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DNB  
BOLIGKREDITT AS

– a company in the DNB Group

Third quarter report 2014  
(Unaudited)

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# Financial highlights

## DNB Boligkreditt AS

<b>Statement of comprehensive income</b>	3rd quarter	3rd quarter	January - September		Full year
<i>Amounts in NOK 1 000</i>	2014	2013	2014	2013	2013
Net interest income	1 791 362	1 957 432	5 723 609	5 128 044	7 168 699
Net other operating income	219 036	244	(485 826)	(354 657)	(630 548)
<i>Of which net gains on financial instruments at fair value</i>	213 306	(16 841)	(512 807)	(410 722)	(697 112)
Operating expenses	1 273 128	1 577 458	4 164 247	3 976 553	5 620 488
Impairment of loans and commitments	(4 196)	11 830	7 550	7 973	16 260
Pre-tax operating profit	741 466	368 388	1 065 986	788 860	901 402
Tax expense	200 255	103 879	287 865	221 668	51 068
<b>Profit for the period</b>	<b>541 211</b>	<b>264 509</b>	<b>778 121</b>	<b>567 192</b>	<b>850 334</b>

<b>Balance sheet</b>	30 Sept.	31 Dec.	30 Sept.
<i>Amounts in NOK 1 000</i>	2014	2013	2013
Total assets	599 648 337	578 419 706	570 232 535
Loans to customers	550 845 511	532 284 013	529 690 392
Debt securities issued	409 987 699	420 451 451	427 275 903
Total equity	29 443 674	25 165 552	22 878 898

<b>Key figures</b>	3rd quarter	3rd quarter	January - September		Full year
<i>Per cent</i>	2014	2013	2014	2013	2013
Combined weighted total average spread for lending <sup>1)</sup>	1.16	1.34	1.30	1.13	1.21
Return on equity, annualised	7.4	4.6	3.8	3.4	3.6
Common equity Tier 1 capital ratio, transitional rules (%) <sup>2)</sup>	12.9	10.0	12.9	10.0	11.2
Capital ratio, transitional rules (%) <sup>2)</sup>	15.1	10.7	15.1	10.7	13.3
Impairments relative to average net loans to customers, annualised	0.00	0.00	0.00	0.00	0.00
Net non-performing and impaired loans, per cent of net loans	0.14	0.13	0.14	0.13	0.14

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

2) Due to changes in principles, some comparative figures have been restated. See further details in note 1 Accounting principles in the Annual Report 2013.

# Third quarter report 2014

<b>Directors' report</b> .....	2
<b>Accounts</b>	
Comprehensive income statement.....	4
Balance sheet.....	4
Statement of changes in equity.....	5
Cash flow statement.....	6
Note 1 Accounting principles.....	7
Note 2 Significant accounting judgements, estimates and assumptions.....	7
Note 3 Capital adequacy.....	8
Note 4 Credit risk.....	9
Note 5 Market risk.....	9
Note 6 Liquidity risk.....	10
Note 7 Net interest income.....	10
Note 8 Net gains on financial instruments at fair value.....	11
Note 9 Operating expenses.....	12
Note 10 Loans to customers.....	12
Note 11 Debt securities issued.....	13
Note 12 Subordinated loan capital.....	14
Note 13 Financial instruments at fair value.....	14
Note 14 Fair value of financial instruments at amortised cost.....	15
Note 15 Information on related parties.....	16
Note 16 Contingencies and post-balance sheet events.....	16
<b>Additional information</b>	
Key figures.....	17
Profit and balance sheet trends.....	18
Contact information.....	19

# Directors' report

DNB Boligkreditt AS is the DNB Group's vehicle for the issue of covered bonds based on residential mortgages. The company's offices are located in Oslo. DNB Boligkreditt is a wholly-owned subsidiary of DNB Bank ASA and is reported as part of the Personal Banking Norway business area in DNB's consolidated accounts. Based on developments in international capital markets, DNB Boligkreditt has come to play a key role in ensuring long-term favourable funding for the Group. The rating agencies' assessments are of significance to the company's funding terms. On 17 January 2014, Fitch Ratings affirmed and withdrew the A+ rating of both DNB Bank and its special purpose entity DNB Boligkreditt at the issuer's request. In addition, the rating on DNB Boligkreditt's covered bond programmes was affirmed at AAA and subsequently withdrawn. DNB Boligkreditt's covered bond programmes continue to be rated AAA by Moody's and Standard & Poor's.

## Financial accounts

DNB Boligkreditt recorded a profit of NOK 541 million in the third quarter of 2014, compared with a profit of NOK 265 million in the third quarter of 2013. The profit for the first three quarters of 2014 was NOK 778 million, compared with a profit of NOK 567 million in the first three quarters of 2013.

### Total income

Income totalled NOK 2 010 million in the third quarter of 2014, up from NOK 1 958 million in the year-earlier period.

<i>Amounts in NOK million</i>	3rd quarter 2014	Change	3rd quarter 2013
Total income	2 010	52	1 958
Net interest income		(166)	
Net commission and fee income		(12)	
Net gains on financial instruments at fair value		230	

The decrease in net interest income was mainly due to narrower interest rate spreads.

The recorded gains on financial instruments reflect the effects of unrealised changes in the market value of covered bonds, derivatives and loans recorded at fair value. Gains and losses from such instruments tend to vary considerably from quarter to quarter and will typically be reversed in subsequent periods due to stabilising markets or because the maturity dates of the instruments are approaching.

<i>Amounts in NOK million</i>	Jan.-Sept. 2014	Change	Jan.-Sept. 2013
Total income	5 238	465	4 773
Net interest income		596	
Net commission and fee income		(27)	
Net gains (losses) on financial instruments at fair value		(102)	
Net other income		(2)	

Interest rate spreads increased from the first three quarters of 2013 to the first three quarters of 2014.

The negative effects of financial instruments were mainly due to a reduction in the market value of basis swaps. The effect was also negative in 2012 and 2013, though it was less negative in 2013.

### Operating expenses and impairment of loans

Operating expenses are volatile due to the management fee paid to DNB Bank. The cooperation with DNB Bank is formalised through an extensive servicing agreement that ensures DNB Boligkreditt sound competence in key areas and cost-effective operations. The management fee calculation is based primarily on lending volume and the spreads achieved. The size of the management fee to the bank is related to net interest income. The fee amounted to NOK 1 258 million in the third quarter of 2014, down from NOK 1 557 million in the third quarter of the year before. The management fee for the first three quarters of 2014 was NOK 4 134 million.

