

THIRD QUARTER REPORT 2016
(Unaudited)

DNB

Q3

DNB Boligkreditt

A company in the DNB Group

Financial highlights

Income statement

| <i>Amounts in NOK million</i> | DNB Boligkreditt AS | | | | |
|--|----------------------------|---------------------|-------------------|--------------|--------------|
| | 3rd quarter 2016 | 3rd quarter 2015 | January-September | | Full year |
| | | | 2016 | 2015 | 2015 |
| Net interest income | 1 139 | 1 647 | 3 690 | 5 120 | 6 608 |
| Net other operating income | (651) | 1 500 | (373) | 3 599 | 4 054 |
| <i>Of which net gains on financial instruments at fair value</i> | (669) | 1 507 | (379) | 3 615 | 4 081 |
| Operating expenses | (501) | (757) | (1 964) | (2 684) | (3 349) |
| Impairments on loans and commitments | (4) | 6 | (2) | 7 | 2 |
| Pre-tax operating profit | (16) | 2 396 | 1 351 | 6 043 | 7 315 |
| Tax expense | 4 | (647) | (338) | (1 631) | (975) |
| Profit for the period | (12) | 1 749 | 1 013 | 4 411 | 6 340 |

Balance sheet

| <i>Amounts in NOK million</i> | 30 Sept. 2016 | 31 Dec. 2015 | 30 Sept. 2015 |
|-------------------------------|------------------|-----------------|------------------|
| Total assets | 682 943 | 649 797 | 663 680 |
| Loans to customers | 598 809 | 564 746 | 580 294 |
| Debt securities issued | 457 019 | 473 745 | 495 895 |
| Total equity | 39 791 | 39 198 | 37 271 |

Key figures

| <i>Per cent</i> | 3rd quarter 2016 | 3rd quarter 2015 | January-September | | Full year |
|--|---------------------|---------------------|-------------------|------|-----------|
| | | | 2016 | 2015 | 2015 |
| Return on equity, annualised | (0.1) | 19.2 | 3.5 | 17.7 | 18.4 |
| Combined weighted total average spread for lending ¹⁾ | 0.66 | 1.08 | 0.75 | 1.16 | 1.11 |
| Impairment 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 | 0.10 | 0.12 | 0.10 | 0.12 | 0.11 |
| Common equity Tier 1 capital ratio, transitional rules, at end of period | 15.9 | 14.2 | 15.9 | 14.2 | 15.2 |
| Capital ratio, transitional rules, at end of period | 18.0 | 16.3 | 18.0 | 16.3 | 17.3 |

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

Third quarter report 2016

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There has been no full or partial external audit of the quarterly directors' report and accounts.

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 loss of NOK 12 million in the third quarter of 2016, compared with a profit of NOK 1 749 million in the third quarter of 2015.

Total income

Income totalled NOK 489 million in the third quarter of 2016, down from NOK 3 147 million in the year-earlier period.

| <i>Amounts in NOK million</i> | 3rd quarter | | 3rd quarter |
|---|-------------|---------|-------------|
| | 2016 | Change | 2015 |
| Total income | 489 | (2 658) | 3 147 |
| Net interest income | | (508) | |
| Net commission and fee income | | 26 | |
| Net gains/(losses) on financial instruments at fair value | | (2 176) | |

The decline in net interest income was due to narrowing interest rate spreads.

The recorded loss on financial instruments reflects 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 effects of financial instruments were negative in the first three quarters of 2016, while there was a positive effect in the first three quarters of 2015. The negative effect in the third quarter of 2016 was mainly due to a decrease 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 479 million in the third quarter of 2016, down from NOK 791 million in the third quarter of 2015.

The company has generally recorded low impairment losses on loans. In the third quarter of 2016, the company reported impairment losses of NOK 4 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 2016, DNB Boligkreditt had total assets of NOK 682.9 billion, an increase of NOK 19.3 billion or 2.9 per cent from end-September 2015.

| <i>Amounts in NOK million</i> | 30 Sept. | 30 Sept. | |
|-------------------------------|----------|----------|---------|
| | 2016 | Change | 2015 |
| Total assets | 682 943 | 19 263 | 663 680 |
| Loans to customers | | 18 515 | |
| Financial derivatives | | (33 539) | |
| Other assets | | 34 287 | |
| Total liabilities | 643 151 | 16 742 | 626 409 |
| Due to credit institutions | | 50 596 | |
| Financial derivatives | | 903 | |
| Debt securities issued | | (38 876) | |
| Deferred taxes | | 5 294 | |
| Other liabilities | | (1 175) | |

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 38.9 billion from end-September 2015. The company issued covered bonds under existing programmes for a total of NOK 18.0 billion in the third quarter of 2016. Total debt securities issued amounted to NOK 457 billion at end-September 2016.

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-September 2016, the company's equity totalled NOK 39.8 billion, of which NOK 37.3 billion represented Tier 1 capital. Total primary capital in the company was NOK 42.1 billion. The Tier 1 capital ratio was 15.9 per cent, while the capital adequacy ratio was 18.0 per cent.

New regulatory framework

Residential mortgage lending regulation

To contribute to a more sustainable development in household debt and in housing prices, the Ministry of Finance adopted a regulation in the summer of 2015 on requirements for new residential mortgages. The regulation will initially apply till year-end 2016 and implies, among other things, that the loan-to-value ratio shall normally not exceed 85 per cent of the property value, that the borrower must be able to withstand an interest rate increase of minimum 5 percentage points and that instalment payments are mandatory for loan-to-value ratios above 70 per cent.

