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DNB BOLIGKREDITT AS

– a company in the DNB Group

First quarter report 2015
(Unaudited)

Financial highlights

DNB Boligkreditt AS

Statement of comprehensive income	1st quarter	1st quarter	Full year
<i>Amounts in NOK million</i>	2015	2014	2014
Net interest income	1 828	2 010	7 650
Net other operating income	1 772	(553)	(1 120)
<i>Of which net gains on financial instruments at fair value</i>	<i>1 779</i>	<i>(564)</i>	<i>(1 144)</i>
Operating expenses	1 039	1 518	5 504
Impairment of loans and commitments	(2)	6	1
Pre-tax operating profit	2 562	(66)	1 024
Tax expense	692	(18)	277
Profit for the period	1 870	(49)	748

Balance sheet	31 March	31 Dec.	31 March
<i>Amounts in NOK million</i>	2015	2014	2014
Total assets	649 865	644 733	581 767
Loans to customers	561 501	555 625	536 325
Debt securities issued	484 829	472 368	410 855
Total equity	31 277	29 407	25 117

Key figures	1st quarter	1st quarter	Full year
<i>Per cent</i>	2015	2014	2014
Combined weighted total average spread for lending ¹⁾	1.31	1.44	1.30
Return on equity, annualised	24.7	(0.2)	2.7
Common equity Tier 1 capital ratio, transitional rules	12.5	11.2	12.7
Capital ratio, transitional rules	14.7	13.2	14.9
Impairments relative to average net loans to customers, annualised	0.00	0.00	0.00
Net non-performing and impaired loans, per cent of net loans	0.14	0.15	0.14

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

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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. DNB Boligkreditt's covered bond programmes are rated AAA by Moody's and Standard & Poor's.

Financial accounts

DNB Boligkreditt recorded a profit of NOK 1 870 million in the first quarter of 2015, compared with a loss of NOK 49 million in the first quarter of 2014.

Total income

Income totalled NOK 3 600 million in the first quarter of 2015, up from NOK 1 458 million in the year-earlier period.

<i>Amounts in NOK million</i>	1st quarter 2015	Change	1st quarter 2014
Total income	3 600	2 142	1 458
Net interest income		(182)	
Net commission and fee income		(19)	
Net gains/(losses) on financial instruments at fair value		2 343	

The decline in net interest income was mainly due to a decrease in 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. The positive effects of financial instruments were mainly due to an increase in the market value of basis swaps.

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 1 024 million in the first quarter of 2015, down from NOK 1 488 million in the first quarter of 2014.

The company has generally recorded low impairment losses on loans. In the first quarter of 2015, the company reported net reversals on impairment losses of NOK 2 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-March 2015, DNB Boligkreditt had total assets of NOK 649.9 billion under management, an increase of NOK 68.1 billion or 11.7 per cent from end-March 2014.

<i>Amounts in NOK million</i>	31 March 2015	Change	31 March 2014
Total assets	649 865	68 098	581 767
Loans to customers		25 176	
Financial derivatives		42 866	
Other assets		56	
Total liabilities	618 587	61 937	556 650
Due to credit institutions		(19 617)	
Financial derivatives		1 543	
Debt securities issued		73 974	
Subordinated loan capital		(3)	
Other liabilities		6 040	

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 increased by a net NOK 74.0 billion from end-March 2014. The company issued covered bonds under existing programmes totalling NOK 16.1 billion during the first quarter of 2015. Total debt securities issued amounted to NOK 484.8 billion at end-March 2015.

Risk and capital adequacy

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

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

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

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

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

At end-March 2015, the company's equity totalled NOK 31.3 billion, of which NOK 27.2 billion represented Tier 1 capital. Total primary capital in the company was NOK 32.1 billion. The Tier 1 capital ratio was 12.5 per cent, while the capital adequacy ratio was 14.7 per cent.

New regulatory framework

Basel IV on the way

During the first quarter of 2015, the Basel Committee issued a consultative document relating to the new capital adequacy regulations for banks. Revisions to the standardised approach for credit risk have been proposed by replacing the current link between risk weights and external credit ratings with a limited number of risk factors, including

the borrower's revenues, leverage/loan-to-value ratio and debt-service coverage ratio. The risk factors will vary depending on the type of exposure.