The company has generally recorded low impairment losses on loans. In the third quarter of 2014, the company recorded net reversals on impairment losses of NOK 4.2 million. Impairment losses for the first three quarters of 2014 came to NOK 7.6 million.

The Board of Directors considers the level of impairment to be satisfactory relative to the high quality of the loan portfolio.

## Funding, liquidity and balance sheet

### Balance sheet

At end-September 2014, DNB Boligkreditt had total assets of NOK 599.6 billion under management, an increase of NOK 29.4 billion or 5.2 per cent from end-September 2013.

<i>Amounts in NOK million</i>	30 Sept. 2014	Change	30 Sept. 2013
Total assets	599 648	29 415	570 233
Loans to customers		21 156	
Financial derivatives		9 035	
Other assets		(776)	
Total liabilities	570 205	22 851	547 354
Due to credit institutions		33 046	
Financial derivatives		(784)	
Debt securities issued		(17 288)	
Subordinated loan capital		2 800	
Other liabilities		5 077	

The increase in loans to customers originates from the acquisition of residential mortgage portfolios from DNB Bank and the sale of new loans through the bank's distribution network.

Debt securities issued decreased by a net NOK 17.3 billion from end-September 2013. The company has issued covered bonds under existing programmes totalling NOK 30.0 billion in 2014. Total debt securities issued amounted to NOK 410.0 billion as at 30 September 2014.

### Risk and capital adequacy

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

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

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

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

Negative developments in the housing market affect the company. A decline in housing prices will reduce the value of the company's cover pool relative to the statutory asset coverage requirement. Quarterly stress tests are carried out to estimate the effects of a negative development in housing prices. A short-term measure to meet a significant fall in housing prices will be to supply DNB Boligkreditt with more substitute collateral. The Board of Directors considers the company's total risk exposure to be low.

As at 30 September 2014, the company's equity totalled NOK 29.4 billion, of which NOK 28.0 billion represented Tier 1 capital. Total primary capital in the company was NOK 32.9 billion. The Tier 1 capital ratio was 12.9 per cent, while the capital adequacy ratio was 15.1 per cent.

### New regulatory framework

On 22 August 2014, the Norwegian Ministry of Finance adopted a regulation on the technical specifications in the CRD IV regulations. The main requirements have already been included in the Financial Institutions Act and the Securities Trading Act. These entered into force on 1 July 2013 and entail a gradual increase in the minimum common equity Tier 1 requirement up until 1 July 2016. According to the Ministry, calculations of buffer requirements should be based on total risk-weighted volume, including international exposures. This means that total risk-weighted volume should be used when calculating the counter-cyclical buffer and in cases where the systemic risk buffer and the buffer for systemically important institutions are added up. In addition, in the regulation the Ministry has included the distinctively Norwegian requirement that risk-weighted volume cannot be less than 80 per cent of the corresponding figure calculated according to the Basel I regulations. This means that the Basel I floor applies to the buffer requirements. The changes in regulations entered into force on 30 September 2014.

Some stipulations in the EU's new banking regulations, Basel III and CRD IV, remain to be implemented, including liquidity requirements, a non-risk based capital requirement (leverage ratio) and stipulations regarding the so-called Pillar II requirements. In the opinion of the Ministry of Finance, Norway cannot wait for the international processes, but must formulate and introduce national rules that "as far as possible" correspond to the likely EU requirements. A liquidity buffer requirement, Liquidity Coverage Ratio, and a Net Stable Funding Ratio will be introduced. It has not yet been decided whether such buffer requirements will apply to mortgage institutions.

The Ministry of Finance has also asked Finanstilsynet to consider when and how a non-risk based capital requirement and related definitions can be introduced in Norway. Among other things, Finanstilsynet will consider the most appropriate level for Norwegian banks in view of the fact that such a requirement will be the lower limit for the risk-weighted capital requirement. In addition, Finanstilsynet has been asked to consider the appropriateness of making public the supervisory authorities' Pillar II assessments and requirements for individual banks. Finanstilsynet will present its suggestions and assessments by end-June 2015.

### Macroeconomic developments

Following a period characterised by positive signals in the international economy, several of Norway's major trading partners have experienced more sluggish growth in recent months. The level of growth has been particularly weak in the eurozone. Developments have been more positive in the US and the United Kingdom, which have experienced sound growth in private consumption and investment. Unemployment levels may have peaked in the EU, but remain very high. Several emerging economies have experienced slow economic growth, while growth has remained brisk in China and India.

Norwegian economic growth increased significantly during the second quarter of 2014, though this was largely attributable to factors that will not give equally strong impulses to the economy in the period ahead. In mid-August, companies in Norges Bank's regional network reported moderate, but slightly declining production growth over the preceding three months, which was somewhat below the expectations presented in May. The building and construction industry has the same expectations, and the prolonged decline in growth appears to have come to a halt.

The market remained attractive for covered bond issuers with strong credit ratings in the first three quarters of 2014. Lower returns in other asset classes seemed to have a positive impact on the demand for covered bonds from highly rated issuers, especially covered bond issues with a long term to maturity. However, the volume of covered bonds issued in 2014 is low compared to 2013.

### Future prospects

There has recently been weaker economic growth in the eurozone parallel to a positive trend in the US and the United Kingdom, as well as in emerging economies such as India and China. In Norway, the rate of growth is expected to slow in the period ahead due to a decline in petroleum investment. If the recent fall in oil prices prevails, it could have a negative impact on the Norwegian economy in the longer term. Housing prices are expected to be stable.

Interest rate spreads are expected to be stable during the remainder of 2014, while lending volumes are expected to increase at an annual rate of 3 to 4 per cent, with the highest growth in lending to personal customers and small and medium-sized enterprises. Furthermore, continued sound credit quality is expected to ensure that impairment losses remain below the normalised level in 2014.

Covered bonds have gained a leading position as a funding vehicle for Norwegian banks. Norwegian covered bonds still seem to be regarded as attractive investments with relatively low credit and market risk. In October 2014, the European Commission presented final requirements on the composition of the LCR liquidity buffer. 70 per cent of the buffer can now be in the form of covered bonds, compared to 40 per cent in previous proposals. This provides a further sound basis for DNB Boligkreditt's funding activities.

