



ÅRSREGNSKAPET FOR REGNSKAPSÅRET 2020 - GENERELL INFORMASJON

Enheten

Organisasjonsnummer: 985 621 551
Organisasjonsform: Aksjeselskap
Foretaksnavn: DNB BOLIGKREDITT AS
Forretningsadresse: Dronning Eufemias gate 30
0191 OSLO

Regnskapsår

Årsregnskapets periode: 01.01.2020 - 31.12.2020

Konsern

Morselskap i konsern: Nei

Regnskapsregler

Regler for små foretak benyttet: Nei
Benyttet ved utarbeidelsen av årsregnskapet til selskapet: IFRS

Årsregnskapet fastsatt av kompetent organ

Bekreftet av representant for selskapet: Roar Sørensen
Dato for fastsettelse av årsregnskapet: 16.04.2021

Grunnlag for avgivelse

År 2020: Årsregnskapet er elektronisk innlevert
År 2019: Tall er hentet fra elektronisk innlevert årsregnskap fra 2020

Det er ikke krav til at årsregnskapet m.v. som sendes til Regnskapsregisteret er undertegnet. Kontrollen på at dette er utført ligger hos revisor/enhetens øverste organ. Sikkerheten ivaretas ved at innsender har rolle/rettighet for innsending av årsregnskapet via Altinn, og ved at det bekreftes at årsregnskapet er fastsatt av kompetent organ.

Brønnøysundregistrene, 19.05.2022



Resultatregnskap

Beløp i: NOK	Note	2020	2019
RESULTATREGNSKAP			
Renteinntekter og lignende inntekter			
Renter og lignende inntekter av utlån til og fordringer på kredittinstitusjoner	12	32 000 000	111 000 000
Renter og lignende inntekter av utlån til og fordringer på kunder	12	14 320 000 000	16 878 000 000
Andre renteinntekter og lignende inntekter	12	218 000 000	215 000 000
Sum renteinntekter og lignende inntekter	12	14 570 000 000	17 204 000 000
Rentekostnader og lignende kostnader			
Renter og lignende kostnader på gjeld til kredittinstitusjoner	12	2 020 000 000	3 161 000 000
Renter og lignende kostnader på innskudd fra og gjeld til kunder	12	1 830 000 000	2 811 000 000
Renter og lignende kostnader på ansvarlig lånekapital	12	133 000 000	161 000 000
Andre rentekostnader og lignende kostnader	12	5 092 000 000	6 308 000 000
Sum rentekostnader og lignende kostnader	12	9 075 000 000	12 441 000 000
Netto rente- og kredittprovisjonsinntekter	12	5 495 000 000	4 763 000 000
Utbytte og andre inntekter av verdipapirer med variabel avkastning			
Sum utbytte og andre inntekter av verdipapirer med variabel avkastning		0	0
Provisjonsinntekter og inntekter fra banktjenester			
Andre gebyrer og provisjonsinntekter	13	61 000 000	61 000 000
Sum provisjonsinntekter og inntekter fra banktjenester	13	61 000 000	61 000 000
Provisjonskostnader og kostnader ved banktjenester			
Andre gebyrer og provisjonskostnader	13	3 000 000	3 000 000
Sum provisjonskostnader og kostnader ved banktjenester	13	3 000 000	3 000 000
Netto verdiendring og gevinst/tap på valuta og verdipapirer som er omløpsmidler			
Netto verdiendring og gevinst/tap på valuta og finansielle derivater	14	1 047 000 000	330 000 000
Sum netto verdiendring og gevinst/tap på valuta og verdipapirer som er omløpsmidler	14	1 047 000 000	330 000 000
Andre driftsinntekter			



Resultatregnskap

Beløp i: NOK	Note	2020	2019
Andre driftsinntekter		-2 000 000	0
Sum andre driftsinntekter		-2 000 000	0
Lønn og generelle administrasjonskostnader			
Lønn	15	8 000 000	6 000 000
Pensjoner	15	2 000 000	3 000 000
Sosiale kostnader	15	1 000 000	2 000 000
Lønn m.v.	15	11 000 000	11 000 000
Sum lønn og generelle administrasjonskostnader	15	11 000 000	11 000 000
Avskrivninger m.v. av varige driftsmidler og immaterielle eiendeler			
Sum avskrivninger m.v. av varige driftsmidler og immaterielle eiendeler		0	0
Andre driftskostnader			
Andre driftskostnader	24	1 146 000 000	796 000 000
Sum andre driftskostnader	24	1 146 000 000	796 000 000
Tap på utlån, garantier m.v.			
Tap på utlån	6	-27 000 000	-16 000 000
Sum tap på utlån, garantier m.v.	6	-27 000 000	-16 000 000
Nedskrivning/reversering av nedskrivning og gevinst/tap på verdipapirer som er anleggsmidler			
Sum nedskrivning/reversering av nedskrivning og gevinst/tap på verdipapirer som er anleggsmidler		0	0
Resultat av ordinær drift		5 468 000 000	4 360 000 000
Skatt på ordinært resultat	16	1 368 000 000	1 089 000 000
Resultat av ordinær drift etter skatt		4 100 000 000	3 271 000 000
Resultat av ekstraordinære poster		0	0
Resultat for regnskapsåret		4 100 000 000	3 271 000 000
Overføringer og disponeringer			
Avgitt konsernbidrag		4 095 000 000	3 271 000 000



Resultatregnskap

Beløp i: NOK	Note	2020	2019
Sum disponeringer og overføringer		4 095 000 000	3 271 000 000



Balanse

Beløp i: NOK	Note	2020	2019
BALANSE - EIENDELER			
Utlån til og fordringer på kredittinstitusjoner			
Utlån til og fordringer på kredittinstitusjoner uten avtalt løpetid eller oppsigelsesfrist	11	26 175 000 000	5 537 000 000
Sum netto utlån og fordringer på kredittinstitusjoner		26 175 000 000	5 537 000 000
Utlån til og fordringer på kunder			
Factoring		0	0
Nedbetalingslån	7	676 551 000 000	636 849 000 000
Nedskrivninger på individuelle utlån		40 000 000	63 000 000
Sum netto utlån og fordringer på kunder		676 511 000 000	636 786 000 000
Sertifikater, obligasjoner og andre rentebærende verdipapirer med fast avkastning			
Utstedt av det offentlige		0	0
Utstedt av andre		0	0
Sum sertifikater, obligasjoner og andre rentebærende verdipapirer med fast avkastning		0	0
Aksjer, andeler og andre verdipapirer med variabel avkastning			
Sum aksjer, andeler og andre verdipapirer med variabel avkastning		0	0
Eierinteresser i tilknyttede selskaper			
Sum eierinteresser i tilknyttede selskaper		0	0
Eierinteresser i konsernselskaper			
Sum eierinteresser i konsernselskaper		0	0
Immaterielle eiendeler			
Sum immaterielle eiendeler		0	0
Varige driftsmidler			
Sum varige driftsmidler		0	0



Balanse

Beløp i: NOK	Note	2020	2019
Andre eiendeler			
Finansielle derivater	17	37 442 000 000	51 524 000 000
Andre eiendeler	11	5 000 000	8 000 000
Sum andre eiendeler		37 447 000 000	51 532 000 000
Forskuddsbetalte ikke påløpte kostnader og opptjente ikke mottatte inntekter			
Sum forskuddsbetalte ikke påløpte kostnader og opptjente ikke mottatte inntekter		0	0
SUM EIENDELER		740 133 000 000	693 855 000 000
BALANSE - GJELD OG EGENKAPITAL			
GJELD			
Gjeld til kredittinstitusjoner			
Lån og innskudd fra kredittinstitusjoner uten avtalt løpetid eller oppsigelsesfrist	17	150 423 000 000	153 401 000 000
Sum gjeld til kredittinstitusjoner		150 423 000 000	153 401 000 000
Innskudd fra og gjeld til kunder			
Sum innskudd fra og gjeld til kunder		0	0
Gjeld stiftet ved utstedelse av verdipapirer			
Obligasjonsgjeld	21	521 195 000 000	471 715 000 000
Sum gjeld stiftet ved utstedelse av verdipapirer		521 195 000 000	471 715 000 000
Annen gjeld			
Finansielle derivater	17	9 580 000 000	9 928 000 000
Annen gjeld	11	114 000 000	101 000 000
Sum annen gjeld		9 694 000 000	10 029 000 000
Avsetninger for påløpte kostnader og forpliktelses			
Utsatt skatt	16	655 000 000	4 747 000 000
Andre avsetninger for påløpte kostnader og forpliktelses	16	5 496 000 000	2 133 000 000
Sum avsetninger for påløpte kostnader og forpliktelses		6 151 000 000	6 880 000 000



Balanse

Beløp i: NOK	Note	2020	2019
Ansvarlig lånekapital			
Annen ansvarlig lånekapital	22	5 206 000 000	5 210 000 000
Sum ansvarlig lånekapital	22	5 206 000 000	5 210 000 000
Sum gjeld		692 669 000 000	647 235 000 000
EGENKAPITAL			
Innskutt egenkapital			
Aksjekapital/grunnfondsbeviskapital		5 257 000 000	5 257 000 000
Selskapskapital		5 257 000 000	5 257 000 000
Overkursfond		31 719 000 000	31 719 000 000
Sum innskutt egenkapital		36 976 000 000	36 976 000 000
Opptjent egenkapital			
Annen egenkapital		10 487 000 000	9 645 000 000
Sum opptjent egenkapital		10 487 000 000	9 645 000 000
Sum egenkapital		47 463 000 000	46 621 000 000
SUM GJELD OG EGENKAPITAL		740 132 000 000	693 856 000 000



DNB Boligkreditt AS
A company in the DNB Group

Annual report 2020

DNB





Financial highlights

Statement of comprehensive income				DNB Boligkreditt AS	
Amounts in NOK million	2020	2019	2018	2017	2016
Net interest income	5 495	4 763	5 183	5 664	4 702
Net other operating income	1 103	388	(2 128)	(1 288)	(1 207)
<i>Of which net gains on financial instruments at fair value</i>	<i>1 047</i>	<i>330</i>	<i>(2 190)</i>	<i>(1 354)</i>	<i>(1 233)</i>
Operating expenses	(1 158)	(807)	(771)	(1 243)	(2 398)
Impairment of financial instruments	27	16	15	(26)	14
Pre-tax operating profit	5 467	4 360	2 299	3 107	1 111
Tax expense	(1 368)	(1 089)	(575)	(777)	(297)
Profit for the year	4 100	3 271	1 724	2 331	815

Balance sheet		31 Dec.	31 Dec.	31 Dec.	31 Dec.	31 Dec.
Amounts in NOK million		2020	2019	2018	2017	2016
Total assets		740 132	693 855	695 819	715 425	681 264
Loans to customers		676 511	636 786	628 901	622 169	603 165
Debt securities issued		521 195	471 715	478 548	468 236	439 072
Total equity		47 463	46 621	43 608	44 108	39 592

Key figures		2020	2019	2018	2017	2016
Return on equity, annualised (%) ¹⁾		8.8	7.3	4.0	5.5	2.1
Total average spread for lending (%) ¹⁾		0.75	0.62	0.73	0.82	0.69
Impairment relative to average net loans to customers, annualised (%) ¹⁾		0.00	0.00	0.00	(0.00)	0.00
Net loans and financial commitments in stage 3, per cent of net loans ¹⁾		0.13	0.15	0.16	0.13	0.14
Net loans and financial commitments in stage 3, end of period (NOK million) ¹⁾		851	982	1 019	818	852
Common equity Tier 1 capital ratio end of period (%) ²⁾		23.6	24.5	24.7	21.4	19.6
Capital ratio end of period (%) ²⁾		26.6	27.6	27.7	24.0	22.1
Common equity Tier 1 capital (NOK million)		42 036	42 132	42 143	40 789	37 451
Risk-weighted assets (NOK million) ²⁾		177 880	171 652	170 710	190 225	191 563
Number of full-time positions at end of period		6	5	6	6	7

1) Defined as alternative performance measures (APM). APMs are described on ir.dnb.no.

2) On 31 December 2019, Norway fully implemented the EU's capital requirements legislation CRR/CRD IV, and the so-called Basel I floor was removed. The additional capital requirements due to the transitional rules have been removed from the historical figures. The harmonised rules include the introduction of the SME discount factor.



Contents

Directors' report	4
Annual accounts	
Comprehensive income statement.....	8
Balance sheet.....	9
Statement of changes in equity.....	10
Cash flow statement.....	11
Notes to the accounts	
Note 1 Accounting principles.....	12
Note 2 Capitalisation policy and capital adequacy.....	16
Note 3 Credit risk management.....	18
Note 4 Measurement of expected credit loss.....	19
Note 5 Credit risk exposure by risk grade.....	23
Note 6 Impairment of financial instruments.....	23
Note 7 Development in gross carrying amount.....	24
Note 8 Development in accumulated impairment of loans.....	25
Note 9 Market risk.....	26
Note 10 Financial derivatives and hedge accounting.....	27
Note 11 Liquidity risk.....	28
Note 12 Net interest income.....	29
Note 13 Net commission and fee income.....	30
Note 14 Net gains on financial instruments at fair value.....	30
Note 15 Salaries and other personnel expenses.....	30
Note 16 Taxes.....	31
Note 17 Classification of financial instruments.....	32
Note 18 Fair value of financial instruments at amortised cost.....	33
Note 19 Financial instruments at fair value.....	34
Note 20 Offsetting.....	35
Note 21 Debt securities issued.....	36
Note 22 Subordinated loan capital.....	38
Note 23 Remunerations.....	38
Note 24 Information on related parties.....	39
Statement pursuant to the Securities Trading Act	40
Auditor's report	41
Governing bodies	45
Contact information	45



Directors' report 2020

In accordance with the provisions of the Norwegian Accounting Act, the Board of Directors confirms that the accounts have been prepared on a going concern basis, and that the going concern assumption applies. Pursuant to Section 3-9 of the Norwegian Accounting Act, DNB Boligkreditt prepares annual accounts in accordance with IFRS, International Financial Reporting Standards, approved by the EU.

DNB Boligkreditt AS is the DNB Group's vehicle for the issue of covered bonds based on residential mortgages. The company's office is 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.

Operations in 2020

DNB Boligkreditt recorded a profit of NOK 4 100 million in 2020, compared with a profit of NOK 3 271 million in 2019.

Loans to customers increased by 6.2 per cent throughout the year, while outstanding covered bonds increased by 10.5 per cent.

Wider interest rate spreads and increased loans to customers gave an increase in net interest income by 15.4 per cent. In addition, a net gain on financial instruments of NOK 1 047 million was recorded in 2020, compared with a gain of NOK 330 million in 2019. The gain reflects the effects of unrealised changes in the market value of covered bonds, derivatives and loans measured at fair value.

The company's residential mortgage portfolio totalled NOK 676.5 billion at year-end 2020, rising by NOK 39.7 billion or 6.2 per cent over the preceding 12 months. Debt securities issued in the form of covered bonds increased from NOK 471.7 billion in 2019 to NOK 521.2 billion at year-end 2020.

In the course of 2020, the company launched new bond issues under existing funding programmes, whose limits are EUR 60 billion and USD 12 billion, respectively. The market remained attractive for covered bond issuers with a strong credit rating in 2020. The company issued covered bonds for a total of NOK 83.9 billion during the year, including a green covered bond of SEK 0.3 billion. For more information about green bonds, see www.dnb.no/ir.