At the same time, the Basel Committee introduced a new floor that will limit reductions in risk weights when using IRB models. The purpose is to ensure that the total level of capital in the banking system does not fall below a certain threshold. In addition, the floor is intended to mitigate model risk and measurement error. The floor will be linked to the revised standardised approach and will replace the current transitional rules, which are based on Basel I ("Basel I floor").

It has not yet been clarified whether the new floor will apply to individual portfolios or to total risk-weighted assets. Nor does the consultative document say anything about the calibration of the floor. In the period ahead, the Basel Committee will consider the final calibration of the risk weights based on feedback from the consultation.

Tightening of bank lending practices

Finanstilsynet (the Financial Supervisory Authority of Norway) has been asked by the Ministry of Finance to consider if it would be appropriate to introduce measures at an aggregate level to dampen growth in housing prices and credit growth in the Norwegian household sector. The Ministry refers to the fact that several years of strong growth in housing prices and household debt have increased the risk that financial instability could trigger and intensify a setback in the Norwegian economy.

Finanstilsynet proposes stricter guidelines for prudent lending practices for home mortgages. This includes removing banks' opportunity to make a special prudential assessment to justify a loan-to-value ratio above 85 per cent. In addition, it has been proposed that borrowers must be able to withstand a 6 percentage point interest rate increase, which represents a 1 percentage point raise from the current guidelines. Finanstilsynet proposes to establish the guidelines in the form of regulations, which will entail a clear tightening of banks' exercise of discretion. The Ministry of Finance has circulated Finanstilsynet's proposal for comments, with a deadline of 4 May 2015.

Macroeconomic developments

There is still moderate growth in the global economy, though there are considerable differences from country to country. GDP rose by 0.9 per cent in the euro countries in 2014. After a very weak trend throughout the summer, growth picked up slightly towards the end of 2014. In Sweden, the United Kingdom and the United States, GDP increased by close to 2.5 per cent in 2014. Among emerging economies, the picture was mixed during the first quarter of 2015. The large commodity exporters, such as Brazil and Russia, showed a particularly weak development.

The price of oil fell to just over 45 US dollars a barrel from June 2014 to January 2015, after hovering around 110 US dollars for almost four years. Since then, the price of oil has picked up somewhat, and was approximately 65 US dollars per barrel at the end of April. During the January through March period, low oil prices had

different consequences in the various regions. China and other emerging markets in Asia are among the largest oil importers. Japan, Europe and the United States also import large quantities of oil. Large oil exporters include Mexico, Venezuela, Canada, Russia and many countries in the Middle East. Based on new extraction technology, the United States has built up a considerable oil producing sector in recent years. This sector has been affected by the fall in the price of oil. However, the effect of a lower oil price is expected to be positive for the US economy as a whole.

In Norway, lower demand from the petroleum industry and a sluggish trend in private consumption contributed to reduced economic growth throughout 2014. The strong fall in the price of crude oil will reinforce the negative impulses in the future, while an expansive fiscal and monetary policy will help curb the cyclical downturn. The declining price of oil means lower revenues for Norway, while demand from the petroleum industry for deliveries from Norwegian companies is falling as a result of weaker profitability. The total scope of these effects depends on the extent and duration of the fall in oil prices. But even based on current oil prices, extensive oil and gas production will be profitable and ensure demand for deliveries from Norwegian companies for several decades ahead. The negative demand effects are limited by the high share of imports. In addition, a weaker Norwegian krone and lower wage inflation will stimulate mainland industries exposed to competition, which will also benefit from a certain increase in international demand.

Housing prices continued to rise in the first quarter of 2015 and were approximately 8 per cent higher at end-March 2015 than a year earlier. High population growth, too little housebuilding activity and an expected prolonged low interest rate level indicate a continued moderate increase in housing prices. However, a relatively low price level, a certain rise in unemployment and lower wage inflation point in the opposite direction.

