DNB Boligkreditt AS
A company in the DNB Group

Annual report 2022

Financial highlights

Statement of comprehensive income

Amounts in NOK million	2022	2021	2020	2019	2018
Net interest income	2 971	5 989	5 495	4 763	5 183
Net other operating income	1 358	(257)	1 103	388	(2 128)
Of which net gains on financial instruments at fair value	*1 328*	*(313)*	*1 047*	*330*	*(2 190)*
Operating expenses	1 345	(1 944)	(1 158)	(807)	(771)
Impairment of financial instruments	(25)	5	27	16	15
Pre-tax operating profit	5 649	3 792	5 467	4 360	2 299
Tax expense	(1 412)	(948)	(1 368)	(1 089)	(575)
Profit for the year	**4 237**	**2 844**	**4 100**	**3 271**	**1 724**

Balance sheet

Amounts in NOK million	31 Dec. 2022	31 Dec. 2021	31 Dec. 2020	31 Dec. 2019	31 Dec. 2018
Total assets	732 992	746 367	740 132	693 855	695 819
Loans to customers	686 604	689 142	676 511	636 786	628 901
Debt securities issued	365 316	440 950	521 195	471 715	478 548
Total equity	40 375	38 933	47 463	46 621	43 608

Key figures

Key figures	2022	2021	2020	2019	2018
Return on equity, annualised (%) 1)	10.7	6.5	8.8	7.3	4.0
Total average spread for lending (%) 1)	0.29	0.77	0.75	0.62	0.73
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)	0.25	0.24	0.13	0.15	0.16
Net loans and financial commitments in stage 3, end of period (NOK million) 1)	1 709	1 660	851	982	1 019
Common equity Tier 1 capital ratio end of period (%)	18.7	18.7	23.6	24.5	24.7
Capital ratio end of period (%)	21.5	21.5	26.6	27.6	27.7
Common equity Tier 1 capital (NOK million)	34 825	34 708	42 036	42 132	42 143
Total risk exposure amount (NOK million)	186 016	185 640	177 880	171 652	170 710
Number of full-time positions at end of period	5	6	6	5	6

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

Contents

Directors' report 2022

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 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 favorable 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 2022

DNB Boligkreditt recorded a profit of NOK 4 237 million in 2022, compared with a profit of NOK 2 844 million in 2021.

Loans to customers decreased by 0.4 per cent throughout the year, while outstanding covered bonds decreased by 17.2 per cent.

A lowered interest rate margin and reduced lending volume gave a decline in net interest income by 50.3 per cent. A gain on financial instruments of NOK 1 328 million was recorded in 2022, compared with a net loss of NOK 313 million in 2021. 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 totaled NOK 686.6 billion at year-end 2022, a reduction of NOK 2.5 billion or 0.4 per cent over the preceding 12 months. Debt securities issued in the form of covered bonds decreased from NOK 441.0 billion in 2021 to NOK 365.3 billion at year-end 2022.

In the course of 2022, 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 2022, but the company's need for covered bonds was reduced throughout the year. The company issued covered bonds for a total of NOK 90 billion during the year. For more information, 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 favorable 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 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 in the document "Implementation of and reporting on corporate governance" on ir.dnb.no/about-dnb, and in the Board of Director's report on corporate governance in DNB's annual report for 2022.

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.

Liability insurance has been entered into for the Board of Directors, to cover the legal liability that Board members and senior executives may face. The insurance covers any personal liability that Board members, deputy members and employees of DNB Bank ASA, including all subsidiaries, may incur. The insurance policy also covers the costs of processing any damages claims made, and documenting the facts related to these.

Sustainability

Environmental, social and governance (ESG) factors are integrated into the Group's corporate governance, and through an integrated annual report and reporting in accordance with GRI (Global Reporting Initiative) Standards, DNB Boligkreditt meets the authorities' requirements for corporate responsibility reporting. Read more about DNB's updated sustainability strategy and targets in the Group's annual report. More detailed information can be found in the Sustainability Factbook at the back of the report. Reporting required by the Norwegian Transparency Act will be published at the latest on 30 June 2023, see also dnb.no/om-oss/barekraft/menneskerettigheter (currently in Norwegian only).

Review of the annual accounts

DNB Boligkreditt recorded a profit of NOK 4 237 million in 2022, compared with a profit of NOK 2 844 million in 2021.

Total income

Income totaled NOK 4 328 million in 2022, down from NOK 5 731 million in 2021.

Amounts in NOK million	2022	Change	2021
Total income	4 328	(1 403)	5 731
Net interest income		(3 018)	
Net commission and fee income		(9)	
Net gains on financial instruments at fair value		1 641	
Net other income		(17)	

The decrease in net interest income was due to a decrease in loans to customers and a lowered interest rate margin.

A net gain of NOK 1 328 million on financial instruments was recorded in 2022, 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 negative effects from financial instruments in 2021 were due to a decrease in the market value of basis swaps.

Operating expenses and impairment of loans

Operating expenses are volatile due to the management fee paid to DNB Bank. The cooperation with DNB Bank is formalised through an extensive service 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, thus the fee will fluctuate with the net interest income. The service agreement also ensures DNB Boligkreditt a minimum fee based on the net interest margin achieved on loans to customers. A net interest rate margin below the minimum fee will be at DNB Bank's risk, resulting in a negative management fee (payment from DNB Bank to DNB Boligkreditt). The management fee amounted to a negative NOK 1 442 million in 2022, down from a positive NOK 1 843 million in 2021.

The company has generally recorded low impairment losses on loans. In 2022, the company reported a net impairment loss of NOK 25 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 2022, DNB Boligkreditt had total assets of NOK 733.0 billion, a decrease of NOK 13.4 billion or 1.8 per cent from year-end 2021.

Amounts in NOK million	31 Dec. 2022	Change	31 Dec. 2021
Total assets	732 992	(13 375)	746 367
Loans to customers		(2 538)	
Financial derivatives		(3 544)	
Other assets		(7 293)	
Total liabilities	692 617	(14 817)	707 434
Due to credit institutions		58 811	
Financial derivatives		6 334	
Debt securities issued		(75 634)	
Other liabilities		(4 328)	

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

Debt securities issued decreased by a net NOK 75.6 billion from year-end 2021. The company issued covered bonds under existing programmes totaling NOK 90 billion in 2022. The volume of covered bond issues was lower than in the previous years due to the Group's reduced need for this funding instrument. Total debt securities issued amounted to NOK 365.3 billion at year-end 2022.

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 service agreement with DNB Bank comprises administration, bank production, IT operations and financial and liquidity management. The fee structure in the service 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 2022, the company's equity totaled NOK 40.4 billion, of which NOK 34.8 billion represented Tier 1 capital. Own funds in the company was NOK 40.0 billion. As per end-December the CET1 capital ratio was 18.7 per cent, while the total capital adequacy ratio was 21.5 per cent.

Capital adequacy requirements

The common equity Tier 1 (CET1) capital ratio requirement for DNB Boligkreditt is 15.80 per cent, while the Tier 1 requirement is 17.30 per cent. Including a management buffer of 0.75 per cent the Tier 1 requirement is 18.05 per cent. The Norwegian Ministry of Finance has announced an increase in the counter-cyclical buffer requirement from 2.0 to 2.5 per cent with effect from March 2023. In its capital planning, DNB Boligkreditt has taken into account the full counter-cyclical buffer requirement of 2.5 per cent in Norway, which will increase the regulatory requirement for the Tier 1 ratio level to 18.55 per cent. As per 31 December 2022 the CET1 capital ratio was 18.7 per cent.