Strategy

DNB Boligkreditt is a tool for DNB Bank to offer residential mortgages on competitive terms. The issue of covered bonds secured by the company's cover pool will ensure favourable funding for the banking group. The bonds are offered in the Norwegian and international financial markets.

DNB Boligkreditt offers mortgages for retail customers that are secured within 75 per cent of appraised value. New mortgages are sold through the bank's distribution channels. The bank is responsible for customer relations and all customer contact, marketing and product development. The company follows the bank's credit policy, credit strategy and credit process.

The quality and risk profile of the mortgages included in the cover pool shall ensure that the company's AAA rating target for its covered bonds is met.

The target group for covered bonds is national and international financial institutions and other investors.

Corporate governance and internal control

DNB Boligkreditt's corporate governance principles are based on the DNB Group's corporate governance policy. The Group's policy follows the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance.

DNB's governing principles for corporate responsibility set the standards for all of the Group's work on both the observance and the further development of corporate responsibility. In addition, the

Group has guidelines, business models and fora that aim to ensure that corporate responsibility is an integral part of daily operations. Read more about DNB's corporate responsibility on dnb.no/en/about-us.

The Board of Directors of the DNB Group has sub-committees, the Audit Committee and the Risk Management Committee. The Audit Committee reviews the annual accounts of DNB Boligkreditt.

The Board of Directors of DNB Boligkreditt reviews the financial reporting process. The company follows the DNB Group's policy for financial management and reporting, which includes requirements for quality assurance of financial reporting processes to ensure relevant, timely and uniform reporting to internal stakeholders, regulators and capital market participants. DNB Boligkreditt has a management team which is adapted to its organisation and operations. The team reviews the process of internal control over financial reporting, and implements adequate and effective internal processes in accordance with established requirements. Processes include control measures to ensure that the financial reporting is of high quality. Every year, the team makes an evaluation of compliance with external and internal regulations and prepares a plan to implement any required improvements.

The Board of Directors approves management's proposed annual accounts for DNB Boligkreditt.

Review of the annual accounts

DNB Boligkreditt recorded a profit of NOK 4 100 million in 2020, compared with a profit of NOK 3 271 million in 2019.

Total income

Income totaled NOK 6 598 million in 2020, up from NOK 5 152 million in 2019.

Amounts in NOK million	2020	Change	2019
Total income	6 598	1 446	5 152
Net interest income		732	
Net commission and fee income			
Net gains on financial instruments at fair value		717	
Net other income		(3)	

The increase in net interest income was mainly to increased loans to customers and wider interest rate spreads.

A net gain of NOK 1 047 million on financial instruments was recorded in 2020, which reflects the effect of unrealised changes in the market value of covered bonds, derivatives and loans measured at fair value. Gains and losses from such instruments tend to vary considerably from period to period 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 from financial instruments in 2020 were 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 structure shall ensure a stable return on equity. The level of this return was increased from 2019 to 2020, leaving the company with a higher fee for the current year all other input unchanged. The fee amounted to NOK 1 047 million in 2020, up from NOK 728 million in 2019.

The company has generally recorded low impairment losses on loans. In 2020, the company reported net reversal of impairment losses of NOK 27 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 year-end 2020, DNB Boligkreditt had total assets of NOK 740.1 billion, an increase of NOK 46.3 billion or 6.7 per cent from year-end 2019.

Amounts in NOK million	31 Dec.		31 Dec.
	2020	Change	2019
Total assets	740 132	46 277	693 855
Loans to customers		39 725	
Financial derivatives		(14 062)	
Other assets		20 634	
Total liabilities	692 669	45 434	647 235
Due to credit institutions		(2 978)	
Financial derivatives		(348)	
Debt securities issued		49 480	
Deferred taxes		(4 092)	
Other liabilities		3 372	

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 49.5 billion from year-end 2019. The company issued covered bonds under existing programmes totalling NOK 84.3 billion in 2020. Total debt securities issued amounted to NOK 521.2 billion at year-end 2020.

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-December 2020, the company's equity totaled NOK 47.5 billion, of which NOK 42.0 billion represented Tier 1 capital. Total primary capital in the company was NOK 47.2 billion. The Tier 1 capital ratio was 23.6 per cent, while the capital adequacy ratio was 26.6 per cent. The increased capital ratios compared to prior periods is due to the removal of the Basel I floor with effect as from 31 December 2019.

Capital adequacy requirements

At year-end 2020, the common equity Tier 1 capital requirement was 16.3 per cent for DNB Boligkreditt. This included a counter-cyclical capital buffer of 1.0 per cent, a systemic risk buffer of 4.5 per cent and a Pillar 2 buffer requirement of 0.3 per cent.

There is a need to have a margin over the total common equity Tier 1 capital requirement to take into account expected lending growth and fluctuations in the market value of financial instruments used for hedging purposes. This means that DNB Boligkreditt needed to have a common equity Tier 1 capital ratio of approximately 17.05 per cent at year-end 2020, representing a 0.75 per cent management buffer above the minimum common equity Tier 1 requirement.

Non-risk based capital requirement, leverage ratio

As a supplement to the risk-weighted capital requirements and as a measure to counter adjustments and gaps in the regulations, a non-risk based capital requirement, "leverage ratio", has been introduced. The Ministry of Finance has set a minimum requirement of 3 per cent, but all banks must have a buffer on top of the requirement of minimum 2 per cent. Systemically important banks must have an additional buffer of minimum 1 per cent. As a systemically important bank in Norway, the total requirement for DNB is then 6 per cent. The additional buffer requirements do not apply to DNB Boligkreditt, which means that 3 per cent will be the effective requirement.

Employees and environment

During 2020 DNB Boligkreditt had six full time employees. The working environment is considered good and the sick-leave was low. The employees are located with and part of the working environment in DNB Bank ASA, hereunder included in all measures and hired on equal terms as the bank's employees.

The company's operations do not pollute the external environment.

New regulatory framework

Loan guarantee programme extended until the summer of 2021

In connection with the COVID-19 pandemic, the Norwegian Government has introduced a number of schemes, programmes and regulatory changes for employees, employers and self-employed persons. The loan guarantee programme means that the Government provides a guarantee for 90 per cent of the amount when new bank loans are issued to companies facing an acute liquidity crisis as a direct or indirect consequence of the pandemic.

On 13 November 2020, the Norwegian Ministry of Finance decided that the loan guarantee programme is to be extended until 30 June 2021. Furthermore, the Ministry indicated that it may allow terms of up to six years for guaranteed loans, and that banks may give their loan customers interest-only periods of up to three years.

New compensation scheme as of January 2021

The Storting (Norwegian parliament) has decided to introduce a new compensation scheme for companies experiencing significantly reduced turnover as a result of the COVID-19 pandemic. The compensation scheme applies to the same industries as the previous scheme and is available to enterprises that have experienced a drop in turnover of more than 30 per cent



due to the pandemic. The Brønnøysund Register Centre is managing the new scheme, and the application portal opened on 18 January 2021. All companies that qualify for support and that have made the necessary preparations in advance will receive the money 2–3 working days after submitting an application.

Counter-cyclical capital buffer requirement remains unchanged

On 13 March 2020, the Ministry of Finance decided to reduce the counter-cyclical capital buffer requirement from 2.5 per cent to 1 per cent. The reduction was made in connection with the COVID-19 pandemic and the infection control measures that had led to a sharp decline in activity in the Norwegian economy.

On 17 December 2020, the Ministry decided to keep the requirement unchanged at 1 per cent. These decisions were made on the advice of the Norwegian central bank, Norges Bank. Norges Bank's current assessment of economic developments, projected losses and banks' expected lending capacity indicates that advice will be given on increasing the buffer requirement in the course of 2021 effective 12 months later. In a somewhat longer perspective, Norges Bank envisages that the buffer requirement will once again be back at the 2.5 per cent level.

Regulation of banks' lending practices

Banks' lending practices towards households are currently regulated by the Home Mortgage Regulations and the Consumer Loan Regulations. On 9 December 2020, the Government decided to extend the applicable provisions of these regulations for a new period of four years, with a mid-term evaluation after two years. However, the two separate regulations will be combined into one common set of regulations on lending. The Government decided against following Finanstilsynet's recommendation to expand the regulatory scope to include loans secured by collateral other than property. However, this will be assessed in the evaluation to be performed in the autumn of 2022.

Changes in capital requirements for banks as of 1 January 2021

The EU's capital requirements legislation, CRR/CRD IV, entered into effect in Norway on 31 December 2019. This meant, among other things, the removal of the Basel I floor. To counteract this easing of the capital requirements, the systemic risk buffer requirement was increased from 3 to 4.5 per cent with effect from 31 December 2020.

In order to ensure that risk weights for home mortgages and commercial property loans are not set too low, the Ministry of Finance has introduced temporary floors of 20 and 35 per cent, respectively, for the average risk weighting of such loans. This measure is aimed also at foreign banks with operations in Norway and is important for ensuring equal terms of competition. DNB Boligkreditt's risk weight is already above the level for home mortgages and is thus not affected.

DNB Boligkreditt is still considered a systemically important financial institution in Norway, and as such it must meet a special buffer requirement of 2 per cent (O-SII buffer requirement). The change means that the systemic importance buffer becomes a separate requirement, in line with CRR/CRD IV, and not an add-on to the systemic risk buffer as it was before.

The relevant EU/EEA authorities, the Standing Committee of the EFTA States and the European Systemic Risk Board (ESRB) have endorsed the Ministry's justification for the increased buffer requirement. In the Ministry's view, no corresponding assessment is required from the EU/EEA authorities for the other changes. The Ministry has requested the ESRB to recommend that other countries' authorities approve the Norwegian systemic risk buffer and floor requirements, so that they may also be made applicable for foreign banks in Norway (reciprocity).

Pillar 2 process to be evaluated by Finanstilsynet

In a letter dated 8 December 2020, the Ministry of Finance asked Finanstilsynet to evaluate the determination of the Pillar 2 capital requirement for banks. In particular, the Ministry pointed out the importance of maintaining transparency and ensuring a systematic structuring of the Pillar 2 requirement, and that it may be appropriate to regulate the framework for the Pillar 2 process through legislation. The Ministry also made clear that Finanstilsynet should show how a bank's overall Pillar 2 requirement is made up of requirements for offsetting different risks, and how and to what extent Pillar 2 add-ons have been based on supervisory discretion. The letter of assignment highlighted several aspects of the determination of Pillar 2 requirements and what is referred to as Pillar 2 Guidance (P2G). In addition, the Ministry asked Finanstilsynet to compare its methods for setting the Norwegian Pillar 2 requirements, including their levels, with those of a selection of relevant European countries.

New act on sustainability-related disclosures circulated for public comment

The EU has adopted two regulations relating to sustainability, one on sustainability-related disclosures in the financial services sector and one on the establishment of a framework for a classification system (taxonomy) to facilitate sustainable investment. The requirements are comprehensive and detailed, and it is assumed that they will result in a significant increase in the financial service industry's use of resources.

The regulations have not yet been incorporated into the EEA Agreement, but Finanstilsynet has, at the request of the Ministry of Finance, looked into how they can be introduced in Norway, so that their entry into force can follow the EU timeline. Finanstilsynet proposes that the disclosure requirements and reporting obligations are put into effect through a new act on sustainability-related disclosures. The purpose of gathering all the requirements in one act is to achieve a better overview of the various rules in this area, and greater harmonisation. In addition, a new act will reflect the increased societal importance of disclosures of this kind and clarify the connection between the various disclosure requirements and reporting obligations.

New Financial Contracts Act adopted by the Storting

The new Financial Contracts Act was adopted by the Norwegian Parliament (the Storting) in December 2020. The Act is expected to enter into force on 1 July 2021. The new Act is based on the current one, with comprehensive amendments. Due to the scope and complexity of the Act, DNB had already established a fast-working Group project in the summer of 2020, to identify the need for adjustments to systems, products and services.

Macroeconomic developments

Last spring, the coronavirus pandemic led to severe restrictions on economic activity, which in turn resulted in a dramatic downturn in the global economy.

The central banks have responded to the weak economic development with a more expansionary monetary policy. The US Federal Reserve cut interest rates three times in 2020, while the European Central Bank announced a package of interest rate cuts and new quantitative easings. Monetary policy is likely to remain expansionary in the years ahead, but has already been stretched with both negative interest rates and large bond purchases in some economies. There is a risk that fiscal policy stimuli will be necessary. Improved economic key figures towards the end of 2020 may indicate that the need for further stimuli has been somewhat reduced.

In response to the crisis, powerful economic measures were introduced, in both fiscal and monetary policy. Central banks injected large amounts of liquidity into the markets, increasing



purchases of securities and reducing interest rates wherever possible. As things stand, it would seem that the monetary policy stimuli will to a large extent be maintained throughout 2021. In due course, as the pandemic is gradually brought under control, the time will come when the central banks can reduce the stimuli.

The Norwegian economy recovered rapidly after the sharp fall in the second quarter, but will experience a slightly lower rate of growth in early 2021 due to the recent increase in COVID-19 infection rates. Growth in the third quarter was stronger than expected, with an increase of 5.2 per cent. In addition, the monthly national account figures for October showed that mainland GDP had increased by 1.2 per cent from September. Activity levels were thus relatively high at the start of the fourth quarter. However, in November, new restrictions were introduced that affected the level of activity, and mainland GDP fell by 0.9 per cent. The infection control measures are likely to last for some time in the first quarter of 2021 and are expected to result in a sluggish start to the year, before a reopening, supported by the vaccination programme, contributes to a strong second half.

Service consumption fell sharply, but the consumption of goods increased in 2020. In connection with the reopening and normalisation of society during 2021 and 2022, households' opportunities for consumption are expected to increase. The shift in the consumption pattern in 2020 is expected to be reversed gradually during 2021 and 2022. Overall, there was low, but positive, growth in households' disposable income last year. A fall in total consumption thus led to a substantial rise in saving. This increase in saving paves the way for higher consumption growth in the time ahead.

The prices of consumer goods rose by just 1.3 per cent last year. This can mainly be ascribed to a fall in electricity prices. Core inflation ended at 3.0 per cent in 2020, peaking at 3.7 per cent in August. A marked weakening of the Norwegian krone was an important contributing factor. At the start of 2021, the import-weighted krone had gained in strength compared with the weak levels of last spring, but it was still 3.4 per cent weaker than at the start of 2020.

A significant decrease in interest rates has contributed to the rapid increase in the prices of existing homes. Overall, house prices rose by 8.6 per cent last year. The level of activity in the housing market has also been high, with a record-high turnover.