Finanstilsynet finds that there is a need for continued regulation of banks' lending practices and recommends that the regulation be retained beyond 2016 and tightened. Among other things, Finanstilsynet proposes mandatory instalment payments for all new loans with a loan-to-value ratio above 60 per cent, compared with 70 per cent under the current regulations, and a new requirement limiting the borrower's total loans to five times gross annual income. Finanstilsynet also proposed that banks' access to grant loans that do not meet all the requirements of the regulation, be repealed or limited from the current 10 per cent to 4 per cent of total approved loans.

The Ministry of Finance has circulated Finanstilsynet's proposal for public consultation with a deadline of 24 October.

Stream of new EU legislation in the wake of Norway's endorsement of the European supervisory authorities

On 30 September, the EEA Joint Committee decided to include the regulations on the European supervisory authorities in the EEA agreement. The decision was made after all the EEA countries (Norway, Iceland and Liechtenstein) approved the agreement with the European Union on adjustments to the supervisory system. In consequence of this, the Norwegian financial services industry is now formally a part of the European single market. However, extensive work remains to implement a number of EU regulations into Norwegian law so that Norway can gain full access to the European single market for financial services.

In the National Budget 2017, the government signaled that important legislative acts such as capital requirements regulations for banks, the crisis management regulations for banks, the regulation on deposit guarantee schemes for banks, as well as the capital requirements regulations for insurance companies (complementary rules to Solvency II), will be given priority.

New regulations give lower counter-cyclical buffer

The Ministry of Finance has adopted regulations on the institution-specific counter-cyclical buffer effective as of 1 October. This implies that DNB, instead of using the Norwegian buffer rate, will calculate the weighted average of the buffer rates for the countries where DNB has credit exposures. The effect of this for DNB Boligkreditt is very limited.

Macroeconomic developments

According to the IMF, global growth is projected to slow to 3.1 per cent in 2016 before picking up to 3.4 per cent in 2017. The forecast, revised down by 0.1 percentage point for 2016 and 2017, relative to the figures presented in April, reflects a more subdued outlook for advanced economies following the June UK vote in favour of leaving the European Union (Brexit) and weaker-than-expected growth in the United States. These developments have put further downward pressure on global interest rates, as monetary policy is now expected to remain accommodative for longer. Global growth is unevenly distributed and the growth is three times higher in the emerging market economies than in the industrialised countries.

Almost eight years after the financial crisis, the industrialised countries are still experiencing spare capacity, low inflation and historically low interest rates.

Norwegian Mainland GDP growth has slowed down during the past year. This is primarily due to a large drop in petroleum sector investment since 2014. The falling prices of oil and certain other commodities have reduced the nation's income and weakened the Norwegian krone. This weakening has driven up inflation and reduced households' purchasing power. Real wages could drop by more than 1 per cent this year, which would be the biggest decline since 1981. The rise in unemployment is being dampened by waning growth in productivity and is also very lopsided, as virtually the entire rise in unemployment has taken place in Western Norway. The slump is barely noticeable in the general housing market. Growth in residential construction has accelerated recently, especially in central areas in Eastern Norway. Norges Bank's regional network reports an increase in activity and an improved outlook, although from a low level. Mainland GDP rose by 0.6 per cent from the first to the second quarter. In the period ahead, oil prices are expected to rise, the decline in oil industry investment will abate, and real wage growth will be boosted by a stronger NOK and lower inflation. There will thus be less need for further interest rate cuts, which means that interest rates have probably already bottomed out. The government's proposal for next year's fiscal budget implies a continuous expansionary fiscal policy, which, however, will be less stimulating compared to the current year's budget.

Registered unemployment declined in the second and third quarters of 2016. However, rising unemployment in the Labour Force Surveys, LFS, shows a different view on capacity utilisation which is more in line with a stable level of employment. Despite higher LFS unemployment and lower growth in household income, it is expected that growth in housing prices will also be high this year. Very low interest rates that are expected to remain low for a long time are boosting demand for housing. The regional differences in the housing market have increased this year. Housing prices are still increasing in Oslo and Akershus, where demand is high and residential construction is being suppressed by supply side constraints. Though residential construction is expected to pick up slightly, strong increases in housing prices in Eastern Norway may continue to push up the growth rate for the country as a whole. Housing price growth in Western Norway, which has been hit the hardest by the oil industry slowdown, is weak or negative. It is expected that the housing market in this part of the country will gradually normalise.

Future prospects

The Norwegian mainland economy stagnated in the second half of 2015, and annual growth ended at 1.0 per cent. Norges Bank's regional network reported improved actual activity, although from a low level, and forecast a more positive outlook. Mainland GDP rose by 0.6 percent from the first to the second quarter of 2016.

Lending volumes are expected to rise at an annual rate of 2 to 3 per cent, while volume-weighted spreads are anticipated to be stable. Average impairment losses are expected to be at normalised levels in 2017.

In the second quarter of 2016 DNB Boligkreditt completed an equity issue to meet the authorities' requirement of 15.5 per cent common equity Tier 1 capital by year-end 2016.

Covered bonds have gained a leading position as a funding vehicle for Norwegian banks. Norwegian covered bonds still seem attractive, with relatively low credit and market risk. The volume of covered bond issues in 2017 is expected to be somewhat lower than in 2016. Overall, this provides a further solid basis for DNB Boligkreditt's funding activities.