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 2022 DNB Boligkreditt had five 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

Increased countercyclical capital buffer and key policy rate
Norway's central bank, Norges Bank, sets the level of the countercyclical capital buffer, which is a time-varying capital requirement for banks. On 24 March 2022, Norges Bank decided to increase the requirement to 2.5 per cent with effect from 31 March 2023, in line with previous signals. It has previously been decided to increase the buffer requirement from 1.0 per cent to 1.5 per cent with effect from 30 June 2022, and to 2.0 per cent with effect from 31 December 2022.

Finanstilsynet's practice for assessing risk and capital requirements
On 9 September, Finanstilsynet published a circular describing its Supervisory Review and Evaluation Process (SREP) and providing information relating to the methods and assessment criteria used by Finanstilsynet during the process. The circular was updated as a result of new guidelines issued by the European Banking Authority (EBA) and amendments to the Capital Requirements Directive (CRD V) on the determination of the Pillar 2 requirement.

Previously, Finanstilsynet required that the Pillar 2 requirement was to be met using only CET1 capital. However, the new circular states that parts of the Pillar 2 requirement can be met using a combination of Tier 1 capital and Tier 2 capital. This is in line with the rules of the CRD V.

New Financial Contracts Act entered into force on 1 January 2023.
The new Financial Contracts Act is intended to replace the current Norwegian Financial Contracts Act of 1999 and the Norwegian Cancellation Act in the area of banking and finance. The Act has entered into force on 1 January 2023. During the autumn of 2022, the Ministry of Justice and Public Security finalised the regulations on financial contracts with supplementary regulations. The Ministry also published an interpretative statement and laid down transitional rules concerning, among other things, the new Act's provisions relating to changes to interest rate terms in credit agreements.

The purpose of the Act, which is the most important law governing the relationship between banks and their customers, is to strengthen customers' consumer protection and take into account digital developments in society.

The Norwegian Lending Regulations to be retained
The Ministry of Finance has adopted certain amendments to the Norwegian Lending Regulations which entail, among other things, that the requirement of an interest rate stress test must be adjusted to meet the requirements of the economic situation. Previously, banks needed to factor in an interest rate increase of at least 5 percentage points when assessing a customer's debt-servicing capacity. This requirement changed on 1 January 2023, so that banks can base their decision on an interest rate increase of at least 3 percentage points. Banks must nonetheless factor in an interest rate of at least 7 per cent when assessing debt-servicing capacity. As of 1 July 2023, loans secured by other collateral than property, such as car and boat loans, will also be covered by the general requirements in the Regulations regarding loan-to-income ratio and debt-servicing capacity.

The parameters for setting Pillar 2 requirements must be clarified
On 1 November 2022, Finanstilsynet (the Financial Supervisory Authority of Norway, or Norwegian FSA) published an evaluation of Norwegian and international practices for setting Pillar 2 requirements. Finanstilsynet also drafted a consultation paper with a proposal for implementation of the provisions in the Capital Requirements Directive (CRD V) regarding Pillar 2 in Norwegian rules and legislation. The proposal primarily entails a clarification and specification of Norway's EEA obligations under CRD V.

The draft Norwegian regulations are consistent with the provision in CRD V that requires institutions to meet the Pillar 2 requirement with common equity Tier 1 (CET1) capital of at least 56.25 per cent and Tier 1 capital of at least 75 per cent, and that any requirement of higher capital quality must be justified on the grounds of specific circumstances at the institution.

The Ministry of Finance has circulated the proposal for public consultation. The Ministry has previously pointed out that considerations relating to the rule of law may indicate that the parameters for the Pillar 2 process should to a greater extent than today be laid down in rules and legislation.

New rules on covered bonds
On 17 December 2021, the Norwegian Ministry of Finance proposed new legislation to implement the Covered Bonds Directive in Norway. The EU Directive was based on the same principles as the current Norwegian covered bonds framework. Common rules and definitions will make it easier for Norwegian and international investors to assess the quality and risk of covered bonds, and they may accentuate the high quality of Norwegian covered bonds. A large part of DNB's lending activities is funded by issuing covered bonds.

The Covered Bonds Directive entered into force in Norway in parallel with the date of entry into force in the EU, which was 8 July 2022.

Macroeconomic developments

Last year's steep rise in inflation led to a pronounced restructuring of monetary policy in many countries, and interest rates continued to rise throughout the year. In the US, the upper interval of the key policy rate was raised to 4.50 per cent in December, up from 3.25 per cent at the end of September, and up from 0.25 per cent at the beginning of 2022. In the eurozone, the central bank's deposit rate was raised from -0.50 per cent at the beginning of 2022 to 2.00 per cent in December 2022. In Europe, high energy prices have curbed households' and companies' expectations regarding economic activity in the near term. To limit the effects of high energy prices on the business sector and households, the authorities of many countries have introduced massive support schemes adapted to the unique characteristics of each country.

Stock market indices in many markets fell in 2022. In the US, the S&P 500 Index declined by 19.4 per cent following some recovery in the fourth quarter. The Oslo Stock Exchange's benchmark index fell by a mere 1 per cent, with considerable assistance from share price development for energy companies. The Norwegian index also rose clearly during the fourth quarter. In the fixed income markets, the 10-year government bond yield rose markedly throughout the year, with an increase of 2.4 percentage points in the US, 2.7 percentage points in Germany and 1.5 percentage points in Norway.

Growth in the Norwegian economy was strong in 2022, despite the first quarter being characterised by lockdowns and the outbreak of the war in Ukraine resulting in a drop in activity. The reopening of the society resulted in strong growth in the second quarter, and has since continued to increase throughout the year, but at a somewhat slower rate in the fourth quarter. Figures in the national accounts up to November showed large fluctuations in activity in some sectors, but seen as a whole and over time, the figures showed a further increase in activity during the third quarter and into the fourth quarter. A pronounced increase in households' purchase of cars aided growth in consumption in the fourth quarter, while other private consumption also increased. In November, Norges Bank's regional network showed a clear weakening of activity in the previous months, and the contacts expected a decline in the next half-year. Business confidence surveys for both households and businesses clearly showed low expectations towards activity going forward. In its Monetary Policy Report for December 2022, Norges Bank forecast a 0.2 per cent decline in mainland GDP for 2023.

The week before that, Statistics Norway estimated that growth in 2023 would be 1.2 per cent. The differences in these projections reflect the considerable uncertainty surrounding the financial situation in 2023.

In December, consumer prices were up 5.9 per cent, compared with the same month a year earlier. Inflation peaked at 7.5 per cent in October. Calculated without including the electricity support scheme, the 12-month rate for the CPI All-item index would have been 7.1 per cent in December, according to Statistics Norway. Core inflation, as measured by the CPI-ATE All-item index rose to 5.8 per cent in December. For the year as a whole, consumer prices rose by a total of 5.8 per cent, while core inflation was 3.9 per cent.

