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DNB BOLIGKREDITT AS
- a company in the DNB Group

Second quarter and
first half report 2012
(UNAUDITED)

Key figures

DNB Boligkreditt AS

Statement of comprehensive income	2nd quarter	2nd quarter	1st half	1st half	Full year
<i>Amounts in NOK million</i>	2012	2011	2012	2011	2011
Net interest income	998	413	1 625	1 002	1 667
Net other operating income	511	(594)	(2 630)	(432)	2 099
- net gains (losses) on financial instruments at fair value	492	(612)	(2 665)	(462)	2 031
Operating expenses	602	152	887	481	568
Impairments on loans and commitments	8	15	6	39	75
Operating profit before tax	900	(348)	(1 898)	51	3 123
Taxes	252	(97)	(531)	14	874
Profit for the period	648	(250)	(1 367)	37	2 248

Balance sheet	30 June	31 Dec.	30 June
<i>Amounts in NOK million</i>	2012	2011	2011
Total assets	526 916	490 303	443 833
Loans to customers	496 660	463 615	433 883
Debt securities issued	380 153	363 273	324 444
Total equity	18 409	17 496	12 784

Key figures	2nd quarter	2nd quarter	1st half	1st half	Full year
<i>Per cent</i>	2012	2011	2012	2011	2011
Combined weighted total average spread for loans	0.63	0.24	0.48	0.34	0.23
Return on equity, annualised ¹⁾	14.0	(7.7)	(15.5)	0.6	16.3
Tier 1 capital ratio at end of period	8.1	6.7	8.1	6.7	7.8
Capital ratio at end of period	9.0	8.4	9.0	8.4	8.9
Impairments relative to net loans to customers, annualised	0.00	0.01	0.00	0.02	0.02
Net non-performing and impaired loans, per cent of net loans	0.14	0.15	0.14	0.15	0.14

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

Second quarter and first half report 2012

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Directors' report

Operations in first half of 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's operating profit before tax amounted to minus NOK 1 898 million for the first half of 2012 compared with NOK 51 million for the first half of 2011. Profit for the period was minus NOK 1 367 million compared with NOK 37 million in 2011. The negative results in 2012 are mainly due to negative changes in the value of financial instruments used for hedging purposes. Gains and losses from such instruments tend to vary considerably from quarter to quarter and will typically be reversed in subsequent periods, due to market stabilising or because the maturity date of the instrument is approaching.

The company's residential mortgage portfolio totalled NOK 496.7 billion at end of the first half year, rising by NOK 62.8 billion or 14.5 per cent over the preceding 12 months. Securities issued in the form of covered bonds increased from NOK 363.3 billion at year-end 2011 to NOK 380.2 billion by end of the first half of 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 a AAA rating from all three agencies.

Despite a nervous market situation in the second quarter of 2012, the market remained attractive for covered bonds issuers with strong credit ratings. During the first half of 2012, the company issued covered bonds totalling NOK 43.1 billion in the European market and NOK 4.7 billion in the Norwegian market.

Review of the quarterly accounts

Statement of comprehensive income

DNB Boligkreditt recorded operating profits before tax of NOK 900 million in the second quarter of 2012, compared with minus NOK 348 million in the second quarter of 2011. Profit for the quarter was NOK 648 million, compared with minus NOK 250 million in the second quarter previous year.

The company's operating income amounted to NOK 1 509 million in the second quarter of 2012, up from minus NOK 180 million in the second quarter of 2011.

Net interest income totalled NOK 998 million, up from NOK 413 million in the second quarter of 2011. The improvement was due to improved interest rate margins.

Net other operating income came to NOK 511 million,

compared with minus NOK 594 million in second quarter 2011. The result reflects the positive effects of unrealised changes in the market value of covered bonds and financial instruments. The value changes are due to credit spread effects on the covered bonds and spread effects from the swaps used for hedging purposes. There was a significant gain from mark-to-market adjustments on financial instruments prior to 2012, followed by a sharp decline in value of such instruments in first quarter of 2012. This situation was partly reversed through the second quarter of 2012. DNB Boligkreditt will typically record a high level of unrealised gains when financial markets are volatile, and oppositely when markets stabilise. In volatile markets, as recognised in second quarter 2012, market values have increased.