Oslo, 26 October 2016
The Board of Directors of DNB Boligkreditt AS



Bjørn Erik Næss
(chairman)



Jørn E. Pedersen



Eva-Lill Strandskogen



Per Sagbakken
(chief executive officer)

Comprehensive income statement

| | | DNB Boligkreditt AS | | | | |
|--|-------|---------------------|---------------------|---------------------------|---------------------------|-------------------|
| <i>Amounts in NOK million</i> | Note | 3rd quarter 2016 | 3rd quarter 2015 | January-September 2016 | January-September 2015 | Full year 2015 |
| Total interest income | 6 | 3 595 | 4 391 | 10 874 | 13 595 | 17 598 |
| Total interest expenses | 6 | (2 455) | (2 744) | (7 184) | (8 475) | (10 990) |
| Net interest income | 6 | 1 139 | 1 647 | 3 690 | 5 120 | 6 608 |
| Commission and fee income | | 19 | (7) | 6 | (17) | (28) |
| Commission and fee expenses | | (0) | (0) | (2) | (1) | (2) |
| Net gains on financial instruments at fair value | 7 | (669) | 1 507 | (379) | 3 615 | 4 081 |
| Other income | | 0 | 1 | 2 | 2 | 3 |
| Net other operating income | | (651) | 1 500 | (373) | 3 599 | 4 054 |
| Total income | | 489 | 3 147 | 3 317 | 8 719 | 10 662 |
| Salaries and other personnel expenses | 8 | (3) | (3) | (12) | (13) | (17) |
| Other expenses | 8, 14 | (498) | (754) | (1 952) | (2 671) | (3 332) |
| Total operating expenses | 8 | (501) | (757) | (1 964) | (2 684) | (3 349) |
| Impairment of loans and commitments | 9 | (4) | 6 | (2) | 7 | 2 |
| Pre-tax operating profit | | (16) | 2 396 | 1 351 | 6 043 | 7 315 |
| Tax expense | | 4 | (647) | (338) | (1 631) | (975) |
| Profit for the period | | (12) | 1 749 | 1 013 | 4 411 | 6 340 |
| Other comprehensive income | | | | | | (2) |
| Total comprehensive income for the period | | (12) | 1 749 | 1 013 | 4 411 | 6 338 |

Balance sheet

| | | DNB Boligkreditt AS | | |
|-------------------------------------|-----------|---------------------|-----------------|------------------|
| <i>Amounts in NOK million</i> | Note | 30 Sept. 2016 | 31 Dec. 2015 | 30 Sept. 2015 |
| Assets | | | | |
| Due from credit institutions | 12,13, 14 | 35 211 | 468 | 947 |
| Loans to customers | 9,12,13 | 598 809 | 564 746 | 580 294 |
| Financial derivatives | 12, 14 | 48 886 | 84 583 | 82 425 |
| Other assets | | 36 | 1 | 14 |
| Total assets | | 682 943 | 649 797 | 663 680 |
| Liabilities and equity | | | | |
| Due to credit institutions | 13, 14 | 155 978 | 113 813 | 105 382 |
| Financial derivatives | 12, 14 | 12 051 | 9 651 | 11 148 |
| Debt securities issued | 10,12,13 | 457 019 | 473 745 | 495 895 |
| Payable taxes | | 338 | 0 | 1 632 |
| Deferred taxes | | 12 501 | 8 181 | 7 207 |
| Other liabilities | | 378 | 322 | 261 |
| Provisions | | 30 | 30 | 27 |
| Subordinated loan capital | 11,13 | 4 857 | 4 857 | 4 857 |
| Total liabilities | | 643 151 | 610 599 | 626 409 |
| Share capital | | 3 857 | 3 497 | 3 497 |
| Share premium | | 28 863 | 25 623 | 25 623 |
| Other equity | | 7 071 | 10 078 | 8 151 |
| Total equity | | 39 791 | 39 198 | 37 271 |
| Total liabilities and equity | | 682 943 | 649 797 | 663 680 |

Statement of changes in equity

| DNB Boligkreditt AS | | | | | |
|--|---------------|---------------|----------------------------|---------------|---------------|
| <i>Amounts in NOK million</i> | Share capital | Share premium | Actuarial gains and losses | Other equity | Total equity |
| Balance sheet as at 31 December 2014 | 3 077 | 21 843 | | 4 487 | 29 407 |
| Profit for the period | | | | 4 411 | 4 411 |
| Total comprehensive income for the period | | | | 4 411 | 4 411 |
| Group contribution paid | | | | (747) | (747) |
| Share issue | 420 | 3 780 | | | 4 200 |
| Balance sheet as at 30 September 2015 | 3 497 | 25 623 | | 8 151 | 37 271 |
| Balance sheet as at 31 December 2015 | 3 497 | 25 623 | 2 | 10 076 | 39 198 |
| Profit for the period | | | | 1 013 | 1 013 |
| Total comprehensive income for the period | | | | 1 013 | 1 013 |
| Group contribution paid | | | | (4 020) | (4 020) |
| Share issue | 360 | 3 240 | | | 3 600 |
| Balance sheet as at 30 September 2016 | 3 857 | 28 863 | 2 | 7 070 | 39 791 |

Share capital

All shares and voting rights of the company are held by DNB Bank ASA. Share capital at the beginning of 2016 was NOK 3 497 million (34 970 000 shares at NOK 100).

In June 2016 3 600 000 shares were issued to DNB Bank ASA. Issue price per share was NOK 100. After the issuance, share capital was increased by NOK 360 million to NOK 3 857 million (38 570 000 shares) and share premium was increased by NOK 3 240 million to NOK 28 863 million.