In the fourth quarter, house prices, adjusted for seasonal variation, were 1.8 per cent lower than in the third quarter. There was a clear decline in prices in September, October and November, but a slight increase in December. Households' credit growth continued to decline in the third quarter and at the start of the fourth quarter, and was 4.1 per cent in November, year on year. At the end of 2021, household credit growth was 5.0 per cent.

High capacity utilisation and inflation indicate a tightening of monetary policy. In December, Norges Bank raised the key policy rate by 0.25 percentage point, to 2.75 per cent. The interest rate was raised by 0.25 percentage point in November as well, following 0.50 percentage point rises at each of the previous three meetings. In December, Norges Bank indicated that the key policy rate might be raised by 0.25 percentage point to 3.00 per cent in the first quarter. The interest rate path presented is a result of Norges Bank's attempts to strike a balance between curbing inflation, on the one hand, and avoiding an excessive rise in unemployment, on the other.

Future prospects

Housing prices were up 8.8 per cent in the first half but ended up with only 1.5 per cent increase in 2022 after a decline in the second half. Operating income was strong with very low impairment losses.

In the period 2023 to 2024, the annual increase in lending volumes is expected to be around 2 to 3 per cent. Norges Bank's stepwise increase in the key policy rate, from 0.50 per cent to 2.75 per cent during 2022, followed by DNB's repricing announcements, will have full annual effect in 2023.

The common equity Tier 1 (CET1) capital ratio requirement for DNB Boligkreditt is 15.80 per cent, while the Tier 1 requirement is 17.30 per cent. Including a management buffer of 0.75 per cent the Tier 1 requirement is 18.05 per cent. The Norwegian Ministry of Finance has announced an increase in the counter-cyclical buffer requirement from 2.0 to 2.5 per cent with effect from March 2023. In its capital planning, DNB Boligkreditt has taken into account the full counter-cyclical buffer requirement of 2.5 per cent in Norway, which will increase the regulatory requirement for the Tier 1 ratio level to 18.55 per cent. As per 31 December 2022 the CET1 capital ratio was 18.7 per cent.

Covered bonds have 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 reduced need for this funding instrument.

Group contributions and the allocation of profits

The profit for 2022 was NOK 4 237 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 net NOK 4 110 million is allocated as a group contribution to DNB Bank ASA.

Oslo, 8 March 2023
The Board of Directors of DNB Boligkreditt AS

Henrik Lidman
(Chair of the Board)

Bjørn Hauge Spjeld

Karianne K. Wasenden
Karianne Kvernmo Wasenden

Sindre A. Espenes
Sindre Andreas Espenes
(Chief Executive Officer, CEO)

Comprehensive income statement

Amounts in NOK million	Note	2022	2021
Interest income, amortised cost	12	17 433	11 605
Other interest income	12	969	1 027
Interest expenses, amortised cost	12	(10 468)	(2 134)
Other interest expenses	12	(4 963)	(4 510)
Net interest income	12	**2 971**	**5 989**
Commission and fee income	13	50	59
Commission and fee expenses	13	(4)	(4)
Net gains on financial instruments at fair value	14, 24	1 328	(313)
Other income		(16)	1
Net other operating income		**1 358**	**(257)**
Total income		**4 328**	**5 731**
Salaries and other personnel expenses	15, 23	(8)	(13)
Other expenses	24	1 353	(1 931)
Total operating expenses		**1 345**	**(1 944)**
Impairment of financial instruments	6, 8	(25)	5
Pre-tax operating profit		**5 649**	**3 792**
Tax expense	16	(1 412)	(948)
Profit for the year		**4 237**	**2 844**
Other comprehensive income that will not be reclassified to profit or loss		63	28
Tax		(16)	(7)
Comprehensive income for the year		**4 284**	**2 865**
Profit for the year as a percentage of total assets		0.59	0.39

Balance sheet

Amounts in NOK million	Note	31 Dec. 2022	31 Dec. 2021
Assets			
Due from credit institutions	11, 17, 18, 19, 24	26 418	33 092
Loans to customers	5, 7, 11, 17, 18, 19	686 604	689 142
Financial derivatives	9, 10, 17, 19, 20, 24	17 585	21 129
Deferred tax assets	16	1 822	2 949
Other assets	11, 17	563	55
Total assets		**732 992**	**746 367**
Liabilities and equity			
Due to credit institutions	11, 17, 18, 24	294 512	235 701
Financial derivatives	9, 10, 17, 18, 19, 20, 24	27 184	20 850
Debt securities issued	11, 17, 19, 21, 24	365 316	440 950
Payable taxes	16	0	4 557
Other liabilities	11, 17, 24	360	136
Provisions		31	32
Subordinated loan capital	11, 17, 18, 22, 24	5 214	5 207
Total liabilities		**692 617**	**707 434**
Share capital		4 527	4 527
Share premium		25 149	25 149
Other equity		10 699	9 257
Total equity		**40 375**	**38 933**
Total liabilities and equity		**732 992**	**746 367**

Oslo, 8 March 2023
The Board of Directors of DNB Boligkreditt AS

Henrik Lidman
(Chair of the Board)

Bjørn Hauge Spjeld

Karianne Kvernmo Wasenden

Sindre Andreas Espenes
(Chief Executive Officer, CEO)

Statement of changes in equity

Amounts in NOK million	Share capital	Share premium	Liability credit reserve	Retained earnings	Total equity
Balance sheet as at 31 December 2020	**5 257**	**31 719**	**(44)**	**10 531**	**47 463**
Profit for the year				2 844	2 844
Actuarial gains and losses				(1)	(1)
Financial liabilities designated at FVTPL, changes in credit risk			28		28
Tax on other comprehensive income			(7)	0	(7)
Total comprehensive income for the year			**21**	**2 844**	**2 865**
Repaid capital	(730)	(6 570)			(7 300)
Group contribution paid				(4 095)	(4 095)
Balance sheet as at 31 December 2021	**4 527**	**25 149**	**(23)**	**9 280**	**38 933**
Profit for the year				4 237	4 237
Actuarial gains and losses				(1)	(1)
Financial liabilities designated at FVTPL, changes in credit risk			63		63
Tax on other comprehensive income			(16)	0	(16)
Total comprehensive income for the year			**48**	**4 236**	**4 284**
Group contribution paid				(2 842)	(2 842)
Balance sheet as at 31 December 2022	**4 527**	**25 149**	**25**	**10 673**	**40 375**

Share capital

All shares and voting rights of the company are held by DNB Bank ASA. Share capital at the beginning of 2021 was NOK 5 257 million (52 570 000 shares at NOK 100).

At its Annual General Meeting on 16 April 2021, DNB Boligkreditt decided to undertake a reduction in capital totalling NOK 7.3 billion to be paid to the company's shareholder DNB Bank. The reduction in capital was approved by Finanstilsynet (the Financial Supervisory Authority of Norway) on 1 July 2021 and completed in accordance with the provisions of the Norwegian Companies Act on 1 September 2021.

After the capital reduction, share capital of the company is NOK 4 527 million (1 share at NOK 4 527 million).

Group contribution

The Board of Directors proposes to provide NOK 17 160 million without tax effect as Group contribution to DNB Bank. The proposal is conditional on a Group contribution of NOK 17 400 million with tax effect (net NOK 13 050 million after tax) being paid from DNB Bank to DNB Boligkreditt at the same time. The net Group contribution is thus proposed to be NOK 4 110 million.