The company's operating expenses totalled NOK 602 million in second quarter 2012, up from NOK 152 million a year before. The operating expenses are volatile due to the management fee paid to DNB Bank. The cooperation with DNB Bank is formalised through an extensive servicing agreement that ensures DNB Boligkreditt sound competence in key areas and cost-effective operations. The management fee calculation is based primarily on lending volume and margins achieved. For the current quarter, the service management fee to the bank was NOK 586 million, up from NOK 134 in the second quarter of 2011. The increase was due to improved interest rate margins.

The company recorded impairments on loans of NOK 8 million in the second quarter, down from NOK 15 million for the same period 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 and assets under management

At the end of second quarter 2012, DNB Boligkreditt had a total assets of NOK 526.9 billion under management, an increase of NOK 36.6 billion or 7.5 per cent from year-end 2011.

Net loans to customers rose by NOK 33.0 billion or 7.1 per cent during first half of 2012, standing at NOK 496.7 billion by the end of the quarter. During second quarter, net loans to customers increased by NOK 16.6 billion. 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.

In the first half of 2012 debt securities issued by the company increased by net NOK 16.9 billion, to NOK 380.2 billion. The net increase during the second quarter was NOK 14.1 billion.

The company's loans from credit institutions were NOK 104.4 billion by the end of second quarter 2012, up from NOK 94.7 billion at year-end 2011. This account reflects the drawn balance on the overdraft facility with DNB Bank.

Risk

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

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, however not including the effects of unrealised changes in the value of financial instruments.

Net non-performing loans represented 0.14 per cent of total loans at the end of second quarter 2012, down from 0.15 per cent by the end of second quarter 2011. 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.

In the first quarter of 2012 the company issued new shares through a private placement with DNB Bank, increasing the company's equity by NOK 3.0 billion. By the end of second quarter 2012, the company's equity totalled NOK 18.4 billion, of which NOK 17.0 billion represented Tier 1 capital.

Total primary capital in the company was NOK 18.9 billion. The Tier 1 capital ratio was 8.1 per cent, while the capital adequacy ratio was 9.0 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.

Market situation

By the end of second quarter 2012, housing prices were

approximately 2 per cent higher than year-end 2011, and 7.7 per cent higher than a year earlier. Apartments again showed the most favourable price development.

Towards the end of 2011, Finanstilsynet (the Financial Supervisory Authority of Norway) 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 home equity credit lines and interest-only periods. Up till now, the impact on housing prices and market growth for residential mortgages seems to have been minor.

The covered bonds market has been infected by the sovereign debt situation in a number of European countries during 2011. So far, 2012 has showed a more positive atmosphere for covered bonds, at least for debt issued by highly rated issuers, even if prices have been at a higher level than previous periods. DNB Boligkreditt issued covered bonds under existing programmes totalling NOK 33.7 billion in the first quarter of 2012 and NOK 14.1 billion in the second quarter of 2012.

Future prospects

Capital markets undertook a certain recovery in the first quarter of 2012. In second quarter world economies became more unstable, due to uncertainty regarding the debt situation in Europe. The positive development in first quarter changed into a large degree of uncertainty over the growth prospectus of several southern European countries.

Housing prices showed an upward trend and various factors influencing housing prices in Norway seem favourable. Low interest rates and reduced belief in an interest rate increase, combined with a good result from the payroll statements, reduce the risk of a short-term decrease in housing prices.

Demand for Norwegian covered bonds is supported by the sound Norwegian economy. The uncertainty concerning the debt situation in a number of European countries is not likely to have significant impact on DNB Boligkreditt's ability to raise new funds in a short or medium term perspective. Thus, Norwegian bonds seem to be regarded as attractive investments, with relatively low credit and market risk.

This provides a good basis for DNB Boligkreditt's further funding activities in the capital markets in 2012.

Oslo, 11 July 2012

The Board of Directors of DNB Boligkreditt AS

Bjørn Erik Næss
(chairman)

Ingrid Tjønneland

Stein Ove Steffensen

Rein Øsebak

Elisabeth Ege

Øyvind Birkeland
(chief executive officer)

Statement pursuant to Section 5-6 of the Securities Trading Act

We hereby confirm that the half-yearly financial statements for the company for the period 1 January through 30 June 2012 to the best of our knowledge have been prepared in accordance with IAS 34 Interim Financial Reporting, and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole.