The structural, oil-adjusted budget deficit in 2020 of NOK 392.5 billion was estimated to account for 3.9 per cent of the capital of the Government Pension Fund Global (known as the oil fund). The fiscal impulse was estimated at 4.5 per cent from 2019 to 2020

and was clearly higher than the impulse during the financial crisis. Purely economic measures in connection with the COVID-19 pandemic were estimated to amount to NOK 131 billion. For 2021, the deficit is projected to fall to NOK 331 billion, equivalent to 3.2 per cent of the oil fund, due to a reduced need for support measures. However, recent weeks' developments in the pandemic will cause the budget deficit for this year to increase more than the agreed deficit figure

As early as in June 2020, Norges Bank signalled that interest rates could be raised towards the end of 2022 or in early 2023. In December, it predicted that interest rate hikes were highly probable from early 2022. It therefore looks as if Norges Bank will be ahead of the central banks of other industrialised countries when it comes to interest rate hikes

Future prospects

Between 2021 and 2023, the annual increase in lending volumes is expected to be between 3 and 4 per cent. According to Norges Bank's own forecasts, the key policy rate is expected to increase from 0.0 per cent to 0.5 per cent next year, and then to 1.0 per cent in 2023.

The common equity Tier 1 (CET1) capital ratio for DNB Boligkreditt was 23.6 per cent at end-2020. The very high ratio is due to the removal of the Basel I floor from 31 December 2019. From year-end 2020 the company's capital requirements was increased by the change in the systemic risk buffer. However, the current capital is more than sufficient to meet both the changed requirements and the increase in lending volumes. The EU Banking Package, CRR II/CRD V, is expected to be implemented in Norway later in 2021, with only minor effects on the CET1 ratio.

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 the next couple of years is however expected to be lower than in the previous years due to the Group's issuing of non-preferred senior debt to meet the Minimum Requirement for own funds and Eligible Liabilities (MREL).

Group contributions and the allocation of profits

The profit for 2020 was NOK 4 100 million.

Taxable profits and losses in the Norwegian companies within the DNB Group are netted by group contributions with tax effects. The Board of Directors proposes that NOK 5 460 million (NOK 4 095 million after tax) is allocated as a group contribution to DNB Bank ASA.

Oslo, 10 March 2021

The Board of Directors of DNB Boligkreditt AS

Reidar Bolme
(chair of the board)

Jørn E. Pedersen

Toril Steinmo

Per Sagbakken
(chief executive officer)



Comprehensive income statement

Amounts in NOK million	Note	DNB Boligkreditt AS	
		2020	2019
Interest income, amortised cost	12	13 440	16 051
Other interest income	12	1 130	1 153
Interest expenses, amortised cost	12	(3 485)	(4 273)
Other interest expenses	12	(5 590)	(8 168)
Net interest income	12	5 495	4 763
Commission and fee income	13	61	61
Commission and fee expenses	13	(3)	(3)
Net gains on financial instruments at fair value	14, 24	1 047	330
Other income		(2)	0
Net other operating income		1 103	388
Total income		6 598	5 152
Salaries and other personnel expenses	15, 23	(11)	(11)
Other expenses	24	(1 146)	(796)
Total operating expenses		(1 158)	(807)
Impairment of financial instruments	6, 8	27	16
Pre-tax operating profit		5 467	4 360
Tax expense	16	(1 368)	(1 089)
Profit for the year		4 100	3 271
Other comprehensive income that will not be reclassified to profit or loss ¹⁾		18	279
Tax		(4)	(70)
Comprehensive income for the year		4 113	3 480
Profit for the year as a percentage of total assets		0.58	0.48

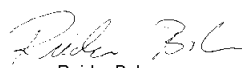
1) The measurement category for debt securities issued in Norwegian kroner with floating rates has been changed from FVTPL to amortised cost as of 31 December 2019. A gain of NOK 238 million before tax (NOK 179 million after tax) has been recognised in the Comprehensive income statement, due to the correction. Comparative information has not been restated. The correction does not impact the CET1 capital ratio.



Balance sheet


Amounts in NOK million	Note	DNB Boligkreditt AS	
		31 Dec. 2020	31 Dec. 2019
Assets			
Due from credit institutions	11, 17, 18, 19, 24	26 175	5 537
Loans to customers	5, 7, 11, 17, 18, 19	676 511	636 786
Financial derivatives	9, 10, 17, 19, 20, 24	37 442	51 524
Other assets	11, 17	5	9
Total assets		740 132	693 855
Liabilities and equity			
Due to credit institutions	11, 17, 18, 24	150 423	153 401
Financial derivatives	9, 10, 17, 18, 19, 20, 24	9 580	9 928
Debt securities issued	11, 17, 19, 21, 24	521 195	471 715
Payable taxes	16	5 464	2 103
Deferred taxes	16	655	4 747
Other liabilities	11, 17, 24	114	99
Provisions		32	30
Subordinated loan capital	11, 17, 18, 22, 24	5 206	5 210
Total liabilities		692 669	647 235
Share capital		5 257	5 257
Share premium		31 719	31 719
Other equity		10 487	9 645
Total equity		47 463	46 621
Total liabilities and equity		740 132	693 855

Oslo, 10 March 2021
The Board of Directors of DNB Boligkreditt AS


Reidar Bolme
(Chair of the Board)


Jørn E. Pedersen


Toril Steinmo


Per Sagbakken
(Chief Executive Officer)



Statement of changes in equity

	DNB Boligkreditt AS				
<i>Amounts in NOK million</i>	Share capital	Share premium	Liability credit reserve	Retained earnings	Total equity
Balance sheet as at 31 December 2018	4 157	31 563	(269)	8 157	43 608
Profit for the year				3 271	3 271
Actuarial gains and losses				(1)	(1)
Financial liabilities designated at FVTPL, changes in credit risk			280		280
Tax on other comprehensive income			(70)		(70)
Total comprehensive income for the year			210	3 270	3 480
Share issue	1 100	9 900			11 000
Group contribution paid		(9 744)		(1 724)	(11 468)
Balance sheet as at 31 December 2019	5 257	31 719	(59)	9 704	46 621
Profit for the year				4 100	4 100
Actuarial gains and losses				(2)	(2)
Financial liabilities designated at FVTPL, changes in credit risk			20		20
Tax on other comprehensive income			(5)	0	(4)
Total comprehensive income for the year			15	4 098	4 113
Group contribution paid				(3 270)	(3 270)
Balance sheet as at 31 December 2020	5 257	31 719	(44)	10 531	47 463

Share capital

All shares and voting rights of the company are held by DNB Bank ASA. Share capital at the beginning of 2019 was NOK 4 157 million (41 570 000 shares at NOK 100).

In April 2019, 11 000 000 shares were issued to DNB Bank ASA. Issue price per share was NOK 100. After the issuance, share capital was increased by NOK 1 100 million to NOK 5 257 million (52 570 000 shares).



Cash flow statement

<i>Amounts in NOK million</i>	DNB Boligkreditt AS	
	2020	2019
Operating activities		
Net receipts/(payments) on loans to customers	10 083	(6 366)
Interest received from customers	14 870	16 933
Net receipts/(payments) on loans to credit institutions	(23 662)	16 464
Interest received from credit institutions	35	112
Interest paid to credit institutions	(2 144)	(3 281)
Net receipts on commissions and fees	58	58
Payments to operations	(1 111)	(899)
Taxes paid	(2 104)	
Net cash flow relating to operating activities	(3 975)	23 021
Investing activities		
Net purchase of loan portfolio	(49 166)	(1 516)
Net cash flow from investing activities	(49 166)	(1 516)
Financing activities		
Receipts on issued bonds and commercial paper	123 295	46 419
Payments on redeemed bonds and commercial paper	(59 243)	(54 971)
Interest payments on issued bonds and commercial paper	(7 546)	(8 518)
Interest payments on subordinated loan capital	(138)	(160)
Share issue		11 000
Group contribution payments	(3 270)	(15 290)
Net cash flow from financing activities	53 099	(21 520)
Net cash flow	(43)	(15)
Cash at beginning of period	45	60
Net receipts/payments of cash	(43)	(15)
Cash at end of year	2	45

Included in the cash balances at end of the year, are restricted amounts of NOK 459 635 (NOK 387 800 for 2019) related to withholding employee taxes.



Note 1 Accounting principles

Corporate information

DNB Boligkreditt AS is a wholly owned subsidiary of DNB Bank ASA. The ultimate parent of the Group is DNB ASA. Both the Group's and DNB Boligkreditt AS' registered offices, are in Oslo, Norway. DNB Boligkreditt is the DNB Group's vehicle for the issue of covered bonds based on residential mortgages.

The annual financial statements for the year ended 31 December 2020 were authorised for issue by the Board of Directors on 10 March 2021.

Basis for preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU).

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments and financial assets and liabilities designated as at fair value through profit or loss, which have all been measured at fair value. The carrying values of liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to reflect changes in fair value attributable to the risk that are being hedged.

DNB Boligkreditt AS' functional currency and presentation currency is Norwegian kroner. Unless otherwise specified, values are rounded to the nearest NOK thousands.

The balance sheet is presented mainly in order of liquidity of the assets and liabilities.

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet only when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis.

Conversion of transactions in foreign currency

All transactions in foreign currencies are initially recognised in the statement of comprehensive income or the balance sheet at the transaction date and translated into Norwegian kroner at the foreign exchange rate from that date. Subsequently, all monetary items nominated in foreign currencies are translated into Norwegian kroner based on the reporting date foreign exchange rate. Movements in the exchange rates between transaction date and reporting date or settlement date, are recognised within the line item "Net gains on financial instruments at fair value" in the statement of comprehensive income.

Recognition of income and expenses

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. Expenses are recognised as they incur, normally when the services are rendered or the goods purchased are delivered.

Interest income and expenses are recognised using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. The calculation of the effective interest includes fees or incremental costs that are directly attributable to the financial instrument.

Interest income and expenses are recognised in the statement of comprehensive income as "Total interest income" and "Total interest expenses" respectively. This applies to interest related to all loans and borrowings, both those measured at amortised cost and those measured at fair value.

Interest on impaired loans ("stage 3") is recognised using the interest rate used to discount the future cash flows for the purpose of measuring the impairment. For fixed rate loans, this will be the originally calculated effective interest rate. For floating rate loans this will be the effective interest rate applied at the time of calculating the impairment loss. Fees that are not included in the effective interest rate calculation, as well as commissions, are recognised in the statement of comprehensive income over time when the services are rendered or at point in time when the transactions are completed.

Financial instruments

Initial recognition

Financial assets are recognised in the balance sheet either on the trade date or the settlement date. Trade date accounting is applied for financial assets measured at fair value through profit or loss, while settlement date accounting is applied for financial assets measured at amortised cost.

Financial liabilities are recognised in the balance sheet on the date when DNB Boligkreditt becomes a party to the contractual provisions of the instrument.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the asset have expired.

Financial liabilities are derecognised when the obligation under the liability is settled or expired.

Modifications

An assessment of whether or not a modification of a financial asset leads to de-recognition and recognition of new asset is based on the following considerations:

- Differentiate between modifications to cash flows or other significant items in line with terms in the contract and modifications outside of the contract.
- An assessment of whether or not a modification is substantial. A substantial modification is defined as a full credit process, a pricing decision and the signing of a new contract.



Note 1 Accounting principles (continued)

- An assessment of whether the modification is caused by distress or made on commercial terms.
- An assessment if the discounted cash flows after modification, discounted using the original effective interest rate, is changed more than 10 percent compared to the discounted value of the original contractual cash flows.

A modification resulting from a distressed restructuring will in most cases not result in de-recognition and recognition of a new financial instrument as the modified cash flows normally reflect the expected cash flows before restructuring.

Reverse repurchase agreements

Reverse repurchase agreements are presented in the balance sheet as "Due from credit institutions".

Securities purchased under agreements to resell are generally not recognised in the financial statements as the risk and returns are normally not taken over by the company. This is done irrespective of whether the company has the right to sell or repledge the securities. Upon the sale of securities received, the company recognises an obligation in the balance sheet.

Classification and presentation of financial instruments

Financial assets are classified in one of the following measurement categories:

- amortised cost
- fair value through other comprehensive income
- fair value through profit or loss (FVTPL)

The classification of financial assets depends on two factors:

- the business model of the portfolio to which the financial asset belongs
- the contractual cash flow characteristics of the financial asset

When determining the business model DNB Boligkreditt assesses at portfolio level how the business is managed, sales activities, risk management and how information is provided to executive management.

A contractual cash flow characteristics test is performed on initial recognition of financial assets. Financial assets with cash flows that are solely payments of principal and interest pass the test if the interest only compensates for the time value of money, credit risk, liquidity risk, servicing and administrative costs and a profit margin.

Financial liabilities are classified at amortised cost, except for financial liabilities that are required to be measured at fair value through profit or loss or designated at fair value through profit or loss.

Financial assets may irrevocably be designated at fair value through profit or loss on initial recognition if the following criterion is met:

- The classification eliminates or significantly reduces measurement or recognition inconsistency that otherwise would arise from measuring financial assets or recognising the gains and losses on them on different bases.

Financial liabilities may also irrevocably be designated at fair value through profit or loss on initial recognition if the criterion above is fulfilled or one of the following:

- The financial instruments are part of a portfolio that is managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy
- The host contract contains one or more embedded derivatives.

Financial assets measured at amortised cost

Investments in financial assets, which are not designated at fair value through profit or loss, are measured at amortised cost if both of the following conditions are met:

- The assets are held within a business model whose objective is to hold the asset and collect the contractual cash flows
- The contractual cash flows represent solely payment of principal and interest.

Financial assets measured at amortised cost are initially recognised at fair value plus any directly attributable transaction costs. Subsequent measurement follows the effective interest method, less impairment. Impairment losses and reversals are measured based on a three-stage expected credit loss model. This model is described under Expected credit loss measurement.

A change in expected credit loss allowance for debt instruments measured at amortised cost on the balance sheet date is presented under "Impairment of financial instruments" in the income statement.

Interest income on financial instruments classified in this category is presented under "Interest income, amortised cost" using the effective interest method.

This category mainly comprises loans to customers and reverse repurchase agreements.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost are initially recognised at fair value minus any directly attributable transaction costs. Interest expenses on such instruments are presented under "Interest expense, amortised cost" using the effective interest method.

This category includes due to credit institutions, debt securities issued and subordinated loan capital.

Financial instruments measured at fair value through profit or loss

The following instruments are recognised in this category:



Note 1 Accounting principles (continued)

- derivatives
- financial instruments designated at fair value through profit or loss on initial recognition
- financial assets with contractual cash flows that do not represent solely payment of principal and interest.

Instruments in this category are initially recognised at fair value, with transaction costs recognised in profit or loss as they occur. Subsequent measurement is fair value with gains and losses recognised in the income statement.

Changes in the fair value of the financial instruments are presented under "Net gains on financial instruments at fair value" in the income statement. Financial derivatives are presented as an asset if the fair value is positive and as a liability if the fair value is negative.

Interest income and interest expenses from interest-bearing financial instruments including financial derivatives are presented under "Net interest income".

Financial assets designated at fair value through profit or loss on initial recognition, consist of fixed-rate mortgage loans in Norwegian kroner. Financial liabilities designated at fair value through profit or loss on initial recognition consist of issued bonds nominated in Norwegian kroner. Both the loans and the bonds are issued at fixed interest rates, but swapped to floating rates by the use of interest rate swaps. To reduce measurement inconsistency that would have arisen from measuring loans and bonds at amortised cost while the derivatives are measured at fair value, the loans and bonds are designated as at fair value through profit or loss.

For financial liabilities designated at fair value through profit or loss, the change in fair value related to changes in DNB Boligkreditt's credit risk is calculated using relevant credit spread curves from Nordic Bond Pricing. The changes in credit spreads on fixed-rate securities issued in Norwegian kroner do not create or enlarge an accounting mismatch and are therefore separated and recognised in other comprehensive income.