Cash flow statement

Amounts in NOK million	2022	2021
Operating activities		
Net receipts on loans to customers	12 378	12 376
Interest received from customers	17 578	12 566
Net receipts on loans to credit institutions	65 499	78 367
Interest received from credit institutions	183	20
Interest paid to credit institutions	(7 404)	(2 087)
Net receipts on commissions and fees	46	55
Net receipts/(payments) for operating expenses	1 102	(2 061)
Taxes paid	(3 911)	(4 100)
Net cash flow relating to operating activities	**85 471**	**95 136**
Investing activities		
Net purchase of loan portfolio	(10 712)	(26 034)
Net cash flow from investing activities	**(10 712)**	**(26 034)**
Financing activities		
Receipts on issued bonds and commercial paper	90 000	26 597
Payments on redeemed bonds and commercial paper	(154 180)	(78 571)
Interest payments on issued bonds and commercial paper	(6 622)	(4 265)
Interest payments on subordinated loan capital	(167)	(105)
Repaid capital		(7 300)
Group contribution payments	(3 790)	(5 460)
Net cash flow from financing activities	**(74 759)**	**(69 103)**
Net cash flow	**0**	**(1)**
Cash at 1 January	0	2
Net payments of cash	0	(1)
Cash at end of year	0	0

Included in the cash balances at end of the year, are restricted amounts of NOK 302 714 (NOK 638 180 for 2021) 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 DNB Group. 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 2022 were authorised for issue by the Board of Directors on 8 March 2023.

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.

<u>Financial assets measured at amortised cost</u>

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.

<u>Financial liabilities measured at amortised cost</u>

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.

<u>Financial instruments measured at fair value through profit or loss</u>

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 expected credit loss 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 19 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.

The common equity Tier 1 (CET1) capital ratio requirement for DNB Boligkreditt is 15.80 per cent. The Tier 1 requirement is 18.05 per cent, including an additional Tier 1 requirement of 1.50 per cent and a management buffer of 0.75 per cent. The total capital ratio is 20.05 per cent. Included in the requirement is a counter-cyclical capital buffer of 2.0 per cent, which will be increased to 2.5 per cent with effect from March 2023. In its capital planning, DNB Boligkreditt has taken into account the full counter-cyclical buffer requirement of 2.5 per cent, which will increase the Tier 1 capital ratio requirement to 18.55 per cent. The total capital ratio requirement will thus be 20.55 per cent.

DNB Boligkreditt, based on its current capital structure, is adequately capitalised as at 31 December 2022. 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 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).

Own funds

Amounts in NOK million	31 Dec. 2022	31 Dec. 2021
Share capital	4 527	4 527
Other equity	35 848	34 406
Total equity	40 375	38 933
Deductions		
IRB provisions shortfall (-)	(949)	(1 046)
Additional value adjustments (AVA)	(441)	(341)
(Gains) or losses on liabilities at fair value resulting from own credit risk	(25)	23
(Gains) or losses on derivative liabilities resulting from own credit risk (DVA)	(25)	(18)
Group contributions	(4 110)	(2 843)
Common Equity Tier 1 capital	34 825	34 708
Tier 2 capital instruments	5 200	5 200
Own funds	40 025	39 908
Total risk exposure amount	186 016	185 640
Minimum capital requirement	14 881	14 851
Common Equity Tier 1 capital ratio (%)	18.7	18.7
Capital ratio (%)	21.5	21.5

Note 2 Capitalisation policy and capital adequacy (continued)

Specification of exposures

Amounts in NOK million	Nominal exposure 31 Dec. 2022	Exposure at default EAD 31 Dec. 2022	Risk exposure amount REA 31 Dec. 2022	Capital requirement 31 Dec. 2022	Capital requirement 31 Dec. 2021
IRB approach					
Corporate	429	429	133	11	9
Retail - secured by immovable property	768 061	768 061	163 783	13 103	12 887
Total credit risk, IRB approach	768 490	768 490	163 917	13 113	12 895
Standardised approach					
Institutions	5 856	5 856	1 171	94	153
Corporate	19 178	19 166	5 284	423	450
Retail	543	417	312	25	25
Retail - secured by immovable property	715	651	229	18	39
Other assets	2 048	2 034	4 873	390	590
Total credit risk, standardised approach	28 340	28 124	11 869	950	1 257
Total credit risk	796 830	796 614	175 786	14 063	14 152
Currency risk			1 892	151	
Operational risk			8 338	667	699
Total risk exposure amount and capital requirements			186 016	14 881	14 851

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 Bank 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)]

	Probability of default (per cent)		External rating	
Risk class	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	default	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.

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 current risk of the portfolio. Macro forecasts are usually obtained from DNB Markets and supplementary internal sources and are benchmarked against various external sources.

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.

Expert credit judgement

The assessment of the macro prognoses and the impact on the forecasted credit cycle index (CCI) are key judgments, and DNB has established an advisory forum for the Group's Chief Financial Officer to address the judgements. The forum's purpose is to assess whether the predicted CCI for each segment reflects the management's view on the expected future economic development. When the projections of the credit cycle do not represent 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 CCI used.

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 113 per cent compared with the ECL which is recognised in the financial statements at 31 December 2022 for the same stages.

The following table shows selected base case macroeconomic variables for the period 2022 to 2024 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		
	2022	2023	2024	2022	2023	2024
Norwegian house price index, year-to-year growth	4.9	(3.5)	2.1	4.9	(13.0)	(12.0)
Norwegian registered unemployment rate	1.8	2.2	2.7	1.8	3.2	4.0
NIBOR 3-month interest rate	2.1	3.6	3.0	2.1	4.6	4.0

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 cyclicality. 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:

Note 4 Measurement of expected credit loss (continued)

- 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.

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. 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.

Note 4 Measurement of expected credit loss (continued)

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 more than 1 per cent of the debtor's overall commitment, and the default is not due to delays or accidental circumstances on the part of the debtor.

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

When a customer goes from being in stage 3, classified as credit impaired or defaulted, to performing, the customer will stay in stage 3 during a return to non-default period of 3 or 12 months. In this period, the ECL model will assign the customer stage 2 ECL.

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 division between risk classes is based on an IRB probability of default (PD) as shown in the table DNB's risk classification in note 3. See also the section Probability of default (PD) in note 4 for a description of the correlation between IRB PD and IFRS PD. The amounts are based on the gross carrying amount and the maximum exposure before adjustments for impairments.