The market remained attractive for covered bond issuers with strong credit ratings in the first quarter of 2015. Lower returns in other asset classes seemed to have a positive impact on the demand for covered bonds from highly rated issuers.

Future prospects

Economic forecasts for 2015 indicate moderate global economic growth. Economic growth is also expected in Norway, though the growth will probably slow somewhat in 2015 as a result of declining oil investments and their spillover effects on the mainland economy. Lending volumes are expected to increase at an annual rate of 3 to 4 per cent, provided that exchange rates remain stable. Volume-weighted spreads are expected to be constant in 2015.

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. The volume of covered bond issues in 2015 is expected to be on a level with 2014. This provides a further sound basis for DNB Boligkreditt's funding activities.

Oslo, 29 April 2015

The Board of Directors of DNB Boligkreditt AS



Bjørn Erik Næss
(chairman)



Elisabeth Ege



Jørn E. Pedersen



Reidar Bolme



Eva-Lill Strandskogen



Per Sagbakken
(chief executive officer)

Comprehensive income statement

		DNB Boligkreditt AS		
<i>Amounts in NOK million</i>	Note	1st quarter 2015	1st quarter 2014	Full year 2014
Total interest income	6	4 701	5 144	20 565
Total interest expenses	6	2 873	3 134	12 916
Net interest income	6	1 828	2 010	7 650
Commission and fee income		(8)	10	22
Commission and fee expenses		0	0	2
Net gains on financial instruments at fair value	7	1 779	(564)	(1 144)
Other income		1	1	5
Net other operating income		1 772	(553)	(1 120)
Total income		3 600	1 458	6 530
Salaries and other personnel expenses	8	6	6	15
Other expenses	8, 14	1 033	1 512	5 490
Total operating expenses	8	1 039	1 518	5 504
Impairment of loans and commitments	9	(2)	6	1
Pre-tax operating profit		2 562	(66)	1 024
Tax expense		692	(18)	277
Profit for the period		1 870	(49)	748
Other comprehensive income		0	0	(6)
Total comprehensive income for the period		1 870	(49)	741

Balance sheet

		DNB Boligkreditt AS		
<i>Amounts in NOK million</i>	Note	31 March 2015	31 Dec. 2014	31 March 2014
Assets				
Due from credit institutions	13,14	801	360	742
Loans to customers	9,12,13	561 501	555 625	536 325
Financial derivatives	12,14	87 561	88 740	44 696
Other assets		1	8	5
Total assets		649 865	644 733	581 767
Liabilities and equity				
Due to credit institutions	13,14	109 715	119 584	129 332
Financial derivatives	12,14	12 376	12 302	10 833
Debt securities issued	10,12,13	484 829	472 368	410 855
Payable taxes		710	0	0
Deferred taxes		5 704	5 722	194
Other liabilities		368	463	556
Provisions		27	28	20
Subordinated loan capital	11,13	4 857	4 858	4 860
Total liabilities		618 587	615 326	556 650
Share capital		3 077	3 077	2 727
Share premium		21 843	21 843	18 693
Other equity		6 357	4 487	3 697
Total equity		31 277	29 407	25 117
Total liabilities and equity		649 865	644 733	581 767

Statement of changes in equity

DNB Boligkreditt AS

<i>Amounts in NOK million</i>	Share capital	Share premium	Actuarial profit and loss	Other equity	Total equity
Balance sheet as at 31 December 2013	2 727	18 693	7	3 739	25 166
Profit for the period				(49)	(49)
Total comprehensive income for the period			0	(49)	(49)
Balance sheet as at 31 March 2014	2 727	18 693	7	3 690	25 117
Balance sheet as at 31 December 2014	3 077	21 843	0	4 487	29 407
Profit for the period				1 870	1 870
Total comprehensive income for the period			0	1 870	1 870
Balance sheet as at 31 March 2015	3 077	21 843	0	6 357	31 277

Share capital

All shares and voting rights of the company are held by DNB Bank ASA. Share capital at the beginning of 2015 was NOK 3 077 million (30 770 000 shares at NOK 100).