Oslo, 22 October 2014

The Board of Directors of DNB Boligkreditt AS

Bjørn Erik Næss  
(chairman)

Eva-Lill Strandskogen

Reidar Bolme

Elisabeth Ege

Jørn E. Pedersen

Øyvind Birkeland  
(chief executive officer)

# Comprehensive income statement

DNB Boligkreditt AS						
Amounts in NOK 1 000	Note	3rd quarter 2014	3rd quarter 2013	January - September		Full year 2013
				2014	2013	
Total interest income	7	5 125 906	5 252 837	15 467 723	15 190 938	20 475 799
Total interest expenses	7	3 334 543	3 295 404	9 744 114	10 062 894	13 307 101
<b>Net interest income</b>	7	<b>1 791 362</b>	<b>1 957 432</b>	<b>5 723 609</b>	<b>5 128 044</b>	<b>7 168 699</b>
Commission and fee income		5 333	17 152	25 342	51 845	61 843
Commission and fee expenses		590	510	1 506	1 513	2 014
Net gains on financial instruments at fair value	8	213 306	(16 841)	(512 807)	(410 722)	(697 112)
Other income		988	444	3 145	5 733	6 735
<b>Net other operating income</b>		<b>219 036</b>	<b>244</b>	<b>(485 826)</b>	<b>(354 657)</b>	<b>(630 548)</b>
<b>Total income</b>		<b>2 010 398</b>	<b>1 957 676</b>	<b>5 237 783</b>	<b>4 773 386</b>	<b>6 538 150</b>
Salaries and other personnel expenses	9	4 114	4 634	13 734	22 225	24 124
Other expenses	9, 15	1 269 015	1 572 824	4 150 513	3 954 329	5 596 364
<b>Total operating expenses</b>	9	<b>1 273 128</b>	<b>1 577 458</b>	<b>4 164 247</b>	<b>3 976 553</b>	<b>5 620 488</b>
Impairment of loans and commitments	10	(4 196)	11 830	7 550	7 973	16 260
<b>Pre-tax operating profit</b>		<b>741 466</b>	<b>368 388</b>	<b>1 065 986</b>	<b>788 860</b>	<b>901 402</b>
Tax expense		200 255	103 879	287 865	221 668	51 068
<b>Profit for the period</b>		<b>541 211</b>	<b>264 509</b>	<b>778 121</b>	<b>567 192</b>	<b>850 334</b>
Other comprehensive income		-	-	-	-	3 509
<b>Total comprehensive income for the period</b>		<b>541 211</b>	<b>264 509</b>	<b>778 121</b>	<b>567 192</b>	<b>853 843</b>

# Balance sheet

DNB Boligkreditt AS				
Amounts in NOK 1 000	Note	30 Sept. 2014	31 Dec. 2013	30 Sept. 2013
<b>Assets</b>				
Due from credit institutions	14,15	929 785	347 081	1 697 703
Loans to customers	10,13,14	550 845 511	532 284 013	529 690 392
Financial derivatives	13,15	47 866 431	45 786 413	38 830 597
Other assets		6 611	2 199	13 843
<b>Total assets</b>		<b>599 648 337</b>	<b>578 419 706</b>	<b>570 232 535</b>
<b>Liabilities and equity</b>				
Due to credit institutions	14,15	137 588 002	115 105 033	104 542 294
Financial derivatives	13,15	11 535 906	11 987 418	12 319 938
Debt securities issued	11,13,14	409 987 699	420 451 451	427 275 903
Payable taxes		288 072	108	425 357
Deferred taxes		5 447 892	211 892	159 460
Other liabilities		476 154	612 370	536 242
Provisions		22 784	25 500	36 545
Subordinated loan capital	12,14	4 858 154	4 860 381	2 057 897
<b>Total liabilities</b>		<b>570 204 664</b>	<b>553 254 154</b>	<b>547 353 637</b>
Share capital		3 077 000	2 727 000	2 527 000
Share premium reserve		21 843 000	18 693 000	16 893 000
Other equity		4 523 674	3 745 552	3 458 898
<b>Total equity</b>		<b>29 443 674</b>	<b>25 165 552</b>	<b>22 878 898</b>
<b>Total liabilities and equity</b>		<b>599 648 337</b>	<b>578 419 706</b>	<b>570 232 535</b>

# Statement of changes in equity

DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	Share capital	Share premium	Actuarial profit and loss	Other equity	Total equity
<b>Balance sheet as at 31 December 2012</b>	<b>2 527 000</b>	<b>16 893 000</b>	<b>0</b>	<b>2 888 559</b>	<b>22 308 560</b>
Implementation of the amended IAS 19 - employee benefits <sup>1)</sup>			3 147		3 147
<b>Balance sheet as at 1 January 2013, restated</b>	<b>2 527 000</b>	<b>16 893 000</b>	<b>3 147</b>	<b>2 888 559</b>	<b>22 311 707</b>
Profit for the period				567 192	567 192
Other comprehensive income					0
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>567 192</b>	<b>567 192</b>
<b>Balance sheet as at 30 September 2013</b>	<b>2 527 000</b>	<b>16 893 000</b>	<b>3 147</b>	<b>3 455 751</b>	<b>22 878 898</b>
<b>Balance sheet as at 31 December 2013</b>	<b>2 727 000</b>	<b>18 693 000</b>	<b>6 656</b>	<b>3 738 894</b>	<b>25 165 552</b>
Profit for the period				778 121	778 121
Other comprehensive income					0
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>778 121</b>	<b>778 121</b>
Share issue 30 May 2014	350 000	3 150 000			3 500 000
<b>Balance sheet as at 30 September 2014</b>	<b>3 077 000</b>	<b>21 843 000</b>	<b>6 656</b>	<b>4 517 015</b>	<b>29 443 674</b>

1) Changes in accounting principles due to changes in IAS 19, ref. note 1 Accounting principles in the Annual Report 2013.

## Share capital

All shares and voting rights of the company are held by DNB Bank ASA. Share capital at the beginning of 2014 was NOK 2 727 million (27 270 000 shares at NOK 100).

In May 2014 3 500 000 shares were issued to DNB Bank ASA. Issue price per share was NOK 1 000. After the issuance, share capital was increased by NOK 350 million to NOK 3 077 million (30 770 000 shares) and share premium was increased by NOK 3 150 million to NOK 21 843 million.

