152** | **660 916** |
| Transfer to stage 1 | 3 533 | (3 408) | (124) | | 4 826 | (4 723) | (103) | |
| Transfer to stage 2 | (38 393) | 38 442 | (49) | | (4 883) | 4 989 | (106) | |
| Transfer to stage 3 | (785) | (1 720) | 2 505 | | (53) | (92) | 145 | |
| Originated and purchased | 89 888 | 0 | (0) | 89 889 | 109 332 | 252 | 0 | 109 584 |
| Derecognition | (77 558) | (6 905) | (246) | (84 709) | (82 235) | (2 206) | (822) | (85 264) |
| Exchange rate movements | 20 824 | 1 711 | 88 | 22 623 | (2 553) | (76) | (20) | (2 649) |
| **Maximum exposure as at 31 March** | **619 103** | **51 914** | **5 516** | **676 533** | **651 736** | **27 604** | **3 247** | **682 588** |

## Note 6 Development in accumulated impairment of financial instruments

The following tables reconcile the opening and closing balances for accumulated impairment of loans to customers at amortised cost and financial commitments. Reconciling items includes the following:

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

### Loans to customers at amortised cost (quarterly figures)

**DNB Group**

| | 1st quarter 2020 | | | | 1st quarter 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| *Amounts in NOK million* | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Accumulated impairment as at 31 Dec.** | **(306)** | **(1 042)** | **(8 905)** | **(10 252)** | **(352)** | **(1 225)** | **(8 321)** | **(9 898)** |
| Transfer to stage 1 | (77) | 62 | 15 | | (65) | 58 | 6 | |
| Transfer to stage 2 | 38 | (59) | 21 | | 8 | (27) | 19 | |
| Transfer to stage 3 | 0 | 58 | (58) | | 0 | 24 | (25) | |
| Originated and purchased | (97) | (124) | | (221) | (46) | (6) | | (52) |
| Increased expected credit loss | (564) | (1 363) | (3 573) | (5 500) | (62) | (186) | (1 659) | (1 906) |
| Decreased (reversed) expected credit loss | 91 | 165 | 867 | 1 122 | 118 | 211 | 1 485 | 1 813 |
| Write-offs | | | 1 033 | 1 033 | 0 | 0 | 213 | 213 |
| Derecognition | 17 | 86 | 10 | 114 | 2 | 106 | 0 | 109 |
| Exchange rate movements | (34) | (90) | (188) | (312) | 3 | 3 | 16 | 22 |
| Other | | | | | (1) | | | (1) |
| **Accumulated impairment as at 31 March** | **(933)** | **(2 306)** | **(10 777)** | **(14 016)** | **(393)** | **(1 040)** | **(8 266)** | **(9 699)** |

### Financial commitments (quarterly figures)

**DNB Group**

| | 1st quarter 2020 | | | | 1st quarter 2019 | | | |
|---|---|---|---|---|---|---|---|---|
| *Amounts in NOK million* | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total |
| **Accumulated impairment as at 31 Dec.** | **(146)** | **(667)** | **(543)** | **(1 357)** | **(149)** | **(1 001)** | **(569)** | **(1 719)** |
| Transfer to stage 1 | (32) | 29 | 3 | | (30) | 30 | 0 | |
| Transfer to stage 2 | 29 | (30) | 1 | | 5 | (5) | 1 | |
| Transfer to stage 3 | 0 | 64 | (64) | | 0 | 0 | (0) | |
| Originated and purchased | (54) | (7) | | (61) | (45) | (3) | | (47) |
| Increased expected credit loss | (218) | (926) | (785) | (1 928) | (22) | (159) | (111) | (291) |
| Decreased (reversed) expected credit loss | 47 | 34 | 279 | 359 | 52 | 89 | 138 | 279 |
| Derecognition | 0 | 27 | | 28 | 0 | 29 | 1 | 30 |
| Exchange rate movements | (11) | (107) | (1) | (119) | 1 | 4 | 0 | 6 |
| **Accumulated impairment as at 31 March** | **(386)** | **(1 583)** | **(1 110)** | **(3 079)** | **(187)** | **(1 016)** | **(541)** | **(1 743)** |