Cash flow statement

DNB Boligkreditt AS

<i>Amounts in NOK million</i>	1st quarter 2015	1st quarter 2014	Full year 2014
Operating activities			
Net receipts/payments on loans to customers	(469)	178	(5 620)
Interest received from customers	4 744	5 112	20 627
Net receipts/payments on loans to/from credit institutions	(10 228)	13 832	4 410
Interest received from credit institutions	3	1	19
Interest paid to credit institutions	(574)	(696)	(3 113)
Net receipts/payments on the sale of financial assets for investment or trading	(0)	(41)	(135)
Net receipts/payments on commissions and fees	(8)	10	20
Payments for operating expenses	(1 127)	(1 581)	(5 660)
Net cash flow relating to operating activities	(7 660)	16 814	10 548
Investing activities			
Net purchase of loan portfolio	(5 849)	(3 751)	(16 379)
Net cash flow relating to investing activities	(5 849)	(3 751)	(16 379)
Financing activities			
Receipts on issued bonds and commercial paper	16 073	10 498	51 107
Payments on redeemed bonds and commercial paper	(80)	(21 130)	(44 617)
Interest payments on issued bonds and commercial paper	(2 363)	(2 385)	(9 269)
Interest payments on subordinated loan capital	(38)	(46)	(183)
Share issue	0	0	3 500
Group contribution paid	0	0	5 236
Net cash flow from financing activities	13 591	(13 063)	5 774
Net cash flow	82	(0)	(56)
Cash as at 1 January	3	60	60
Net receipts/payments of cash	82	(0)	(56)
Cash at end of period	85	59	3

The cash flow statement 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 Basis for preparation

The quarterly financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. A description of the accounting principles applied by the company when preparing the financial statements appears in the annual report for 2014. The annual and interim financial statements for the company have been prepared in accordance with IFRS endorsed by EU.

When preparing the financial statements, management makes estimates, judgment and assumptions that affect the application of the accounting principles and the carrying amount of assets, liabilities, income and expenses. Estimates and assumptions are subject to continual evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be probable on the balance sheet date. A description of the significant estimates and areas where judgment is applied appear in note 1 Important accounting estimates, judgments and assumptions in the annual report for 2014.

Note 2 Capital adequacy

Primary capital	DNB Boligkreditt AS	
	31 March 2015	31 Dec. 2014
<i>Amounts in NOK million</i>		
Share capital	3 077	3 077
Other equity	26 330	26 330
Total equity	29 407	29 407
Deductions		
Expected losses exceeding actual losses, IRB-portfolios	(1 038)	(766)
Value adjustments due to the requirements for prudent valuation	(530)	(398)
Adjustments for unrealised losses/(gains) on liabilities recorded at fair value	157	157
Adjustments for unrealised losses/(gains) arising from the institution's own credit risk related to derivative liabilities	(9)	(13)
Allocated group contributions for payment	(748)	(748)
Common equity Tier 1 capital	27 240	27 640
Term subordinated loan capital	4 850	4 850
Tier 2 capital	4 850	4 850
Total eligible primary capital	32 090	32 490
Risk-weighted volume, transitional rules	217 870	217 886
Minimum capital requirement, transitional rules	17 430	17 431
Common equity Tier 1 capital ratio, transitional rules (%)	12.5	12.7
Capital ratio, transitional rules (%)	14.7	14.9

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	EAD ¹⁾	Risk-weighted volume	Capital requirements	Capital requirements
<i>Amounts in NOK million</i>	31 March 2015	31 March 2015	31 March 2015	31 March 2015	31 Dec. 2014
IRB approach					
Corporate	6 237	6 237	3 414	273	289
Retail - residential property	572 625	572 625	133 710	10 697	7 303
Total credit risk, IRB approach	578 862	578 862	137 124	10 970	7 592
Standardised approach					
Institutions	20 350	20 350	10 175	814	835
Corporate	16 929	16 905	5 971	478	478
Retail - residential property	12 628	11 695	4 289	343	345
Other assets	1	1	1	0	1
Total credit risk, standardised approach	49 908	48 951	20 435	1 635	1 658
Total credit risk	628 770	627 813	157 559	12 605	9 250
Credit value adjustment (CVA)			15 589	1 247	113
Operational risk			9 499	760	760
Total risk-weighted volume and capital requirements before transitional rules			182 647	14 612	10 123
Additional capital requirements according to transitional rules			35 222	2 818	7 308
Total risk-weighted volume and capital requirements			217 870	17 430	17 431

1) EAD, exposure at default.