# Cash flow statement

DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	January - September		Full year
	2014	2013	2013
<b>Operating activities</b>			
Net receipts/payments on loans to customers	(4 876 574)	2 825 022	5 355 932
Interest received from customers	15 523 067	15 145 196	20 396 081
Net receipts/payments on loans to/from credit institutions	21 891 002	(15 954 939)	(4 049 426)
Interest received from credit institutions	15 479	32 105	37 732
Interest paid to credit institutions	(2 397 772)	(2 288 988)	(2 931 117)
Net receipts/payments on the sale of financial assets for investment or trading	(133 743)	32 232	(19 265)
Net receipts on commissions and fees	23 836	50 331	59 828
Payments for operating expenses	(4 304 256)	(3 808 158)	(5 370 883)
Taxes receipt/paid	0	(80 614)	(282 830)
<b>Net cash flow relating to operating activities</b>	<b>25 741 039</b>	<b>(4 047 813)</b>	<b>13 196 051</b>
<b>Investing activities</b>			
Net purchase of loan portfolio	(12 811 044)	(13 413 910)	(18 104 918)
<b>Net cash flow relating to investment activities</b>	<b>(12 811 044)</b>	<b>(13 413 910)</b>	<b>(18 104 918)</b>
<b>Funding activities</b>			
Receipts on issued bonds and commercial paper	29 983 900	42 301 933	57 201 508
Payments on redeemed bonds and commercial paper	(44 616 500)	(17 207 500)	(46 842 563)
Interest payments on issued bonds and commercial paper	(6 901 247)	(9 334 341)	(11 935 490)
Receipts on the raising of subordinated loan capital	0	0	2 800 000
Interest payments on subordinated loan capital	(141 412)	(68 398)	(92 468)
Share issue	3 500 000	0	2 000 000
Group contribution paid	5 236 000	-	-
<b>Net cash flow from funding activities</b>	<b>(12 939 258)</b>	<b>15 691 694</b>	<b>3 130 987</b>
<b>Net cash flow</b>	<b>(9 263)</b>	<b>(1 770 029)</b>	<b>(1 777 880)</b>
Cash as at 1 January	59 689	1 837 569	1 837 569
Net receipts/payments of cash	(9 263)	(1 770 029)	(1 777 880)
Cash at end of period	50 427	67 540	59 689

As of 1 January 2013 due from credit institutions, previously presented as cash, is presented as part of net receipts/payments on loans from credit institutions in the net cash flow from financing activities.

During the fourth quarter of 2013, certain items in the cash flow statement were reclassified. Among other things, net receipts/ payments on loans to credit institutions and appurtenant interest were included in operating activities with effect from the fourth quarter of 2013. Prior to this, these items were included under financing activities. Comparable figures for previous periods have been restated.

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.



## **Note 1      Accounting principles**

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The financial statements for the third quarter of 2014 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 2013.

The company's accounting principles and methods of estimates are consistent with those applied in the preparation of the annual financial statements for 2013. As from 1 January 2014, hedge accounting for long-term borrowings in foreign currency only takes into account interest rate risk. No new or amended accounting standards or interpretations have entered into force so far in 2014 that have had effect on the interim report.

The accounts for the third quarter were approved by the Board of Directors on 22 October 2014.

### **Operating segments**

The company has operations within one operating segment only according to IFRS 8 *Operating segments*. The segment gave a positive return of NOK 0.78 billion for the first nine months of 2014. 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**

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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 2013 in note 1 Significant accounting judgements, estimates and assumptions.

## Note 3 Capital adequacy

Primary capital	DNB Boligkreditt AS	
	30 Sept. 2014	31 Dec. 2013
<i>Amounts in NOK 1 000</i>		
Share capital	3 077 000	2 727 000
Other equity	25 581 994	22 438 552
Total equity	28 658 994	25 165 552
Deductions		
Expected losses exceeding actual losses, IRB-portfolios	(794 845)	(318 700)
Adjustments for unrealised losses/(gains) on liabilities recorded at fair value	156 976	(73 565)
Allocated group contributions for payment	-	-
Common equity Tier 1 capital	28 021 125	24 773 287
Term subordinated loan capital	4 850 000	4 850 000
Deductions		
Remaining maturity of less than five years	-	-
Tier 2 capital	4 850 000	4 850 000
Total eligible primary capital	32 871 125	29 623 287
Risk-weighted volume, transitional rules	217 784 896	222 032 203
Minimum capital requirement, transitional rules	17 422 792	17 762 576
Common equity Tier 1 capital ratio, transitional rules (%)	12.9	11.2
Capital ratio, transitional rules (%)	15.1	13.3

Due to transitional rules, the minimum capital adequacy requirement cannot be reduced below 80 per cent of the corresponding figure calculated according to the Basel I regulations.

Specification of risk-weighted volume and capital requirements	DNB Boligkreditt AS				
	Nominal exposure 30 Sept. 2014	EAD <sup>1)</sup> 30 Sept. 2014	Risk-weighted volume 30 Sept. 2014	Capital requirements 30 Sept. 2014	Capital requirements 30 Sept. 2013
<i>Amounts in NOK 1 000</i>					
IRB approach					
Corporate	6 355 455	6 355 455	3 646 848	291 748	297 688
Retail - residential property	559 673 657	559 673 657	92 567 212	7 405 377	4 145 798
Total credit risk, IRB approach	566 029 112	566 029 112	96 214 060	7 697 125	4 443 486
Standardised approach					
Institutions	32 956 606	32 956 606	16 478 303	1 318 264	732 758
Corporate	16 718 401	16 718 401	5 889 889	471 191	452 194
Retail - residential property	11 721 864	10 905 614	3 980 558	318 445	383 956
Total credit risk, standardised approach	61 396 871	60 580 621	26 348 750	2 107 900	1 568 908
Total credit risk	627 425 983	626 609 733	122 562 810	9 805 025	6 012 394
Other assets	6 611	6 611	6 611	529	1 107
Market risk, standardised approach			33 012 873	2 641 030	-
Operational risk			6 528 628	522 290	327 698
Deductions					
Total risk-weighted volume and capital requirements before transitional rules			162 110 922	12 968 874	6 341 199
Additional capital requirements according to transitional rules			55 673 974	4 453 918	11 307 999
Total risk-weighted volume and capital requirements			217 784 896	17 422 792	17 649 198

1) EAD, exposure at default.

## **Note 4      Credit risk**

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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 as counterparty.

## **Note 5      Market risk**

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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 minimized 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 and basis swap spreads**

The company enters into basis swaps to manage foreign currency risk due to long-term borrowings in foreign currency.

The basis swaps are recorded at fair value. There may be significant variations in the value of the basis swaps from day-to-day due to increases or reductions in the spreads, which causes unrealized gains and losses in the income statement. Gains and losses from such instruments tend to vary considerably from quarter to quarter and will typically be reversed in subsequent periods due to stabilizing markets or because the maturity dates of the instruments are approaching.

## 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 a 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 160 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 Boligkredit liquidity situation at the end of third quarter 2014 can be characterised as sound.

