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DNB BOLIGKREDITT AS

- a company in the DNB Group

Fourth quarter report 2012

(PRELIMINARY AND UNAUDITED)

Key figures

DNB Boligkreditt AS

Statement of comprehensive income *Amounts in NOK million*	4th quarter 2012	4th quarter 2011	Full year 2012	Full year 2011
Net interest income	1 375	325	4 031	1 667
Net other operating income	(93)	1 688	(3 469)	2 099
- net gains (losses) on financial instruments at fair value	(112)	1 669	(3 543)	2 031
Operating expenses	1 004	27	2 592	568
Impairments on loans and commitments	10	10	8	75
Operating profit before tax	269	1 976	(2 038)	3 123
Taxes	75	553	(571)	874
Profit for the period	194	1 422	(1 468)	2 248

Balance sheet *Amounts in NOK million*	31 Dec. 2012	31 Dec. 2011
Total assets	562 118	490 303
Loans to customers	519 362	463 615
Debt securities issued	382 531	363 273
Total equity	22 309	17 496

Key figures *Per cent*	4th quarter 2012	4th quarter 2011	Full year 2012	Full year 2011
Combined weighted total average spread for loans [1)]	0.83	0.11	0.60	0.23
Return on equity, annualised [2)]	3.5	35.1	(7.7)	16.3
Tier 1 capital ratio at end of period [3)]	10.3	7.8	10.3	7.8
Capital ratio at end of period [3)]	11.2	8.9	11.2	8.9
Impairments relative to net loans to customers, annualised	0.00	0.02	0.00	0.02
Net non-performing and impaired loans, per cent of net loans	0.13	0.14	0.13	0.14

1) Based on nominal values excluding impaired loans, measured against actual funding cost.

2) Average equity is calculated on the basis of book value of equity.

3) The loss of the period is included in Tier 1 capital.

Fourth quarter and full year report 2012

Fourth quarter and full year report 2012

Operations in fourth quarter 2012

DNB Boligkreditt AS is the DNB Group's vehicle for the issue of covered bonds based on residential mortgages. The company's offices are located in Oslo. DNB Boligkreditt is a wholly-owned subsidiary of DNB Bank ASA and is reported as part of the Retail Banking business area in DNB's consolidated accounts.

Based on developments in international capital markets, DNB Boligkreditt has come to play a key role in ensuring long-term favourable funding for the Group.

The company reported a pre-tax operating profit of NOK 269 million in the fourth quarter of 2012, compared with a pre-tax operating profit of NOK 1 976 million in the same period of 2011. There was a profit of NOK 194 million for the period, compared with a profit of NOK 1 422 million in the fourth quarter of 2011. Profits in the fourth quarter of 2012 were influenced by positive and negative changes in the value of financial instruments used for hedging purposes. The value changes are due to credit spread effects on the company's covered bonds and spread effects of the swaps used for hedging purposes. Fourth-quarter profits also reflected negative mark-to-market adjustments of the portfolio of fixed-rate loans due to wider margins on new loans.

The company's residential mortgage portfolio totalled NOK 519.4 billion at end-December 2012, rising by NOK 55.8 billion or 12.0 per cent over the preceding 12 months. During the fourth quarter, net lending to customers increased by NOK 7.3 billion. Securities issued in the form of covered bonds increased from NOK 363.3 billion at year-end 2011 to NOK 382.5 billion at year-end 2012.

The rating agencies' assessments are of significance to the company's funding terms, and the company has engaged Standard & Poor's, Fitch Ratings and Moody's. The bonds issued have an AAA rating from all three agencies.

The market remained attractive for covered bonds issuers with strong credit ratings during 2012, even though the fourth quarter was characterised by low activity. The company issued covered bonds of NOK 11.1 billion in the fourth quarter of 2012.

Review of the full year 2012 results

Statement of comprehensive income

DNB Boligkreditt recorded a pre-tax operating loss of NOK 2 038 million in 2012, compared with a profit of NOK 3 122 million in 2011. There was a loss of NOK 1 468 million for the full year, compared with a profit of NOK 2 248 million in the previous year.

The company's operating income was NOK 562 million in 2012, while operating income totalled NOK 3 766 million in 2011.

Net interest income totalled NOK 4 031 million, up from NOK 1 667 million in 2011. The improvement was due to wider interest rate spreads on loans, averaging 0,60 per cent in 2012 compared to 0,23 per cent in 2011.

Net other operating income was negative at NOK 3 469 million, while operating income totalled NOK 2 099 million in 2011. The result in 2012 reflects the negative effects of unrealised changes in the market value of covered bonds and financial instruments. There was a significant gain from mark-to-market adjustments on financial instruments prior to 2012, followed by a decline in the value of such instruments for 2012 as a whole. DNB Boligkreditt will typically record a high level of unrealised gains when financial markets are volatile, and vice versa when markets stabilise. Gains and losses from such instruments tend to vary considerably from quarter to quarter and will typically be reversed in subsequent periods due to stabilising markets or because the maturity dates of the instruments are approaching.

The markets stabilised in the third and fourth quarter of 2012, resulting in an increase of NOK 2.3 billion in the market value of the company's debt for the whole year.

The company's operating expenses totalled NOK 2 592 million in 2012, up from NOK 568 million a year before. Operating expenses are volatile due to the service management fee paid to DNB Bank. The cooperation with DNB Bank is formalised through an extensive servicing agreement that ensures DNB Boligkreditt sound competence in key areas and cost-effective operations. The service management fee calculation is based primarily on lending volume and the spreads achieved. The service management fee to the bank amounted to NOK 2 550 million in 2012, up from NOK 508 million in 2011.The increase was mainly due to wider interest rate spreads.