## Note 7 Loans and financial commitments to customers by industry segment

### Loans to customers as at 31 March 2020

| | | Accumulated impairment | | | | **DNB Group** |
|---|---|---|---|---|---|---|
| *Amounts in NOK million* | Gross carrying amount | Stage 1 | Stage 2 | Stage 3 | Loans at fair value | Total |
| Bank, insurance and portfolio management | 96 209 | (29) | (15) | (382) | | 95 783 |
| Commercial real estate | 187 292 | (127) | (91) | (368) | 143 | 186 850 |
| Shipping | 56 399 | (78) | (172) | (288) | | 55 862 |
| Oil, gas and offshore | 75 623 | (76) | (913) | (6 421) | | 68 212 |
| Power and renewables | 33 865 | (27) | (6) | (44) | | 33 787 |
| Healthcare | 28 885 | (50) | (8) | | | 28 828 |
| Public sector | 14 818 | (7) | (0) | (0) | | 14 811 |
| Fishing, fish farming and farming | 50 402 | (26) | (39) | (148) | 158 | 50 347 |
| Retail industries | 44 043 | (30) | (82) | (562) | 55 | 43 425 |
| Manufacturing | 45 035 | (46) | (73) | (278) | 19 | 44 658 |
| Technology, media and telecom | 29 200 | (68) | (19) | (31) | 24 | 29 106 |
| Services | 77 150 | (71) | (138) | (707) | 180 | 76 415 |
| Residential property | 91 762 | (41) | (45) | (99) | 374 | 91 951 |
| Personal customers | 794 338 | (200) | (502) | (689) | 58 209 | 851 157 |
| Other corporate customers | 73 738 | (56) | (203) | (761) | 72 | 72 790 |
| **Total** [1)] | **1 698 760** | **(933)** | **(2 306)** | **(10 777)** | **59 236** | **1 743 981** |

*1) Of which NOK 60 227 million in repo trading volumes.*

### Loans to customers as at 31 March 2019

| | | Accumulated impairment | | | | **DNB Group** |
|---|---|---|---|---|---|---|
| *Amounts in NOK million* | Gross carrying amount | Stage 1 | Stage 2 | Stage 3 | Loans at fair value | Total |
| Bank, insurance and portfolio management | 80 890 | (10) | (3) | (57) | | 80 820 |
| Commercial real estate | 173 510 | (14) | (41) | (300) | 176 | 173 331 |
| Shipping | 52 860 | (62) | (84) | (394) | | 52 320 |
| Oil, gas and offshore | 60 553 | (65) | (489) | (4 431) | | 55 569 |
| Power and renewables | 30 021 | (8) | (12) | (97) | | 29 903 |
| Healthcare | 23 195 | (8) | (10) | | | 23 177 |
| Public sector | 11 527 | (0) | (0) | (0) | | 11 526 |
| Fishing, fish farming and farming | 35 909 | (4) | (10) | (66) | 162 | 35 991 |
| Retail industries | 43 320 | (17) | (8) | (691) | 59 | 42 663 |
| Manufacturing | 45 313 | (17) | (15) | (320) | 21 | 44 982 |
| Technology, media and telecom | 26 676 | (29) | (3) | (32) | 17 | 26 630 |
| Services | 67 007 | (27) | (15) | (522) | 207 | 66 650 |
| Residential property | 94 810 | (9) | (7) | (230) | 380 | 94 944 |
| Personal customers | 766 307 | (105) | (285) | (656) | 59 835 | 825 095 |
| Other corporate customers | 60 291 | (18) | (56) | (469) | 79 | 59 828 |
| **Total** [1)] | **1 572 190** | **(393)** | **(1 040)** | **(8 266)** | **60 937** | **1 623 428** |