Cash flow statement

| DNB Boligkreditt AS | | | |
|---|------------------------|-----------------|-----------------|
| <i>Amounts in NOK million</i> | January-September 2016 | September 2015 | Full year 2015 |
| Operating activities | | | |
| Net receipts/payments on loans to customers | (17 863) | (6 084) | 12 362 |
| Interest received from customers | 10 909 | 13 757 | 17 832 |
| Net receipts/payments on loans to/from credit institutions | 7 381 | (14 747) | (5 803) |
| Interest received from credit institutions | 19 | 11 | 12 |
| Interest paid to credit institutions | (1 705) | (1 768) | (2 280) |
| Net receipts/payments on the sale of financial assets for investment or trading | 13 706 | | (32) |
| Net receipts/payments on commissions and fees | 5 | (11) | (11) |
| Payments for operating expenses | (1 942) | (2 898) | (3 500) |
| Net cash flow relating to operating activities | 10 510 | (11 740) | 18 580 |
| Investing activities | | | |
| Net purchase of loan portfolio | (16 420) | (18 945) | (23 203) |
| Net cash flow relating to investing activities | (16 420) | (18 945) | (23 203) |
| Financing activities | | | |
| Receipts on issued bonds and commercial paper | 62 116 | 60 867 | 75 226 |
| Payments on redeemed bonds and commercial paper | (54 417) | (28 238) | (66 533) |
| Interest payments on issued bonds and commercial paper | (5 632) | (6 728) | (8 784) |
| Interest payments on subordinated loan capital | (100) | (113) | (147) |
| Share issue | 3 600 | 4 200 | 4 200 |
| Group contribution receipts | 300 | 738 | 738 |
| Net cash flow from financing activities | 5 867 | 30 726 | 4 699 |
| Net cash flow | (43) | 41 | 76 |
| Cash as at 1 January | 79 | 3 | 3 |
| Net receipts/payments of cash | (43) | 41 | 76 |
| Cash at end of period | 36 | 44 | 79 |

Note 1 Basis for preparation

The quarterly financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as issued by the International Accounting Standards Board and as adopted by the European Union. When preparing the financial statements, management makes estimates, judgments and assumptions that affect the application of the accounting principles and the carrying amount of assets, liabilities, income and expenses. Estimates and assumptions are subject to continual evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be probable on the balance sheet date. A description of the accounting policies, significant estimates and areas where judgment is applied appear in note 1 Accounting principles in the annual report for 2015.

Note 2 Capital adequacy

| Primary capital | DNB Boligkreditt AS | |
|--|---------------------|-----------------|
| | 30 Sept. 2016 | 31 Dec. 2015 |
| <i>Amounts in NOK million</i> | | |
| Share capital | 3 857 | 3 497 |
| Other equity | 34 921 | 35 701 |
| Total equity | 38 778 | 39 198 |
| Deductions | | |
| Expected losses exceeding actual losses, IRB-portfolios | (1 019) | (967) |
| Value adjustments due to the requirements for prudent valuation (AVA) | (334) | (385) |
| Adjustments for unrealised losses/(gains) on liabilities recorded at fair value | (239) | (232) |
| Adjustments for unrealised losses/(gains) arising from the institution's own credit risk related to derivative liabilities (DVA) | 10 | (2) |
| Allocated group contributions for payment | | (4 020) |
| Common equity Tier 1 capital | 37 196 | 33 592 |
| Term subordinated loan capital | 4 850 | 4 850 |
| Tier 2 capital | 4 850 | 4 850 |
| Total eligible primary capital | 42 046 | 38 442 |
| Risk-weighted volume, transitional rules | 233 483 | 221 648 |
| Minimum capital requirement, transitional rules | 18 679 | 17 732 |
| Common equity Tier 1 capital ratio, transitional rules (%) | 15.9 | 15.2 |
| Capital ratio, transitional rules (%) | 18.0 | 17.3 |

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 | EAD ¹⁾ | Risk-weighted volume | Capital requirement | Capital requirement |
| | 30 Sept. 2016 | 30 Sept. 2016 | 30 Sept. 2016 | 30 Sept. 2016 | 31 Dec. 2015 |
| <i>Amounts in NOK million</i> | | | | | |
| IRB approach | | | | | |
| Corporate | 5 982 | 5 982 | 3 161 | 253 | 262 |
| Retail - residential property | 619 620 | 619 620 | 134 437 | 10 755 | 10 195 |
| Total credit risk, IRB approach | 625 602 | 625 602 | 137 598 | 11 008 | 10 457 |
| Standardised approach | | | | | |
| Institutions | 22 753 | 20 127 | 4 025 | 322 | 501 |
| Corporate | 18 022 | 17 990 | 6 367 | 509 | 477 |
| Retail - residential property | 14 079 | 12 961 | 4 602 | 368 | 331 |
| Retail - other exposures | 453 | 286 | 241 | 19 | 18 |
| Other assets | 36 | 36 | 36 | 3 | 0 |
| Total credit risk, standardised approach | 55 343 | 51 400 | 15 271 | 1 222 | 1 327 |
| Total credit risk | 680 945 | 677 002 | 152 869 | 12 230 | 11 785 |
| Credit value adjustment (CVA) | | | 19 660 | 1 573 | 2 913 |
| Operational risk | | | 12 740 | 1 019 | 1 019 |
| Total risk-weighted volume and capital requirements before transitional rules | | | 185 270 | 14 822 | 15 717 |
| Additional capital requirements according to transitional rules | | | 48 213 | 3 857 | 2 014 |
| Total risk-weighted volume and capital requirements | | | 233 483 | 18 679 | 17 732 |

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 unrealised 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 stabilising 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 11-12 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.