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

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

Oslo, 11 July 2012
The Board of Directors of DNB Boligkreditt AS

Bjørn Erik Ness
(styreleder)

Ingrid Tjønneland

Stein Ove Steffensen

Elisabeth Ege

Rein Øsebak

Øyvind Birkeland
(administrerende direktør)

Statement of comprehensive income

DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	Note	2nd quarter 2012	2nd quarter 2011	1st half 2012	1st half 2011	Full year 2011
Interest income	7	4 695 548	3 702 160	9 332 209	7 272 964	15 855 558
Interest expenses	7	3 697 533	3 288 973	7 707 392	6 270 494	14 188 105
Net interest income	7	998 015	413 187	1 624 817	1 002 470	1 667 453
Commissions and fees income		18 145	16 954	32 867	27 910	63 873
Commissions and fees expenses		453	473	912	947	1 952
Net gains/(losses) on financial instruments	8	492 155	(611 544)	(2 665 044)	(461 883)	2 031 192
Other income		1 310	1 415	2 926	2 930	5 525
Net other operating income		511 157	(593 648)	(2 630 162)	(431 989)	2 098 639
Operating income		1 509 172	(180 461)	(1 005 345)	570 480	3 766 091
Salaries and other personnel expenses	9	5 002	4 139	10 461	10 775	18 819
Other expenses	9, 13	596 883	148 040	876 308	470 128	549 239
Operating expenses	9	601 885	152 179	886 769	480 902	568 058
Impairments on loans and commitments	10	7 758	15 118	6 061	38 611	75 174
Operating profit before tax		899 529	(347 758)	(1 898 176)	50 967	3 122 859
Tax expense		251 868	(97 372)	(531 489)	14 271	874 403
Profit for the period		647 661	(250 386)	(1 366 686)	36 696	2 248 456
Other comprehensive income		-	-	-	-	-
Total comprehensive income for the period		647 661	(250 386)	(1 366 686)	36 696	2 248 456

Balance sheet

DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	Note	30 June 2012	31 Dec. 2011	30 June 2011
Assets				
Loans to and deposits with credit institutions	13	1 775 132	2 698 489	202 232
Loans to customers	10	496 659 687	463 614 859	433 883 311
Financial derivatives	13	28 471 729	23 980 579	9 742 171
Other assets		9 225	8 623	5 654
Total assets		526 915 773	490 302 551	443 833 368
Liabilities and equity				
Due to credit institutions	13	104 432 485	94 735 465	92 478 079
Financial derivatives	13	20 791 713	11 060 854	10 560 949
Debt securities issued	11	380 152 780	363 273 330	324 443 991
Payable taxes		-	292 746	14 270
Deferred taxes		552 172	989 287	407 630
Other liabilities		188 565	64 227	24 208
Provisions		29 696	29 696	29 980
Subordinated loan capital	12	2 358 938	2 360 836	3 089 909
Total liabilities		508 506 350	472 806 440	431 049 017
Share capital		2 127 000	1 827 000	1 577 000
Share premium reserve		13 293 000	10 593 000	8 343 000
Retained earnings		2 989 423	5 076 110	2 864 351
Total equity		18 409 423	17 496 110	12 784 351
Total liabilities and equity		526 915 773	490 302 551	443 833 368

Statements of changes in equity

DNB Boligkreditt AS

<i>Amounts in NOK 1000</i>	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	-	-	36 696	36 696
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	36 696	36 696
Group contribution paid			(864 000)	(864 000)
Balance sheet as at 30 June 2011	1 577 000	8 343 000	2 864 350	12 784 351
Balance sheet as at 1 January 2012	1 827 000	10 593 000	5 076 110	17 496 110
Profit for the period			(1 366 686)	(1 366 686)
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	(1 366 686)	(1 366 686)
Group contribution paid			(720 000)	(720 000)
Share issue 21 March 2012	300 000	2 700 000	-	3 000 000
Balance sheet as at 30 June 2012	2 127 000	13 293 000	2 989 423	18 409 423

Share capital

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

In March 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.