*1) Of which NOK 46 562 million in repo trading volumes.*

## Note 7 Loans and financial commitments to customers by industry segment (continued)

### Financial commitments as at 31 March 2020

DNB Group

| *Amounts in NOK million* | Maximum exposure | Accumulated impairment Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|---|
| Bank, insurance and portfolio management | 37 182 | (21) | (4) | (0) | 37 157 |
| Commercial real estate | 22 397 | (15) | (6) | (3) | 22 372 |
| Shipping | 8 809 | (10) | (50) | (2) | 8 747 |
| Oil, gas and offshore | 60 464 | (69) | (1 093) | (478) | 58 825 |
| Power and renewables | 32 221 | (9) | (22) | | 32 190 |
| Healthcare | 25 204 | (25) | (0) | | 25 178 |
| Public sector | 10 727 | (0) | (0) | | 10 726 |
| Fishing, fish farming and farming | 16 780 | (8) | (2) | (7) | 16 764 |
| Retail industries | 28 260 | (15) | (47) | (35) | 28 164 |
| Manufacturing | 53 791 | (30) | (87) | (7) | 53 668 |
| Technology, media and telecom | 20 320 | (32) | (8) | | 20 279 |
| Services | 26 863 | (28) | (48) | (64) | 26 722 |
| Residential property | 38 130 | (15) | (10) | (2) | 38 102 |
| Personal customers | 255 972 | (83) | (89) | (0) | 255 800 |
| Other corporate customers | 39 414 | (25) | (117) | (512) | 38 760 |
| **Total** | **676 533** | **(386)** | **(1 583)** | **(1 110)** | **673 455** |

### Financial commitments as at 31 March 2019

DNB Group

| *Amounts in NOK million* | Maximum exposure | Accumulated impairment Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|---|
| Bank, insurance and portfolio management | 37 406 | (7) | (5) | (0) | 37 394 |
| Commercial real estate | 25 972 | (3) | (1) | (3) | 25 964 |
| Shipping | 12 330 | (20) | (20) | | 12 291 |
| Oil, gas and offshore | 77 933 | (58) | (779) | (353) | 76 742 |
| Power and renewables | 28 487 | (5) | (42) | | 28 440 |
| Healthcare | 22 932 | (6) | (0) | | 22 926 |
| Public sector | 9 881 | (0) | (0) | | 9 881 |
| Fishing, fish farming and farming | 15 197 | (3) | (1) | (2) | 15 191 |
| Retail industries | 26 218 | (9) | (31) | (34) | 26 145 |
| Manufacturing | 52 360 | (18) | (33) | (5) | 52 305 |
| Technology, media and telecom | 18 645 | (9) | (4) | (2) | 18 630 |
| Services | 26 264 | (12) | (18) | (17) | 26 217 |
| Residential property | 34 538 | (4) | (5) | (3) | 34 525 |
| Personal customers | 258 311 | (22) | (58) | (0) | 258 232 |
| Other corporate customers | 36 113 | (11) | (20) | (121) | 35 961 |
| **Total** | **682 588** | **(187)** | **(1 016)** | **(541)** | **680 845** |

## Note 8 Financial instruments at fair value

| Amounts in NOK million | Valuation based on quoted prices in an active market Level 1 | Valuation based on observable market data Level 2 | Valuation based on other than observable market data Level 3 | DNB Group Total |
|---|---|---|---|---|
| **Assets as at 31 March 2020** | | | | |
| Loans to customers | | | 59 236 | 59 236 |
| Commercial paper and bonds | 29 964 | 300 654 | 284 | 330 901 |
| Shareholdings | 4 040 | 11 272 | 8 153 | 23 465 |
| Financial assets, customers bearing the risk | | 84 791 | | 84 791 |
| Financial derivatives | 1 326 | 232 637 | 3 214 | 237 176 |
| **Liabilities as at 31 March 2020** | | | | |
| Deposits from customers | | 22 903 | | 22 903 |
| Debt securities issued [1)] | | 20 036 | | 20 036 |
| Subordinated loan capital [1)] | | 169 | | 169 |
| Financial derivatives | 947 | 198 373 | 2 510 | 201 831 |
| Other financial liabilities [2)] | 8 316 | | | 8 316 |