From 2016 Q2 DNB Boligkreditt, as a subsidiary of a systemic important institution in Norway, has a regulatory LCR requirement of 100%, which is fulfilled.

Note 6 Net interest income

| | DNB Boligkreditt AS | | | | |
|--|---------------------|---------------------|---------------------------|-------------------|-------------------|
| <i>Amounts in NOK million</i> | 3rd quarter 2016 | 3rd quarter 2015 | January-September 2016 | September 2015 | Full year 2015 |
| Interest on amounts due from credit institutions | 19 | 4 | 26 | 11 | 12 |
| Interest on loans to customers | 3 521 | 4 329 | 10 683 | 13 406 | 17 352 |
| Front-end fees etc. | 1 | 3 | 2 | 10 | 11 |
| Other interest income | 54 | 55 | 163 | 167 | 223 |
| Total interest income | 3 595 | 4 391 | 10 874 | 13 595 | 17 598 |
| Interest on amounts due to credit institutions | (386) | (357) | (1 021) | (1 202) | (1 531) |
| Interest on debt securities issued | (2 159) | (2 625) | (6 735) | (7 705) | (10 223) |
| Interest on subordinated loan capital | (33) | (37) | (100) | (111) | (146) |
| Net interest income/expenses, derivatives | 123 | 275 | 671 | 544 | 910 |
| Total interest expenses | (2 455) | (2 744) | (7 184) | (8 475) | (10 990) |
| Net interest income | 1 139 | 1 647 | 3 690 | 5 120 | 6 608 |

Note 7 Net gains on financial instruments at fair value

| Amounts in NOK million | DNB Boligkreditt AS | | | | |
|--|---------------------|---------------------|---------------------------|---------------------------|-------------------|
| | 3rd quarter 2016 | 3rd quarter 2015 | January-September 2016 | January-September 2015 | Full year 2015 |
| Net gains on loans at fair value (fixed-rate loans) ¹⁾ | (325) | 820 | (156) | (195) | (672) |
| Net gains on financial liabilities (long-term borrowing in NOK) ²⁾ | (8) | 118 | (413) | 1 151 | 1 605 |
| Total gains on financial instruments, designated as at fair value | (332) | 938 | (569) | 956 | 933 |
| Net gains on foreign exchange and financial derivatives, trading ³⁾⁴⁾ | (270) | 382 | 200 | 2 933 | 3 290 |
| Net gains on financial derivatives, hedging ⁴⁾⁵⁾ | (836) | 1 317 | 4 051 | (3 477) | (4 802) |
| Net gains on financial liabilities, hedged items ⁵⁾ | 769 | (1 130) | (4 062) | 3 203 | 4 659 |
| Net gains on financial instruments at fair value | (669) | 1 507 | (379) | 3 615 | 4 081 |

1) DNB Boligkreditt's fixed-rate loans are measured at fair value. Reduced interest rates, including credit risk margins, will increase the fair value of already originated loans. 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 330.9 million increase in market values in the third quarter of 2016 (negative effect on profits) due to such credit risk premium effects, compared with a NOK 520.0 million decrease in market values in the third quarter of 2015 (positive effect on profits). Accumulated negative mark-to-market effects by the end of the third quarter 2016 were NOK 267.2 million, compared with a negative NOK 6.1 million by the end of the third quarter 2015.

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 574.7 million decrease in market values in the third quarter of 2016 (negative effect on profits) due to such basis swap spread effects, compared with a NOK 975.4 million increase in the third quarter of 2015 (positive effect on profits). Accumulated positive mark-to-market effects by the end of the third quarter 2016 were NOK 3 076.4 million, compared with accumulated positive effects of NOK 2 832.0 million by the end of the third quarter 2015.

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 third quarter of 2016 positive effects of NOK 112.4 million have been recognised in the income statement due to CVA and DVA effect, compared with negative effects of NOK 169.0 million in the third quarter of 2015. Accumulated negative value adjustment by the end of the third quarter 2016 was NOK 653.7 million, compared with accumulated negative value adjustment of NOK 709.0 million by the end of the third quarter 2015.

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

| Amounts in NOK million | DNB Boligkreditt AS | | | | |
|---------------------------------|---------------------|---------------------|---------------------------|---------------------------|-------------------|
| | 3rd quarter 2016 | 3rd quarter 2015 | January-September 2016 | January-September 2015 | Full year 2015 |
| Salaries | (2) | (2) | (6) | (6) | (8) |
| Other personnel expenses | (1) | (2) | (5) | (6) | (9) |
| Fees ¹⁾ | (497) | (752) | (1 950) | (2 669) | (3 329) |
| Other operating expenses | (0) | (2) | (2) | (2) | (3) |
| Total operating expenses | (501) | (757) | (1 964) | (2 684) | (3 349) |