Note 3 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 as counterparty.

Note 4 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 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 5 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 Boligkreditt liquidity situation at the end of first quarter 2015 can be characterised as sound.

Note 6 Net interest income

	DNB Boligkreditt AS		
	1st quarter 2015	1st quarter 2014	Full year 2014
<i>Amounts in NOK million</i>			
Interest on amounts due from credit institutions	3	1	19
Interest on loans to customers	4 638	5 089	20 328
Front-end fees etc.	4	0	4
Other interest income	55	53	214
Total interest income	4 701	5 144	20 565
Interest on amounts due to credit institutions	391	467	2 141
Interest on debt securities issued	2 597	2 588	10 173
Interest on subordinated loan capital	38	46	180
Net interest income/expenses, derivatives	(153)	33	421
Total interest expenses	2 873	3 134	12 916
Net interest income	1 828	2 010	7 650

Note 7 Net gains on financial instruments at fair value

Amounts in NOK million	DNB Boligkreditt AS		
	1st quarter 2015	1st quarter 2014	Full year 2014
Net gains on loans at fair value (fixed-rate loans) ¹⁾	(397)	442	1 425
Net gains on financial liabilities (long-term borrowing in NOK) ²⁾	423	(345)	(1 586)
Total gains on financial instruments, designated as at fair value	26	97	(161)
Net gains on foreign exchange and financial derivatives, trading ^{3) 4)}	2 105	(796)	(1 498)
Net gains on financial derivatives, hedging ^{4) 5)}	751	4 600	12 181
Net gains on financial liabilities, hedged items ⁵⁾	(1 103)	(4 464)	(11 665)
Net gains on financial instruments at fair value	1 779	(564)	(1 144)

- 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 262.2 million decrease in market values in the first quarter of 2015 (positive effect on profits) due to such credit risk premium effects, compared with a NOK 284.3 million increase in market values in the first quarter of 2014 (negative effect on profits). Accumulated negative mark-to-market effects by the end of the first quarter of 2015 were NOK 700.9 million, compared with a negative NOK 499.3 million by the end of the first quarter of 2014.
- 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 (see footnote 4). There may be significant variations in the value of the basis swaps from day to day, due to changes in basis swap spreads which are recorded as unrealised gains and losses in the total comprehensive income for the period. There was a NOK 1 481.6 million increase in market values in the first quarter of 2015 (positive effect on profits) due to such basis swap spread effects, compared with a NOK 582.7 million decrease in the first quarter of 2014 (negative effect on profits). Accumulated positive mark-to-market effects by the end of the first quarter of 2015 were NOK 1 522.6 million, compared with accumulated negative effects of NOK 470.2 million by the end of the first quarter of 2014.
- 4) All derivatives are measured at fair value. As part of this valuation a credit value adjustment (CVA) and debit value adjustment (DVA) is estimated to incorporate the counterparty credit risk as well as its own credit risk. During the first quarter of 2015, there has been a net reversal of NOK 18 million in the income statement due to CVA og DVA effects.
- 5) 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 (see footnote 4). 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 8 Operating expenses

	DNB Boligkreditt AS		
<i>Amounts in NOK 1 000</i>	1st quarter 2015	1st quarter 2014	Full year 2014
Salaries	3 221	3 087	7 883
Employer's national insurance contributions	597	776	1 908
Pension expenses	2 198	1 772	3 547
Social expenses	316	296	1 270
Total salaries and other personnel expenses	6 331	5 930	14 609
Fees ¹⁾	1 032 238	1 511 978	5 486 318
Other operating expenses	339	291	3 257
Total other expenses	1 032 577	1 512 270	5 489 575
Total operating expenses	1 038 909	1 518 200	5 504 185

1) Fees are mainly management fees paid to DNB Bank ASA for services rendered according to the management agreement. See also note 14 Information on related parties.