| Amounts in NOK million | Valuation based on quoted prices in an active market Level 1 | Valuation based on observable market data Level 2 | Valuation based on other than observable market data Level 3 | DNB Group Total |
|---|---|---|---|---|
| **Assets as at 31 March 2019** | | | | |
| Loans to customers | | | 60 937 | 60 937 |
| Commercial paper and bonds | 42 907 | 255 714 | 99 | 298 720 |
| Shareholdings | 7 698 | 25 273 | 5 160 | 38 132 |
| Financial assets, customers bearing the risk | | 85 192 | | 85 192 |
| Financial derivatives | 137 | 107 196 | 1 753 | 109 086 |
| **Liabilities as at 31 March 2019** | | | | |
| Deposits from customers | | 16 444 | | 16 444 |
| Debt securities issued | | 85 815 | | 85 815 |
| Subordinated loan capital | | 2 500 | | 2 500 |
| Financial derivatives | 130 | 97 093 | 1 429 | 98 652 |
| Other financial liabilities [2)] | 3 296 | | 0 | 3 296 |

1) *The measurement category for debt securities issued in Norwegian kroner with floating rates was changed from FVTPL to amortised cost as of 31 December 2019. Comparative information has not been restated.*
2) *Short positions, trading activities.*

For a further description of the instruments and valuation techniques, see the annual report for 2019.

# Note 8 Financial instruments at fair value (continued)

## Financial instruments at fair value, level 3

**DNB Group**

| | Financial assets | | | | Financial liabilities |
|---|---|---|---|---|---|
| *Amounts in NOK million* | Loans to customers | Commercial paper and bonds | Share-holdings | Financial derivatives | Financial derivatives |
| **Carrying amount as at 31 December 2018** | **62 476** | **319** | **4 810** | **2 036** | **1 654** |
| Net gains recognised in the income statement | 26 | (150) | 132 | (229) | (176) |
| Additions/purchases | 1 185 | 46 | 527 | 37 | 35 |
| Sales | | (107) | (309) | | |
| Settled | (2 707) | | | (88) | (86) |
| Transferred from level 1 or level 2 | | 16 | | | |
| Transferred to level 1 or level 2 | | (41) | | | |
| Other | (42) | 16 | (0) | (4) | 1 |
| **Carrying amount as at 31 March 2019** | **60 937** | **99** | **5 160** | **1 753** | **1 429** |
| | | | | | |
| **Carrying amount as at 31 December 2019** | **61 178** | **356** | **7 018** | **1 868** | **1 536** |
| Net gains recognised in the income statement | 729 | (67) | 390 | 1 166 | 809 |
| Additions/purchases | 3 618 | 309 | 853 | 197 | 192 |
| Sales | | (214) | (106) | | |
| Settled | (6 398) | | | (45) | (47) |
| Transferred from level 1 or level 2 | | 68 | | | |
| Transferred to level 1 or level 2 | | (238) | (2) | | |
| Other | 109 | 70 | 0 | 28 | 22 |
| **Carrying amount as at 31 March 2020** | **59 236** | **284** | **8 153** | **3 214** | **2 510** |

### Sensitivity analysis, level 3

An increase in the discount rate on fixed-rate loans by 10 basis points will decrease the fair value by NOK 169 million. The effects on other Level 3 financial instruments are insignificant.

## Note 9 Debt securities issued and subordinated loan capital

As an element in liquidity management, the DNB Group issues and redeems own securities.

### Debt securities issued 2020

**DNB Group**

| *Amounts in NOK million* | Balance sheet 31 March 2020 | Issued 2020 | Matured/ redeemed 2020 | Exchange rate movements 2020 | Other changes 2020 | Balance sheet 31 Dec. 2019 |
|---|---|---|---|---|---|---|
| Commercial paper issued, nominal amount | 162 137 | 334 166 | (376 579) | 16 429 | | 188 120 |
| Bond debt, nominal amount [1)] | 725 399 | 543 | (24 381) | 95 207 | | 654 030 |
| Value adjustments | 35 492 | | | | 7 473 | 28 019 |
| **Total debt securities issued** | **923 028** | **334 710** | **(400 960)** | **111 636** | **7 473** | **870 170** |