Reclassifications

Financial assets are only reclassified when there is a significant change in the business model for those assets. Such changes are expected to be very infrequent. Financial liabilities are not reclassified.

Subsequent measurement of financial instruments measured at fair value

Fair value is the price that would be received by selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Financial assets and financial liabilities are measured at bid or asking prices respectively. Derivatives which are carried net, are measured at midmarket prices at the balance sheet date.

With respect to instruments traded in an active market (level 1), quoted prices are used. A market is considered active if it is possible to obtain external, observable prices, exchange rates or interest rates and these prices represent actual and frequent market transactions. DNB Boligkreditt has currently no financial instrument traded in active markets.

Fair values of financial instruments not traded in active markets are determined by using valuation techniques. As far as practicable, the input to the valuations is based on observable market data. The extent of observable market data included in the valuation, places the valuations in the valuation hierarchy either in level 2 or level 3. In all valuations of financial instruments in DNB Boligkreditt, observable market data input are used to some degree. If a valuation includes one or more input parameters that are based on unobservable inputs and these inputs may significantly change the value of the instrument, the valuation is presented in level 3 in the valuation hierarchy.

For financial instruments with input significantly based on observable market data (level 2), fair values are mainly determined based on:

- recently observed transactions in the relevant instrument between informed, willing and independent parties;
- quoted prices for instruments traded in an active market which are substantially similar to the instrument that is valued
- other valuation techniques where key parameters are based on observable market data

For financial instruments whose valuations include significant unobservable input (level 3), fair values are determined based on discounted estimated cash flows. This is mainly relevant for loans to customers. 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.

For financial instruments measured by using valuation techniques a gain or loss might from time to time occur at initial recognition when the estimated fair value is different from the actual transaction price. When the measurement is based on non-observable input parameters (level 3) the gain or loss is deferred and therefore not recognised at day-one. Fair value changes in later period are only recognised to the extent the change is caused by a factor that market participants would take into account.

In the valuation of OTC derivatives there is a fair value adjustment for the counterparty's credit risk (CVA) or DNB Boligkreditt's own credit risk (DVA). Adjustments are made based on the net exposure towards each counterparty for CVA and DVA. The company estimates CVA as a function of simulated expected positive exposure, a counterparty's probability of default, and a loss given default. DNB Boligkreditt's derivative exposure is towards DNB Bank ASA and CVA is marked to a market-implied credit spread using a representative CDS index as input. This means that the company utilises its own credit models and their discriminatory power, but calibrates against pricing levels for similar credit risk among market participants. The DVA is based on the same approach but where an assessment of DNB Boligkreditt's credit spread is used.



Note 1 Accounting principles (continued)

Expected credit loss measurement (ECL)

The IFRS 9 expected credit loss model replaces the incurred loss model from IAS 39. The ECL model estimates impairment on the following instruments that are not measured at fair value through profit or loss:

- financial assets that are debt instruments
- issued financial guarantee contracts
- loan commitments

DNB Boligkreditt measures ECL at each reporting date for these instruments, reflecting:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes
- the time value of money
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions

DNB Boligkreditt measures a loss allowance at an amount reflecting lifetime ECL for all instruments that have been subject to a significant increase in credit risk since initial recognition. Instruments for which there has been no significant change in risk, a 12-month expected credit loss is recognised.

Please refer to note 4 Measurement of expected credit loss for more information on the methodology for estimating expected credit loss.

Hedge accounting

DNB Boligkreditt applies hedge accounting according to IFRS 9 Financial instruments.

Fair value hedge accounting is applied to hedges of interest rate risk on issued debt in foreign currency in order to reduce or eliminate an accounting mismatch. See note 11 Financial derivatives and hedge accounting. The company uses interest rate swaps to protect against changes in the fair value of fixed-rate issued bonds and subordinated debt caused by movements in market interest rates. The hedges are entered into at the same time as the debt is issued in order to achieve a match in the terms of the derivative and the debt instrument.

Fair value hedge accounting is applied to the economic hedge relationships that qualify for hedge accounting. When hedge accounting is applied, there is a qualitative assessment of the hedge relationship between the debt instrument and the derivative that is documented at the inception of the hedge. Thereafter it is periodically assessed whether the derivatives designated in each hedge relationship have been effective in offsetting changes in fair value of the hedged item by comparing the accumulated fair value changes on the debt instruments based on the benchmark rate of the interest rate swap at inception of the hedge, with the accumulated fair value changes related to movements in the interest rate swaps.

The fair value hedges of interest rate risk on issued debt are expected to be highly effective. However, hedge ineffectiveness can arise if the terms of the derivative and the debt instrument are not fully aligned.

Hedging instruments are measured at fair value in the financial statements and changes in the fair value are presented under "Net gains on financial instruments at fair value" in the comprehensive income statement. Interest income and expense from financial instruments designated as hedging instruments are presented as "Interest income, amortised cost" and "interest expenses, amortised cost".

The changes in the fair value of the hedged item attributable to the hedged risk is recognised as an addition to or deduction from the balance sheet value of financial liabilities and presented under "Net gains on financial instruments at fair value" in the comprehensive income statement.

If the hedge relationship ceases to exist or adequate hedge effectiveness cannot be verified, the accumulated change in fair value of the hedged item is amortised over the remaining time to maturity.

Income taxes

Taxes for the year comprise payable taxes for the financial year, any payable taxes for previous years and changes in deferred taxes. Deferred taxes are calculated on temporary differences.

Temporary differences are differences between the recognised value of an asset or liability and the taxable value of the asset or liability. Deferred taxes are calculated on the basis of tax rates and tax rules that apply on the balance sheet date or are highly likely to be approved and are expected to be applicable when the deferred tax asset is realised or the deferred tax liability settled. The most significant temporary differences refer to financial derivatives and revaluations of certain financial assets and liabilities.

Deferred tax assets are recognised in the balance sheet to the extent that it is probable that future taxable income will be available against which they can be utilized. Deferred taxes and deferred tax assets are recognised net in the company's balance sheet.

Cash flow statements

The cash flows are presented as operating activities, investment activities or funding activities. Cash is defined as cash, deposits with banks and deposits with credit institutions with no agreed period of notice. The cash flow statement has been prepared in accordance with the direct method.

Important accounting estimates, judgments and assumptions

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, incomes, expenses and information on potential liabilities. 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.



Note 1 Accounting principles (continued)

Impairment of financial instruments

See note 3 Credit risk management for information about the management and follow-up of credit risk and note 4 Measurement of expected credit loss for information about methodology for estimating impairment including an assessment of measurement uncertainty.

Fair value of financial derivatives, bonds and loans to customers

The fair value of financial instruments that are not traded in an active market is determined by using different valuation techniques. The company considers and chooses techniques and assumptions that as far as possible are based on observable market data representing the market conditions on the balance sheet date. When measuring financial instruments for which observable market data are not available, the company makes assumptions regarding what market participants would use as the basis for valuing similar financial instruments. The valuations require application of significant judgment when calculating liquidity risk, credit risk and volatility among others. Changes in these factors would affect the estimated fair value of the company's financial instruments. For more information see note 17 Financial instruments at fair value.

Note 2 Capitalisation policy and capital adequacy

DNB Boligkreditt is the DNB Group's vehicle for the issue of covered bonds based on residential mortgages. The primary objectives of the company's capital management policy are to ensure that the company complies with externally imposed capital ratios and that the company maintains strong credit ratings and healthy capital ratios in order to support its business.

From 30 June 2007, the company has been granted permission to use the Internal Ratings Based ("IRB") approach for credit risk to calculate the total risk-weighted assets.

The existing legislation requires a common equity Tier 1 capital ratio of 14.8 per cent and a capital adequacy ratio of 18.3 per cent. This includes a counter-cyclical capital buffer requirement of 1.0 per cent, systemic risk buffer of 4.5 per cent and a pillar 2 requirement of 0.3 per cent. The Tier 1 capital ratio requirement is 16.3 per cent, including an additional Tier 1 requirement of 1.5 per cent. In addition to the regulatory requirements the company has decided on a management buffer of 0.75 per cent, thus the common equity Tier 1 capital ratio should be at least 15.55 per cent and the Tier 1 capital ratio at least 17.05 per cent.

DNB Boligkreditt, based on its current capital structure, is adequately capitalised as at 31 December 2020. The Board of Directors will, on an ongoing basis, evaluate the company's capitalisation needs in light of the market development.

The company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. The main source of capital is the issuing of covered bonds which is part of the long-term plan of financing the DNB Group. In order to maintain or adjust the capital structure within DNB Boligkreditt in the short run, the company may adjust group contributions and dividends paid to the DNB Group and issue new shares to the parent.

Capital adequacy

Capital adequacy is calculated and reported in accordance with the EU capital requirements regulations for banks and investment firms (CRR/CRD IV).

Amounts in NOK million	DNB Boligkreditt AS	
	31 Dec. 2020	31 Dec. 2019
Share capital	5 257	5 257
Other equity	42 206	41 364
Total equity	47 463	46 621
Deductions		
Expected losses exceeding actual losses, IRB portfolios	(960)	(862)
Value adjustments due to the requirements for prudent valuation	(406)	(404)
Adjustments for unrealised losses/(gains) on liabilities measured at fair value	44	59
Adjustments for unrealised losses/(gains) arising from the institution's own credit risk related to derivative liabilities	(10)	(12)
Allocated group contributions for payment ¹⁾	(4 095)	(3 271)
Common Equity Tier 1 capital	42 036	42 132
Term subordinated loan capital	5 200	5 200
Tier 2 capital	5 200	5 200
Own funds	47 236	47 332
Risk-weighted assets	177 880	171 652
Minimum capital requirement	14 230	13 732
Common Equity Tier 1 capital ratio (%)	23.6	24.5
Capital ratio (%)	26.6	27.6



Note 2 Capitalisation policy and capital adequacy (continued)

Specification of risk-weighted assets and capital requirements	DNB Boligkreditt AS				
	Nominal exposure 31 Dec. 2020	EAD ¹⁾ 31 Dec. 2020	Risk-weighted assets 31 Dec. 2020	Capital requirements 31 Dec. 2020	Capital requirements 31 Dec. 2019
<i>Amounts in NOK million</i>					
IRB approach					
Corporate	489	489	179	14	194
Retail - residential property	738 985	738 985	155 390	12 431	11 417
Total credit risk, IRB approach	739 473	739 473	155 569	12 446	11 612
Standardised approach					
Institutions	44 425	44 425	8 885	711	556
Corporate	19 656	19 645	5 337	427	419
Retail - residential property	560	437	327	26	14
Retail - other exposures	856	801	283	23	619
Other assets	63	51	76	6	9
Total credit risk, standardised approach	65 560	65 359	14 908	1 193	1 617
Total credit risk	805 033	804 832	170 477	13 638	13 229
Operational risk			7 403	592	503
Total risk-weighted assets and capital requirements			177 880	14 230	13 732

1) EAD, exposure at default



Note 3 Credit risk management

DNB Boligkreditt has adapted the DNB Group's policies for credit risk management.

Credit risk or counterparty risk is the risk of financial losses due to failure by the customers/counterparties to meet their payment obligations towards DNB Boligkreditt. Credit risk refers to all claims against customers/counterparties, mainly loans, loan commitments and derivatives. Credit risk also includes residual value risk and concentration risk. Residual risk is the risk that the value of securing an exposure is lower than expected. Concentration risk includes risk associated with large exposures to a single customer or concentration within geographical areas, within industries or related to homogeneous customer groups.

Credit risk management and measurement is described in detail in the Risk and Capital Management (Pillar 3) report. The DNB group guidelines for credit activity are approved by the Boards of Directors of DNB. The principal objective of credit activity is to ensure that the quality and composition of the loan portfolio provide a good basis for the short and long-term profitability. The quality of the portfolio should be consistent with DNB's aim of maintaining a low risk profile.

The Board of Directors of DNB ASA sets long-term targets for the risk profile through the risk appetite framework. The aim of this framework is to ensure that risk is managed and integrated with the DNB Group's governance processes. The risk appetite framework is operationalised through credit strategies for the individual customer segments. 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.

Credit risk exposure

The maximum credit risk exposure will be the carrying amount of financial assets plus off-balance sheet exposure, which mainly includes loan commitments.

Classification

DNB's internal models for risk classification of customers are subject to continual improvement and testing. In the personal banking market, where there are a large number of customers, the majority of credit decisions are made on the basis of automated scoring and decision support systems. Risk classification should reflect long-term risk associated with each customer and the customer's credit commitment.

The risk classification systems are used for decision support, monitoring and reporting. The risk parameters used in the classification systems are an integrated part of the credit process and ongoing risk monitoring, including the follow-up of credit strategies.

Probability of default, PD, is used to measure credit quality. The group divides its portfolio into ten risk grades based on the PD for each credit commitment. This is presented in the table below. Credit-impaired exposures (exposures in stage 3) are assigned a PD of 100 per cent. The group's portfolio divided into risk grades and IFRS 9 stages is presented in note 5 Credit risk exposure per risk grade.

DNB's risk classification ¹⁾

Risk class	Probability of default (per cent)		External rating	
	As from	Up to	Moody's	S&P Global
1	0.01	0.10	Aaa - A3	AAA - A-
2	0.10	0.25	Baa1 - Baa2	BBB+ - BBB
3	0.25	0.50	Baa3	BBB-
4	0.50	0.75	Ba1	BB+
5	0.75	1.25	Ba2	BB
6	1.25	2.00		
7	2.00	3.00	Ba3	BB-
8	3.00	5.00	B1	B+
9	5.00	8.00	B2	B
10	8.00	defaulted	B3, Caa/C	B-, CCC/C

1) DNB's risk classification system, where 1 represents the lowest risk and 10 the highest risk.

Guidelines for credit activity

Personal customers are followed up through a systematic portfolio management system. Exposures are followed up individually if increased credit risk has been identified. 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 groups 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.



Note 4 Measurement of expected credit loss

DNB Boligkreditt has adopted the ECL policies as set by DNB Group and applies a three-stage approach when assessing ECL on loans to customers and loan commitments subject to the IFRS 9 impairment rules:

- A financial instrument that is not purchased or originated credit impaired is classified as stage 1 with 12-month ECL.
- If a significant increase in credit risk since initial recognition is identified the financial instrument is moved to stage 2 with lifetime ECL measurement.
- An increase in credit risk reflects both customer-specific circumstances and developments in relevant macro risk drivers for the segment where the customer belongs. The assessment of what is considered to be a significant increase in credit risk is based on a combination of quantitative and qualitative indicators and backstops.
- If credit risk deteriorates further and the financial instrument is assessed to be credit impaired, the financial instrument is moved to stage 3 with lifetime ECL measurement. As opposed to stages 1 and 2, the effective interest rate is calculated on amortised cost instead of the gross carrying amount. For definition of credit impaired see further description below.