The company recorded net impairments on loans of NOK 8.1 million in 2012, compared with net impairments of NOK 75.2 million in 2011. The Board of Directors considers the level of impairments to be satisfactory relative to the high quality of the loan portfolio.

Balance sheet , assets under management and funding

At year-end 2012, DNB Boligkreditt had total assets of NOK 562.1 billion under management, an increase of NOK 71.8 billion or 14.6 per cent from year-end 2011.

Net lending to customers increased by 12.0 per cent in 2012, standing at NOK 519.4 billion by year-end. The increase originates from the acquisition of residential mortgage portfolios from DNB Bank and the sale of new loans through the bank's distribution network.

Debt securities issued by the company increased by a net NOK 19.2 billion in 2012, to NOK 382.5 billion. In the fourth quarter, there was a net increase of NOK 12.2 billion. DNB Boligkreditt issued covered bonds under existing programmes totalling NOK 61.7 billion during 2012.

The company had a total of NOK 130.1 billion due to credit institutions at year-end 2012, up from NOK 94.7 billion at year-end 2011. This reflects the amount drawn on the overdraft facility with DNB Bank.

Risk and capital adequacy

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

Profit fluctuations resulting from changes in market values associated with the credit risk on the company's bond issues are neutralised in Tier 1 capital calculations for the company and thus do not affect the capital base.

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

Net non-performing loans represented 0.13 per cent of total loans at year-end 2012, down from 0.14 per cent a year earlier. In the opinion of the Board of Directors, the loan portfolio is of high quality. A decline in housing prices will reduce the value of the company's cover pool relative to the statutory asset coverage requirement. Quarterly stress tests are carried out to estimate the effects of a negative development in housing prices**.** A short-term measure to meet a significant fall in housing prices will be to supply DNB Boligkreditt with more substitute collateral. The Board of Directors considers the company's total risk exposure to be low.

As at 31 December 2012, the company's equity totalled NOK 22.3 billion, of which NOK 22.0 billion represented Tier 1 capital. Total primary capital in the company was NOK 23.9 billion. The Tier 1 capital ratio was 10.3 per cent, while the capital adequacy ratio was 11.2 per cent. The Board of Directors considers the company to be adequately capitalised relative to the risk level in the loan portfolios and other operations.

New regulatory framework

The Basel III regulatory framework introduces stricter capital adequacy and liquidity requirements, and is scheduled to be implemented in the EU/EEA in the form of new capital requirements directives, CRR and CRD IV, during 2013. The Norwegian Ministry of Finance has prepared for the implementation of CRR and CRD IV in Norway based on the EEA agreement and aims to approve changes in regulations during 2013, with full effect from 2019. The time schedule for implementing new short-term (LCR) and long-term (NSFR) liquidity requirements is not yet in place.

The minimum capital adequacy requirement is expected to be maintained at the current 8.0 per cent, but with an extra buffer of 2.5 per cent. Additionally, a counter-cyclical buffer in the range 0-2.5 per cent will be introduced.

Meanwhile, the Norwegian financial supervisory authority (Finanstilsynet) requires that risk-weighted volume must represent minimum 80 per cent of risk-weighted volume measured according to standard risk weights under the Basel I rules.

The Norwegian Ministry of Finance has also asked Finanstilsynet to consider an adjustment of the risk weight for residential mortgages from 12.8 per cent to 35 per cent, which might have a negative impact on DNB Boligkreditt's capital ratio.

Macroeconomic development

The weak development in the international economy continued throughout the final quarter of 2012. Norway's major trading partners experienced large budget deficits and rising national debt, even though some countries managed to reduce their deficits. There are still high unemployment rates in most European countries, and there is a risk that the weak economic trend could result in new, serious riots in a number of countries with high debt levels. The US economy showed moderate growth in 2012. However, rising national debt caused problems also for the US economy.

Housing prices continued to rise in the fourth quarter of 2012. Population growth, a moderate number of new residential properties, a stable and low unemployment rate and prospects of continuing low interest rate levels point towards a lasting stable upward trend in housing prices. Relatively high housing prices and stricter down payment requirements introduced by Finanstilsynet dampened price growth by the end of the year.

At end-December 2012, housing prices were approximately 8.8 per cent higher than at year-end 2011. Apartments once again showed the highest price increases.

Towards the end of 2011, Finanstilsynet announced revised guidelines for prudent residential mortgage lending practices. The guidelines entail stricter rules for loan-to-value ratios, liquidity calculations and the basis for approving flexible loans and interest-only periods. During the fourth quarter of 2012, this seemed to put a damper on the increase in housing prices and market growth for residential mortgages.

There was a positive market situation for covered bonds in 2012. As in previous years, the late autumn was, however, a more quiet period. Due to the attractive market conditions, new issuers entered the market, along with issuers who decided to pre-finance parts of their funding programmes for 2013.

Future prospects

Strong wage growth and prospects of continuing low interest rate levels point towards a further moderate increase in housing prices and reduce the risk of a short-term fall in prices.

Covered bonds have become a major funding vehicle for Norwegian banks. At the end of 2012, the Norwegian Ministry of Finance asked Finanstilsynet for a qualitative rule to contribute systemic risk. DNB Boligkreditt assumes that such regulations will not undermine the company's position as a vehicle for ensuring long-term favourable funding for the DNB Group.

Demand for Norwegian covered bonds is supported by the sound Norwegian economy. Thus, Norwegian covered bonds seem to be regarded as attractive investments, with relatively low credit and market risk.

This provides a good basis for DNB Boligkreditt's funding activities in the capital markets in 2013.