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> | 30 Sept. 2016 | 31 Dec. 2015 | 30 Sept. 2015 |
| Loans at amortised cost: | | | |
| Loans to customers at amortised cost, nominal amount | 542 244 | 506 576 | 498 981 |
| – Individual impairment | (43) | (46) | (44) |
| Loans to customers, after individual impairment | 542 201 | 506 530 | 498 937 |
| + Accrued interest | 530 | 583 | 621 |
| – Individual impairments on accrued interest | (35) | (42) | (44) |
| Loans to customers, at amortised cost | 542 696 | 507 071 | 499 515 |
| Loans at fair value: | | | |
| Loans to customers at fair value, nominal amount | 55 091 | 56 492 | 78 281 |
| – Individual impairments | | (1) | |
| Loans to customers, after individual impairment | 55 091 | 56 492 | 78 281 |
| + Accrued interest | 86 | 95 | 129 |
| + Adjustment to fair value | 1 028 | 1 184 | 2 466 |
| Loans to customers, at fair value | 56 205 | 57 770 | 80 876 |
| – Collective impairment | (92) | (96) | (96) |
| Loans to customers | 598 809 | 564 746 | 580 294 |

Impairment allowances

| | DNB Boligkreditt AS | | |
|--|---------------------|-----------------|------------------|
| <i>Amounts in NOK million</i> | 30 Sept. 2016 | 31 Dec. 2015 | 30 Sept. 2015 |
| Individual impairment | (43) | (47) | (44) |
| Individual impairment of accrued interest and amor.effects | (35) | (42) | (44) |
| Collective impairment | (92) | (96) | (96) |
| Impairment allowances as at end of period | (169) | (185) | (184) |

Impairment expenses

| | DNB Boligkreditt AS | | | | |
|-------------------------------------|---------------------|---------------------|---------------------------|---------------------------|-------------------|
| <i>Amounts in NOK million</i> | 3rd quarter 2016 | 3rd quarter 2015 | January-September 2016 | January-September 2015 | Full year 2015 |
| Individual impairment | (3) | 3 | (9) | (1) | (8) |
| Collective impairment ¹⁾ | (2) | 2 | 4 | 7 | 6 |
| Recoveries of previous write-offs | 0 | 1 | 2 | 2 | 4 |
| Impairment expenses | (4) | 6 | (2) | 7 | 2 |

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 the annual report for 2015.

Note 10 Debt securities issued

| Debt securities issued | DNB Boligkreditt AS | | |
|---|---------------------|-----------------|------------------|
| | 30 Sept. 2016 | 31 Dec. 2015 | 30 Sept. 2015 |
| <i>Amounts in NOK million</i> | | | |
| Listed covered bonds, nominal amount | 371 361 | 386 944 | 409 801 |
| Private placements under the bond programme, nominal amount | 56 953 | 59 419 | 57 185 |
| Total bonds, nominal amount | 428 314 | 446 362 | 466 986 |
| Accrued interest | 3 492 | 4 602 | 4 449 |
| Unrealised losses ¹⁾ | 25 213 | 22 780 | 24 460 |
| Adjustments | 28 705 | 27 383 | 28 909 |
| Total debt securities issued | 457 019 | 473 745 | 495 895 |

1) Unrealised losses 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. 2016 | Issued 2016 | Matured/ redeemed 2016 | Exchange rate movements 2016 | Changes in adjustments 2016 | Balance sheet 31 Dec. 2015 |
| <i>Amounts in NOK million</i> | | | | | | |
| Bond debt, nominal amount | 428 314 | 62 116 | (54 417) | (25 747) | | 446 362 |
| Adjustments | 28 705 | | | | 1 322 | 27 383 |
| Total debt securities issued | 457 019 | 62 116 | (54 417) | (25 747) | 1 322 | 473 745 |

| Maturity of debt securities issued | DNB Boligkreditt AS | | |
|------------------------------------|---------------------|---------------------|----------------|
| | NOK | Foreign currency | Total |
| <i>Amounts in NOK million</i> | | | |
| 2016 | | 20 575 | 20 575 |
| 2017 | 10 690 | 48 659 | 59 349 |
| 2018 | 13 450 | 54 852 | 68 302 |
| 2019 | 16 600 | 39 014 | 55 614 |
| 2020 | 19 000 | 33 023 | 52 023 |
| 2021 and later | 19 000 | 153 451 | 172 451 |
| Total bond debt | 78 740 | 349 574 | 428 314 |

| Debt securities issued - matured/redeemed during the period | DNB Boligkreditt AS | | | | | | | |
|---|---------------------|---------------|-------------------------------|----------|--------|---------|--------------------------|-----------------|
| | ISIN Code | Currency | Matured redeemed amount | Interest | Issued | Matured | Remaining nominal amount | |
| <i>Amounts in NOK million</i> | | | | | | | 30 Sept. 2016 | 31 Dec. 2015 |
| CH0039334104 | CHF | 1 773 | Fixed | 2008 | 2016 | Matured | | 1 773 |
| Private | EUR | 192 | Fixed | 2008 | 2016 | Matured | | 192 |
| Private | EUR | 288 | Fixed | 2010 | 2016 | Matured | | 288 |
| NO0010495575 | NOK | 5 740 | Floating | 2010 | 2016 | Matured | | 5 740 |
| Private | EUR | 48 | Fixed | 2011 | 2016 | Called | | 48 |
| XS0618702962 | EUR | 480 | Floating | 2011 | 2016 | Matured | | 480 |
| AU0000DBNHA1 | AUD | 3 860 | Fixed | 2011 | 2016 | Matured | | 3 860 |
| XS0576372691 | EUR | 19 206 | Fixed | 2011 | 2016 | Matured | | 19 206 |
| XS0589651388 | EUR | 240 | Floating | 2011 | 2016 | Matured | | 240 |
| XS0596703875 | EUR | 2 881 | Floating | 2011 | 2016 | Matured | | 2 881 |
| XS0596703875 | EUR | 1 921 | Floating | 2011 | 2016 | Matured | | 1 921 |
| XS0596703875 | EUR | 192 | Floating | 2011 | 2016 | Matured | | 192 |
| XS0609014575 | USD | 17 596 | Fixed | 2011 | 2016 | Matured | | 17 596 |
| Total debt securities issued, nominal value | | 54 417 | | | | | | 54 417 |