The expected credit loss measurement is based on the following principles:

- 12-month ECL is measured as an amount equal to the portion of lifetime ECL that results from possible default events within the next 12 months.
- The loss provision for financial assets in stage 1 and stage 2 is calculated as the present value of exposure at default (EAD) multiplied by the probability of default (PD) multiplied by loss given default (LGD) and discounted by using the effective interest rate (EIR). PD, LGD and EAD use the IRB framework as a starting point, but are converted to be point in time and forward-looking as opposed to through the cycle and conservative.
- Past, present and forward-looking information is used to estimate ECL. For this purpose, DNB Boligkreditt's loan portfolio primarily consists of customers in the personal customers segment. All customers within this segment are exposed to the same risk drivers.
- For stage 3 individual assessments are performed for credit impaired financial instruments.
- For stage 1 and 2, a model is used to calculate ECL.

Below is a table summarising key components for the ECL measurement.

IFRS 9 stage	Credit risk development	Customer status	ECL measurement	ECL measurement method	Effective interest calculation
Stage 1	No significant increase	Performing	12-month	ECL model	Gross carrying amount
Stage 2	Significant increase	Performing	Lifetime	ECL model	Gross carrying amount
Stage 3	Defaulted	Credit impaired	Lifetime	Individual measurement per customer	Amortised cost

Measurement of expected credit loss in stages 1 and 2 (ECL model)

The model used for stage 1 and stage 2 follows five steps: Segmentation, determination of macro scenarios, determination of credit cycle index, calculation of ECL and staging. In the following each step will be described in more detail.

Segmentation, macro scenarios and credit cycle index

The assessment of significant increase in credit risk and the calculation of ECL incorporate past, present and forward-looking information. The level of uncertainty in assessing forward-looking information has increased considerably, due to the massive lockdown and gradual reopening of the economy following the COVID-19 outbreak.

DNB Boligkreditt's portfolio is primarily within the personal customers segment. Based on a statistical regression analysis, key risk drivers impacting PD in the personal customers segment are identified. The assessments used to select the risk drivers have been based on several criteria; the statistical model's explanatory power, a qualitative reasonableness check (e.g. if it makes sense to include the risk driver) and an aim not to have too many factors as this would unnecessarily increase the complexity. Forecasts of each of the risk drivers (the base economic scenario) are primarily provided by DNB Markets on a quarterly basis and provide the best estimate of developments in the risk drivers for the forecast period. The forecast are based on a range of information sources, primarily external market information. The forecast periods vary between three and four years, and forecasts are prepared for each year in the forecast period. The macroeconomic forecasts have been carefully considered in the expert credit judgement forum to ensure that they reflect the expected impact of the economic consequences of the COVID-19 outbreak. Macro forecasts are usually obtained from DNB Markets and supplementary internal sources. Following the rapid change in the economic situation during 2020, forecasts from various external sources have also been considered. When selecting the macroeconomic forecasts, consideration has been given to both the reliability of the source and the timeliness of the update.

Due consideration has been given to all aspects of the situation when assessing the duration of the financial and business-related consequences of the COVID-19 outbreak. In general, the estimated adverse economic impact is incorporated into the first year of the period. The remaining forecast periods are expected to be substantially less affected by the adverse economic consequences.

The macro forecasts are incorporated in the credit cycle index (CCI). The CCI shows the relationship between the historically observed defaults and relevant macro factors established from statistical regression analysis. The position on the index indicates whether the current state of the economy for the personal customers segment is better or worse than normal, and the forecasts are used to project the development of the index in the forecast period. After the forecast period, the CCI is assumed to be mean reverting. This means that the credit cycle returns to a normal state (long-term mean).

The CCI is further used to generate a base line PD curve for each instrument that follows the development of the CCI. When the CCI moves towards better times, the PD will everything else equal be reduced and vice versa.

Note 4 Measurement of expected credit loss (continued)

When the updated macro forecasts do not result in projections of the credit cycle in a way that represents the management's view of the expected business-related and financial impacts, professional judgement has been applied to ensure that the management's view is better reflected in the credit cycle index used.

Multiple scenarios

In order to capture the non-linear relationship between negative credit risk development and ECL multiple scenarios are incorporated when determining significant increase in credit risk and measuring ECL. DNB use the base scenario for each risk driver as a starting point when deriving CCI and PD curves as described above. Alternative scenarios are translated into alternative paths of a probability fan around the baseline. This method means that each scenario represents one percentile on a probability fan with each percentile representing a possible development in credit risk depending on the macroeconomic development.

The width of the fan is determined by the past volatility in correlation between developments in the risk drivers and developments in credit risk and ECL. This results in a correlation where the higher the volatility in a segment resulting from changes in the risk drivers, the larger the gap between the baseline and the outer percentiles of the fan.

Sensitivity

To calculate expected credit losses in stage 1 and 2, DNB uses a range of macroeconomic variables where each variable is given several alternative scenarios of probability. DNB has simulated an alternative adverse scenario for relevant macro forecasts. The scenario represents a possible downside compared with the scenario used for calculating the ECL recognised in the financial statements. Each macroeconomic variable is given alternative weaker expectations for each period in the plan period. In the simulated alternative scenario, the ECL in stages 1 and 2 would increase by approximately 31 per cent compared with the ECL which is recognised in the financial statements at 31 December 2020 for the same stages.

The following table shows selected base case macroeconomic variables for the period 2020 to 2022 in DNB's model used to calculate the ECL recognised in the financial statements compared with the base case in the alternative scenario. Each variable represents an annual estimate.

Selected base case macroeconomic variables used for calculating the ECL recognised in the financial statements and the alternative scenario

	Base case financial statements			Base case alternative scenario		
	2020	2021	2022	2020	2021	2022
Norwegian house price index, year-to-year growth	4.5	8.0	4.0	4.5	(10.0)	4.0
Norwegian registered unemployment rate	5.0	3.6	3.1	5.0	5.0	3.7
NIBOR 3-month interest rate	0.7	0.4	0.6	0.7	0.5	0.7

Calculation of ECL

The determination of a significant increase in credit risk and the measurement of ECL are based on parameters already used in credit risk management and for capital adequacy calculations: PD, LGD and EAD. The parameters have been adjusted in order to give an unbiased estimate of ECL.

Probability of default (PD)

The development in the customer's PD is a key component in DNB's monitoring of credit risk in the portfolio, see note 3 Credit risk management, and is used both in calculating the ECL and in assessing whether a significant increase in credit risk has occurred since initial recognition. For determining PD in capital adequacy calculations, DNB has been granted permission to use the Internal Ratings Based (IRB) approach. These models are conservative and only reflect a limited degree of cyclicity. For the ECL measurement, there is a need to generate a PD which is forward-looking and reflects all available relevant information. This is necessary in order to provide an unbiased probability-weighted estimate of ECL. In order to apply PDs for ECL measurement, four modifications have been made to the PDs generated using the IRB approach:

- incorporation of macroeconomic scenarios
- conversion to an unbiased, forward-looking PD
- conversion of 12-month PD to lifetime PD
- removal of margin of conservatism in the PD estimate.

These modifications imply that the PD used for the ECL measurement reflects management's current view of expected cyclical changes and that all PD estimates are unbiased.

Two types of PDs (IFRS modified) are generated and used in the ECL calculation:

- A 12-month PD is the probability of default occurring within the next 12 months (or over the remaining life of the financial instrument if that is less than 12 months). This is used to calculate the 12-month ECL.
- A lifetime PD is the annualised probability of a default occurring over the remaining life of the financial instrument. This is used to evaluate if there has been a significant increase in credit risk since initial recognition and to calculate lifetime ECL.

Loss given default (LGD)

LGD represents the percentage of EAD which DNB Boligkreditt expects to lose if the customer fails to meet their obligations, taking the collateral provided by the customer, future cash flows and other relevant factors into consideration.



Note 4 Measurement of expected credit loss (continued)

Similar to PDs, DNB uses IRB LGDs for capital adequacy calculations. In order to convert the IRB LGDs to IFRS LGDs four modifications have been made:

- incorporation of macroeconomic scenarios
- use of the effective interest rate to discount future estimated cash flows
- removal of the margin of conservatism to produce unbiased projections rather than downturn projections, and to exclude regulatory floors
- removal of the estimated indirect costs of realising collateral.

These modifications imply that the LGDs used for the ECL measurement should reflect management's current view of the cyclical changes and that all LGD estimates are unbiased.

Exposure at default (EAD)

EAD is the share of the approved credit that is expected to be drawn at the time of any future default. The EAD is adjusted to reflect contractual payments of principal and interest and estimated early repayment. The proportion of undrawn commitments expected to have been drawn at the time of default is reflected in the EAD by using a credit conversion factor.

Significant increase in credit risk (staging)

The assessment of a significant increase in credit risk is based on a combination of quantitative and qualitative indicators and back stops. A significant increase in credit risk has occurred when one or more of the criteria below are met.

Quantitative criteria

A significant increase in credit risk is determined by comparing the remaining lifetime PD for an instrument at the reporting date, as expected at initial recognition, with the actual lifetime PD at the reporting date. If the actual lifetime PD is higher than what it was expected to be, an assessment is made of whether the increase is significant.

An increase in lifetime PD with a factor of 2.5 or more from initial recognition is assessed to be a significant increase in credit risk. This threshold is based on an assessment of the increase in credit risk that would lead to closer customer follow-up in order to ensure that proper credit risk management and business decisions are made.

Further, the change in PD must be a minimum of 0.6 percentage points for the deterioration in credit risk to be considered to be significant. In the high end of the risk scale a change of 7.5 percentage points or more is considered to be a significant deterioration in credit risk even if this is less than a change of 2.5 times lifetime PD. These limits reflect the high sensitivity to change in the low end of the risk scale and the low sensitivity to change in the high end of the scale.

As part of DNB's credit risk management policy the group applies a risk scale where all customers and instruments are rated on a coherent scale meaning that a risk grade has the same explanatory power independent of segment, geography and product. DNB therefore uses a common threshold for all financial instruments with respect to what constitute a significant increase in credit risk. For further information about DNBs risk scale and classification see note 3 Credit risk management.

The extension or deferral of payments to a borrower does not automatically result in an instrument being considered to have a significantly increased credit risk. Careful consideration is given to whether the credit risk has significantly increased and the borrower is unlikely to restore their creditworthiness and consequently is granted forbearance, or whether the borrower is only experiencing a temporary liquidity constraint, for instance due to COVID-19 lockdown measures. On a general level, a change in the macroeconomic outlook will influence the assessment of a significant increase in customers' credit risk, as this will affect the overall view of the economic situation for the relevant segment.

Qualitative criteria

Qualitative information is normally reflected in the respective PD models for each group of customers.

Back stop

Back stops are used and a significant increase in credit risk has occurred if:

- the customer's contractual payments are 30 days past due
- the customer has been granted forbearance measures due to financial distress, though it is not severe enough for the financial instrument to be classified as credit impaired.

Expert credit judgement

For many of the input parameters in the ECL-measurement significant professional judgment is applied. The assessment of the macro prognoses and the impact to the forecasted credit cycle index is key judgments and DNB has established an advisory forum for the DNB Group's Chief Financial Officer to address this. The forum's purpose is to assess if the predicted Credit Cycle Index for the segment reflect the management's view on the expected future economic development.

Definition of default and credit impaired exposures in stage 3

The definition of credit impaired is fully aligned with the regulatory definition of default.

A financial instrument is defined to be in default if a claim is more than 90 days overdue, the overdue amount exceeds NOK 2 000 and the default is not due to delays or accidental circumstances on the part of the debtor.



Note 4 Measurement of expected credit loss (continued)

A commitment is also defined to be in default if DNB Boligkreditt:

- significantly writes down the commitment as a result of a weakening of the debtor's creditworthiness
- agrees to changes in the terms and conditions because the debtor is having problems meeting payment obligations, and this is assumed to significantly reduce the value of the cash flow
- sells the debt for an amount that is significantly lower than the nominal value as a result of an impairment of the debtor's creditworthiness
- has reasons to assume that the debtor will be subject to debt settlement or bankruptcy/involuntary liquidation proceedings, or be placed in receivership
- has other reasons to assume that the payment obligation will not be met (anticipated default).

From 1 January 2021 a new definition of default will be applicable. DNB will continue the alignment between credit impaired and defaulted under the new definition. For customers in the return to non-default period under the new definition the model described above for calculation of lifetime expected credit losses will be used.

Measurement of expected credit loss for credit-impaired financial instruments

For credit impaired personal customers with exposures above NOK 5 million an individual assessment of collateral and debt service capacity is performed in to determine expected credit loss. For exposures below this threshold ECL is estimated for portfolios with similar characteristic.

DNB Boligkreditt's write-off policy

DNB Boligkreditt writes off and thereby reduces the carrying amount of a financial asset when there is no reasonable expectation of recovery. This might for example be the case when a court of law has reached a final decision, a decision has been made to forgive the debt, or a scheme of composition has been confirmed. Write-off can relate to the entire asset or a portion of the asset and can constitute a derecognition event. DNB Boligkreditt maintains the legal claim towards the customer even though a write-off has been recognised.

Measurement uncertainty

The measurement of the expected credit loss involves increased complexity, and management must apply its professional judgement for many of the key assumptions used as input in the measurement. For stages 1 and 2, estimation uncertainty in the ECL calculation relates to the determination of PD, LGD and EAD. This is both in terms of using historic data in the development and calibration of models and the judgement performed in relation to setting these parameters as part of the credit process. Furthermore the identification of relevant risk drivers for the personal customer segment and the forecasts for each of the risk drivers also create estimation uncertainty.

Other areas with significant estimation uncertainty are the creation of multiple future economic scenarios, estimation of expected lifetime, determining if the criteria for default are satisfied and assessing significant increases in credit risk.

For exposures in stage 3 significant judgement is applied when determining assumptions used as input for the customer's future cash flow and assumptions related to valuation of collateral, including the point in time when collateral is potentially taken over.



Note 5 Credit risk exposure by risk grade

In the tables below, all loans to customers and financial commitments to customers are presented by risk grade. The amounts are based on the gross carrying amount and the maximum exposure before adjustments for impairments.

Loans as at 31 December 2020				DNB Boligkreditt AS	
Amounts in NOK million	Stage 1	Stage 2	Stage 3	Loans at fair value	Total
Risk grade based on probability of default					
1 - 4	507 903	304		32 542	540 749
5 - 7	107 104	12 715		7 919	127 738
8 - 10	4 435	2 339		447	7 221
Credit impaired			843	26	869
Total	619 442	15 358	843	40 934	676 577

Loans as at 31 December 2019				DNB Boligkreditt AS	
Amounts in NOK million	Stage 1	Stage 2	Stage 3	Loans at fair value	Total
Risk grade based on probability of default					
1 - 4	471 701	475		32 452	504 628
5 - 7	100 024	16 119		8 597	124 740
8 - 10	3 278	2 806		414	6 498
Credit impaired			997	27	1 024
Total	575 002	19 401	997	41 489	636 889

Financial commitments as at 31 December 2020				DNB Boligkreditt AS	
Amounts in NOK million	Stage 1	Stage 2	Stage 3		Total
Risk grade based on probability of default					
1 - 4	73 554	7			73 561
5 - 7	9 348	1 856			11 204
8 - 10	36	157			192
Credit impaired			24		24
Total	82 937	2 020	24		84 981

Financial commitments as at 31 December 2019				DNB Boligkreditt AS	
Amounts in NOK million	Stage 1	Stage 2	Stage 3		Total
Risk grade based on probability of default					
1 - 4	66 904	4			66 908
5 - 7	8 749	2 180			10 929
8 - 10	48	191			239
Credit impaired			29		29
Total	75 702	2 374	29		78 105

Note 6 Impairment of financial instruments

Amounts in NOK million	2020				2019			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Increased expected credit loss	(26)	(44)	(53)	(123)	(28)	(69)	(68)	(165)
Decreased expected credit loss	24	60	85	169	52	82	67	201
Write-offs			(24)	(24)			(26)	(26)
Recoveries on loans previously written off			5	5			5	5
Total impairment	(2)	16	13	27	24	13	(21)	16

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity, was NOK 25 million as at 31 December 2020 (NOK 29 million as at 31 December 2019).