Loans as at 31 December 2022

Amounts in NOK million	Stage 1	Stage 2	Stage 3	Loans at fair value	Total
Risk grade based on probability of default					
1 - 4	519 272	890		27 541	547 703
5 - 7	103 614	21 208		6 679	131 500
8 - 10	3 065	2 455		239	5 760
Credit impaired			1 668	39	1 707
Total	625 952	24 552	1 668	34 499	686 670

Loans as at 31 December 2021

Amounts in NOK million	Stage 1	Stage 2	Stage 3	Loans at fair value	Total
Risk grade based on probability of default					
1 - 4	527 109	858		28 409	556 376
5 - 7	107 309	11 369		6 500	125 178
8 - 10	3 424	2 299		244	5 967
Credit impaired			1 592	68	1 661
Total	637 843	14 526	1 592	35 221	689 183

Financial commitments as at 31 December 2022

Amounts in NOK million	Stage 1	Stage 2	Stage 3	Total
Risk grade based on probability of default				
1 - 4	85 890	9		85 899
5 - 7	11 541	3 194		14 735
8 - 10	37	178		215
Credit impaired			27	27
Total	97 468	3 381	27	100 877

Financial commitments as at 31 December 2021

Amounts in NOK million	Stage 1	Stage 2	Stage 3	Total
Risk grade based on probability of default				
1 - 4	80 137	7		80 143
5 - 7	10 910	1 874		12 784
8 - 10	55	153		208
Credit impaired			22	22
Total	91 102	2 034	22	93 157

Note 6 Impairment of financial instruments

	2022				2021			
Amounts in NOK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Increased expected credit loss	(21)	(45)	(43)	(109)	(12)	(25)	(40)	(76)
Decreased expected credit loss	10	31	44	84	18	28	54	100
Write-offs			(12)	(12)			(26)	(26)
Recoveries on loans previously written off			11	11			7	7
Total impairment	**(11)**	**(14)**	**1**	**(25)**	**6**	**3**	**(4)**	**5**

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity, were NOK 11 million as at 31 December 2022 (NOK 21 million as at 31 December 2021).

Note 7 Development in gross carrying amount

The following table reconciles 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

Amounts in NOK million	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	**619 442**	**15 358**	**843**	**635 643**
Transfer to stage 1	21 002	(20 051)	(950)	
Transfer to stage 2	(23 723)	23 839	(116)	
Transfer to stage 3	(1 627)	(773)	2 400	
Originated and purchased	142 250		19	142 270
Derecognition	(119 501)	(3 846)	(604)	(123 951)
Gross carrying amount as at 31 December 2021	**637 843**	**14 526**	**1 592**	**653 961**
Transfer to stage 1	25 216	(24 611)	(605)	
Transfer to stage 2	(41 508)	41 693	(185)	
Transfer to stage 3	(557)	(759)	1 316	
Originated and purchased	115 478		93	115 571
Derecognition	(110 519)	(6 297)	(544)	(117 361)
Gross carrying amount as at 31 December 2022	**625 952**	**24 552**	**1 668**	**652 172**

Note 8 Development in accumulated impairment of loans

The following table reconciles 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 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

Amounts in NOK million	Stage 1	Stage 2	Stage 3	Total
Accumulated impairment as at 1 January 2021	**(14)**	**(13)**	**(40)**	**(66)**
Transfer to stage 1	(11)	11		
Transfer to stage 2	1	(1)		
Transfer to stage 3		1	(1)	
Originated and purchased	(6)	(1)		(7)
Increased expected credit loss	(6)	(19)	(45)	(70)
Decreased (reversed) expected credit loss	28	3	54	85
Write-offs			8	8
Derecognition		10		10
Accumulated impairment as at 31 December 2021	**(8)**	**(9)**	**(23)**	**(40)**
Transfer to stage 1	(14)	14		
Transfer to stage 2	2	(2)		
Transfer to stage 3				
Originated and purchased	(6)	(1)		(6)
Increased expected credit loss	(15)	(37)	(45)	(97)
Decreased (reversed) expected credit loss	23	2	41	66
Write-offs			1	1
Derecognition		9		9
Accumulated impairment as at 31 December 2022	**(19)**	**(22)**	**(25)**	**(67)**

For explanatory comments about the impairment of financial instruments, see the directors' report.

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 2022 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.

Currency risk

	2022		2021	
	Change in currency rate (per cent)	Effect on pre-tax profits (NOK million)	Change in currency rate (per cent)	Effect on pre-tax profits (NOK million)
EUR	10	(171)	10	(109)
USD	10	(0)	10	(0)
CHF	10	(3)	10	(2)
Others	10	(15)	10	(24)

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 fair 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 measured at fair value. 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.

Interest rate risk

	Change in interest rate levels in basis points	Effect on pre-tax profits (NOK million)
2022	+ 100	(90)
	- 100	90
2021	+ 100	(62)
	- 100	62

Relative to the company's own funds of NOK 40 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 prudent, cf. the requirements in the Financial Institutions Regulations, chapter 11, section 11-1 Interest rate risk.

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 positive effects from changes in basis swap spreads per year-end 2022 were approximately NOK 0,5 billion.

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.

	31 December 2022			31 December 2021		
Amounts in NOK million	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	221 357	1 340	289	321 977	425	184
Total interest rate-related contracts	221 357	1 340	289	321 977	425	184
Foreign exchange-related contracts						
Swaps	272 317	14 887	4 772	328 951	6 805	19 973
Total foreign exchange-related contracts	272 317	14 887	4 772	328 951	6 805	19 973
Total financial derivatives trading	493 674	16 227	5 061	650 928	7 230	20 157
Derivatives held for hedge accounting						
Fair value hedges of interest rate risk						
Interest rate swaps	264 594	1 358	22 122	320 948	13 899	693
Total financial derivatives hedge accounting	264 594	1 358	22 122	320 948	13 899	693
Total financial derivatives	758 268	17 585	27 184	971 876	21 129	20 850

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 2022

Amounts in NOK million	Balance sheet item	Carrying amount	Accumulated fair value adjustment of the hedged item	Value changes used for calculating hedge ineffectiveness
Hedged exposure				
Issued bonds	Debt securities issued	243 348	(21 916)	31 506
Hedging instrument				
Interest rate swaps	Financial derivatives			(31 081)

Fair value hedges of interest rate risk as at 31 December 2021

Amounts in NOK million	Balance sheet item	Carrying amount	Accumulated fair value adjustment of the hedged item	Value changes used for calculating hedge ineffectiveness
Hedged exposure				
Issued bonds	Debt securities issued	333 215	10 801	10 730
Hedging instrument				
Interest rate swaps	Financial derivatives			(10 844)

Maturity of interest rate swaps held as hedging instruments at 31 December 2022

	Maturity				
Amounts in NOK million	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	17 480	1 725	51 877	120 155	73 358

Maturity of interest rate swaps held as hedging instruments at 31 December 2021

	Maturity				
Amounts in NOK million	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	20 021	35 240	14 258	163 054	88 375

Note 11 Liquidity risk

Liquidity risk is the risk that DNB Boligkreditt will be unable to meet its obligation as they fall due or will be unable to meet its liquidity obligations without a substantial rise in associated costs.

The DNB Group's risk appetite framework defines the limits for liquidity management in DNB, including DNB Boligkreditt. The liquidity strategy and risk limits framework include internal limits which restrict the short-term maturity of liabilities within different time frames. The various maturities are subject to stress testing and a contingency plan has been established to handle market events. In addition, limits have been set for structural liquidity risk, which implies that lending to customers should largely be financed through customer deposits, subordinated capital and long-term funding. Ordinary senior bond debt and covered bonds are the major sources of long-term funding.

The principles for Group liquidity risk management and control are set in a Group risk policy and further elaborated in a Group instruction for managing liquidity risk that sets out detailed requirements for governance, accountability and responsibilities related to monitoring, measurement, controls and reporting of liquidity risk. Group Treasury manages the liquidity risk on a daily basis, while Group Risk Management represents the independent second line risk management function.

In addition, the Board of Directors of DNB Boligkreditt sets annual limits for the company's liquidity risk.