Statement of cash flows

DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	1st half 2012	1st half 2011	Full year 2011
Operating activities			
Net receipts/payments on loans to customers	(11 992 156)	(14 030 266)	(28 730 139)
Interest received from customers	9 172 037	7 275 774	15 766 239
Net receipts on commissions and fees	31 904	26 963	61 921
Payments for operating expenses	(754 988)	(683 009)	(749 972)
Taxes paid	(6 373)	(776 499)	(776 499)
Other receipts	2 926	2 930	5 525
Net cash flow relating to operating activities	(3 546 650)	(8 184 107)	(14 422 925)
Investing activities			
Net purchase of loan portfolio	(20 971 327)	(22 391 056)	(36 859 177)
Net cash flow relating to investment activities	(20 971 327)	(22 391 056)	(36 859 177)
Financing activities			
Net receipts/payments on loans from credit institutions	9 764 399	(1 828 559)	428 827
Net receipts/payments on other short-term liabilities		(43 084)	-
Net issue of bonds	19 777 730	38 646 206	65 430 487
Redemptions of subordinated loan capital	-	-	(730 000)
Share issue	3 000 000	-	2 500 000
Group contribution paid	(1 000 000)	(1 200 000)	(1 200 000)
Interest payments on financing activities	(7 947 508)	(5 417 974)	(13 069 530)
Net cash flow from financing activities	23 594 620	30 156 589	53 359 784
Net cash flow	(923 357)	(418 575)	2 077 682
Cash at beginning of period	2 698 489	620 807	620 807
Net receipts/payments on cash	(923 357)	(418 575)	2 077 682
Cash at end of period	1 775 132	202 232	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 479.000 (NOK 693.040 for 2011) related to withholding employee taxes.

Note 1 Accounting principles

The financial statements for the first half and second 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 first half and second quarter were approved by the Board of Directors on the 11th of July 2012.

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 1.4 billion for the first half of 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	
	30 June 2012	31 Dec. 2011
<i>Amounts in NOK 1 000</i>		
Share capital	2 127 000	1 827 000
Other equity	16 282 423	15 669 110
Total equity	18 409 423	17 496 110
Deductions		
50 percent expected losses, IRB-portfolios	(417 532)	(197 524)
Adjustments for unrealised losses/(gains) on liabilities recorded at fair value	(1 018 441)	(1 742 619)
Allocated group contributions for payment	-	(720 000)
Tier 1 capital ¹⁾	16 973 450	14 835 967
Term subordinated loan capital	2 350 000	2 350 000
Deductions		
Remaining maturity of less than 5 years	-	-
50 percent expected losses, IRB-portfolios	(417 532)	(197 524)
Tier 2 capital	1 932 468	2 152 476
Total eligible primary capital	18 905 918	16 988 443
Risk-weighted volume	209 425 135	190 438 189
Minimum capital requirement	16 754 011	15 235 055
Tier 1 capital ratio (%)	8.1	7.8
Capital ratio (%)	9.0	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 second 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	
	30 June 2012	31 Dec. 2011
<i>Amounts in NOK 1 000</i>		
Risk-weighted volume, Basel II	81 871 489	76 741 392
Minimum capital requirement, Basel II	6 549 719	6 139 311
Tier 1 capital ratio (%)	23.1	22.1
Capital ratio (%)	20.7	19.3

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 the 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 aim is that liquidity flows from the lending activity and the funding activity should be as similar as possible. 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 130 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 end of first half and second quarter 2012 can be characterised as sound.