## Note 7 Net interest income

	DNB Boligkredit AS				
<i>Amounts in NOK 1 000</i>	3rd quarter 2014	3rd quarter 2013	January - September		Full year 2013
			2014	2013	2013
Interest on amounts due from credit institutions	4 819	5 488	15 479	32 105	37 732
Interest on loans to customers	5 065 172	5 194 958	15 289 159	15 004 006	20 230 435
Front-end fees etc.	2 575	670	2 964	3 382	3 641
Other interest income	53 339	51 720	160 121	151 445	203 991
<b>Total interest income</b>	<b>5 125 906</b>	<b>5 252 837</b>	<b>15 467 723</b>	<b>15 190 938</b>	<b>20 475 799</b>
Interest on amounts due to credit institutions	593 225	446 569	1 629 233	1 471 789	1 893 187
Interest on debt securities issued	2 481 423	2 637 085	7 593 978	7 687 808	10 404 585
Interest on subordinated loan capital	46 405	22 432	139 185	67 981	94 536
Net interest income/expenses, derivatives	213 490	189 318	381 717	835 316	914 793
<b>Total interest expenses</b>	<b>3 334 543</b>	<b>3 295 404</b>	<b>9 744 114</b>	<b>10 062 894</b>	<b>13 307 101</b>
<b>Net interest income</b>	<b>1 791 362</b>	<b>1 957 432</b>	<b>5 723 609</b>	<b>5 128 044</b>	<b>7 168 699</b>

## Note 8 Net gains on financial instruments at fair value

	DNB Boligkreditt AS				
Amounts in NOK 1 000	3rd quarter 2014	3rd quarter 2013	January - September 2014 2013		Full year 2013
Net gains on loans at fair value (fixed-rate loans) <sup>1)</sup>	65 560	(358 681)	952 253	(266 565)	146 895
Net gains on financial liabilities (long-term borrowing in NOK) <sup>2)</sup>	(186 675)	202 923	(1 079 970)	159 339	190 299
<b>Total gains on financial instruments, designated as at fair value</b>	<b>(121 116)</b>	<b>(155 758)</b>	<b>(127 718)</b>	<b>(107 226)</b>	337 194
Net gains on foreign exchange and financial derivatives, trading <sup>3)</sup>	254 069	138 917	(555 063)	(303 496)	(1 034 306)
Net gains on financial derivatives, hedging <sup>4)</sup>	2 014 287	(804 718)	10 437 868	4 150 446	27 611 659
Net gains on financial liabilities, hedged items <sup>4)</sup>	(1 933 935)	804 718	(10 267 894)	(4 150 446)	(27 611 659)
<b>Net gains on financial instruments at fair value</b>	<b>213 306</b>	<b>(16 841)</b>	<b>(512 807)</b>	<b>(410 722)</b>	<b>(697 112)</b>

- 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 166.9 million increase in market values in the third quarter of 2014 (negative effect on profits) due to such credit risk premium effects, compared with a NOK 18.4 million increase in market values in the third quarter of 2013 (negative effect on profits). Accumulated negative mark-to-market effects by the end of the third quarter of 2014 were NOK 971.2 million, compared with a negative NOK 206.5 million by the end of the third quarter of 2013.
- 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 from DNB Boligkreditt's long-term borrowing in foreign currencies. The swaps are entered into at the time of issuing the bonds and are continuously monitored until maturity. Hedge accounting is not used for these economic hedges. 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 which is recorded as unrealised gains and losses in the total comprehensive income for the period. There was a NOK 168.8 million increase in market values in the third quarter of 2014 (positive effect on profits) due to such basis swap spread effects, compared with a NOK 172.6 million decrease in the third quarter of 2013 (negative effect on profits). Accumulated negative mark-to-market effects by the end of the third quarter of 2014 were NOK 320.7 million, compared with accumulated positive effects of NOK 565.1 million by the end of the third quarter of 2013.
- 4) As from 1 January 2014, DNB Boligkreditt uses hedge accounting only for the interest rate component inherent in the long-term borrowings in foreign currency. With respect to hedged liabilities, the change in fair value of the hedged item is charged to the income statement. 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. Foreign currency borrowing is hedged with swaps ensuring a high correlation between interest rates on the hedged items and the hedging instruments. In the table, the interest rate exposure of the short leg of the swap, representing a three-month unhedged interest rate exposure, is included in changes in value of the hedging instrument.

## Note 9 Operating expenses

<b>DNB Boligkreditt AS</b>					
<i>Amounts in NOK 1 000</i>	3rd quarter 2014	3rd quarter 2013	January - September		Full year 2013
			2014	2013	
Salaries	1 320	2 946	6 344	8 666	10 730
Employer's national insurance contributions	384	695	1 497	1 698	2 091
Severance packages	-	-	-	7 731	7 731
Pension expenses	2 096	735	5 060	3 181	2 056
Social expenses	314	257	832	949	1 515
<b>Salaries and other personnel expenses</b>	<b>4 114</b>	<b>4 634</b>	<b>13 734</b>	<b>22 225</b>	<b>24 124</b>
Fees <sup>1)</sup>	1 267 185	1 571 205	4 147 811	3 952 073	5 593 195
Other operating expenses	1 829	1 619	2 701	2 256	3 169
<b>Other expenses</b>	<b>1 269 015</b>	<b>1 572 824</b>	<b>4 150 513</b>	<b>3 954 329</b>	<b>5 596 364</b>
<b>Operating expenses</b>	<b>1 273 128</b>	<b>1 577 458</b>	<b>4 164 247</b>	<b>3 976 553</b>	<b>5 620 488</b>

1) Fees are mainly management fees paid to DNB Bank ASA for services rendered according to the management agreement. See also note 15 Information on related parties.