*1) Minus own bonds. The total nominal amount of outstanding covered bonds in DNB Boligkreditt was NOK 420.7 billion as at 31 March 2020. The market value of the cover pool represented NOK 653.1 billion.*

### Debt securities issued 2019

**DNB Group**

| *Amounts in NOK million* | Balance sheet 31 March 2019 | Issued 2019 | Matured/ redeemed 2019 | Exchange rate movements 2019 | Other changes 2019 | Balance sheet 31 Dec. 2018 |
|---|---|---|---|---|---|---|
| Commercial paper issued, nominal amount | 242 027 | 325 976 | (263 448) | 4 767 | | 174 732 |
| Bond debt, nominal amount [1)] | 610 454 | 47 557 | (29 533) | (11 697) | | 604 127 |
| Value adjustments | 25 378 | | | | 2 319 | 23 059 |
| **Total debt securities issued** | **877 858** | **373 533** | **(292 981)** | **(6 930)** | **2 319** | **801 918** |

*1) Minus own bonds.*

### Subordinated loan capital and perpetual subordinated loan capital securities 2020

**DNB Group**

| *Amounts in NOK million* | Balance sheet 31 March 2020 | Issued 2020 | Matured/ redeemed 2020 | Exchange rate movements 2020 | Other changes 2020 | Balance sheet 31 Dec. 2019 |
|---|---|---|---|---|---|---|
| Term subordinated loan capital, nominal amount | 28 539 | | | 3 596 | | 24 943 |
| Perpetual subordinated loan capital, nominal amount | 6 933 | | | 1 158 | | 5 774 |
| Value adjustments | 277 | | | | (101) | 378 |
| **Total subordinated loan capital and perpetual subordinated loan capital securities** | **35 749** | | | **4 754** | **(101)** | **31 095** |

### Subordinated loan capital and perpetual subordinated loan capital securities 2019

**DNB Group**

| *Amounts in NOK million* | Balance sheet 31 March 2019 | Issued 2019 | Matured/ redeemed 2019 | Exchange rate movements 2019 | Other changes 2019 | Balance sheet 31 Dec. 2018 |
|---|---|---|---|---|---|---|
| Term subordinated loan capital, nominal amount | 24 462 | | | (649) | | 25 110 |
| Perpetual subordinated loan capital, nominal amount | 5 648 | | | (45) | | 5 693 |
| Value adjustments | 237 | | | | (41) | 278 |
| **Total subordinated loan capital and perpetual subordinated loan capital securities** | **30 347** | | | **(693)** | **(41)** | **31 082** |

## Note 10 Contingencies

Due to its extensive operations in Norway and abroad, the DNB Group will regularly be party to a number of legal actions and tax related disputes. None of the current disputes are expected to have any material impact on the Group's financial position.

On 21 June 2016, the Norwegian Consumer Council instituted legal proceedings before the Oslo District Court against DNB Asset Management AS, a wholly-owned subsidiary of DNB ASA offering asset management services. The Norwegian Consumer Council has instituted a group action to pursue compensation of up to NOK 690 million on behalf of current and former investors in a fund managed by DNB Asset Management AS, as well as two funds merged into that fund. The lawsuit alleges that the funds were charging high fees for active management, but were actually tracking an index. The Oslo District Court passed its judgment on 12 January 2018, whereby the claim was rejected and DNB Asset Management was held not liable. On 12 February 2018, the Norwegian Consumer Council appealed to the Borgarting Court of Appeal and reduced the compensation claim to NOK 430 million. The ruling from the Borgarting Court of Appeal was announced on 9 May 2019, and found in favour of the Norwegian Consumer Council in the group action. DNB Asset Management was sentenced to pay approximately NOK 350 million. DNB Asset Management disagreed with the ruling of the Court of Appeal and appealed the case to the Norwegian Supreme Court. The appeal case started 21 January 2020. The ruling was delivered on 28 February, upholding the Court of Appeal's ruling. Based on an overall assessment, an accounting provision of NOK 200 million was made in the second quarter of 2019, recognised in the accounts of DNB Asset Management AS as operational losses/operating expenses. The change in provision caused by the ruling was not considered to be of significance to the Group's accounts for 2019, and the provision was therefore maintained. The provision in the first quarter of 2020 has increased to NOK 369 million as a result of the ruling.