Note 7 Net interest income

	DNB Boligkreditt AS				
	2nd quarter	2nd quarter	1st half	1st half	Full year
<i>Amounts in NOK 1 000</i>	2012	2011	2012	2011	2011
Interest on loans and deposits with credit institutions	4 237	(58)	22 045	14 805	33 488
Interest on loans to customers	4 646 043	3 659 382	9 217 079	7 173 177	15 650 369
Front-end fees	2 158	(47)	6 975	34	4 273
Other interest income	43 111	42 883	86 110	84 948	167 428
Interest income	4 695 548	3 702 160	9 332 209	7 272 964	15 855 558
Interest on due to credit institutions	604 290	773 528	1 238 287	1 444 090	3 226 883
Interest on debt securities issued	2 675 264	2 440 243	5 503 388	4 746 904	10 383 508
Interest on subordinated loan capital	28 915	35 370	60 525	69 276	145 340
Net interest income/expenses, derivatives	389 065	39 832	905 192	10 224	432 375
Interest expenses	3 697 533	3 288 973	7 707 392	6 270 494	14 188 105
Net interest income	998 015	413 187	1 624 817	1 002 470	1 667 453

Note 8 Net gains on financial instruments

DNB Boligkreditt AS

	2nd quarter	2nd quarter	1st half	1st half	Full year
<i>Amounts in NOK 1 000</i>	2012	2011	2012	2011	2011
Net gains on loans at fair value (fixed-rate loans)	333 421	108 690	35 305	(131 544)	293 214
Net gains on financial liabilities (long-term borrowing in NOK) ¹⁾	(140 894)	(1 032 924)	(1 056 184)	(237 099)	263 607
Total gains on financial instruments, designated as at fair value	192 527	(924 234)	(1 020 879)	(368 642)	556 821
Net gains on foreign exchange and financial derivatives, trading ²⁾	299 628	312 690	(1 644 165)	(93 241)	1 474 371
Net gains on financial derivatives, hedging ^{3) 4)}	2 413 246	1 896 865	2 492 123	(1 442 292)	7 537 191
Net gains on financial liabilities, hedged items ^{3) 4)}	(2 413 246)	(1 896 865)	(2 492 123)	1 442 292	(7 537 191)
Net gains on financial instruments at fair value	492 155	(611 545)	(2 665 044)	(461 883)	2 031 192

- 1) DNB Boligkreditt's long-term borrowing in Norwegian kroner is carried at fair value. Changes in the credit risk premium affect the value of such funding. Reduced risk premiums imply an increase in the market value of existing funding and have a negative impact on the company's profits, even though reduced risk premiums are positive and give the company access to cheaper funding. Mark-to-market adjustments of the company's Norwegian kroner debt are reversed over the loans' remaining term to maturity. There was a NOK 73.6 million decrease in market values in second quarter 2012 (positive effect on profits) due to credit risk premium effects, compared with a NOK 429.7 million increase in value in second quarter 2011 (negative effect on profits). For the first half of 2012, there was a NOK 1 005.8 million increase in market values (negative effect on profits). For the year 2011, there was a decline in value of NOK 1 374.8 million (positive effect on profits). Accumulated positive Mark-to-market effects at end of second quarter 2012 were NOK 1 414.5 million. Other effects mainly relate to changes in underlying money market rates.
- 2) 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.
- 3) The company enters into basis swaps to manage basis risk. 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, which 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 480.3 increase in market values in second quarter of 2012 (positive effect on profits) due to margin and maturity effects related to basis swaps, compared with a NOK 26.2 million decrease in second quarter of 2011. For the year 2011, there was a NOK 1 366.7 million increase in value (positive effect on profits). Accumulated positive Mark-to-market effects by end of second quarter 2012 were NOK 750.6 million, compared with NOK 2 001.5 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.

With respect to hedged liabilities, the hedged risk is also recorded at fair value, while the rest of the instruments is recorded at amortised cost. DNB Boligkreditt uses hedge accounting for long-term borrowing in foreign currency. Loans are hedged 1:1 through contracts where there is high correlation between currencies, interest rate flows and the hedging instrument. 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 3-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

	2nd quarter	2nd quarter	1st half	1st half	Full year
<i>Amounts in NOK 1 000</i>	2012	2011	2012	2011	2011
Ordinary salaries	3 527	3 426	6 649	7 282	12 927
Employer's national insurance contributions	539	515	997	1 097	1 886
Pension expenses	317	28	1 704	1 709	2 795
Social expenses	620	170	1 112	687	1 210
Total salaries and other personnel expenses	5 002	4 139	10 461	10 775	18 819
Fees ¹⁾	596 325	147 222	875 445	469 122	545 963
Other operating expenses	559	818	863	1 006	3 276
Other expenses	596 883	148 040	876 308	470 128	549 239
Total operating expenses	601 885	152 179	886 769	480 902	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