Note 7 Development in gross carrying amount

The following table reconcile the opening and closing balances for gross carrying amount for loans to customers at amortised cost. Reconciling items include the following:

- Transfers between stages due to significant changes in credit risk.
- Changes due to the derecognition of loans during the period.
- Changes due to the origination of new loans during the period.
- Exchange rate effect from consolidation and other changes affecting the gross carrying amount.

Loans at amortised cost <i>Amounts in NOK million</i>	DNB Boligkreditt AS			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2019	567 106	19 639	1 002	587 747
Transfer to stage 1	28 020	(27 695)	(325)	
Transfer to stage 2	(33 708)	34 063	(355)	
Transfer to stage 3	(514)	(563)	1 077	
Originated and purchased	117 713			117 714
Derecognition	(103 615)	(6 044)	(402)	(110 061)
Gross carrying amount as at 31 December 2019	575 002	19 401	997	595 400
Transfer to stage 1	29 791	(29 551)	(240)	
Transfer to stage 2	(31 450)	31 869	(418)	
Transfer to stage 3	(344)	(578)	921	
Originated and purchased	163 852			163 852
Derecognition	(117 408)	(5 782)	(417)	(123 608)
Gross carrying amount as at 31 December 2020	619 442	15 358	843	635 643



Note 8 Development in accumulated impairment of loans

The quality of DNB Boligkredit's loan portfolio is high with a large share of loans in stage 1. The following table reconcile the opening and closing balances for accumulated impairment of loans to customers at amortised cost. Reconciling items includes the following:

- Transfers between stages due to significant changes in credit risk. The transfers are presumed to occur before the subsequent remeasurement of the allowance.
- Changes due to transfers between 12-month expected credit loss in stage 1 and lifetime expected credit loss in stages 2 and 3.
- Changes in allowance due to the origination of new loans during the period.
- Increases and decreases in expected credit loss resulting from changes in input parameters and assumptions, including macro forecasts, as well as the effect of partial repayments on existing facilities and the unwinding of the time value of discounts due to the passage of time.
- Changes in allowance due to the derecognition of loans during the period.
- Write-offs, exchange rate movements and other changes affecting the expected credit loss.

Loans to customers at amortised cost <i>Amounts in NOK million</i>	DNB Boligkredit AS			
	Stage 1	Stage 2	Stage 3	Total
Accumulated impairment as at 1 January 2019	(35)	(39)	(48)	(122)
Transfer to stage 1	(38)	32	6	
Transfer to stage 2	3	(15)	12	
Transfer to stage 3	0	1	(1)	
Originated and purchased	(11)	(2)		(12)
Increased expected credit loss ¹⁾	(16)	(53)	(82)	(151)
Decreased (reversed) expected credit loss ¹⁾	84	30	48	162
Write-offs			4	4
Derecognition		17		17
Accumulated impairment as at 31 December 2019	(12)	(28)	(63)	(103)
Transfer to stage 1	(31)	24	7	
Transfer to stage 2	2	(20)	18	
Transfer to stage 3	0	1	(1)	
Originated and purchased	(10)	(2)		(12)
Increased expected credit loss	(16)	(31)	(60)	(108)
Decreased (reversed) expected credit loss	54	26	51	131
Write-offs	0		8	9
Derecognition	0	18		18
Accumulated impairment as at 31 December 2020	(14)	(13)	(40)	(66)

1) In the second quarter of 2019, DNB performed a recalibration of the IFRS 9 models used for stage 1 and stage 2 loans. The net effect of the recalibration is a decrease in expected credit loss of approximately NOK 40 million. As the recalibration resulted in both increases and decreases on a financial instrument level, the effect is included in the flows 'Increased expected credit loss' and 'Decreased (reversed) expected credit loss'.



Note 9 Market risk

Conditions for calculating market risk

Market risk is the risk of losses or reduced future income due to fluctuations in market prices or exchange rates. The risk arises as a consequence of open positions in foreign exchange and interest rate markets.

Currency risk

DNB Boligkreditt has minimised currency risk through currency swap agreements with DNB Bank.

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

The table below indicates the currencies to which the company had significant exposure at 31 December 2020 on issued debt. The analysis calculates the net effect of a reasonably possible movement of the currency rate against Norwegian kroner, including the effect of currency swap agreements, with all other variables held constant, on the income statement. A negative amount reflects a potential net reduction in income, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against Norwegian kroner would have resulted in an equivalent but opposite impact.

	DNB Boligkreditt AS			
	2020		2019	
	Change in currency rate in per cent	Effect on pre-tax profits (NOK million)	Change in currency rate in per cent	Effect on pre-tax profits (NOK million)
EUR	10	(226)	10	(196)
USD	10		10	
CHF	10	(2)	10	(3)
Others	10	(7)	10	(1)

Interest rate risk

DNB Boligkreditt is exposed to interest rate risk through its ordinary operations. The company's strategy is to swap to short-term fixed interest on all interest income and interest expenses. Fixed interest on the company's funding is managed through interest rate swaps and is managed relative to the company's customer loan portfolios.

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.

The table below shows net changes in market value (reflected in the statement of comprehensive income) in Norwegian kroner for each 1 percentage point (100 basis points) interest rate adjustment in the company's portfolios of loans, derivatives, bonds and other funding. The sensitivity analysis shows expected effects in the income statement in connection with a 1 percentage point parallel change in interest rates on the entire interest curve.

	DNB Boligkreditt AS	
	Change in interest rate levels in basis points	Effect on pre-tax profits (NOK million)
2020	+ 100	12
	- 100	(12)
2019	+ 100	(89)
	- 100	89

Relative to the company's primary capital of NOK 47.2 billion, the company's interest rate risk is considered to be insignificant. In the opinion of the company's management, the company does not assume greater interest rate risk than what is considered prudent; cf. the requirements in Article 5 in the regulations on mortgage institutions issuing covered bonds of 25 May 2007.

Basis risk and basis swap spreads

The company is exposed to basis risk, which is a type of market risk associated with imperfect hedging. The company enters into basis swaps to manage foreign currency risk and interest rate risk from its long-term borrowing in foreign currencies. DNB Boligkreditt's basis risk, as a result of imperfect hedging of positions in foreign currencies, is expected to be low.

The basis swaps are measured 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. Accumulated negative effects from changes in basis swap spreads per year-end 2020 were approximately NOK 448 million.



Note 10 Financial derivatives and hedge accounting

DNB Boligkreditt uses derivatives to manage liquidity and market risk arising from the company's ordinary operations, hereunder to achieve desired interest rates and foreign exchanges rates according to the risk management strategy. See note 9 Market risk for more information about interest rate risk and currency risk in DNB Boligkreditt.

DNB Boligkreditt uses interest rate swaps to hedge risk associated with fixed interest rate funding and lending. Swaps are contracts in which the parties exchange cash flows for a fixed amount over the contractual period. The swaps used by DNB Boligkreditt are tailor-made to hedge the company's risk. DNB Bank acts as counterparty for all swap contracts.

Amounts in NOK million	31 December 2020			DNB Boligkreditt AS 31 December 2019		
	Total nominal values	Positive market value	Negative market value	Total nominal values	Positive market value	Negative market value
Derivatives held for trading						
Interest rate-related contracts						
Swaps	17 057	422	870	71 377	311	90
Total interest rate-related contracts	17 057	422	870	71 377	311	90
Foreign exchange-related contracts						
Swaps	490 735	11 604	8 710	365 638	29 652	9 838
Total foreign exchange-related contracts	490 735	11 604	8 710	365 638	29 652	9 838
Total financial derivatives trading	507 792	12 027	9 580	437 015	29 963	9 928
Derivatives held for hedge accounting						
Fair value hedges of interest rate risk						
Interest rate swaps	348 503	25 415		345 323	21 561	
Total financial derivatives hedge accounting	348 503	25 415		345 323	21 561	
Total financial derivatives	856 295	37 442	9 580	782 338	51 524	9 928

Hedge accounting

DNB Boligkreditt applies fair value hedging of interest rate risk on issued bonds with fixed interest. See note 1 Accounting principles for information about hedge accounting and the presentation of financial derivatives in the financial statements.

In fair value hedges of interest rate risk, the interest rate exposure on fixed-rate borrowings is converted to floating rates. Only the interest rate component is hedged. It is determined as the change in fair value arising from changes in the interbank swap interest rate.

The critical terms of the hedging instruments and the hedging objects are set to match at the inception of the hedge and the hedge ratio is 1:1. Consequently, there was no significant hedge ineffectiveness during the year.

Fair value hedges of interest rate risk as at 31 December 2020

Amounts in NOK million	Balance sheet item	Carrying amount	Accumulated fair value adjustment of the hedged item	DNB Boligkreditt AS Value changes used for calculating hedge ineffectiveness
Hedged exposure				
Issued bonds	Debt securities issued	373 594	22 636	(1 351)
Hedging instrument				
Interest rate swaps	Financial derivatives			1 863

Fair value hedges of interest rate risk as at 31 December 2019

Amounts in NOK million	Balance sheet item	Carrying amount	Accumulated fair value adjustment of the hedged item	DNB Boligkreditt AS Value changes used for calculating hedge ineffectiveness
Hedged exposure				
Issued bonds	Debt securities issued	367 096	19 291	(6 072)
Hedging instrument				
Interest rate swaps	Financial derivatives			6 060

Maturity of interest rate swaps held as hedging instruments at 31 December 2020

Amounts in NOK million	Maturity				
	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years
Fair value hedges of interest rate risk, nominal amounts					
Hedges of issued bonds	19 033	1 475	20 240	203 285	104 470

Maturity of interest rate swaps held as hedging instruments at 31 December 2019

Amounts in NOK million	Maturity				
	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years
Fair value hedges of interest rate risk, nominal amounts					
Hedges of issued bonds	1 002	50	30 639	203 889	115 879



Note 11 Liquidity risk

Liquidity risk is 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 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 had a long-term overdraft facility in DNB Bank ASA with a total limit of NOK 180 billion by end December 2020.

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 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.

Residual maturity as at 31 December 2020

Amounts in NOK million	DNB Boligkreditt AS						Total
	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	No fixed maturity	
Assets							
Loans to and deposits with credit institutions	26 175						26 175
Loans to customers	1 913	104	463	6 233	667 957		676 670
Total	28 087	104	463	6 233	667 957		702 845
Liabilities							
Due to credit institutions	150 423						150 423
Debt securities issued	19 033	17 556	46 700	347 894	66 764		497 948
Other liabilities	114						114
Subordinated loan capital		6			5 200		5 206
Total	169 570	17 562	46 700	347 894	71 964		653 690
Financial derivatives							
Financial derivatives, gross settlement							
Incoming cashflows	19 928	734	32 674	209 828	102 906		366 069
Outgoing cashflows	20 403	961	33 404	222 618	102 848		380 233
Financial derivatives, net settlement	777	1 329	4 089	13 449	10 230		29 874
Total financial derivatives	302	1 102	3 359	660	10 288		15 711
Credit lines, commitments and documentary credit	2 654	110	411	3 286	78 518		84 979

Nominal future interest payments in excess of accrued interest are not included on the balance sheet date.



Note 11 Liquidity risk (continued)

Residual maturity as at 31 December 2019

Amounts in NOK million	DNB Boligkreditt AS						Total
	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	No fixed maturity	
Assets							
Loans to and deposits with credit institutions	5 537						5 537
Loans to customers	1 732	94	499	6 211	628 291	(40)	636 786
Total	7 269	94	499	6 211	628 291	(40)	642 323
Liabilities							
Due to credit institutions				153 401			153 401
Debt securities issued	345	9 965	48 043	306 524	87 169		452 046
Other liabilities	91						91
Subordinated loan capital		10			5 200		5 210
Total	436	9 976	48 043	459 925	92 369		610 749
Financial derivatives							
Financial derivatives, gross settlement							
Incoming cashflows	291	6 159	30 170	220 477	107 013		364 110
Outgoing cashflows	1 085	7 249	34 351	227 462	112 428		382 575
Financial derivatives, net settlement	640	1 020	3 714	15 249	11 378		32 001
Total financial derivatives	(154)	(71)	(467)	8 264	5 963		13 537
Credit lines, commitments and documentary credit	2 239	79	420	3 022	72 344		78 104

Nominal future interest payments in excess of accrued interest are not included on the balance sheet date.

Note 12 Net interest income

Amounts in NOK million	2020			2019		
	Measured at FVTPL	Measured at amortised cost ¹⁾	Total	Measured at FVTPL	Measured at amortised cost ¹⁾	Total
Interest on amounts due from credit institutions		32	32		111	111
Interest on loans to customers	1 127	13 193	14 320	1 149	15 729	16 878
Front-end fees etc.	3	(1)	2	4	0	4
Other interest income		216	216		211	211
Total interest income	1 130	13 440	14 569	1 153	16 051	17 204
Interest on amounts due to credit institutions		(2 020)	(2 020)		(3 161)	(3 161)
Interest on debt securities issued	(629)	(1 201)	(1 830)	(1 980)	(831)	(2 811)
Interest on subordinated loan capital		(133)	(133)		(161)	(161)
Contribution to the resolution fund		(131)	(131)		(120)	(120)
Net interest income/expenses, derivatives	(4 961)		(4 961)	(6 188)		(6 188)
Total interest expenses	(5 590)	(3 485)	(9 075)	(8 168)	(4 273)	(12 441)
Net interest income	(4 461)	9 955	5 495	(7 015)	11 778	4 763

¹⁾ Includes hedged items.



Note 13 Net commission and fee income

Amounts in NOK million	DNB Boligkreditt AS	
	2020	2019
Other commissions and fees	61	61
Commission and fee income	61	61
Custodial services	(2)	(2)
Other commissions and fees	(1)	(1)
Commission and fee expenses	(3)	(3)
Net commission and fee income	58	58

Note 14 Net gains on financial instruments at fair value

Amounts in NOK million	DNB Boligkreditt	
	2020	2019
Foreign exchange and financial derivatives	(916)	96
Basis swaps	751	96
Net gains on financial instruments, mandatorily at FVTPL ^{1,2)}	(165)	192
Loans at fair value (fixed-rate loans) ³⁾	954	(174)
Financial liabilities (long-term borrowing in NOK) ⁴⁾	(253)	324
Net gains on financial instruments, designated as at FVTPL	701	149
Financial derivatives, hedging ⁵⁾	1 863	6 060
Financial liabilities, hedged items ⁵⁾	(1 351)	(6 072)
Net gains on hedged items	512	(11)
Net gains on financial instruments at FVTPL	1 047	330

- 1) DNB Boligkreditt enters into swaps to manage interest-rate risk for the fixed-rate loans and bonds issued in Norwegian kroner. Such derivatives are measured 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 2). 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.
- 2) 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.
- 3) DNB Boligkreditt's fixed-rate loans are measured at fair value. Reduced interest rates, including credit margins, will increase the fair value of already originated loans. The change in fair value due to credit risk amounted to a NOK 4 million loss during the year and a NOK 68 million loss cumulatively. Credit risk reflected in fair value measurements is based on normalised losses and changes in normalised losses in the relevant portfolio. The fair value adjustments of the company's fixed-rate loans are reversed over the loans' remaining term to maturity.
- 4) DNB Boligkreditt's fixed-rate long-term borrowing in Norwegian kroner is carried at fair value and changes in fair value due to credit risk are recognised in other comprehensive income. 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.
- 5) 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 measured at fair value (see footnote 2). 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 15 Salaries and other personnel expenses

Amounts in NOK million	DNB Boligkreditt AS	
	2020	2019
Salaries	(8)	(6)
Employer's national insurance contributions	(1)	(1)
Pension expenses	(2)	(3)
Other personnel expenses	(0)	(1)
Salaries and other personnel expenses	(11)	(11)

At year-end, DNB Boligkreditt had six employees calculated on a full-time basis compared to five employees a year earlier.