Note 9 Loans to customers

	DNB Boligkreditt AS		
<i>Amounts in NOK million</i>	31 March 2015	31 Dec. 2014	31 March 2014
Loans to customers at amortised cost, nominal amount	488 582	491 092	464 109
– Individual impairment	48	48	53
Loans to customers, after individual impairment	488 533	491 045	464 056
+ Accrued interest	747	804	889
– Individual impairment of accrued interest and amortisation	46	46	46
Loans to customers, at amortised cost	489 234	491 803	464 900
Loans to customers at fair value, nominal amount	69 975	61 147	69 719
– Individual impairment	4	2	3
Loans to customers, after individual impairment	69 971	61 145	69 716
+ Accrued interest	130	120	146
+ Adjustment to fair value	2 263	2 661	1 678
Loans to customers, at fair value	72 364	63 925	71 540
– Collective impairment	98	103	115
Total loans to customers	561 501	555 625	536 325

Impairment allowances

	DNB Boligkreditt AS		
<i>Amounts in NOK million</i>	31 March 2015	31 Dec. 2014	31 March 2014
Individual impairment	53	50	56
Individual impairment of accrued interest	46	46	46
Collective impairment	98	103	115
Impairment allowances as at end of period	196	198	217

Impairment expenses

	DNB Boligkreditt AS		
<i>Amounts in NOK million</i>	1st quarter 2015	1st quarter 2014	Full year 2014
Individual impairment	4	(2)	9
Collective impairment ¹⁾	(5)	8	(4)
Recoveries of previous write-offs	(1)	(1)	(3)
Impairment expenses	(2)	6	1

1) Based on the DNB Group's calculation model and statistics. Further information about collective impairments can be found in Accounting principles in the annual report for 2014.

Note 10 Debt securities issued

Debt securities issued	DNB Boligkreditt AS		
	31 March 2015	31 Dec. 2014	31 March 2014
<i>Amounts in NOK million</i>			
Listed covered bonds, nominal amount	397 113	382 788	340 071
Private placements under the bond programme, nominal amount	55 848	57 238	49 878
Total bonds, nominal amount	452 961	440 026	389 949
Accrued interest	4 442	4 768	4 115
Unrealised gains ¹⁾	27 426	27 574	16 791
Adjustments	31 868	32 342	20 906
Total debt securities issued	484 829	472 368	410 855

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 31 March 2015	Issued 2015	Matured/ redeemed 2015	Exchange rate movements 2015	Changes in adjustments 2015	Balance sheet 31 Dec. 2014
<i>Amounts in NOK million</i>						
Bond debt, nominal amount	452 961	16 073	(80)	(3 057)		440 026
Adjustments	31 868				(474)	32 342
Total debt securities issued	484 829	16 073	(80)	(3 057)	(474)	472 368

Maturity of debt securities issued	DNB Boligkreditt AS		
	NOK	Foreign currency	Total
<i>Amounts in NOK million</i>			
2015	3 889	46 560	50 449
2016	9 698	64 634	74 332
2017	11 625	47 255	58 880
2018	23 500	51 910	75 410
2019	23 622	37 656	61 278
2020 and later	22 000	110 612	132 612
Total bond debt	94 334	358 627	452 961

Debt securities issued - matured/redeemed during the period	DNB Boligkreditt AS							
	ISIN Code	Currency	Matured redeemed amount	Interest	Issued 2015	Matured 2015	Remaining nominal amount	
31 March 2015							31 Dec. 2014	
XS0493748015	EUR	80	Fixed	2010	2015	Called	0	80
Total debt securities issued, nominal		80					0	80

Cover pool	DNB Boligkreditt AS		
	31 March 2015	31 Dec. 2014	31 March 2014
<i>Amounts in NOK million</i>			
Pool of eligible loans	557 191	551 598	531 670
Market value of eligible derivatives	75 186	76 438	33 863
Supplementary assets	0	0	0
Total collateralised assets	632 377	628 035	565 533
Debt securities issued, carrying value	484 829	472 368	410 855
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(676)	(938)	(641)
Debt securities issued, valued according to regulation ¹⁾	484 153	471 430	410 214
Collateralisation (per cent)	130.6	133.2	137.9