## Note 10 Loans to customers

<b>DNB Boligkreditt AS</b>			
<i>Amounts in NOK 1 000</i>	30 Sept. 2014	31 Dec. 2013	30 Sept. 2013
Loans to customers at amortised cost, nominal amount	483 367 575	458 345 160	454 526 058
– Individual impairment	52 810	54 887	28 274
Loans to customers, after individual impairment	483 314 765	458 290 273	454 497 784
+ Accrued interest	807 317	859 045	830 605
– Individual impairment of accrued interest and amortisation	46 981	43 323	39 560
<b>Loans to customers, at amortised cost</b>	<b>484 075 102</b>	<b>459 105 995</b>	<b>455 288 828</b>
Loans to customers at fair value, nominal amount	64 569 183	71 906 903	73 570 299
– Individual impairment	3 722	3 450	12 010
Loans to customers, after individual impairment	64 565 461	71 903 453	73 558 289
+ Accrued interest	126 239	145 334	145 425
+ Adjustment to fair value	2 188 054	1 235 801	822 341
<b>Loans to customers, at fair value</b>	<b>66 879 754</b>	<b>73 284 589</b>	<b>74 526 055</b>
– Collective impairment	109 345	106 571	124 491
<b>Total loans to customers</b>	<b>550 845 511</b>	<b>532 284 013</b>	<b>529 690 392</b>

### Impairment allowances

<b>DNB Boligkreditt AS</b>			
<i>Amounts in NOK 1 000</i>	30 Sept. 2014	31 Dec. 2013	30 Sept. 2013
Individual impairment	56 532	58 337	40 284
Individual impairment of accrued interest	46 981	43 323	39 560
Collective impairment	109 345	106 571	124 491
<b>Impairment allowances as at end of period</b>	<b>212 858</b>	<b>208 230</b>	<b>204 335</b>

### Impairment expenses

<b>DNB Boligkreditt AS</b>					
<i>Amounts in NOK 1 000</i>	3rd quarter 2014	3rd quarter 2013	January - September		Full year 2013
			2014	2013	
Individual impairment	843	2 661	6 803	8 819	35 473
Collective impairment <sup>1)</sup>	(4 123)	10 182	2 775	2 345	(15 575)
Recoveries of previous write-offs	(916)	(1 012)	(2 027)	(3 191)	(3 637)
<b>Impairment expenses</b>	<b>(4 196)</b>	<b>11 830</b>	<b>7 550</b>	<b>7 973</b>	<b>16 260</b>

1) Based on the DNB Group's calculation model and statistics. Further information about collective impairments can be found in note 1 Accounting Principles in DNB Boligkreditt's annual financial statements as at 31 December 2013.

## Note 11 Debt securities issued

Debt securities issued	DNB Boligkreditt AS		
	30 Sept. 2014	31 Dec. 2013	30 Sept. 2013
<i>Amounts in NOK 1 000</i>			
Listed covered bonds, nominal amount	331 862 567	355 746 021	366 128 475
Private placements under the bond programme, nominal amount	51 659 840	48 460 758	45 286 082
Total bonds, nominal amount	383 522 408	404 206 779	411 414 557
Accrued interest	3 896 824	4 222 277	3 497 326
Unrealised gains <sup>1)</sup>	22 568 467	12 022 396	12 364 020
Adjustments	26 465 291	16 244 672	15 861 346
<b>Total debt securities issued</b>	<b>409 987 699</b>	<b>420 451 451</b>	<b>427 275 903</b>

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

Changes in debt securities issued	DNB Boligkreditt AS					
	Balance sheet 30 Sept. 2014	Issued 2014	Matured/ redeemed 2014	Exchange rate movements 2014	Changes in adjustments 2014	Balance sheet 31 Dec. 2013
<i>Amounts in NOK 1 000</i>						
Bond debt, nominal amount	383 522 408	29 983 900	(44 616 500)	(6 051 771)		404 206 779
Adjustments	26 465 291				10 220 619	16 244 672
<b>Total debt securities issued</b>	<b>409 987 699</b>	<b>29 983 900</b>	<b>(44 616 500)</b>	<b>(6 051 771)</b>	<b>10 220 619</b>	<b>420 451 451</b>

Maturity of debt securities issued	DNB Boligkreditt AS			
		NOK	Foreign currency	Total
<i>Amounts in NOK 1 000</i>				
2015		3 889 000	40 549 811	44 438 811
2016		9 698 000	57 439 956	67 137 956
2017		11 625 000	43 834 555	55 459 555
2018		23 000 000	45 910 137	68 910 137
2019		23 622 000	23 635 507	47 257 507
2020 and later		12 000 000	88 318 440	100 318 439
<b>Total bond debt</b>		<b>83 834 000</b>	<b>299 688 408</b>	<b>383 522 408</b>

Debt securities issued - matured/redeemed during the period	DNB Boligkreditt AS							
	ISIN Code	Currency	Matured/ redeemed amount	Interest	Issued	Matured	30 Sept. 2014	31 Dec. 2013
<i>Amounts in NOK 1 000</i>								
NO0010477706	NOK	157 000	Floating	2008	2015	Called	390 000	547 000
NO0010485337	NOK	4 688 500	Floating	2009	2014	Called	-	4 688 500
NO0010495575	NOK	26 000	Floating	2010	2016	Called	9 698 000	9 724 000
NO0010503923	NOK	7 226 000	Floating	2009	2017	Called	-	7 226 000
NO0010503931	NOK	9 032 000	Floating	2010	2017	Called	8 800 000	16 832 000
NO0010378730	NOK	4 907 500	Fixed	2007	2014	Called	-	4 907 500
NO0010524390	NOK	9 200 000	Floating	2009	2016	Called	-	9 200 000
NO0010526809	NOK	6 480 000	Floating	2009	2017	Called	-	6 480 000
NO0010571946	NOK	2 001 000	Floating	2010	2015	Called	3 249 000	5 250 000
NO0010534688	NOK	520 500	Floating	2009	2014	Called	-	520 500
	EUR	378 000	Floating	2013	2019	Called	-	378 000
<b>Total debt securities issued, nominal value</b>		<b>44 616 500</b>					<b>22 137 000</b>	<b>65 753 500</b>

Cover pool	DNB Boligkreditt AS		
	30 Sept. 2014	31 Dec. 2013	30 Sept. 2013
<i>Amounts in NOK 1 000</i>			
Pool of eligible loans	546 989 924	527 558 128	526 330 497
Market value of eligible derivatives	36 330 524	33 798 995	26 510 659
Supplementary assets	-	-	-
<b>Total collateralised assets</b>	<b>583 320 449</b>	<b>561 357 123</b>	<b>552 841 156</b>
Debt securities issued, carrying value	409 987 699	420 451 451	427 275 903
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(949 905)	(413 808)	(420 497)
<b>Debt securities issued, valued according to regulation <sup>1)</sup></b>	<b>409 037 794</b>	<b>420 037 643</b>	<b>426 855 407</b>
Collateralisation (per cent)	142.6	133.6	129.5

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 loan capital

						DNB Boligkreditt AS		
<i>Amounts in NOK 1 000</i>	Currency	Nominal amount	Interest rate	Issue date	Maturity date	30 Sept. 2014	31 Dec. 2013	30 Sept. 2013
Term subordinated loan capital	NOK	1 200 000	3 month Nibor + 152 bp	2008	2018	-	-	1 200 000
Term subordinated loan capital	NOK	850 000	3 month Nibor + 400 bp	2009	2019	850 000	850 000	850 000
Term subordinated loan capital	NOK	4 000 000	3 month Nibor + 170 bp	2013	2023	4 000 000	4 000 000	-
Accrued interest						8 154	10 381	7 897
<b>Total subordinated loan capital</b>						<b>4 858 154</b>	<b>4 860 381</b>	<b>2 057 897</b>

## Note 13 Financial instruments at fair value

The company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

### Level 1

Valuation based on quoted, unadjusted prices in active markets for identical assets and liabilities. DNB Boligkreditt has no financial instruments in this category.