DNB Boligkreditt AS

	30 June 2012	31 Dec. 2011	30 June 2011
<i>Amounts in NOK 1 000</i>			
Loans to customers at amortised cost, nominal amount	436 608 994	422 698 297	409 363 887
– Individual impairments	34 320	31 710	32 487
Loans to customers, net of impairment allowances	436 574 674	422 666 587	409 331 400
+ Accrued interest	899 971	890 933	769 511
– Individual impairments on accrued interest	40 406	38 262	31 385
Loans to customers, at amortised cost	437 434 238	423 519 259	410 069 526
Loans to customers at fair value, nominal amount	58 669 448	39 610 581	23 776 997
– Individual impairments	5 862	4 158	1 964
Loans to customers, net of impairment allowances	58 663 586	39 606 423	23 775 034
+ Accrued interest	126 090	88 510	55 185
+ Adjustment to fair value	572 558	537 253	112 495
Loans to customers, at fair value	59 362 234	40 232 185	23 942 715
– Collective impairments	136 785	136 585	128 931
Total loans to customers	496 659 687	463 614 859	433 883 311

Impairment allowances

DNB Boligkreditt AS

	30 June 2012	31 Dec. 2011	30 June 2011
<i>Amounts in NOK 1 000</i>			
Individual impairments	40 182	35 868	34 451
Individual impairments on accrued interest	40 406	38 262	31 385
Collective impairments	136 785	136 585	128 931
Impairment allowances as at end of period	217 373	210 715	194 767

Impairment expenses for the period

DNB Boligkreditt AS

	30 June 2012	31 Dec. 2011	30 June 2011
<i>Amounts in NOK 1 000</i>			
Individual impairments	7 047	44 712	15 424
Collective impairments	200	31 085	23 431
Recoveries of previous write-offs	(1 185)	(623)	(243)
Impairment expenses for the period	6 061	75 175	38 612

Note 11 Debt securities issued

Debt securities issued	DNB Boligkreditt AS		
<i>Amounts in NOK 1 000</i>	30 June 2012	31 Dec. 2011	30 June 2011
Listed covered bonds, nominal amount	329 833 771	315 343 426	287 985 038
Private placements under the bond programme, nominal amount	35 541 470	35 910 509	33 949 937
Total bonds, nominal amount	365 375 241	351 253 935	321 934 975
Accrued interest	3 198 343	4 517 478	3 369 680
Unrealised gains/losses	11 579 197	7 501 917	(860 664)
Total adjustments	14 777 540	12 019 395	2 509 016
Total debt securities issued	380 152 780	363 273 330	324 443 991

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					
<i>Amounts in NOK 1 000</i>	Balance sheet 30 June 2012	Issued 2012	Matured/ redeemed 2012	Exchange rate movements 2012	Changes in adjustments 2012	Balance sheet 31 Dec. 2011
Bond debt, nominal amount	365 375 241	47 829 875	(28 059 220)	(5 649 348)	-	351 253 934
Adjustments	14 777 540	-	-	-	2 758 145	12 019 395
Total debt securities issued	380 152 780	47 829 875	(28 059 220)	(5 649 348)	2 758 145	363 273 330

Maturity of debt securities issued	DNB Boligkreditt AS		
<i>Amounts in NOK 1 000</i>	NOK	Foreign currency	Total
2012	-	11 305 571	11 305 571
2013	-	15 940 854	15 940 854
2014	22 500 000	-	22 500 000
2015	6 782 500	37 678 225	44 460 725
2016	27 100 000	53 908 871	81 008 871
2017	41 500 000	40 783 495	82 283 495
2018 and later	31 622 000	76 253 725	107 875 725
Total bond debt	129 504 500	235 870 742	365 375 241

Debt securities issued - matured/redeemed during the period	DNB Boligkreditt AS							
<i>Amounts in NOK 1 000</i>							30 June 2012	31 Dec. 2011
ISIN Code	Matured/ redeemed amount	Currency	Interest	Issued	Matured	Matured		
CH0034696242	1 143 720	CHF	Fixed	2007	2012	Matured	-	1 143 720
Total debt securities issued, nominal value							-	1 143 720

The table shows matured and redeemed bonds during the period. The value per 31 December 2011 is the nominal value translated at the foreign currency rate at 31 December 2011. The remaining amounts in the 30 June 2012 shows remaining nominal amount at foreign exchange rate at end quarter, for bonds that are partly redeemed during the period.