Oslo, 6 February 2013
The Board of Directors of DNB Boligkreditt AS

Bjørn Erik Næss
(chairman)

Ingrid Tjønneland

Stein Ove Steffensen

Elisabeth Ege

Rein Øsebak

Øyvind Birkeland
(chief executive officer)

Statement of comprehensive income

DNB Boligkreditt AS

Amounts in NOK 1 000	Note	4th quarter 2012	4th quarter 2011	Full year 2012	Full year 2011
Interest income	7	4 876 814	4 444 113	18 960 566	15 855 558
Interest expenses	7	3 501 660	4 119 080	14 929 763	14 188 105
Net interest income	7	**1 375 154**	**325 034**	**4 030 802**	**1 667 453**
Commissions and fees income		18 927	18 357	70 365	63 873
Commissions and fees expenses		455	500	1 814	1 952
Net gains/(losses) on financial instruments	8	(112 339)	1 668 540	(3 542 632)	2 031 192
Other income		1 200	1 441	5 394	5 525
Net other operating income		**(92 667)**	**1 687 838**	**(3 468 686)**	**2 098 639**
Operating income		**1 282 487**	**2 012 871**	**562 116**	**3 766 091**
Salaries and other personnel expenses	9	5 303	4 940	19 342	18 819
Other expenses	9, 13	998 335	21 839	2 573 057	549 239
Operating expenses	9	**1 003 638**	**26 779**	**2 592 399**	**568 058**
Impairments on loans and commitments	10	9 822	10 438	8 074	75 174
Operating profit before tax		**269 027**	**1 975 654**	**(2 038 357)**	**3 122 859**
Tax expense		75 261	553 185	(570 806)	874 403
Profit for the period		**193 765**	**1 422 468**	**(1 467 551)**	**2 248 456**
Other comprehensive income		-	-	-	-
Total comprehensive income for the period		**193 765**	**1 422 468**	**(1 467 551)**	**2 248 456**

Balance sheet

DNB Boligkreditt AS

Amounts in NOK 1 000	Note	31 Dec. 2012	31 Dec. 2011
Assets			
Due from credit institutions	13	13 098 740	2 698 489
Loans to customers	10	519 362 406	463 614 859
Financial derivatives	13	29 651 578	23 980 579
Other assets		5 382	8 623
Total assets		**562 118 106**	**490 302 551**
Liabilities and equity			
Due to credit institutions	13	130 128 238	94 735 465
Financial derivatives	13	24 243 408	11 060 854
Debt securities issued	11	382 530 982	363 273 330
Payable taxes		285 527	292 746
Deferred taxes		158 236	989 287
Other liabilities		374 143	64 227
Provisions		30 698	29 696
Subordinated loan capital	12	2 058 313	2 360 836
Total liabilities		**539 809 545**	**472 806 440**
Share capital		2 527 000	1 827 000
Share premium reserve		16 893 000	10 593 000
Retained earnings		2 888 560	5 076 110
Total equity		**22 308 560**	**17 496 110**
Total liabilities and equity		**562 118 106**	**490 302 551**

Statements of changes in equity

DNB Boligkreditt AS

Amounts in NOK 1000	Share capital	Share premium reserve	Retained earnings	Total equity
Balance sheet as at 1 January 2011	**1 577 000**	**8 343 000**	**3 691 654**	**13 611 654**
Profit for the period	-	-	2 248 456	2 248 456
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**2 248 456**	**2 248 456**
Group contribution paid			(864 000)	(864 000)
Share issue 21 October 2011	250 000	2 250 000		2 500 000
Balance sheet as at 31 December 2011	**1 827 000**	**10 593 000**	**5 076 110**	**17 496 110**
Balance sheet as at 1 January 2012	**1 827 000**	**10 593 000**	**5 076 110**	**17 496 110**
Profit for the period	-	-	(1 467 551)	(1 467 551)
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**(1 467 551)**	**(1 467 551)**
Group contribution paid			(720 000)	(720 000)
Share issue 21 March 2012	300 000	2 700 000	-	3 000 000
Share issue 25 September 2012	400 000	3 600 000	-	4 000 000
Balance sheet as at 31 December 2012	**2 527 000**	**16 893 000**	**2 888 559**	**22 308 560**

Share capital

All shares and voting rights of the company are held by DNB Bank ASA. Share capital at the beginning of 2012 was NOK 1 827 million (18 270 000 shares at NOK 100).

In March 2012 3 000 000 shares were issued to DNB Bank ASA. Issue price per share was NOK 1 000. After the issuance, share capital was increased by NOK 300 million to NOK 2 127 million (21 270 000 shares) and share premium reserve was increased by NOK 2 700 million to NOK 13 293 million.

In September 2012 4 000 000 shares were issued to DNB Bank ASA. Issue price per share was NOK 1 000. After the issuance, share capital was increased by NOK 400 million to NOK 2 527 million (25 270 000 shares) and share premium reserve was increased by NOK 3 600 million to NOK 16 893 million.