Covered bonds are the company's primary source of funding. According to Section 11-12 of the Financial Institutions Act, *"mortgate credit institutions shall ensure that the payment flows from the cover pool enable the institution to cover their payment obligations towards holders of covered bonds, counterparties to derivatives contracts and expected costs of operation and termination of the covered bond programme".* The mortgage credit institution shall also, at all times, maintain a liquidity buffer in its cover pool that at minimum corresponds to the liquidity outflow in the OMF programme 180 days ahead. In a situation where the net cash flow from the lending and funding activities is negative, the company has a long-term overdraft facility in DNB Bank ASA with a total limit of NOK 315 billion by end December 2022.

According to part V, section 16, of the CRR/CRD regulations, "*the institution shall regularly perform stress tests to assess its liquidity situation. Experience from the stress tests shall be taken into account in the liquidity strategy, guidelines and limits for liquidity risk, as well as in contingency plans".* AS part of the 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 per cent, which is fulfilled. From 2023 DNB Boligkreditt also has a regulatory NSFR requirement of 100 per cent, which is fulfilled.

Residual maturity as at 31 December 2022

Amounts in NOK million	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	Total
Assets							
Loans to and deposits with credit institutions	26 418						26 418
Loans to customers	1 782	107	467	5 367	680 498		688 221
Total	28 200	107	467	5 367	680 498		714 639
Liabilities							
Due to credit institutions	294 512						294 512
Debt securities issued	17 480	3 524	52 818	238 878	74 773		387 473
Other liabilities	359						359
Subordinated loan capital		14	5 200				5 214
Total	312 351	3 538	58 018	238 878	74 773		687 558
Financial derivatives							
Financial derivatives, gross settlement							
Incoming cashflows	17 978	2 615	56 025	136 875	81 919		295 412
Outgoing cashflows	18 651	2 639	59 450	142 638	81 331		304 709
Financial derivatives, net settlement	20	(1 127)	(1 474)	(3 663)	(2 186)		(8 430)
Total financial derivatives	(654)	(1 150)	(4 899)	(9 425)	(1 599)		(17 727)
Credit lines, commitments and documentary credit	3 557	543	138	4 260	92 375		100 873

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 2021

Amounts in NOK million	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	Total
Assets							
Loans to and deposits with credit institutions	33 092						33 092
Loans to customers	1 562	95	549	6 934	679 834		688 974
Total	34 654	95	549	6 934	679 834		722 066
Liabilities							
Due to credit institutions	235 701						235 701
Debt securities issued	20 021	92 900	34 358	211 673	71 016		429 968
Other liabilities	21						21
Subordinated loan capital		7		5 200			5 207
Total	255 743	92 907	34 358	216 873	71 016		670 897
Financial derivatives							
Financial derivatives, gross settlement							
Incoming cashflows	19 906	35 157	13 755	168 189	86 601		323 607
Outgoing cashflows	24 436	39 288	18 542	184 174	91 559		357 999
Financial derivatives, net settlement	551	1 129	3 168	10 694	8 852		24 394
Total financial derivatives	(3 980)	(3 003)	(1 618)	(5 292)	3 894		(9 998)
Credit lines, commitments and documentary credit	2 978	100	421	3 732	85 924		93 155

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

Note 12 Net interest income

	2022			2021		
Amounts in NOK million	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		197	197		27	27
Interest on loans to customers	967	17 009	17 976	1 025	11 353	12 378
Front-end fees etc.	2	1	3	2	0	2
Other interest income		227	227		225	225
Total interest income	**969**	**17 433**	**18 402**	**1 027**	**11 605**	**12 633**
Interest on amounts due to credit institutions		(7 268)	(7 268)		(1 984)	(1 984)
Interest on debt securities issued	(244)	(2 890)	(3 134)	(445)	59	(386)
Interest on subordinated loan capital		(174)	(174)		(106)	(106)
Contribution to the resolution fund		(136)	(136)		(103)	(103)
Other interest expenses [2]	(4 719)		(4 719)	(4 065)		(4 065)
Total interest expenses	**(4 963)**	**(10 468)**	**(15 432)**	**(4 510)**	**(2 134)**	**(6 644)**
Net interest income	**(3 994)**	**6 965**	**2 971**	**(3 483)**	**9 472**	**5 989**

1) *Includes hedged items.*
2) *Other interest expenses include interest rate adjustments resulting from interest rate swaps. Derivatives are measured at FVTPL.*

Note 13 Net commission and fee income

Amounts in NOK million	2022	2021
Other commissions and fees	50	59
Commission and fee income	**50**	**59**
Custodial services	(4)	(3)
Other commissions and fees	(0)	(1)
Commission and fee expenses	**(4)**	**(4)**
Net commission and fee income	**46**	**55**

Note 14 Net gains on financial instruments at fair value

Amounts in NOK million	2022	2021
Foreign exchange and financial derivatives	347	1 079
Basis swaps	1 583	(609)
Net gains on financial instruments, mandatorily at FVTPL [1]	1 930	470
Loans at fair value (fixed-rate loans) [2]	(1 386)	(1 070)
Financial liabilities (long-term borrowing in NOK) [3]	358	402
Net gains on financial instruments, designated as at FVTPL	(1 028)	(668)
Financial derivatives, hedging [4]	(31 081)	(10 844)
Financial liabilities, hedged items [4]	31 506	10 730
Net gains on hedged items	425	(115)
Net gains on financial instruments at FVTPL	1 328	(313)

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. 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) *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 17 million gain during the year and a NOK 41 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.*
3) *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.*
4) *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. 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	2022	2021
Salaries	(6)	(8)
Employer's national insurance contributions	(1)	(2)
Pension expenses	(0)	(2)
Other personnel expenses	(0)	(0)
Salaries and other personnel expenses	**(8)**	**(12)**

At year-end, DNB Boligkreditt had five employees calculated on a full-time basis and six 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

Tax expense on pre-tax operating profit

Amounts in NOK million	2022	2021
Current taxes	(301)	(4 559)
Changes in deferred taxes	(1 111)	3 611
Tax expense	(1 412)	(948)

Reconciliation of tax expense against nominal tax rate

Amounts in NOK million	2022	2021
Pre-tax operating profit	5 649	3 792
Estimated tax expense at nominal tax rate 22 per cent	(1 243)	(834)
Tax effect of financial tax in Norway	(169)	(114)
Tax expense	(1 412)	(948)
Effective tax rate	25%	25%

Income tax on other comprehensive income

Amounts in NOK million	2022	2021
Items that will not be reclassified to the income statement	(16)	(7)
Total income tax on other comprehensive income	(16)	(7)

Deferred tax assets/(deferred taxes)

25 per cent deferred tax calculation on all temporary differences (Norway)

Amounts in NOK million	2022	2021
The year's changes in deferred tax assets/(deferred taxes)		
Deferred tax assets/(deferred taxes) as at 1 January	2 949	(655)
Changes recorded against profits	(1 111)	3 611
Changes recognised against comprehensive income	(16)	(7)
Deferred tax assets/(deferred taxes) as at 31 December	1 822	2 949

Deferred tax assets and deferred taxes in the balance sheet relates to the following temporary differences

Amounts in NOK million	31 Dec. 2022	31 Dec. 2021
Deferred taxes		
Debt securities issued	(5 539)	2 745
Financial derivatives	2 624	205
Other financial instruments	359	(9)
Net pension liabilities	7	7
Tax losses carried forward	4 371	
Total deferred tas asset/(deferred taxes)	**1 822**	**2 949**

Note 17 Classification of financial instruments

As at 31 December 2022

Amounts in NOK million	Mandatorily at FVTPL Trading	Mandatorily at FVTPL Other [1)]	Designated as at FVTPL [2)]	Amortised cost [3)]	Total
Due from credit institutions				26 418	26 418
Loans to customers			34 499	652 105	686 604
Financial derivatives	16 227	1 358			17 585
Other assets				563	563
Total financial assets	16 227	1 358	34 499	679 086	731 170
Due to credit institutions				294 512	294 512
Financial derivatives	5 061	22 122			27 184
Debt securities issued			6 191	359 125	365 316
Other liabilities				359	359
Subordinated loan capital				5 214	5 214
Total financial liabilities [4)]	5 061	22 122	6 191	659 210	692 585

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 6 432 million.