Note 11 Debt securities issued (continued)

Cover pool

DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	30 June 2012	31 Dec. 2011	30 June 2011
Pool of eligible loans	489 780 641	456 967 256	426 192 281
Market value of eligible derivatives	7 682 998	12 923 443	(816 932)
Supplementary assets	-	-	-
Total collateralised assets	497 463 639	469 890 700	425 375 349
Debt securities issued, carrying value	380 152 780	363 273 330	324 443 991
Less valuation changes attributable to changes in credit risk on debt carried at fair value	1 125 062	2 143 299	739 632
Debt securities issued, valued according to regulation ¹⁾	381 277 843	365 416 629	325 183 623
Collateralisation (per cent)	130.5	128.6	130.8

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

Note 12 Subordinated capital

DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	Nominal	Currency	Interest rate	Issue date	Maturity date	30 June 2012	31 Dec. 2011	30 June 2011
Term subordinated loan capital	350 000	NOK	3 month Nibor + 35 bp	2006	2016	0	0	350 000
Term subordinated loan capital	150 000	NOK	3 month Nibor + 20 bp	2007	2017	0	0	150 000
Term subordinated loan capital	230 000	NOK	3 month Nibor + 20 bp	2007	2017	0	0	230 000
Term subordinated loan capital	300 000	NOK	3 month Nibor + 75 bp	2007	2017	300 000	300 000	300 000
Term subordinated loan capital	1 200 000	NOK	3 month Nibor + 152 bp	2008	2018	1 200 000	1 200 000	1 200 000
Term subordinated loan capital	850 000	NOK	3 month Nibor + 400 bp	2009	2019	850 000	850 000	850 000
Accrued interest						8 938	10 836	9 909
Total						2 358 938	2 360 836	3 089 909

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 second quarter of 2012, portfolios of NOK 8.6 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 expenses" in the statement of comprehensive income and amounted to NOK 586.5 million for the second quarter of 2012.

In the balance sheet "Loans to and deposits with credit institutions" and "Due to credit institutions" are solely outstandings with DNB Bank. All derivative contracts are with DNB Bank as counterparty. At end-June, the bank had invested NOK 83.2 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-June 2012, DNB Livsforsikring's holding of listed DNB Boligkreditt bonds was valued at NOK 5.6 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 1.3 million for the second quarter of 2012.

Nordlandsbanken ASA

Nordlandsbanken is also a subsidiary of DNB Bank ASA. DNB Boligkreditt has acquired residential mortgages from Nordlandsbanken. The transfer and management of mortgages are regulated in the "Agreement relating to transfer of loan portfolio between Nordlandsbanken ASA and DNB Boligkreditt AS" (the transfer agreement) and the "Contract concerning purchase of management services" (the servicing agreement).

The transfer agreement regulates the transfer of loan portfolios qualifying as collateral for the issue of covered bonds. During the second quarter of 2012, portfolios of NOK 0.9 billion were transferred from Nordlandsbanken to DNB Boligkreditt. Pursuant to the servicing agreement, DNB Boligkreditt purchases services from the bank, including administration, bank production, distribution, customer contact and IT operations. DNB Boligkreditt pays a monthly management fee for these services based on the lending volume under management and the achieved lending spread. The management fee is recognised as "Other expenses" in the income statement and amounted to NOK 9.4 million for the second quarter of 2012.