The employees in DNB Boligkreditt have the same pension benefits as the other employees in the DNB Group.

**Note 16 Taxes**

	DNB Boligkreditt AS	
	2020	2019
Tax expense on pre-tax operating profit		
<i>Amounts in NOK million</i>		
Current taxes	(5 464)	(2 106)
Changes in deferred taxes	4 096	1 016
Tax expense	(1 368)	(1 089)
Reconciliation of tax expense against nominal tax rate		
<i>Amounts in NOK million</i>	2020	2019
Pre-tax operating profit	5 467	4 360
Estimated tax expense at nominal tax rate 22 per cent	(1 203)	(959)
Tax effect of financial tax in Norway	(164)	(131)
Tax effect of other tax-exempt income and non-deductible expenses	(1)	(0)
Excess tax provision previous year		1
Tax expense	(1 368)	(1 089)
Effective tax rate	25%	25%
Income tax on other comprehensive income		
<i>Amounts in NOK million</i>	2020	2019
Items that will not be reclassified to the income statement	(4)	(70)
Total income tax on other comprehensive income	(4)	(70)
Deferred tax assets/(deferred taxes)		
25 per cent deferred tax calculation on all temporary differences (Norway)		
<i>Amounts in NOK million</i>	2020	2019
The year's changes in deferred tax assets/(deferred taxes)		
Deferred tax assets/(deferred taxes) as at 1 January	(4 747)	(5 693)
Changes recorded against profits	4 096	1 016
Changes recognised against comprehensive income	(4)	(70)
Deferred tax assets/(deferred taxes) as at 31 December	(655)	(4 747)
Deferred tax assets and deferred taxes in the balance sheet relates to the following temporary differences		
<i>Amounts in NOK million</i>	31 Dec. 2020	31 Dec. 2019
Deferred taxes		
Debt securities issued	(5 835)	(4 961)
Financial derivatives	6 224	9 680
Other financial instruments	273	35
Net pension liabilities	(7)	(7)
Total deferred taxes	655	4 747
Deferred taxes in the income statement relates to the temporary differences		
<i>Amounts in NOK million</i>	2020	2019
Debt securities issued ¹⁾	878	1 435
Financial derivatives ¹⁾	3 456	(461)
Other financial instruments ¹⁾	(238)	44
Other temporary differences		(1)
Deferred tax expense	4 096	1 016

1) A significant share of the financial instruments are measured at fair value in the accounts, while for tax purposes, the same instruments are recorded on an accrual basis in accordance with the realisation principle. This gives rise to large differences between net results stated in the accounts and profits computed for tax purposes for the individual accounting years, especially in years with significant fluctuations in interest rate levels and exchange rates. These differences are offset in the longer term.



Note 17 Classification of financial instruments

As at 31 December 2020	Mandatorily at FVTPL		Designated as at FVTPL ²⁾	DNB Boligkreditt AS	
	Trading	Other ¹⁾		Amortised cost ³⁾	Total
<i>Amounts in NOK million</i>					
Due from credit institutions				26 175	26 175
Loans to customers			40 934	635 577	676 511
Financial derivatives	12 027	25 415			37 442
Other assets				4	4
Total financial assets	12 027	25 415	40 934	661 756	740 132
Due to credit institutions				150 423	150 423
Financial derivatives	9 656	(76)			9 580
Debt securities issued			17 177	504 018	521 195
Other liabilities				5	5
Subordinated loan capital				5 206	5 206
Total financial liabilities ⁴⁾	9 656	(76)	17 177	659 652	686 409

1) Derivatives used as hedging instruments.

2) For liabilities designated as at FVTPL, changes in fair value due to credit risk are recognised in other comprehensive income.

3) Debt securities issued which are subject to hedge accounting are classified as liabilities carried at amortised cost.

4) Contractual obligations of financial liabilities designated as at fair value totalled NOK 16 566 million.

As at 31 December 2019	Mandatorily at FVTPL		Designated as at FVTPL ²⁾	DNB Boligkreditt AS	
	Trading	Other ¹⁾		Amortised cost ³⁾	Total
<i>Amounts in NOK million</i>					
Due from credit institutions				5 537	5 537
Loans to customers			41 489	595 297	636 786
Financial derivatives	29 963	21 561			51 524
Other assets				9	9
Total financial assets	29 963	21 561	41 489	600 842	693 855
Due to credit institutions				153 401	153 401
Financial derivatives	9 944	(16)			9 928
Debt securities issued			16 948	454 767	471 715
Other liabilities				8	8
Subordinated loan capital				5 210	5 210
Total financial liabilities ⁴⁾	9 944	(16)	16 948	613 388	640 264

1) Derivatives used as hedging instruments.

2) For liabilities designated as at FVTPL, changes in fair value due to credit risk are recognised in other comprehensive income.

3) Debt securities issued which are subject to hedge accounting are classified as liabilities carried at amortised cost.

4) Contractual obligations of financial liabilities designated as at fair value totalled NOK 16 570 million.



Note 18 Fair value of financial instruments at amortised cost

<i>Amounts in NOK million</i>	DNB Boligkreditt AS			
	31 December 2020		31 December 2019	
	Carrying amount	Fair value	Carrying amount	Fair value
Due from credit institutions	26 175	26 175	5 537	5 537
Loans to customers	635 577	635 577	595 297	595 297
Total financial assets	661 752	661 752	600 834	600 834
Due to credit institutions	150 423	150 423	153 401	153 401
Debt securities issued	504 018	506 759	454 767	456 902
Subordinated loan capital	5 206	5 289	5 210	5 318
Total financial liabilities	659 647	662 471	613 379	615 622

<i>Amounts in NOK million</i>	DNB Boligkreditt AS				Total
	Valuation based on quoted prices in an active market	Valuation based on observable market data	Valuation based on inputs other than observable market data		
	Level 1	Level 2	Level 3		
Assets as at 31 December 2020					
Due from credit institutions		26 175			26 175
Loans to customers		635 577			635 577
Liabilities as at 31 December 2020					
Due to credit institutions		150 423			150 423
Debt securities issued		471 237	35 522		506 759
Subordinated loan capital			5 289		5 289
Assets as at 31 December 2019					
Due from credit institutions		5 537			5 537
Loans to customers		595 297			595 297
Liabilities as at 31 December 2019					
Due to credit institutions		153 401			153 401
Debt securities issued		421 380	35 522		456 902
Subordinated loan capital			5 318		5 318

Financial instruments 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 interest rates and credit risk. Fair value includes both positive and negative value changes in interest- and 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 19 Financial instruments at fair value.

Due from credit institutions and loans to customers

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.

Due to credit institutions, debt securities issued and subordinated loan capital

Due to credit institutions are at floating interest rates and measured at amortised cost, which is considered not to diverge significantly from fair value.

Debt securities issued in currency are measured at amortised cost and are subject to hedge accounting of its interest rate risk. The hedge relationships 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. However, changes in credit risk are not accounted for.

Subordinated loan capital has floating interest rates with a fixed margin.



Note 19 Financial instruments at fair value

Amounts in NOK million	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 inputs other than observable market data Level 3	
Assets as at 31 December 2020				
Loans to customers			40 934	40 934
Financial derivatives		37 442		37 442
Liabilities as at 31 December 2020				
Debt securities issued		17 177		17 177
Financial derivatives		9 580		9 580
Assets as at 31 December 2019				
Loans to customers			41 489	41 489
Financial derivatives		51 524		51 524
Liabilities as at 31 December 2019				
Debt securities issued		16 948		16 948
Financial derivatives		9 928		9 928

The levels

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 measured 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 recognised 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 neither for 2020 nor 2019.

Loans consist primarily of fixed-rate loans in Norwegian kroner. The value of fixed-rate loans is determined by discounting agreed cash 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.



Note 19 Financial instruments at fair value (continued)

Financial instruments at fair value, level 3	DNB Boligkreditt AS
<i>Amounts in NOK million</i>	Loans to customers
Carrying amount as at 31 December 2018	41 275
Net gains recognised in the income statement	(172)
Additions/purchases	7 585
Sales	(49)
Settled	(7 150)
Carrying amount as at 31 December 2019	41 489
Net gains recognised in the income statement	949
Additions/purchases	8 718
Sales	(113)
Settled	(10 109)
Carrying amount as at 31 December 2020 ¹⁾	40 934

1) Accumulated fair value adjustments on loans to customers in level 3 were NOK 1 093 million at 31 December 2020.

Note 20 Offsetting

DNB Boligkreditt AS enters into interest rate swaps and cross-currency swaps with DNB Bank to hedge interest rate risk and currency risk associated with funding and lending operations. All swap contracts are covered by master netting agreements that give right to offset financial assets and financial liabilities arising from the derivative exposure. Additionally, DNB Boligkreditt enters into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The purpose of the reverse repos is to fulfill the company's requirements under the Liquidity Coverage Ratio (LCR) regulations. The value of the repos amounted to NOK 25.8 billion at end-December 2020, recognised as "Due from credit institutions" in the financial statements.

The table below presents the potential effects of DNB Boligkreditt's netting arrangements on financial assets and financial liabilities.

<i>Amounts in NOK million</i>	DNB Boligkreditt AS					
	Gross amount	Amounts offset in the statement of financial position	Carrying amount	Netting agreements	Other collateral	Amounts after possible netting
Assets as at 31 December 2020						
Due from credit institutions	25 801		25 801		25 801	
Financial derivatives	37 442		37 442	9 580		27 862
Liabilities as at 31 December 2020						
Financial derivatives	9 580		9 580	9 580		
DNB Boligkreditt AS						
Assets as at 31 December 2019						
Due from credit institutions	5 214		5 214		5 214	
Financial derivatives	51 524		51 524	9 928	2 385	39 211
Liabilities as at 31 December 2019						
Financial derivatives	9 928		9 928	9 928		



Note 21 Debt securities issued

Debt securities issued	DNB Boligkreditt AS	
	31 Dec. 2020	31 Dec. 2019
<i>Amounts in NOK million</i>		
Bond debt, nominal amount	495 112	449 015
Adjustments	26 083	22 701
Total debt securities issued	521 195	471 715

Changes in debt securities issued	DNB Boligkreditt AS					
	Balance sheet 31 Dec. 2020	Issued 2020 ¹⁾	Matured/ redeemed 2020 ¹⁾	Exchange rate movements 2020	Other adjustments 2020	Balance sheet 31 Dec. 2019
<i>Amounts in NOK million</i>						
Bond debt, nominal amount	495 112	83 863	(57 771)	20 005		449 015
Adjustments	26 083				3 382	22 701
Total debt securities issued	521 195	83 863	(57 771)	20 005	3 382	471 715

1) Changes in debt securities issued do not include reset basis swaps. The cash flow effects of debt securities issued were NOK 123 295 million and NOK 59 243 million for issued and matured bonds, respectively.

Maturity of debt securities issued	DNB Boligkreditt AS		
	NOK	Foreign currency	Total
<i>Amounts in NOK million</i>			
2021	26 500	53 954	80 454
2022	75 500	71 813	147 313
2023	257	70 095	70 352
2024	8 000	36 890	44 890
2025	11 500	33 200	44 700
2026	2 500	38 140	40 640
2027 and later	120	66 644	66 764
Total bond debt	124 377	370 735	495 112



Note 21 Debt securities issued (continued)

Debt securities issued - matured/redeemed during the period

DNB Boligkreditt AS

Amounts in NOK million ISIN Code	Currency	Matured/ redeemed amount	Interest	Issued	Matured		Remaining nominal amount	
							31 Dec. 2020	31 Dec. 2019
Private	EUR	247	Fixed	2010	2020	Redeemed		247
Private	EUR	39	Fixed	2010	2020	Redeemed		39
Private	EUR	148	Floating	2013	2020	Matured		148
Private	EUR	99	Floating	2015	2020	Matured		99
XS1190460508	GBP	5 804	Floating	2015	2020	Matured		5 804
Private	EUR	449	Fixed	2008	2020	Matured		449
Private	EUR	247	Fixed	2010	2020	Redeemed		247
Private	EUR	247	Fixed	2010	2020	Redeemed		247
Private	EUR	493	Fixed	2010	2020	Redeemed		493
Private	EUR	197	Fixed	2010	2020	Redeemed		197
NO0010672405	NOK	5 000	Floating	2014	2020	Matured		5 000
XS1181877173	SEK	472	Fixed	2015	2020	Matured		472
XS1181877504	SEK	567	Floating	2015	2020	Matured		567
XS1226740964	EUR	493	Fixed	2015	2020	Matured		493
XS1238975798	USD	10 984	Fixed	2015	2020	Matured		10 984
NO0010672405	EUR	1 000	Floating	2016	2020	Matured		1 000
Private	EUR	109	Fixed	2009	2020	Matured		109
XS0522599678	EUR	109	Floating	2010	2020	Matured		109
Private	EUR	218	Fixed	2010	2020	Redeemed		218
XS0529463365	EUR	544	Fixed	2010	2020	Matured		544
Private	EUR	109	Fixed	2010	2020	Redeemed		109
XS0529463365	EUR	653	Fixed	2010	2020	Matured		653
Private	EUR	54	Fixed	2013	2020	Matured		54
Private	EUR	221	Fixed	2009	2020	Redeemed		221
Private	EUR	221	Fixed	2010	2020	Redeemed		221
Private	EUR	221	Fixed	2010	2020	Matured		221
XS0563829331	EUR	111	Fixed	2010	2020	Matured		111
Private	EUR	166	Fixed	2010	2020	Redeemed		166
Private	EUR	111	Fixed	2010	2020	Redeemed		111
Private	EUR	941	Fixed	2010	2020	Matured		941
Private	EUR	664	Fixed	2010	2020	Matured		664
NO0010721111	NOK	2 000	Floating	2014	2020	Matured		2 000
NO0010721111	NOK	3 000	Floating	2015	2020	Matured		3 000
XS1308759718	EUR	13 834	Fixed	2015	2020	Matured		13 834
NO0010721111	NOK	8 000	Floating	2016	2020	Matured		8 000
Total debt securities issued, nominal value		57 771						57 771

Cover pool

DNB Boligkreditt AS

Amounts in NOK million	31 Dec. 2020	31 Dec. 2019
Pool of eligible loans	673 513	632 580
Market value of eligible derivatives	27 862	41 595
Total collateralised assets	701 375	674 176
Debt securities issued, carrying value	521 195	471 715
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(59)	(78)
Debt securities issued, valued according to regulation ¹⁾	521 137	471 637
Collateralisation (per cent)	134.6	142.9

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 11-8 and 11-11 of the Financial Institutions Act with appurtenant regulations.