# DNB ASA

## Income statement

| Amounts in NOK million | 1st quarter 2020 | 1st quarter 2019 | Full year 2019 |
|---|---|---|---|
| Interest income, amortised cost | 14 | 7 | 82 |
| Interest expenses, amortised cost | (170) | (124) | (547) |
| **Net interest income** | **(157)** | **(117)** | **(466)** |
| Commissions and fees payable | (1) | (1) | (5) |
| Other income 1) | 1 216 | | 26 984 |
| **Net other operating income** | **1 215** | **(1)** | **26 978** |
| **Total income** | **1 059** | **(118)** | **26 513** |
| Salaries and other personnel expenses | | (0) | (0) |
| Other expenses | (66) | (73) | (294) |
| **Total operating expenses** | **(66)** | **(73)** | **(295)** |
| Net gain on the sale of fixed and intangible assets 2) | | 2 237 | 2 237 |
| **Pre-tax operating profit** | **992** | **2 046** | **28 455** |
| Tax expense | 64 | 48 | |
| **Profit for the period** | **1 057** | **2 094** | **28 455** |
| Earnings/diluted earnings per share (NOK) | 0.67 | 1.32 | 17.98 |
| Earnings per share excluding operations held for sale (NOK) | 0.67 | 1.32 | 17.98 |

DNB ASA

## Balance sheet

DNB ASA

| Amounts in NOK million | 31 March 2020 | 31 Dec. 2019 | 31 March 2019 |
|---|---|---|---|
| **Assets** | | | |
| Due from DNB Bank ASA | 1 829 | 4 572 | 7 246 |
| Investments in associated companies | 6 714 | 4 527 | 4 725 |
| Investments in subsidiaries | 74 257 | 74 257 | 74 257 |
| Receivables due from group companies 1) | 26 981 | 26 981 | 11 185 |
| Other assets | 64 | | 48 |
| **Total assets** | **109 847** | **110 337** | **97 461** |
| **Liabilities and equity** | | | |
| Short-term amounts due to DNB Bank ASA | 16 | 17 | 13 |
| Other liabilities and provisions | 14 035 | 14 035 | 13 105 |
| Long-term amounts due to DNB Bank ASA | 22 652 | 22 617 | 20 160 |
| **Total liabilities** | **36 703** | **36 669** | **33 279** |
| Share capital | 15 605 | 15 706 | 15 885 |
| Share premium | 22 556 | 22 556 | 22 556 |
| Other equity | 34 981 | 35 406 | 25 741 |
| **Total equity** | **73 143** | **73 668** | **64 182** |
| **Total liabilities and equity** | **109 847** | **110 337** | **97 461** |

1) *Of which dividend/group contribution from DNB Bank ASA represented NOK 25 191 million in 2019. The dividend from DNB Livsforsikring AS represented NOK 1 341 million in 2019. The dividend from DNB Asset Management Holding AS was NOK 450 in 2019. A dividend of 1 250 million from Fremtind Forsikring AS was received in the first quarter of 2020.*

2) *The establishment of the insurance company Fremtind Forsikring AS, through the merger of SpareBank 1 Skadeforsikring and DNB Forsikring AS in January 2019, resulted in a gain of NOK 2 237 million in the first quarter for DNB ASA. The gain for the DNB Group amounted to NOK 1 740 million.*

## Statement of changes in equity

DNB ASA

| Amounts in NOK million | Share capital | Share premium | Other equity | Total equity |
|---|---|---|---|---|
| **Balance sheet as at 31 December 2018** | **15 944** | **22 556** | **24 525** | **63 025** |
| Profit for the period | | | 2 094 | 2 094 |
| Repurchase under share buy-back programme | (59) | | (878) | (937) |
| **Balance sheet as at 31 March 2019** | **15 885** | **22 556** | **25 741** | **64 182** |
| **Balance sheet as at 31 December 2019** | **15 706** | **22 556** | **35 406** | **73 668** |
| Profit for the period | | | 1 057 | 1 057 |
| Repurchase under share buy-back programme | (100) | | (1 481) | (1 581) |
| **Balance sheet as at 31 March 2020** | **15 605** | **22 556** | **34 981** | **73 143** |