As at 31 December 2021

Amounts in NOK million	Mandatorily at FVTPL Trading	Mandatorily at FVTPL Other [1)]	Designated as at FVTPL [2)]	Amortised cost [3)]	Total
Due from credit institutions				33 092	33 092
Loans to customers			35 221	653 921	689 142
Financial derivatives	7 230	13 899			21 129
Other assets				54	54
Total financial assets	7 230	13 899	35 221	687 067	743 418
Due to credit institutions				235 701	235 701
Financial derivatives	20 157	693			20 850
Debt securities issued			12 196	428 754	440 950
Other liabilities				21	21
Subordinated loan capital				5 207	5 207
Total financial liabilities [4)]	20 157	693	12 196	669 683	702 729

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 12 015 million.

Note 18 Fair value of financial instruments at amortised cost

Amounts in NOK million	31 December 2022 Carrying amount	31 December 2022 Fair value	31 December 2021 Carrying amount	31 December 2021 Fair value
Due from credit institutions	26 418	26 418	33 092	33 092
Loans to customers	652 105	652 105	653 921	653 921
Total financial assets	678 523	678 523	687 013	687 013
Due to credit institutions	294 512	294 512	235 701	235 701
Debt securities issued	359 125	359 764	428 754	430 766
Subordinated loan capital	5 214	5 241	5 207	5 262
Total financial liabilities	658 851	659 517	669 662	671 728

Amounts in NOK million	Level 1	Level 2	Level 3	Total
Assets as at 31 December 2022				
Due from credit institutions		26 418		26 418
Loans to customers		652 105		652 105
Liabilities as at 31 December 2022				
Due to credit institutions		294 512		294 512
Debt securities issued		328 551	31 213	359 764
Subordinated loan capital			5 241	5 241
Assets as at 31 December 2021				
Due from credit institutions		33 092		33 092
Loans to customers		653 921		653 921
Liabilities as at 31 December 2021				
Due to credit institutions		235 701		235 701
Debt securities issued		399 324	31 442	430 766
Subordinated loan capital			5 262	5 262

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	Level 1	Level 2	Level 3	Total
Assets as at 31 December 2022				
Loans to customers			34 499	34 499
Financial derivatives		17 585		17 585
Liabilities as at 31 December 2022				
Debt securities issued		6 191		6 191
Financial derivatives		27 184		27 184
Assets as at 31 December 2021				
Loans to customers			35 221	35 221
Financial derivatives		21 129		21 129
Liabilities as at 31 December 2021				
Debt securities issued		12 196		12 196
Financial derivatives		20 850		20 850

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 2022 nor 2021.

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.

Financial instruments at fair value, level 3

Amounts in NOK million	Loans to customers
Carrying amount as at 31 December 2020	**40 934**
Net gains recognised in the income statement	(1 080)
Additions/purchases	6 419
Sales	(145)
Settled	(10 906)
Carrying amount as at 31 December 2021	**35 221**
Net gains recognised in the income statement	(1 472)
Additions/purchases	9 704
Sales	(1 366)
Settled	(7 589)
Carrying amount as at 31 December 2022 [1]	**34 499**

1) *Accumulated fair value adjustments on loans to customers in level 3 were minus NOK 1 453 million at 31 December 2022.*

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 25.6 billion at end-December 2022, 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.

Amounts in NOK million	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 2022						
Due from credit institutions	25 579		25 579		25 579	
Financial derivatives	17 585		17 585	17 585		
Liabilities as at 31 December 2022						
Financial derivatives	27 184		27 184	17 585		9 599
Assets as at 31 December 2021						
Due from credit institutions	32 711		32 711		32 711	
Financial derivatives	21 129		21 129	20 850		279
Liabilities as at 31 December 2021						
Financial derivatives	20 850		20 850	20 850		

Note 21 Debt securities issued

Debt securities issued

Amounts in NOK million	31 Dec. 2022	31 Dec. 2021
Covered bond debt, nominal amount	385 674	427 808
Adjustments	(20 358)	13 142
Total debt securities issued	365 316	440 950

Changes in debt securities issued

Amounts in NOK million	Balance sheet 31 Dec. 2022	Issued 2022 1)	Matured/ redeemed 2022 1)	Exchange rate movements 2022	Other adjustments 2022	Balance sheet 31 Dec. 2021
Covered bond debt, nominal amount	385 674	90 000	(145 624)	13 490		427 808
Adjustments	(20 358)	(0)			(33 500)	13 142
Total debt securities issued	365 316	90 000	(145 624)	13 490	(33 500)	440 950

1) *Changes in debt securities issued do not include reset basis swaps. The cash flow effects of debt securities issued were NOK 90 000 million and NOK 154 180 million for issued and matured bonds, respectively.*

Maturity of debt securities issued

Amounts in NOK million	NOK	Foreign currency	Total
2023	257	71 765	72 022
2024	58 000	36 064	94 064
2025	51 500	32 706	84 206
2026	2 500	38 356	40 856
2027		19 751	19 751
2028		15 597	15 597
2029 and later	1 100	58 076	59 176
Total covered bond debts, nominal amount	113 357	272 317	385 674

Note 21 Debt securities issued (continued)

Debt securities issued - matured/redeemed during the period

Amounts in NOK million ISIN Code	Currency	Matured/ redeemed amount	Interest	Issued	Matured		Remaining nominal amount 31 Dec. 2022	31 Dec. 2021
Private	EUR	1 498	Fixed	2010	2022	Matured		1 498
XS0737340538	USD	44	Fixed	2012	2022	Matured		44
Private	EUR	529	Fixed	2012	2022	Redeemed		529
XS0759310930	EUR	19 977	Fixed	2012	2022	Matured		19 977
NO 0010730799	NOK	3 500	Fixed	2015	2022	Matured		3 500
NO 0010730799	NOK	500	Fixed	2016	2022	Matured		500
XS1548410080	EUR	19 977	Fixed	2017	2022	Matured		19 977
NO 0010730799	NOK	1 500	Fixed	2017	2022	Matured		1 500
XS1587060085	USD	13 235	Fixed	2017	2022	Matured		13 235
NO0010877350	NOK	50 000	Floating	2020	2022	Matured		50 000
Private	EUR	1 164	Fixed	2008	2022	Matured		1 164
Private	EUR	97	Floating	2013	2022	Matured		97
XS1584002783	EUR	2 425	Fixed	2017	2022	Matured		2 425
NO0010840697	NOK	2 554	Floating	2019	2022	Redeemed		2 554
Private	EUR	258	Fixed	2010	2022	Matured		258
XS0817557795	SEK	222	Fixed	2012	2022	Matured		222
NO0010840697	NOK	7 446	Floating	2019	2022	Matured		7 446
XS0856976682	EUR	10 592	Fixed	2012	2022	Matured		10 592
XS0880299689	EUR	106	Floating	2013	2022	Matured		106
NO0010802960	NOK	7 413	Floating	2017	2022	Matured		7 413
NO0010802960	NOK	2 587	Floating	2017	2022	Redeemed		2 587
Total debt securities matured/ redeemed, nominal amount		145 624						145 624