Note 14 Contingencies and post balance sheet events

DNB Boligkreditt is not involved in any legal actions

Key figures

DNB Boligkreditt AS

	2nd quarter 2012	2nd quarter 2011	1st half 2012	1st half 2011	Full year 2011
1. Return on equity, annualised (%) ¹⁾	14.0	(7.7)	(15.5)	0.6	16.3
2. Core (Tier 1) capital ratio at end of period (%)	8.1	6.7	8.1	6.7	7.8
3. Capital adequacy ratio at end of period (%)	9.0	8.4	9.0	8.4	8.9
4. Core capital at end of period (NOK 1000)	16 973 451	11 819 633	16 973 451	11 819 633	14 835 967
5. Risk-weighted volume at end of period (NOK 1000)	209 425 135	176 169 645	209 425 135	176 169 645	190 438 189
6. Write-downs relative to net lending to customers, annualised	0.00	0.01	0.00	0.02	0.02
7. Net non-performing and impaired commitments, per cent of net lending	0.14	0.15	0.14	0.15	0.14
8. Net non-performing and impaired commitments at end of period (NOK 1 000)	709 243	643 294	709 243	643 294	661 694
9. Number of full-time positions at end of period	12	13	12	13	11

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

Profit and balance sheet trends

Statement of comprehensive income

DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	2nd quarter 2012	1st quarter 2012	4th quarter 2011	3rd quarter 2011	2nd quarter 2011
Interest income	4 695 548	4 636 661	4 444 113	4 138 482	3 702 160
Interest expenses	3 697 533	4 009 859	4 119 080	3 798 532	3 288 973
Net interest income	998 015	626 802	325 034	339 950	413 187
Commissions and fees income	18 145	14 722	18 357	17 606	16 954
Commissions and fees expenses	453	459	500	505	473
Net gains/(losses) on financial instruments	492 155	(3 157 199)	1 668 540	824 536	(611 544)
Other income	1 310	1 616	1 441	1 153	1 415
Net other operating income	511 157	(3 141 319)	1 687 838	842 790	(593 648)
Operating income	1 509 172	(2 514 517)	2 012 871	1 182 740	(180 461)
Salaries and other personnel expenses	5 002	5 459	4 940	3 104	4 139
Other expenses	596 883	279 425	21 839	57 273	148 040
Operating expenses	601 885	284 884	26 779	60 376	152 179
Impairments on loans and commitments	7 758	(1 697)	10 438	26 126	15 118
Operating profit before tax	899 529	(2 797 705)	1 975 654	1 096 238	(347 758)
Tax expense	251 868	(783 357)	553 185	306 947	(97 372)
Profit for the period	647 661	(2 014 347)	1 422 468	789 292	(250 386)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the period	647 661	(2 014 347)	1 422 468	789 292	(250 386)

Balance sheet

DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	30 June 2012	31 March 2012	31 Dec. 2011	30 Sep. 2011	30 June 2011
Assets					
Lending to and deposits with credit institutions	1 775 132	398 140	2 698 489	195 169	202 232
Lending to customers	496 659 687	480 113 433	463 614 859	446 361 117	433 883 311
Financial derivatives	28 471 729	24 511 598	23 980 579	18 807 923	9 742 171
Other assets	9 225	11 687	8 623	42 751	5 654
Total assets	526 915 773	505 034 858	490 302 551	465 406 959	443 833 368
Liabilities and equity					
Loans and deposits from credit institutions	104 432 485	99 097 087	94 735 465	98 863 944	92 478 079
Financial derivatives	20 791 713	18 314 798	11 060 854	7 173 872	10 560 949
Debt securities issued	380 152 780	366 029 045	363 273 330	341 936 593	324 443 991
Payable taxes	-	286 373	292 746	321 218	14 271
Deferred taxes	552 172	205 930	989 287	407 630	407 630
Other liabilities	188 565	230 577	64 227	9 494	24 208
Provisions	29 696	29 696	29 696	29 980	29 980
Subordinated loan capital	2 358 938	2 359 591	2 360 836	3 090 588	3 089 909
Total liabilities	508 506 350	486 553 097	472 806 440	451 833 318	431 049 017
Share capital	2 127 000	2 127 000	1 827 000	1 577 000	1 577 000
Share premium reserve	13 293 000	13 293 000	10 593 000	8 343 000	8 343 000
Retained earnings	2 989 423	3 061 763	5 076 110	3 653 641	2 864 351
Total equity	18 409 423	18 481 763	17 496 110	13 573 641	12 784 351
Total liabilities and equity	526 915 773	505 034 858	490 302 551	465 406 959	443 833 368

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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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