### Level 2

Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly.

Valuation of interest rate swaps and currency swaps is based on level 2 techniques. The valuation is based on swap curves that are based on observable market prices. Credit risk is considered to have an insignificant effect on the fair value.

Debt securities issued in Norwegian kroner are also measured at fair value based on level 2 techniques. The valuation of the bonds is primarily based on observable market data in the form of interest rate curves and credit margins.

### Level 3

Techniques for which inputs that have a significant effect on the recorded fair value are not based on observable market data.

Loans consist primarily of fixed-rate loans in Norwegian kroner and parts of the portfolio of margin loans in Norwegian kroner. The value of fixed-rate loans is determined by discounting agreed interest flows over the term of the loan, using a discount factor adjusted for margin requirements. A margin requirement is calculated for margin loans, and the difference between the margin requirement and the agreed margin is discounted over the average expected time to the repricing of the loan. The assumptions underlying the calculation of the margin requirement are based on a review of the market conditions on the balance sheet date and on an assessment of the deliberations made by external investors when investing in a corresponding portfolio.

						DNB Boligkreditt AS	
<i>Amounts in NOK 1 000</i>	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	Accrued interest <sup>1)</sup>	Total		
<b>Assets as at 30 September 2014</b>							
Loans to customers	-	-	66 757 237	126 239	66 883 476		
Financial derivatives	-	47 866 431	-	-	47 866 431		
<b>Liabilities as at 30 September 2014</b>							
Debt securities issued	-	86 385 303	-	548 594	86 933 897		
Financial derivatives	-	11 535 906	-	-	11 535 906		

1) Accrued interest on financial derivatives is included in the amounts in levels 2 and 3.



## Note 14 Fair value of financial instruments at amortised cost

Most assets and liabilities in the DNB Boligkreditt's balance sheet are carried at amortised cost.

Amortised cost is the historical cost of the asset or liability at initial recognition, adjusted for repayments of principal, amortisations based on the effective interest rate method and impairments. The value is not based on current market conditions, but rather accounted for based on the originally agreed terms, so in general there will be a difference between the amortised cost value and market value.

The difference is mainly related to changes in credit risk. Fair value includes both positive and negative value changes in credit risk while amortised cost is not adjusted for positive value changes and only to some extent adjusted for negative value changes through impairment.

The table shows estimated fair values of items carried at amortised cost. Values are measured based on the valuation methods described in note 13.

### Fair value of financial instruments at amortised cost

<i>Amounts in NOK 1 000</i>	<b>DNB Boligkreditt AS</b>	
	Carrying amount 30 Sept. 2014	Fair value 30 Sept. 2014
Due from credit institutions	929 785	929 785
Loans to customers	484 174 892	484 174 892
<b>Total financial assets</b>	<b>485 104 677</b>	<b>485 104 677</b>
Due to credit institutions	137 588 002	137 588 002
Debt securities issued	323 053 803	327 881 966
Subordinated loan capital	4 858 154	4 921 603
<b>Total financial liabilities</b>	<b>465 499 959</b>	<b>470 391 571</b>

<i>Amounts in NOK 1 000</i>	<b>DNB Boligkreditt AS</b>				
	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3	Accrued interest	Total
<b>Assets as at 30 September 2014</b>					
Lending to and deposits with credit institutions	-	929 785	-	-	929 785
Loans to customers	-	-	483 367 575	807 317	484 174 892
<b>Liabilities as at 30 September 2014</b>					
Loans due to credit institutions	-	137 588 002	-	-	137 588 002
Debt securities issued	-	324 533 735	-	3 348 231	327 881 966
Subordinated loan capital	-	-	4 913 449	8 154	4 921 603

For floating rate loans to customers, the interest rates and margins are changed when the market rates change. The customers have to be notified of all changes in advance of the changes being put into effect, so there is a short period of time where the terms of the loans diverge from market rates. However this delay in timing is considered to have an immaterial effect to the total value of the loans hence the carrying value of these loans are considered to be a relevant measure for fair value.

Debt securities issued that are carried at amortised cost are subject to hedge accounting of its interest rate risk. The hedging relationship between the bonds and their designated interest rate swaps are considered to be effective and accounted for as fair value hedges. The amortised cost value is adjusted by the fair value change of the hedged risk. Changes in credit risk are not subject to hedge accounting.

Subordinated loan capital is at floating interest rates and carried at amortised cost. Loans due to credit institutions are mainly at floating interest rates and carried at amortised cost, which is considered not to diverge significantly from fair value.

## **Note 15 Information on related parties**

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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. All transactions are carried out at market terms, and 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 third quarter of 2014, portfolios of NOK 4.5 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 1 258 million for the third quarter of 2014 (NOK 1 557 million for the third quarter of 2013).

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-September, the bank had invested NOK 24.5 billion in covered bonds issued by DNB Boligkreditt.

In the fourth quarter of 2013, DNB Boligkreditt entered into a "Revolving Credit Facility Agreement (RCF)" with DNB Bank ASA. Subject to the terms of this RCF, DNB Bank makes available to DNB Boligkreditt a revolving credit facility at all times equal to DNB Boligkreditt's payment obligations in NOK for the next 12 months in respect of issued Covered Bonds and related derivative hedge agreements. DNB Boligkreditt shall apply all amounts borrowed by it under the RCF towards payments under Covered Bonds and related derivative contracts entered into for hedging purposes for those Covered Bonds. DNB Boligkreditt may not make use of the RCF for the fulfillment of payment obligations related to the ordinary (re-) purchase of Covered Bonds (if any), or to derivative agreements related to such Covered Bonds. The obligations of DNB Bank towards DNB Boligkreditt under the RCF does not constitute a guarantee in respect of amounts due and payable under the Covered Bonds.

### **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-September 2014, DNB Livsforsikring's holding of listed DNB Boligkreditt bonds was valued at NOK 1.9 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 1.0 million for the third quarter of 2014.

## **Note 16 Contingencies and post-balance sheet events**

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DNB Boligkreditt is not involved in any legal actions.