Statements of cash flows

DNB Boligkreditt AS

Amounts in NOK 1 000	Full year 2012	Full year 2011
Operating activities		
Net receipts/payments on loans to customers	(23 545 143)	(28 730 139)
Interest received from customers	17 141 547	15 766 239
Net payments on sales of financial assets for investment or trading	1 003 271	-
Net receipts on commissions and fees	68 551	61 921
Payments for operating expenses	(2 281 482)	(749 972)
Taxes paid	12 536	(776 499)
Other receipts	8 635	5 525
Net cash flow relating to operating activities	**(7 592 085)**	**(14 422 925)**
Investing activities		
Net purchase of loan portfolio	(31 675 875)	(36 859 177)
Net cash flow relating to investment activities	**(31 675 875)**	**(36 859 177)**
Financing activities		
Net receipts/payments on loans from credit institutions	35 393 211	428 827
Net receipts/payments on other short-term liabilities	-	-
Net issue of bonds	11 131 000	65 430 487
Redemptions of subordinated loan capital	(300 000)	(730 000)
Share issue	7 000 000	2 500 000
Group contribution paid	(1 000 000)	(1 200 000)
Interest payments on financing activities	(2 556 000)	(13 069 530)
Net cash flow from financing activities	**49 668 211**	**53 359 784**
Net cash flow	**10 400 251**	**2 077 682**
Cash at beginning of period	2 698 489	620 807
Net receipts/payments on cash	10 400 251	2 077 682
Cash at end of period	13 098 740	2 698 489

The statement of cash flows has been prepared in accordance with the direct method and shows receipts and payments of cash and cash equivalents during the year. Cash and cash equivalents is defined as cash and deposits with central banks and deposits with credit institutions with no agreed period of notice. Included in the cash balances at end of period, is restricted amounts of NOK 797.751 (NOK 693.040 for 2011) related to withholding employee taxes.

Note 1 Accounting principles

The financial statements for the fourth quarter of 2012 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

The interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the company's annual financial statements as at 31 December 2011.

The company's accounting principles and methods of estimates are consistent with those applied in the preparation of the annual financial statements for 2011. There are no new or amended accounting standards or interpretations entered into force in 2012 that have affect for the interim report.
The accounts for the fourth quarter were approved by the Board of Directors on the 6th of February 2013.

Operating segments

The company has operations within one operating segment only according to IFRS 8 *Operating segments*. The segment gave a negative return of NOK 1.5 billion for 2012. The company uses the information in the statement of comprehensive income and balance sheet also in its internal reporting.

Note 2 Significant accounting judgements, estimates and assumptions

The preparation of financial information in conformity with IFRS requires the use of estimates and assumptions about future conditions that affect reported income, expenses, assets and liabilities. Use of available information and applications of judgement are inherent in the information estimates. Actual results in the future may differ from such estimates, and the differences may be material to the financial statements. A more detailed description of important estimates and assumptions is presented in the annual report for 2011 in note 1 *Significant accounting judgements, estimates and assumptions.*

Note 3 Capital adequacy

Primary capital	**DNB Boligkreditt AS**	
Amounts in NOK 1 000	31 Dec. 2012	31 Dec. 2011
Share capital	2 527 000	1 827 000
Other equity	19 781 560	15 669 110
Total equity	22 308 560	17 496 110
Deductions		
50 percent expected losses, IRB-portfolios	(210 084)	(197 524)
Adjustments for unrealised losses/(gains) on liabilites recorded at fair value	(73 566)	(1 742 619)
Allocated group contributions for payment	-	(720 000)
Tier 1 capital [1)]	22 024 910	14 835 967
Term subordinated loan capital	2 050 000	2 350 000
Deductions		
Remaining maturity of less than 5 years	-	-
50 percent expected losses, IRB-portfolios	(210 084)	(197 524)
Tier 2 capital	1 839 916	2 152 476
Total eligible primary capital	23 864 826	16 988 443
Risk-weighted volume	213 870 241	190 438 189
Minimum capital requirement	17 109 619	15 235 055
Tier 1 capital ratio (%)	10.3	7.8
Capital ratio (%)	11.2	8.9

DNB Boligkreditt AS complies to the Basel II regulations.

Due to transitional rules, the minimum capital requirement for 2012 cannot be reduced below 80 per cent in relation to the requirements according to Basel I rules. Capital adequacy for the fourth quarter is reported according to the transitional rules. The schedule below shows capital adequacy according to Basel II without regard to the rules of transition.

	DNB Boligkreditt AS	
Amounts in NOK 1 000	31 Dec. 2012	31 Dec. 2011
Risk-weighted volume, Basel II	86 460 613	76 741 392
Minimum capital requirement, Basel II	6 916 849	6 139 311
Tier 1 capital ratio (%)	25.5	19.3
Capital ratio (%)	27.6	22.1

1) *The loss for the period is included in Tier 1 capital.*

Note 4 Credit risk

Credit risk is the risk that the company will incur a loss because its customers or counterparties fail to meet their contractual obligations. Credit risk arises from loans and loan commitments as well as from derivatives. The maximum exposure to credit risk, according to IFRS, is the gross carrying amount of these assets, net of any amounts offset in accordance with the standards and net of any recognised impairment losses. In addition, certain off-balance sheet items such as loan commitments represent credit risk. The maximum exposure of loan commitments is the irrevocable amount that may be drawn upon in the future.

DNB Boligkreditt has adopted the credit risk policies as set by the DNB Group. The group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties, and by monitoring exposures in relation to such limits. Collateral are taken to manage credit risk in the loan portfolios. According to the "Agreement relating to transfer of loan portfolio between DNB Bank ASA and DNB Boligkreditt AS", the day to day monitoring of the loans are managed by DNB Bank on behalf of DNB Boligkreditt.

DNB's risk classification system is divided into ten risk classes where 1 represents the lowest and 10 the highest risk. The classification system is based on the probability of default (PD) which is an estimate of the likelihood of a counterparty defaulting on its contractual obligations.

DNB Boligkreditt's majority of credit risk is related to loans to customers with collateral security in residential property, holiday homes and housing associations. DNB Boligkreditt acquires the loans from DNB Bank. The loans are originally granted to customers by DNB Bank, based on the group's policies and limits. At the time of transfer of loan portfolios from DNB Bank to DNB Boligkreditt, only loans that qualify as collateral for the issue of covered bonds according to the Financial Institutions Act, are accepted by the company. For all these loans, a mortgage over the property is taken and the value of the total loan balance per property should not exceed 75 per cent of the total value of the property. The collateral value is monitored on an ongoing basis.