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 11 Subordinated loan capital

<i>Amounts in NOK million</i>	Currency	Nominal amount	Interest rate	Issue date	Maturity date	DNB Boligkreditt AS		
						31 March 2015	31 Dec. 2014	31 March 2014
Term subordinated loan capital	NOK	850	3 month Nibor + 400 bp	2014	2024	850	850	850
Term subordinated loan capital	NOK	4 000	3 month Nibor + 170 bp	2013	2023	4 000	4 000	4 000
Accrued interest						7	8	10
Total subordinated loan capital						4 857	4 858	4 860

Note 12 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. Gains or losses, that occur when the estimated fair value is different from the transaction price (day-one gain/loss) has not had significant impact to the financial statement for the first quarter of 2015.

Loans consist primarily of fixed-rate 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. The discount factor used has as a starting point a swap rate based on a duration equal to the average remaining lock-in period for the relevant fixed-rate loans. 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. 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.

<i>Amounts in NOK million</i>	DNB Boligkreditt AS			Accrued interest ¹⁾	Total
	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on other than observable market data Level 3		
Assets as at 31 March 2015					
Loans to customers			72 238	130	72 369
Financial derivatives		87 561			87 561
Liabilities as at 31 March 2015					
Debt securities issued		96 968		771	97 739
Financial derivatives		12 376			12 376

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

Financial instruments at fair value, level 3

<i>Amounts in NOK million</i>	DNB Boligkreditt AS
Carrying amount as at 31 December 2014	63 807
Net gains on financial instruments	(397)
Additions/purchases	14 704
Sales	(14)
Settled	(5 861)
Transferred from Level 1 or Level 2	
Transferred to Level 1 or Level 2	
Other	
Carrying amount as at 31 March 2015	72 238

Note 13 Fair value of financial instruments at amortised cost

Most assets and liabilities in the DNB Boligkredit'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 12.

Fair value of financial instruments at amortised cost

<i>Amounts in NOK million</i>	31 March 2015		DNB Boligkredit AS 31 March 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
	Due from credit institutions	801	801	742
Loans to customers	489 328	489 328	464 999	464 999
Total financial assets	490 130	490 130	465 741	465 741
Due to credit institutions	109 715	109 715	129 332	129 332
Debt securities issued	387 090	392 142	311 693	315 262
Subordinated loan capital	4 857	4 868	4 860	4 942
Total financial liabilities	501 663	506 726	445 886	449 536

DNB Boligkredit AS

<i>Amounts in NOK million</i>	Valuation based on quoted prices in an active market	Valuation based on observable market data	Valuation based on other than observable market data	Accrued interest	Total
	Level 1	Level 2	Level 3		
Assets as at 31 March 2015					
Due from credit institutions		801			801
Loans to customers			488 582	747	489 328
Liabilities as at 31 March 2015					
Due to credit institutions		109 715			109 715
Debt securities issued		388 471		3 671	392 142
Subordinated loan capital			4 860	7	4 868

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 14 Information on related parties

DNB Bank ASA

During the first quarter of 2015, loan portfolios of NOK 5.8 billion were transferred from the bank to DNB Boligkreditt in accordance with the "Agreement relating to transfer of loan portfolio between DNB Bank ASA and DNB Boligkreditt AS".

The management fee paid to the bank for purchased services is recognised as "Other expenses" in the statement of comprehensive income and amounted to NOK 1 024 million for the first quarter of 2015 (NOK 1 488 million for the first quarter of 2014).

At end-March, the bank had invested NOK 31.6 billion in covered bonds issued by DNB Boligkreditt.

DNB Livsforsikring AS

At end-March 2014, DNB Livsforsikring's holding of listed DNB Boligkreditt bonds was valued at NOK 1.9 billion.

DNB Næringskreditt AS

The fee received for services rendered to DNB Næringskreditt is recognised as "Other income" in the income statement and amounted to NOK 1.0 million for the first quarter of 2015.