# Key figures

## DNB Boligkreditt AS

	3rd quarter 2014	3rd quarter 2013	January - September 2014	September 2013	Full year 2013 <sup>1)</sup>
<b>Rate of return/profitability</b>					
Return on equity, annualised (%) <sup>1)</sup>	7.4	4.6	3.8	3.4	3.6
<b>Financial strength at end of period</b>					
Common equity Tier 1 capital ratio, transitional rules (%) <sup>2)</sup>	12.9	10.0	12.9	10.0	11.2
Capital ratio, transitional rules (%) <sup>2)</sup>	15.1	10.7	15.1	10.7	13.3
Common equity Tier 1 capital (NOK 1 000)	28 021 125	22 053 739	28 021 125	22 053 739	24 932 637
Risk-weighted volume, transitional rules (NOK 1 000)	217 784 896	220 614 981	217 784 896	220 614 981	222 032 203
<b>Loan portfolio and impairment</b>					
Individual impairment relative to average net loans to customers, annualised	0.00	0.00	0.00	0.00	0.00
Non-performing and doubtful loans, per cent of gross loans	0.24	0.23	0.24	0.23	0.24
Non-performing and doubtful gross loans, end of period (NOK 1 000)	1 337 210	1 229 470	1 337 210	1 229 470	1 258 443
Net non-performing and net doubtful loans, per cent of net loans	0.14	0.13	0.14	0.13	0.14
Net non-performing and net doubtful loans, end of period (NOK 1 000)	768 246	707 468	768 246	707 468	729 033
<b>Staff</b>					
Number of full-time positions at end of period	8	9	8	9	9

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

2) Due to changes in principles, some comparative figures have been restated. See further details in note 1 Accounting principles in the Annual Report 2013.

# Profit and balance sheet trends

## Comprehensive income statement

DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	3rd quarter 2014	2nd quarter 2014	1st quarter 2014	4th quarter 2013	3rd quarter 2013
Total interest income	5 125 906	5 197 994	5 143 823	5 284 862	5 252 837
Total interest expenses	3 334 543	3 276 052	3 133 518	3 244 207	3 295 404
<b>Net interest income</b>	<b>1 791 362</b>	<b>1 921 942</b>	<b>2 010 305</b>	<b>2 040 655</b>	<b>1 957 432</b>
Commission and fee income	5 333	9 712	10 297	9 998	17 152
Commission and fee expenses	590	434	482	501	510
Net gains on financial instruments at fair value	213 306	(162 194)	(563 919)	(286 390)	(16 841)
Other income	988	749	1 409	1 002	444
<b>Net other operating income</b>	<b>219 036</b>	<b>(152 167)</b>	<b>(552 695)</b>	<b>(275 891)</b>	<b>244</b>
<b>Total income</b>	<b>2 010 398</b>	<b>1 769 775</b>	<b>1 457 610</b>	<b>1 764 764</b>	<b>1 957 676</b>
Salaries and other personnel expenses	4 114	3 690	5 930	1 899	4 634
Other expenses	1 269 015	1 369 229	1 512 270	1 642 036	1 572 824
<b>Total operating expenses</b>	<b>1 273 128</b>	<b>1 372 918</b>	<b>1 518 200</b>	<b>1 643 935</b>	<b>1 577 458</b>
Impairment of loans and commitments	(4 196)	5 849	5 897	8 287	11 830
<b>Pre-tax operating profit</b>	<b>741 466</b>	<b>391 008</b>	<b>(66 488)</b>	<b>112 542</b>	<b>368 388</b>
Tax expense	200 255	105 572	(17 952)	(170 600)	103 879
<b>Profit for the period</b>	<b>541 211</b>	<b>285 436</b>	<b>(48 536)</b>	<b>283 143</b>	<b>264 509</b>
Other comprehensive income	-	-	-	3 509	-
<b>Comprehensive income for the period</b>	<b>541 211</b>	<b>285 436</b>	<b>(48 536)</b>	<b>286 652</b>	<b>264 509</b>

## Balance sheet

DNB Boligkreditt AS

<i>Amounts in NOK 1 000</i>	30 Sept. 2014	30 June 2014	31 March 2014	31 Dec. 2013	30 Sept. 2013
<b>Assets</b>					
Due from credit institutions	929 785	4 633 095	742 392	347 081	1 697 703
Loans to customers	550 845 511	542 819 869	536 324 695	532 284 013	529 690 392
Financial derivatives	47 866 431	53 671 921	44 695 557	45 786 413	38 830 597
Deferred tax assets	-	-	-	-	-
Other assets	6 611	761	4 821	2 199	13 843
<b>Total assets</b>	<b>599 648 337</b>	<b>601 125 646</b>	<b>581 767 465</b>	<b>578 419 706</b>	<b>570 232 535</b>
<b>Liabilities and equity</b>					
Due to credit institutions	137 588 002	135 149 516	129 332 329	115 105 033	104 542 294
Financial derivatives	11 535 906	11 543 131	10 832 740	11 987 418	12 319 938
Debt securities issued	409 987 699	414 627 886	410 855 422	420 451 451	427 275 903
Payable taxes	288 072	108	108	108	425 357
Deferred taxes	5 447 892	5 535 512	193 940	211 892	159 460
Other liabilities	476 154	486 886	556 036	612 370	536 242
Provisions	22 784	19 876	19 876	25 500	36 545
Subordinated loan capital	4 858 154	4 860 279	4 859 999	4 860 381	2 057 897
<b>Total liabilities</b>	<b>570 204 664</b>	<b>572 223 194</b>	<b>556 650 449</b>	<b>553 254 154</b>	<b>547 353 637</b>
Share capital	3 077 000	3 077 000	2 727 000	2 727 000	2 527 000
Share premium reserve	21 843 000	21 843 000	18 693 000	18 693 000	16 893 000
Other equity	4 523 674	3 982 452	3 697 016	3 745 552	3 458 898
<b>Total equity</b>	<b>29 443 674</b>	<b>28 902 452</b>	<b>25 117 016</b>	<b>25 165 552</b>	<b>22 878 898</b>
<b>Total liabilities and equity</b>	<b>599 648 337</b>	<b>601 125 646</b>	<b>581 767 465</b>	<b>578 419 706</b>	<b>570 232 535</b>

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## **Other sources of information**

### **Annual and quarterly reports**

DNB Boligkreditt AS is part of the DNB Bank Group and the DNB Group. Annual and quarterly reports for DNB Boligkreditt AS, the DNB Bank Group and the DNB Group are available on [dnb.no](http://dnb.no).

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