Credit risk also arises from derivative financial instruments. The maximum credit risk related to derivatives is limited to those with a positive fair value in the balance sheet. All derivative contracts, both those with a current positive value and current negative value, are entered into with DNB Bank ASA as counterparty.

Note 5 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and foreign exchange rates.

Market risk arises as a consequence of open positions in interest rates and foreign exchange rates. Changes in these rates may affect both the company's total comprehensive income for the period as well as values in the balance sheet.

Currency risk
Currency risk may arise from DNB Boligkreditt's debt securities that are denominated in foreign currencies. DNB Boligkreditt has eliminated this currency risk through currency swap agreements with DNB Bank. All issued debt is swapped to NOK.

In accordance with the bank's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

Interest rate risk
The company is exposed to interest rate risk through its ordinary operations. The company's strategy is to swap all interest risk exposure to short-term interest. The Board of Directors sets interest risk limits for various fixed-rate periods. The positions are monitored on a daily basis, and monthly exposure reports are prepared for the management and for The Board of Directors.

Basis risk
Basis risk arises from hedging relationships and is the risk that the change in price/value of the hedging instrument may not entirely match the change in price/value of the item being hedged. The changes in price/value of the instruments in the hedging relationship don't match as the instruments may have different duration, liquidity risk, yield curves etc. This imperfect correlation between hedging instrument and hedging object creates fluctuations in the company's comprehensive income.

For DNB Boligkreditt, basis risk arises from the hedging relationships related to swapping issued bond securities nominated in foreign currencies to Norwegian kroner and to short-term interest. The hedging strategy combines bonds denominated in foreign currencies with cross currency swaps (basis swaps) and interest rate swaps. This combination of bonds and derivatives meets the requirements and limits set out in DNB Boligkreditt's hedging strategy and any remaining basis risk is accepted as part of this strategy. The hedge relationships are set up at the time of issuing the bonds and are continuously monitored until maturity. Over this period, from day to day, there may be significant variations in the valuation changes of the basis swaps which causes unrealized gains and losses in the total comprehensive income for the period.

Note 6 Liquidity risk

Liquidity risk is defined as the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the company might be unable to meet its payment obligations when they fall due.

The Board of Directors sets annual limits for the company's liquidity risk, which means preparing liquidity risk limits, contingency plans, organisational aspects and responsibilities, forecasts, stress tests, routines for monitoring limit utilisation and compliance with guidelines, management reporting and independent monitoring of management and control systems.

Covered bonds are the company's primary source of funding. According to Section 2-32 of the Financial Institutions Act: *"the mortgage institution shall ensure that payment flows from the cover assets at all times enable the mortgage institution to meet its payment obligations to the owners of bonds with preferential rights and counterparties in derivative agreements"*. The company's Board of Directors has decided that the company shall, at all times, have positive cash flows within the next 12 months. In the situation where the net cash flow from the lending and funding activities is negative, the company has a long-term overdraft facility in DNB ASA with a total limit of NOK 140 billion.

According to Section 6 in the regulations on sound liquidity management, "the institution shall analyze the liquidity situation by means of stress tests, which must be adapted to the scope, complexity and risk of operations. Experience from the stress tests shall be used when the Board of Directors considers the liquidity strategy and approves liquidity risk limits". As part of its liquidity risk management, the company prepares liquidity stress tests with quarterly reporting to the Board of Directors. Important parameters in the stress tests are developments in non-performing volume and reductions in housing prices.

DNB Boligkreditt AS's liquidity situation at the end of 2012 can be characterised as sound.

Note7 Net interest income

DNB Boligkreditt AS

Amounts in NOK 1 000	4th quarter 2012	4th quarter 2011	Full year 2012	Full year 2011
Interest on loans and deposits with credit institutions	10 337	17 136	33 769	33 488
Interest on loans to customers	4 811 394	4 381 357	18 728 736	15 650 369
Front-end fees	5 983	3 439	16 948	4 273
Other interest income	49 101	42 180	181 113	167 428
Interest income	**4 876 814**	**4 444 113**	**18 960 566**	**15 855 558**
Interest on due to credit institutions	601 720	875 680	2 473 577	3 226 883
Interest on debt securities issued	2 488 402	2 930 759	10 540 298	10 383 508
Interest on subordinated loan capital	25 665	38 678	113 587	145 340
Net interest income/expenses, derivatives	385 873	273 963	1 802 301	432 375
Interest expenses	**3 501 660**	**4 119 080**	**14 929 763**	**14 188 105**
Net interest income	**1 375 154**	**325 034**	**4 030 802**	**1 667 453**

Note 8 Net gains on financial instruments

DNB Boligkreditt AS

Amounts in NOK 1 000	4th quarter 2012	4th quarter 2011	Full year 2012	Full year 2011
Net gains on loans at fair value (fixed-rate loans) [1)]	(196 681)	(27 684)	551 654	293 214
Net gains on financial liabilities (long-term borrowing in NOK) [2)]	(279 259)	832 058	(2 581 106)	263 607
Total gains on financial instruments, designated as at fair value	(475 940)	804 374	(2 029 452)	556 821
Net gains on foreign exchange and financial derivatives, trading [3)]	363 601	864 166	(1 513 180)	1 474 371
Net gains on financial derivatives, hedging [4) 5)]	911 677	1 264 558	6 061 808	7 537 191
Net gains on financial liabilities, hedged items [4) 5)]	(911 677)	(1 264 558)	(6 061 808)	(7 537 191)
Net gains on financial instruments at fair value	**(112 339)**	**1 668 540**	**(3 542 632)**	**2 031 192**