### Basis for preparation

DNB ASA has prepared the financial statements according to the Norwegian Ministry of Finance's regulations on annual accounts, Section 1-6, on the use of IFRS. A description of the accounting principles applied by the company when preparing the financial statements appear in note 1 Accounting principles in the annual report for 2019.

# Information about the DNB Group

## Head office DNB ASA

| | |
|---|---|
| Mailing address | P.O.Box 1600 Sentrum, NO-0021 Oslo |
| Visiting address | Dronning Eufemias gate 30, Oslo |
| Telephone | +47 91 50 48 00 |
| Internet | dnb.no |
| Organisation number | Register of Business Enterprises NO 981 276 957 MVA |

## Board of Directors in DNB ASA

Olaug Svarva, Chair of the Board
Tore Olaf Rimmereid, Vice Chair of the Board
Karl-Christian Agerup
Gro Bakstad
Carl A. Løvvik
Jorunn Løvås
Jaan Ivar Semlitsch

## Group Management

| | |
|---|---|
| Kjerstin R. Braathen | Group Chief Executive Officer (CEO) |
| Ottar Ertzeid | Group Chief Financial Officer (CFO) |
| Ingjerd Blekeli Spiten | Group Executive Vice President of Personal Banking |
| Harald Serck-Hanssen | Group Executive Vice President of Corporate Banking |
| Håkon Hansen | Group Executive Vice President of Wealth Management |
| Alexander Opstad | Group Executive Vice President of Markets |
| Rasmus Figenschou | Group Executive Vice President of Payments & Innovation |
| Mirella E. Wassiluk | Group Chief Compliance Officer (CCO) |
| Ida Lerner | Group Chief Risk Officer (CRO) |
| Maria Ervik Løvold | Group Executive Vice President of Technology & Services |
| Kari Bech-Moen | Group Executive Vice President of People |
| Thomas Midteide | Group Executive Vice President of Communications |

## Investor Relations

| | | |
|---|---|---|
| Rune Helland, head of Investor Relations | tel. +47 23 26 84 00 | rune.helland@dnb.no |
| Anne Engebretsen, Investor Relations | tel. +47 23 26 84 08 | anne.engebretsen@dnb.no |
| Ida Eilertsen Nygård, Investor Relations | tel. +47 98 61 19 52 | ida.eilertsen.nygård@dnb.no |
| Thor Tellefsen, Long Term Funding | tel. +47 23 26 84 04 | thor.tellefsen@dnb.no |

## Financial calendar 2020

| | |
|---|---|
| 30 June | Annual General Meeting [1)] |
| 13 July | Q2 2020 |
| 22 October | Q3 2020 |

1) *Dividends for 2019 will not be considered at the Annual General Meeting, but at an extraordinary General Meeting that will be held no later than December 2020. The new ex-dividend date will be the day after the extraordinary General Meeting.*

## Financial calendar 2021

| | |
|---|---|
| 10 February | Q4 2020 |
| 11 March | Annual report 2020 |
| 27 April | Annual General Meeting |
| 28 April | Ex-dividend date |
| 29 April | Q1 2021 |
| as of 7 May | Distribution of dividends |
| 13 July | Q2 2021 |
| 21 October | Q3 2021 |

## Other sources of information

### Annual and quarterly reports

Separate annual and quarterly reports are prepared for the DNB Bank Group, DNB Boligkreditt and DNB Livsforsikring. The reports and the Factbook are available on ir.dnb.no. Annual and quarterly reports can be ordered by sending an e-mail to Investor Relations.

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DNB

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

Visiting address:
Dronning Eufemias gate 30
Bjørvika, Oslo

dnb.no