Note 10 Debt securities issued (continued)

Cover pool

| <i>Amounts in NOK million</i> | DNB Boligkreditt AS | | |
|---|---------------------|-----------------|------------------|
| | 30 Sept. 2016 | 31 Dec. 2015 | 30 Sept. 2015 |
| Pool of eligible loans | 595 247 | 561 517 | 577 343 |
| Market value of eligible derivatives | 36 835 | 74 932 | 71 277 |
| Total collateralised assets | 632 083 | 636 449 | 648 620 |
| Debt securities issued, carrying value | 457 019 | 473 745 | 495 895 |
| Less valuation changes attributable to changes in credit risk on debt carried at fair value | (267) | 361 | 27 |
| Debt securities issued, valued according to regulation ¹⁾ | 456 752 | 474 106 | 495 922 |
| Collateralisation (per cent) | 138.4 | 134.2 | 130.8 |

1) The debt securities issued are bonds with preferred rights in the appurtenant cover pool. The composition and calculation of values in the cover pool are defined in Sections 11-8 and 11-11 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 | | |
|--|----------|-------------------|------------------------|---------------|------------------|---------------------|-----------------|------------------|
| | | | | | | 30 Sept. 2016 | 31 Dec. 2015 | 30 Sept. 2015 |
| Term subordinated loan capital | NOK | 850 | 3 month Nibor + 400 bp | 2009 | 2019 | 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 | 7 | 7 |
| Total subordinated loan capital | | | | | | 4 857 | 4 857 | 4 857 |

Note 12 Financial instruments at fair value

| <i>Amounts in NOK million</i> | DNB Boligkreditt AS | | | 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 30 September 2016 | | | | |
| Due from credit institutions | | 34 205 | | 34 205 |
| Loans to customers | | | 56 205 | 56 205 |
| Financial derivatives | | 48 886 | | 48 886 |
| Liabilities as at 30 September 2016 | | | | |
| Debt securities issued | | 80 898 | | 80 898 |
| Financial derivatives | | 12 051 | | 12 051 |

| <i>Amounts in NOK million</i> | DNB Boligkreditt AS | | | 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 30 September 2015 | | | | |
| Loans to customers | | | 80 876 | 80 876 |
| Financial derivatives | | 82 425 | | 82 425 |
| Liabilities as at 30 September 2015 | | | | |
| Debt securities issued | | 96 666 | | 96 666 |
| Financial derivatives | | 11 148 | | 11 148 |

In the second quarter of 2016 DNB Boligkreditt entered into repurchase agreements (repos) with the bank as counterparty. The fair value of the repos is presented in level 2 and amounted to NOK 34 205 million at end-September 2016. For a further description of the instruments and valuation techniques, see the annual report for 2015.

Financial instruments at fair value, level 3

| <i>Amounts in NOK million</i> | DNB Boligkreditt AS |
|--|---------------------|
| | Loans to customers |
| Carrying amount as at 31 December 2015 | 57 771 |
| Net gains recognised in the income statement | (164) |
| Additions/purchases | 6 694 |
| Sales | (174) |
| Settled | (7 922) |
| Carrying amount as at 30 September 2016 | 56 205 |

Note 13 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. For a further description of valuation methods, see the annual report for 2015.

| <i>Amounts in NOK million</i> | 30 September 2016 | | 30 September 2015 | |
|------------------------------------|------------------------------|----------------|-------------------|----------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | Due from credit institutions | 1 006 | 1 006 | 947 |
| Loans to customers | 542 604 | 542 604 | 499 418 | 499 418 |
| Total financial assets | 543 610 | 543 610 | 500 365 | 500 365 |
| Due to credit institutions | 155 978 | 155 978 | 105 382 | 105 382 |
| Debt securities issued | 376 122 | 379 592 | 399 230 | 402 444 |
| Subordinated loan capital | 4 857 | 4 868 | 4 857 | 4 868 |
| Total financial liabilities | 536 956 | 540 438 | 509 469 | 512 694 |

| <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 | Total |
|--|--|---|--|---------|
| | Level 1 | Level 2 | Level 3 | |
| Assets as at 30 September 2016 | | | | |
| Due from credit institutions | | 1 006 | | 1 006 |
| Loans to customers | | | 542 604 | 542 604 |
| Liabilities as at 30 September 2016 | | | | |
| Due to credit institutions | | 155 978 | | 155 978 |
| Debt securities issued | | 379 592 | | 379 592 |
| Subordinated loan capital | | | 4 868 | 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 three quarters of 2016, loan portfolios of NOK 16.4 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 1 907 million for the first three quarters of 2016 (NOK 2 638 million for the first three quarters of 2015).

At end-September, the bank had invested NOK 3.7 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 do not constitute a guarantee in respect of amounts due and payable under the Covered Bonds. The agreement was cancelled on DNB Boligkreditt's initiative in the second quarter of 2016.

In the second quarter of 2016 DNB Boligkreditt entered into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The value of the repos amounted to NOK 34.2 billion at end-September 2016.

DNB Livsforsikring AS

At end-September 2016, 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 2.1 million for the first three quarters of 2016.