1) *DNB Boligkreditt's fixed-rate loans are measured at fair value. Increased interest rates, including credit margins, will reduce the fair value of already originated loans. However, new loans granted with a higher interest rate, including credit margin, will over time lead to increased interest income. The fair value adjustments of the company's fixed-rate loans are reversed over the loans' remaining term to maturity.*

2) *DNB Boligkreditt's long-term borrowing in Norwegian kroner is carried at fair value. The market value of such funding is impacted by the interest rate, including own credit risk premium. Reduced interest rates, including own credit risk premium, will increase the fair value of already issued Norwegian kroner liabilities. However, new funding issued at lower credit risk premiums will over time lead to decreased interest expenses. The fair value adjustments of the company's Norwegian kroner debt are reversed over the loans' remaining term to maturity. There was a NOK 291 million increase in market values in the fourth quarter of 2012 (negative effect on profits) due to credit risk premium effects, compared with a NOK 948 million decrease in value in the fourth quarter of 2011 (positive effect on profits). For 2012, there was a NOK 2 318 million increase in market values (negative effect on profits). For the year 2011, there was a decline in value of NOK 1 375 million (positive effect on profits). Accumulated positive Mark-to-market effects at the end of 2012 were NOK 102 million. Other effects mainly relate to changes in underlying money market rates.*

3) *DNB Boligkreditt enters into swaps to manage interest-rate risk for the fixed-rate loans and bonds issued in Norwegian kroner. Such derivatives are recorded at fair value.*

Additionally, the company enters into basis swaps to manage foreign currency risk and interest rate risk from DNB Boligkreditt's long-term borrowing in foreign currencies. DNB Boligkreditt's long-term borrowing in foreign currencies is converted to Norwegian kroner by means of cross-currency basis swaps with the same maturities. For funding in Euro, basis swaps from Euro to Norwegian kroner are entered into. These derivatives are carried at fair value. There may be significant variations in the value of the basis swaps from day to day, due to changes in basis swap spreads. This unhedged risk causes unrealised gains and losses in the total comprehensive income for the period. The hedge relationships are set up at the time of issuing the bonds and are continuously monitored until maturity. There was a NOK 441 million increase in market values in the fourth quarter of 2012 (positive effect on profits) due to margin and maturity effects related to basis swaps, compared with a NOK 837 million increase in the fourth quarter of 2011. For the year 2012, there was a NOK 767 decrease in value (negative effect on profits), compared with a NOK 1 367 million increase in value (positive effect on profits in 2011). Accumulated positive Mark-to-market effects by the end of 2012 were NOK 1 235 million, compared with NOK 2 002 million by year-end 2011.

4) *Derivatives that are designated as hedging instruments in hedging relationships are recorded at fair value. Changes in fair value arising from hedged risk are presented under Net gains on financial derivatives, hedging.*

5) *DNB Boligkreditt uses hedge accounting with respect to long-term borrowing in foreign currencies. With respect to hedged liabilities, the change in fair value of the hedged items due to the hedged risk is charged to profit or loss. Foreign currency borrowing is hedged with swaps ensuring a high correlation between currencies and interest rates in the hedged items and the hedging instruments. In the table, the interest rate exposure of the NOK leg of the interest rate swaps is included in changes in value of the hedging instrument. However, the NOK leg of the hedging transaction will be exposed to three-month interest rates. This effect is included as part of "net gains on foreign exchange and financial derivatives, trading".*

Note 9 Operating expenses

DNB Boligkreditt AS

Amounts in NOK 1 000	4th quarter 2012	4th quarter 2011	Full year 2012	Full year 2011
Ordinary salaries	2 963	3 398	12 221	12 927
Employer's national insurance contributions	348	461	1 778	1 886
Pension expenses	1 464	867	3 414	2 795
Social expenses	528	214	1 928	1 210
Total salaries and other personnel expenses	**5 303**	**4 940**	**19 342**	**18 819**
Fees [1)]	997 734	21 321	2 569 695	545 963
Other operating expenses	601	518	3 362	3 276
Other expenses	**998 335**	**21 839**	**2 573 057**	**549 239**
Total operating expenses	**1 003 638**	**26 779**	**2 592 399**	**568 058**

1) *Fees are mainly management fees paid to DNB Bank ASA for services rendered according to the management agreement. See also note 13.*

Note 10 Loans to customers

Amounts in NOK 1 000	DNB Boligkreditt AS 31 Dec. 2012	31 Dec. 2011
Loans to customers at amortised cost, nominal amount	444 788 951	422 698 297
– Individual impairments	13 849	31 710
Loans to customers, net of impairment allowances	444 775 102	422 666 587
+ Accrued interest	815 223	890 933
– Individual impairments on accrued interest	39 245	38 262
Loans to customers, at amortised cost	**445 551 080**	**423 519 259**
Loans to customers at fair value, nominal amount	72 729 028	39 610 581
– Individual impairments	31 631	4 158
Loans to customers, net of impairment allowances	72 697 397	39 606 423
+ Accrued interest	147 169	88 510
+ Adjustment to fair value	1 088 907	537 253
Loans to customers, at fair value	**73 933 472**	**40 232 185**
– Collective impairments	122 146	136 585
Total loans to customers	**519 362 406**	**463 614 859**

Impairment allowances

Amounts in NOK 1 000	DNB Boligkreditt AS Full year 2012	Full year 2011
Individual impairments	45 480	35 868
Individual impairments on accrued interest	39 245	38 262
Collective impairments	122 146	136 585
Impairment allowances as at end of period	**206 871**	**210 715**