Note 22 Subordinated loan capital

							DNB Boligkreditt AS	
Amounts in NOK million	Currency	Nominal	Interest rate	Issue date	Call date	Maturity date	31 Dec. 2020	31 Dec. 2019
Term subordinated loan capital	NOK	1 900	3 month Nibor + 160 bp	2018	2023	2028	1 900	1 900
Term subordinated loan capital	NOK	3 300	3 month Nibor + 160 bp	2018	2023	2028	3 300	3 300
Accrued interest							6	10
Total							5 206	5 210

Note 23 Remunerations

								DNB Boligkreditt AS	
Amounts in NOK 1000	Fixed annual salary as at 31 Dec. 2020	Remuneration paid in 2020	Paid salaries 2020	Variable remuneration earned in 2020	Benefits in kind and other benefits in 2020	Total remuneration in 2020	Loans as at 31 Dec. 2020	Accrued pension expenses ¹⁾	
The Board of Directors									
Reidar Bolme	3 745		3 764	24	32	3 820	1	279	
Jørn E. Pedersen		100			177	277	15		
Toril Steinmo	1 145		1 340	194	43	1 577	5 158	278	
Per Sagbakken, CEO	2 115		2 117	24	31	2 173	5 078	719	

1) Accrued pension expenses include pension rights earned during the year (service cost). The calculation of pension entitlements is based on the same economic and actuarial assumptions as those used in note 25 Pensions in the annual report 2020 for the DNB Group.

Loans to senior executives and board members are granted at general terms applicable to all of the Group's employees.

Remunerations to the chief executive office and "Remuneration paid in 2020" are paid by DNB Boligkreditt. Other remunerations are charged DNB Bank ASA.

DNB Boligkreditt has no contractual obligations to give the chief executive officer, members of the board or others special compensation in case of changes in conditions of employment. Nor has the company contractual obligations to offer bonuses, profit sharing arrangements or options benefiting the chief executive officer, the Board of Directors or others. For 2020, all of the Group's employees will receive a bonus of NOK 24 thousand. The bonus will be paid in 2021.

Remuneration to the statutory auditor		DNB Boligkreditt AS	
Amounts in NOK 1000, excluding VAT		2020	2019
Statutory audit		(980)	(968)
Other certification services ¹⁾		(582)	(692)
Total remuneration to the statutory auditor		(1 562)	(1 660)

1) Of this, remuneration to the independent investigator, pursuant to Section 11-14 of the Financial Institutions Act, represented NOK 217 200 in 2020. In addition, fees related to comfort letters for the covered bond programmes represented NOK 229 000 in 2020.



Note 24 Information on related parties

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

Transactions with related parties <i>Amounts in NOK million</i>	DNB Boligkreditt AS	
	2020	2019
Assets		
Loans to and deposits with credit institutions	26 175	5 537
Financial derivatives	37 442	51 524
Liabilities		
Loans due to credit institutions	150 423	153 401
Subordinated loan capital	5 206	5 210
Financial derivatives	9 580	9 928
Debt securities issued	59 888	16 241
Other liabilities	110	99
Income and expenses		
Interest income	32	111
Interest expenses	(1 094)	(2 331)
Commissions payable	(2)	(2)
Net gains on financial instruments at fair value	(711)	192
Fee income	0	0
Fee expenses	(1 128)	(774)

Major transactions with related parties

DNB Bank ASA

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

The transfer agreement regulates the transfer of loan portfolios qualifying as collateral for the issue of covered bonds. During 2020 portfolios of NOK 49.2 billion (NOK 1.5 billion in 2019) were transferred from the bank to DNB Boligkreditt.

Pursuant to the management agreement, DNB Boligkreditt purchases services from the bank, including administration, bank production, distribution, customer contact, IT operations and financial and liquidity management. DNB Boligkreditt pays an annual management fee for these services based on the lending volume under management and the achieved lending spreads. The management fee paid is recognised as "Other expenses" in the statement of comprehensive income and amounted to NOK 1 047 million in 2020 (NOK 728 million in 2019).

In the balance sheet "Due from credit institutions" and "Due to credit institutions" are solely outstandings with DNB Bank. All derivative contracts are with DNB Bank as counterparty. At year-end 2020, the bank had invested NOK 59.9 billion (NOK 16.2 billion in 2019) in covered bonds issued by DNB Boligkreditt.

DNB Boligkreditt enters into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The value of the repos amounted to NOK 25.8 billion at end-December 2020 (NOK 5.2 billion in 2019).

The company has a long-term overdraft facility in DNB Bank ASA with a limit of NOK 180 billion.

DNB Livforsikring AS

As part of the company's ordinary investment activity, DNB Livforsikring has subscribed for covered bonds issued by DNB Boligkreditt. At year-end 2020, DNB Livforsikring's holding of listed DNB Boligkreditt bonds was valued at NOK 1.5 billion (NOK 1.5 billion in 2019).

Group contributions

The Board of Directors proposes to provide NOK 5 460 million as group contribution.



Statement

Pursuant to Section 5-5 of the Securities Trading Act

We hereby confirm that the annual accounts for the company for 2020 to the best of our knowledge have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole.

The Directors' report gives a true and fair view of the development and performance of the business and the company, as well as a description of the principal risks and uncertainties facing the company.

Oslo, 10 March 2021
The Board of Directors of DNB Boligkreditt AS

Reidar Bolme
(Chair of the Board)

Jørn E. Pedersen

Toril Steinmo

Per Sagbakken
(Chief Executive Officer)



Statsautoriserte revisorer
Ernst & Young AS

Dronning Eufemias gate 6, NO-0191 Oslo
Postboks 1156 Sentrum, NO-0107 Oslo

Foretaksregisteret NO 976 389 387 MVA
Tlf. +47 24 00 24 00

www.ey.no
Medlemmer av Den norske revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of DNB Boligkreditt AS

Report on the audit of the financial statements

Opinion

We have audited the financial statements of DNB Boligkreditt AS, which comprise the balance sheet as at 31 December 2020, comprehensive income statement, cash flow statement and statement of changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements have been prepared in accordance with laws and regulations and present fairly, in all material respects, the financial position of the Company as at 31 December 2020 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's *responsibilities for the audit of the financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2020. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Valuation of Financial Instruments

Unlisted or illiquid financial instruments measured at fair value are valued based on models that use assumptions that are not observable in the market place. The valuation of these instruments therefore have a higher risk of errors. Such instruments comprise assets of NOK 40 934 million measured at fair value in the balance sheet and classified as level 3 instruments within the fair value hierarchy. Due to the materiality of the unlisted or illiquid instruments, and the increased risk of errors, we considered the valuation of these instruments a key audit matter.

We assessed the design and tested the operating effectiveness of internal controls over the valuation process including management's determination and approval of assumptions and methodologies used in model-based calculations as well as management's review of valuations provided by internal experts. We

Amendement Ernst & Young Global Limited



also assessed pricing model methodologies against industry practice and valuation guidelines. We performed independent valuations for selected instruments and used external source data where available, and compared results of our valuations to the Company's valuations.

Level 3 instruments which are presented at fair value on the balance sheet are disclosed in note 19 in the financial statements.

IT environment supporting financial reporting

The Company has a complex and automated IT environment and is dependent on IT processes for reporting of financial information. To ensure complete and accurate processing and reporting of financial data it is important that controls over appropriate access rights and system changes are designed and operate effectively. Also, controls over transaction processing need to be designed and operate effectively. The operation of the IT environment is largely outsourced to various service providers. The IT environment supporting the financial reporting process is considered a Key Audit Matter as the IT environment is critical to ensure accurate, complete and reliable financial reporting.

We obtained an understanding of the Company's IT environment, including outsourced services and controls related to financial reporting. We tested IT general controls over access management, change management and IT operations. Further we tested automated controls in the IT environment supporting financial reporting. For IT systems outsourced to service providers we evaluated third party attestation reports (ISAE 3402 reports) and assessed and tested the effectiveness of the controls. We involved specialists on our team in the understanding the IT environment and in assessing and testing the operative effectiveness of controls.

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the

Independent auditor's report - DNB Boligkreditt AS

A member firm of Ernst & Young Global Limited



basis of these financial statements. As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

Opinion on the Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Directors' report concerning the financial statements, the going concern assumption, and proposal for the allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Independent auditor's report - DNB Boligkreditt AS

Amerikantunnet 15.05.2022 kl 15:30



4

Oslo, 10 March 2021
ERNST & YOUNG AS

Johan-Herman Stene
State Authorised Public Accountant (Norway)

Independent auditor's report - DNB Boligkreditt AS

A member firm of Ernst & Young Global Limited



Governing bodies

as at 31 December 2020

Board of Directors

Members

Reidar Bolme, Oslo
Jørn E. Pedersen, Oslo
Toril Steinmo, Bærum

Contact information

DNB Boligkreditt AS

Mailing address	P.O.Box 1600 Sentrum, NO-0021 Oslo
Visiting address	Dronning Eufemias gate 30, Oslo
Telephone	+47 91 50 48 00
Internet	dnb.no
Organisation number	NO 985 621 551

Chief Executive Officer

Per Sagbakken
Tel: +47 90 66 11 59
per.sagbakken@dnb.no

Financial reporting

Roar Sørensen
Tel: +47 93 47 96 16
roar.sorensen@dnb.no

DNB ASA

Mailing address	P.O.Box 1600 Sentrum, NO-0021 Oslo
Visiting address	Dronning Eufemias gate 30, Oslo
Telephone	+47 91 50 48 00
Internet	dnb.no
Organisation number	NO 981 276 957

DNB Bank ASA

Mailing address	P.O.Box 1600 Sentrum, NO-0021 Oslo
Visiting address	Dronning Eufemias gate 30, Oslo
Telephone	+47 91 50 48 00
Internet	dnb.no
Organisation number	NO 984 851 006

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.



**We are here.
So you can stay ahead.**

DNB Boligkreditt AS

Mailing address:

P.O.Box 1600 Sentrum
N-0021 Oslo

Visiting address:

Dronning Eufemias gate 30
Bjervika, Oslo

dnb.no



Skattedirektoratet

Saksbehandler Torstein Kinden Helleland	Deres dato 30.05.2011	Vår dato 20.12.2011
Telefon 22078139	Deres referanse Øyvind Birkeland	Vår referanse 2011/566763

DNB BOLIGKREDITT AS
c/o DNB Bank ASA
Kirkegaten 21
0021 OSLO

Dispensasjon fra kravet om utarbeidelse av årsregnskap og årsberetning på norsk språk for DNB Boligkreditt AS, org. nr. 985 621 551

Det vises til deres brev av 30. mai 2011 samt e-post og telefonsamtale i sakens anledning. Det søkes om dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk for DNB Boligkreditt AS.

Skattedirektoratet gir på bakgrunn av en konkret helhetsvurdering DNB Boligkreditt AS dispensasjon fra kravet til å utarbeide årsregnskap og årsberetning på norsk språk, jf. regnskapsloven § 3-4 tredje ledd.

Dispensasjonen forutsetter at opplysningene som vedtaket baserer seg på ikke endres vesentlig.

Bakgrunn

DNB Boligkreditt AS er et heleid datterselskap av DNB Bank ASA og har således en begrenset eierkrets. Selskapet er viktig for konsernets anskaffelse av nødvendig og rimeligst mulig finansiering gjennom utstedelse av obligasjoner med fortrinnsrett (OMF) med pant i boligeiendom. Ca 90 % av verdipapirgjeld er solgt i markedet til utenlandske investorer. Selskapet har fått dispensasjon fra kravet i verdipapirhandelslovens § 5-13 om å offentliggjøre opplysninger på norsk vedrørende obligasjonene. Innlånsprogram og all dokumentasjon knyttet til låneopptak foreligger kun på engelsk. All kommunikasjon med ratingbyråer og investorer skjer på engelsk, og flere av interessentene behersker kun engelsk. Den norske versjonen av årsregnskapet utarbeides kun for å tilfredsstille regnskapsloven.

Skattedirektoratets vurdering

Etter regnskapsloven § 3-4 tredje ledd skal "årsregnskapet og årsberetningen ... være på norsk. Departementet kan ved ... enkeltvedtak bestemme at årsregnskapet og/eller årsberetningen kan være på et annet språk."

I Ot. prp. nr. 42 (1997-1998) Om lov om årsregnskap m.v., er det uttalt følgende om regnskapslovens formål, jf. pkt. 1.1:

"Regjeringen har som siktemål at regnskapsloven skal bidra til informative regnskaper for ulike grupper av regnskapsbrukere. Regnskapsbrukerne er dels investorer og kreditorer som tilfører kapital til foretakene, og dels andre grupper som har interesse av å vite hvordan foretaket drives,

Postadresse Postboks 9200 Grønland 0134 Oslo	Besøksadresse Se www.skatteetaten.no Org. nr: 996250318	Sentralbord 800 80 000 Telefaks 22 17 08 60
For elektronisk henvendelse se www.skatteetaten.no		



f.eks. de ansatte og lokalsamfunnet. Informasjonen til kapitalmarkedet skal gi grunnlag for riktig prising av finansielle objekter. Riktig prisdannelse på aksjer er en forutsetning for at ressursbruken i samfunnsøkonomien skal bli best mulig. Gode regnskaper vil også gjøre det vanskeligere for markedsdeltakere å ta ut spekulasjonsgevinster med basis i skjevt fordelt informasjon.”

Det fremgår således at et av hovedformålene med regnskapsloven er å bidra til *“informative regnskaper for ulike grupper av regnskapsbrukere”*. Regnskapsbrukere vil omfatte, jf. uttalelsen i proposisjonen, blant andre investorer, kreditorer, ansatte og lokalsamfunnet.

Det er etter Skattedirektoratets vurdering derfor avgjørende ved vurdering av om dispensasjon fra kravet til å utarbeide årsregnskap og/eller årsberetning på norsk, at det ikke foreligger mulige brukere av regnskapsinformasjon som blir vesentlig berørt negativt ved en eventuell dispensasjon.

Som nevnt ovenfor er det særlig hensynet til brukerne av regnskapsinformasjon som skal vurderes ved en dispensasjonssøknad. I denne vurderingen har Skattedirektoratet lagt vekt på at det vesentlige av selskapets av selskapets verdipapirgjeld er solgt i markedet til utenlandske investorer. Innlånsprogram og all dokumentasjon knyttet til låneopptak foreligger kun på engelsk. All kommunikasjon med ratingbyråer og investorer skjer på engelsk, og flere av interessentene behersker kun engelsk. Selskapet er et datterselskap og har således en begrenset eierkrets. Videre er det vektlagt at selskapet har fått dispensasjon fra Oslo børs om å offentliggjøre opplysninger på norsk.

Vennligst oppgi vår referanse ved henvendelser i anledning saken.

Med hilsen

Rune Tystad
seniorrådgiver
Rettsavdelingen, foretaksskatt
Skattedirektoratet

Torstein Kinden Helleland