Note 15 Contingencies

DNB Boligkreditt is not involved in any legal actions.

Key figures

	DNB Boligkreditt AS		
	1st quarter 2015	1st quarter 2014	Full year 2014
Rate of return/profitability			
Return on equity, annualised (%) ¹⁾	24.7	(0.2)	2.7
Financial strength at end of period			
Common equity Tier 1 capital ratio, transitional rules (%)	12.5	11.2	12.7
Capital ratio, transitional rules (%)	14.7	13.2	14.9
Common equity Tier 1 capital (NOK million)	27 240	24 951	27 640
Risk-weighted volume, transitional rules (NOK million)	217 870	223 566	217 886
Loan portfolio and impairment			
Impairment relative to average net loans to customers, annualised	0.00	0.00	0.00
Non-performing and doubtful loans, per cent of gross loans	0.23	0.23	0.23
Non-performing and doubtful gross loans, end of period (NOK million)	1 278	1 238	1 295
Net non-performing and net doubtful loans, per cent of net loans	0.14	0.15	0.14
Net non-performing and net doubtful loans, end of period (NOK million)	760	777	765
Staff			
Number of full-time positions at end of period	8	9	8

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

Profit and balance sheet trends

Comprehensive income statement

	DNB Boligkreditt AS				
<i>Amounts in NOK million</i>	1st quarter 2015	4th quarter 2014	3rd quarter 2014	2nd quarter 2014	1st quarter 2014
Total interest income	4 701	5 098	5 126	5 198	5 144
Total interest expenses	2 873	3 171	3 335	3 276	3 134
Net interest income	1 828	1 926	1 791	1 922	2 010
Commission and fee income	(8)	(4)	5	10	10
Commission and fee expenses	0	0	1	0	0
Net gains on financial instruments at fair value	1 779	(631)	213	(162)	(564)
Other income	1	1	1	1	1
Net other operating income	1 772	(634)	219	(152)	(553)
Total income	3 600	1 292	2 010	1 770	1 458
Salaries and other personnel expenses	6	1	4	4	6
Other expenses	1 033	1 339	1 269	1 369	1 512
Total operating expenses	1 039	1 340	1 273	1 373	1 518
Impairment of loans and commitments	(2)	(6)	(4)	6	6
Pre-tax operating profit	2 562	(42)	741	391	(66)
Tax expense	692	(11)	200	106	(18)
Profit for the period	1 870	(30)	541	285	(49)
Other comprehensive income	0	(6)	0	0	0
Comprehensive income for the period	1 870	(37)	541	285	(49)

Balance sheet

	DNB Boligkreditt AS				
<i>Amounts in NOK million</i>	31 March 2015	31 Dec. 2014	30 Sept. 2014	30 June 2014	31 March 2014
Assets					
Due from credit institutions	801	360	930	4 633	742
Loans to customers	561 501	555 625	550 846	542 820	536 325
Financial derivatives	87 561	88 740	47 866	53 672	44 696
Deferred tax assets	0	0	0	0	0
Other assets	1	8	7	1	5
Total assets	649 865	644 733	599 648	601 126	581 767
Liabilities and equity					
Due to credit institutions	109 715	119 584	137 588	135 150	129 332
Financial derivatives	12 376	12 302	11 536	11 543	10 833
Debt securities issued	484 829	472 368	409 988	414 628	410 855
Payable taxes	710	0	288	0	0
Deferred taxes	5 704	5 722	5 448	5 536	194
Other liabilities	368	463	476	487	556
Provisions	27	28	23	20	20
Subordinated loan capital	4 857	4 858	4 858	4 860	4 860
Total liabilities	618 587	615 326	570 205	572 223	556 650
Share capital	3 077	3 077	3 077	3 077	2 727
Share premium	21 843	21 843	21 843	21 843	18 693
Other equity	6 357	4 487	4 524	3 982	3 697
Total equity	31 277	29 407	29 444	28 902	25 117
Total liabilities and equity	649 865	644 733	599 648	601 126	581 767

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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.

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HERE FOR YOU.
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WHEN IT MATTERS
THE MOST.

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