Impairment expenses for the period

Amounts in NOK 1 000	DNB Boligkreditt AS Full year 2012	Full year 2011
Individual impairments	27 072	44 712
Collective impairments	(14 439)	31 085
Recoveries of previous write-offs	4 559	(623)
Impairment expenses for the period	**8 074**	**75 174**

Note 11 Debt securities issued

Debt securities issued — DNB Boligkreditt AS

Amounts in NOK 1 000	31 Dec. 2012	31 Dec. 2011
Listed covered bonds, nominal amount	324 786 963	315 343 426
Private placements under the bond programme, nominal amount	36 988 302	35 910 509
Total bonds, nominal amount	361 775 265	351 253 935
Accrued interest	4 081 912	4 517 478
Unrealised gains/losses	16 673 805	7 501 917
Total adjustments	20 755 717	12 019 395
Total debt securities issued	**382 530 982**	**363 273 330**

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

Changes in debt securities issued — DNB Boligkreditt AS

Amounts in NOK 1 000	Balance sheet 31 Dec. 2012	Issued 2012	Matured/ redeemed 2012	Exchange rate movements 2012	Changes in adjustments 2012	Balance sheet 31 Dec. 2011
Bond debt, nominal amount	361 775 265	61 719 388	(40 104 220)	(11 093 837)	-	351 253 934
Total adjustments	20 755 717	-	-	-	8 736 322	12 019 395
Total debt securities issued	**382 530 982**	**61 719 388**	**(40 104 220)**	**(11 093 837)**	**8 736 322**	**363 273 330**

Maturity of debt securities issued — DNB Boligkreditt AS

Amounts in NOK 1 000	NOK	Foreign currency	Total
2013	-	15 581 540	15 581 540
2014	22 500 000	-	22 500 000
2015	6 782 500	36 353 494	43 135 994
2016	27 100 000	52 130 650	79 230 650
2017	41 500 000	39 858 030	81 358 030
2018	16 500 000	5 544 955	22 044 955
2019 and later	17 122 000	80 802 096	97 924 096
Total bond debt	**131 504 500**	**230 270 765**	**361 775 265**

Debt securities issued – matured/redeemed during the period

There were no matured or redeemed bonds during fourth quarter 2012.

Note 11 Debt securities issued (continued)

Cover pool **DNB Boligkreditt AS**

Amounts in NOK 1 000	31 Dec. 2012	31 Dec. 2011
Pool of eligible loans	514 748 331	456 967 256
Market value of eligible derivatives	5 408 840	12 923 443
Supplementary assets	-	-
Total collateralised assets	**520 157 171**	**469 890 700**
Debt securities issued, carrying value	382 530 982	363 273 330
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(158 896)	2 143 299
Debt securities issued, valued according to regulation [1)]	**382 372 086**	**365 416 629**
Collateralisation (per cent)	136.0	128.6

1) *The debt securities issued are bonds with preferred rights in the appurtenant cover pool. The composition and calculation of values in the cover pool are defined in Sections 2-28 and 2-31 of the Financial Institutions Act with appurtenant regulations.*

Note 12 Subordinated capital

DNB Boligkreditt AS

Amounts in NOK 1 000	Nominal	Currency	Interest rate	Issue date	Maturity date	31 Dec. 2012	31 Dec. 2011
Term subordinated loan capital	300 000	NOK	3 month Nibor + 75 bp	2007	2017	0	300 000
Term subordinated loan capital	1 200 000	NOK	3 month Nibor + 152 bp	2008	2018	1 200 000	1 200 000
Term subordinated loan capital	850 000	NOK	3 month Nibor + 400 bp	2009	2019	850 000	850 000
Accrued interest						8 313	10 836
Total						**2 058 313**	**2 360 836**

Note 13 Related parties

DNB Boligkreditt AS is a subsidiary within the DNB Group. During the quarter many transactions, mostly related to the ordinary course of business, take place between DNB Boligkreditt and other group entities. All transactions are at markets terms. Major transactions with related parties:

DNB Bank ASA

DNB Bank ASA (the bank) is the parent of DNB Boligkreditt. As part of ordinary business transactions, a large number of banking transactions are entered into between DNB Boligkreditt and the bank, including loans, deposits and financial derivatives used in currency and interest rate risk management. The transactions are regulated in the "Agreement relating to transfer of loan portfolio between DNB Bank ASA and DNB Boligkreditt AS" (the transfer agreement) and the "Contract concerning purchase of management services" (the management agreement).

The transfer agreement regulates the transfer of loan portfolios qualifying as collateral for the issue of covered bonds. During the fourth quarter of 2012, portfolios of NOK 1.3 billion were transferred from the bank to DNB Boligkreditt.

Pursuant to the management agreement, DNB Boligkreditt purchases services from the bank, including administration, bank production, distribution, customer contact, IT operations, financial and liquidity management. DNB Boligkreditt pays a monthly management fee for these services based on the lending volume under management and the achieved lending spreads. The management fee paid is recognised as "Other expences" in the statement of comprehensive income and amounted to NOK 994.4 million for the fourth quarter of 2012.

In the balance sheet "Due from credit institutions" and "Due to credit institutions" are solely outstandings with DNB Bank. All derivative contracts are with DNB Bank as counterparty. At end-December, the bank had invested NOK 84.4 billion in covered bonds issued by DNB Boligkreditt.

DNB Livsforsikring ASA

As part of the company's ordinary investment activity, DNB Livsforsikring has subscribed for covered bonds issued by DNB Boligkreditt. At end-December 2012, DNB Livsforsikring's holding of listed DNB Boligkreditt bonds was valued at NOK 5.2 billion.