Key figures

| | DNB Boligkreditt AS | | | | |
|--|----------------------------|---------------------|---------------------------|---------------------------|-------------------|
| | 3rd quarter 2016 | 3rd quarter 2015 | January-September 2016 | January-September 2015 | Full year 2015 |
| Rate of return/profitability | | | | | |
| Return on equity, annualised (%) ¹⁾ | (0.1) | 19.2 | 3.5 | 17.7 | 18.4 |
| Financial strength at end of period | | | | | |
| Common equity Tier 1 capital ratio, transitional rules (%) | 15.9 | 14.2 | 15.9 | 14.2 | 15.2 |
| Capital ratio, transitional rules (%) | 18.0 | 16.3 | 18.0 | 16.3 | 17.3 |
| Common equity Tier 1 capital (NOK million) | 37 196 | 32 071 | 37 196 | 32 071 | 33 592 |
| Risk-weighted volume, transitional rules (NOK million) | 233 483 | 226 029 | 233 483 | 226 029 | 221 648 |
| Loan portfolio and impairment | | | | | |
| 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 | 0.17 | 0.19 | 0.17 | 0.19 | 0.19 |
| Non-performing and doubtful gross loans, end of period (NOK million) | 1 030 | 1 108 | 1 030 | 1 108 | 1 058 |
| Net non-performing and net doubtful loans, per cent of net loans | 0.10 | 0.12 | 0.10 | 0.12 | 0.11 |
| Net non-performing and net doubtful loans, end of period (NOK million) | 592 | 702 | 592 | 702 | 634 |
| Staff | | | | | |
| Number of full-time positions at end of period | 8 | 8 | 8 | 8 | 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> | 3rd quarter 2016 | 2nd quarter 2016 | 1st quarter 2016 | 4th quarter 2015 | 3rd quarter 2015 |
| Total interest income | 3 595 | 3 611 | 3 668 | 4 003 | 4 391 |
| Total interest expenses | (2 455) | (2 333) | (2 396) | (2 515) | (2 744) |
| Net interest income | 1 139 | 1 278 | 1 273 | 1 488 | 1 647 |
| Commission and fee income | 19 | (3) | (9) | (11) | (7) |
| Commission and fee expenses | (0) | (1) | (1) | (0) | (0) |
| Net gains on financial instruments at fair value | (669) | (512) | 802 | 466 | 1 507 |
| Other income | 0 | 1 | 1 | 1 | 1 |
| Net other operating income | (651) | (515) | 793 | 455 | 1 500 |
| Total income | 489 | 763 | 2 066 | 1 943 | 3 147 |
| Salaries and other personnel expenses | (3) | (3) | (5) | (5) | (3) |
| Other expenses | (498) | (750) | (704) | (661) | (754) |
| Total operating expenses | (501) | (753) | (709) | (665) | (757) |
| Impairment of loans and commitments | (4) | 4 | (2) | (5) | 6 |
| Pre-tax operating profit | (16) | 13 | 1 354 | 1 273 | 2 396 |
| Tax expense | 4 | (3) | (339) | 657 | (647) |
| Profit for the period | (12) | 10 | 1 016 | 1 929 | 1 749 |
| Other comprehensive income | | | | (2) | |
| Total comprehensive income for the period | (12) | 10 | 1 016 | 1 927 | 1 749 |

Balance Sheet

| | DNB Boligkreditt AS | | | | |
|-------------------------------------|---------------------|-----------------|------------------|-----------------|------------------|
| <i>Amounts in NOK million</i> | 30 Sept. 2016 | 30 June 2016 | 31 March 2016 | 31 Dec. 2015 | 30 Sept. 2015 |
| Assets | | | | | |
| Due from credit institutions | 35 211 | 3 759 | 735 | 468 | 947 |
| Loans to customers | 598 809 | 588 391 | 573 099 | 564 746 | 580 294 |
| Financial derivatives | 48 886 | 68 451 | 73 082 | 84 583 | 82 425 |
| Other assets | 36 | 7 | 1 | 1 | 14 |
| Total assets | 682 943 | 660 608 | 646 917 | 649 797 | 663 680 |
| Liabilities and equity | | | | | |
| Due to credit institutions | 155 978 | 135 252 | 130 108 | 113 813 | 105 382 |
| Financial derivatives | 12 051 | 11 070 | 10 732 | 9 651 | 11 148 |
| Debt securities issued | 457 019 | 456 316 | 451 971 | 473 745 | 495 895 |
| Payable taxes | 338 | 342 | 339 | 0 | 1 632 |
| Deferred taxes | 12 501 | 12 501 | 8 181 | 8 181 | 7 207 |
| Other liabilities | 378 | 437 | 487 | 322 | 261 |
| Provisions | 30 | 29 | 30 | 30 | 27 |
| Subordinated loan capital | 4 857 | 4 856 | 4 857 | 4 857 | 4 857 |
| Total liabilities | 643 151 | 620 804 | 606 703 | 610 599 | 626 409 |
| Share capital | 3 857 | 3 857 | 3 497 | 3 497 | 3 497 |
| Share premium | 28 863 | 28 863 | 25 623 | 25 623 | 25 623 |
| Other equity | 7 071 | 7 084 | 11 094 | 10 078 | 8 151 |
| Total equity | 39 791 | 39 804 | 40 214 | 39 198 | 37 271 |
| Total liabilities and equity | 682 943 | 660 608 | 646 917 | 649 797 | 663 680 |

Contact information

DNB Boligkreditt AS

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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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