DNB Næringskreditt AS

DNB Næringskreditt has no employees and purchases administrative services from DNB Boligkreditt. The fee received for such services is recognised as "Other income" in the income statement and amounted to NOK 1.2 million for the fourth quarter of 2012.

Nordlandsbanken ASA

Nordlandsbanken was a subsidiary of DNB Bank ASA up until 1 October 2012 when the entity was merged with DNB Bank ASA. From 1 October 2012, all transfers and management fees related to the former Nordlandsbanken portfolio are considered being transactions with DNB Bank ASA and included in the description of DNB Bank ASA above.

Note 14 Contingencies and post balance sheet events

DNB Boligkreditt is not involved in any legal actions

Key figures

DNB Boligkreditt AS

	4th quarter 2012	4th quarter 2011	Full year 2012	Full year 2011
1. Return on equity, annualised (%) [1)]	3.5	35.1	(7.7)	16.3
2. Core (Tier 1) capital ratio at end of period (%) [2)]	10.3	7.8	10.3	7.8
3. Capital adequacy ratio at end of period (%) [2)]	11.2	8.9	11.2	8.9
4. Core capital at end of period (NOK 1000)	22 024 910	14 835 967	22 024 910	14 835 967
5. Risk-weighted volume at end of period (NOK 1000)	213 870 241	190 438 189	213 870 241	190 438 189
6. Impairment relative to net loans to customers, annualised	0.00	0.02	0.00	0.02
7. Net non-performing and impaired loans, per cent of net loans	0.13	0.14	0.13	0.14
8. Net non-performing and impaired loans at end of period (NOK 1 000)	679 246	661 694	679 246	661 694
9. Number of full-time positions at end of period	12	11	12	11

1) Average equity is calculated on the basis of book value of equity.
2) The loss for the period is included in Tier 1 capital.

Profit and balance sheet trends

Statement of comprehensive income | **DNB Boligkreditt AS**

Amounts in NOK 1 000	4th quarter 2012	3rd quarter 2012	2nd quarter 2012	1st quarter 2012	4th quarter 2011
Interest income	4 876 814	4 751 542	4 695 548	4 636 661	4 444 113
Interest expenses	3 501 660	3 720 711	3 697 533	4 009 859	4 119 080
Net interest income	**1 375 154**	**1 030 831**	**998 015**	**626 802**	**325 034**
Commissions and fees income	18 927	18 571	18 145	14 722	18 357
Commissions and fees expenses	455	447	453	459	500
Net gains/(losses) on financial instruments	(112 339)	(765 249)	492 155	(3 157 199)	1 668 540
Other income	1 200	1 268	1 310	1 616	1 441
Net other operating income	**(92 667)**	**(745 857)**	**511 157**	**(3 141 319)**	**1 687 838**
Operating income	**1 282 487**	**284 974**	**1 509 172**	**(2 514 517)**	**2 012 871**
Salaries and other personnel expenses	5 303	3 578	5 002	5 459	4 940
Other expenses	998 335	698 414	596 883	279 425	21 839
Operating expenses	**1 003 638**	**701 992**	**601 885**	**284 884**	**26 779**
Impairments on loans and commitments	9 822	(7 810)	7 758	(1 697)	10 438
Operating profit before tax	**269 027**	**(409 208)**	**899 529**	**(2 797 705)**	**1 975 654**
Tax expense	75 261	(114 578)	251 868	(783 357)	553 185
Profit for the period	**193 765**	**(294 630)**	**647 661**	**(2 014 347)**	**1 422 468**
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	**193 765**	**(294 630)**	**647 661**	**(2 014 347)**	**1 422 468**

Balance sheet | **DNB Boligkreditt AS**

Amounts in NOK 1 000	31 Dec. 2012	30 Sept. 2012	30 June 2012	31 March 2012	31 Dec. 2011
Assets					
Due from credit institutions	13 098 740	216 754	1 775 132	398 140	2 698 489
Loans to customers	519 362 406	512 111 624	496 659 687	480 113 433	463 614 859
Financial derivatives	29 651 578	29 469 666	28 471 729	24 511 598	23 980 579
Other assets	5 382	8 745	9 225	11 687	8 623
Total assets	**562 118 106**	**541 806 789**	**526 915 773**	**505 034 858**	**490 302 551**
Liabilities and equity					
Due to credit institutions	130 128 238	122 663 187	104 432 485	99 097 087	94 735 465
Financial derivatives	24 243 408	23 454 955	20 791 713	18 314 798	11 060 854
Debt securities issued	382 530 982	370 254 176	380 152 780	366 029 045	363 273 330
Payable taxes	285 527	(0)	-	286 373	292 746
Deferred taxes	158 236	437 594	552 172	205 930	989 287
Other liabilities	374 143	493 958	188 565	230 577	64 227
Provisions	30 698	29 696	29 696	29 696	29 696
Subordinated loan capital	2 058 313	2 358 431	2 358 938	2 359 591	2 360 836
Total liabilities	**539 809 545**	**519 691 997**	**508 506 350**	**486 553 097**	**472 806 440**
Share capital	2 527 000	2 527 000	2 127 000	2 127 000	1 827 000
Share premium reserve	16 893 000	16 893 000	13 293 000	13 293 000	10 593 000
Retained earnings	2 888 560	2 694 793	2 989 423	3 061 763	5 076 110
Total equity	**22 308 560**	**22 114 793**	**18 409 423**	**18 481 763**	**17 496 110**
Total liabilities and equity	**562 118 106**	**541 806 789**	**526 915 773**	**505 034 858**	**490 302 551**

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Other sources of information

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

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