Cover pool

Amounts in NOK million	31 Dec. 2022	31 Dec. 2021
Pool of eligible loans	683 646	687 034
Market value of eligible derivatives		279
Total collateralised assets	683 646	687 313
Debt securities issued, carrying value	365 316	440 950
Valuation changes attributable to changes in credit risk on debt carried at fair value	33	(30)
Market value of eligible derivatives	9 599	
Debt securities issued, valued according to regulation [1)]	374 948	440 920
Collateralisation (per cent)	182.3	155.9

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

Amounts in NOK million	Currency	Nominal	Interest rate	Issue date	Call date	Maturity date	31 Dec. 2022	31 Dec. 2021
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							14	7
Total							5 214	5 207

Note 23 Remunerations

Amounts in NOK 1000	Fixed salary as at 31 Dec. 2022	Remune-ration paid in 2022	Paid salaries 2022	Variable remune-ration earned in 2022	Benefits in kind and other benefits in 2022	Accrued pension expenses in 2022 [1]	Total remune-ration in 2022	Loan as at 31 Dec. 2022
The Board of Directors								
Sindre Andreas Espenes, CEO (from 10.09.22)	1 550		524	13	5	48	590	475
Henrik Lidman [2]								8 173
Jørn Erik Pedersen (until 07.04.22)		19					19	
Bjørn Hauge Spjeld (from 07.04.22) [2]								4 803
Toril Steinmo (until 07.04.22) [2]								5 054
Karianne Kvernmo Wasenden (from 07.04.22)		87					87	9 273
Anne-Lene Å. Hødnebø, CEO (until 10.09.22)	1 597		1 194		21	101	1 316	8 187

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 G25 Pensions in the annual report 2022 for the DNB Group.

2) There is no remuneration paid to the Board members other than ordinary salaries paid by DNB Bank ASA.

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 officer and “Remuneration paid in 2022” 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 2022, all of the Group's employees will receive a bonus of NOK 25.5 thousand. The bonus will be paid in 2023.

Remuneration to the statutory auditor

Amounts in NOK 1000, excluding VAT	2022	2021
Statutory audit	(1 035)	(997)
Other certification services [1]	(609)	(508)
Total remuneration to the statutory auditor	(1 644)	(1 505)

1) Of this, remuneration to the independent investigator, pursuant to Section 11-14 of the Financial Institutions Act, represented NOK 309 064 in 2022. In addition, fees related to comfort letters for the covered bond programmes represented NOK 248 711 in 2022.

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

Amounts in NOK million	2022	2021
Assets		
Loans to and deposits with credit institutions	26 418	33 092
Financial derivatives	17 585	21 129
Other amount due	371	19
Liabilities		
Loans due to credit institutions	294 512	235 701
Subordinated loan capital	5 214	5 207
Financial derivatives	27 184	20 850
Debt securities issued	91 719	53 910
Other liabilities	360	134
Income and expenses		
Interest income	197	27
Interest expenses	(5 818)	(997)
Commissions payable	(4)	(3)
Fee income	0	0
Fee expenses	1 369	(1 914)

The post «Net gains on financial instruments at fair value” in the Comprenesive income statement is based on transactions with external parties (fixed-rate mortgages and covered bonds), as well as transactions entered into with DNB Bank ASA (basis swaps and interest rate swaps). For more information, see note 14 Net gains on financial instruments at fair value.

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 2022 portfolios of NOK 10.7 billion (NOK 26.0 billion in 2021) were transferred from the bank to DNB Boligkreditt.

Under the servicing agreement, DNB Boligkreditt purchases services from the bank, including services relating to 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. However, the servicing agreement also ensures DNB Boligkreditt a minimum margin achieved on loans to customers. A margin below the minimum level will be at DNB Bank’s risk, resulting in a negative management fee (payment from DNB Bank to DNB Boligkreditt). The management fee paid to the bank for purchased services is recognised as ‘Other expenses’ in the comprehensive income statement and amounted to a negative NOK 1 442 million in 2022 (a positive NOK 1 843 million in 2021).

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 2022, the bank had invested NOK 91.7 billion (NOK 53.9 billion in 2021) 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 25.6 billion at end-December 2022 (NOK 32.7 billion in 2021).

The company has a long-term overdraft facility in DNB Bank ASA with a limit of NOK 315 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 2022, DNB Livforsikring’s holding of DNB Boligkreditt bonds was valued at NOK 0.3 billion (NOK 0.3 billion in 2021).

Group contributions

The Board of Directors proposes to provide NOK 17 160 million without tax effect as Group contribution to DNB Bank. The proposal is conditional on a Group contribution of NOK 17 400 million with tax effect (NOK 13 050 million without tax effect) being paid from DNB Bank to DNB Boligkreditt at the same time. The net Group contribution is thus proposed to be NOK 4 110 million.

Statement

Pursuant to Section 5-5 of the Securities Trading Act

We hereby confirm that the annual accounts for the company for 2022 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, 8 March 2023
The Board of Directors of DNB Boligkreditt AS

Henrik Lidman
(Chair of the Board)

Bjørn Hauge Spjeld

Karianne Kvernmo Wasenden

Sindre A. Espenes

Sindre Andreas Espenes
(Chief Executive Officer, CEO)

Statsautoriserte revisorer
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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of DNB Boligkreditt AS

Opinion

We have audited the financial statements of DNB Boligkreditt AS (the Company), which comprise the balance sheet as at 31 December 2022, comprehensive income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements comply with applicable legal requirements and give a true and fair view of the financial position of the Company as at 31 December 2022 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Our opinion is consistent with our additional report to the audit committee.

Basis for opinion

We conducted our audit in accordance with 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 requirements of the relevant laws and regulations in Norway and the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code), and we have fulfilled our other ethical responsibilities 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.

To the best of our knowledge and belief, no prohibited non-audit services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided.

We have been the auditor of the Company for 15 years from the election by the general meeting in 2008 for the accounting year 2008.

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 2022. 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.

Building a better working world

Valuation of Financial Instruments

Basis for the key audit matter
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 requires the use of judgement. Such instruments comprise assets of NOK 34 499 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.

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

Our audit response
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 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.

IT environment supporting financial reporting

Basis for the key audit matter
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.

Our audit response
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 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 annual report other than the financial statements and our auditor's report thereon. Management (the board of directors and Chief Executive Officer) is 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 board of directors' report contains the information required by applicable legal requirements and 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 the other information is materially inconsistent with the financial statement, there is a material misstatement of this other information or that the information required by applicable legal requirements is not included, we are required to report that fact.

We have nothing to report in this regard, and in our opinion, the board of directors' report is consistent with the financial statements and contain the information required by applicable legal requirements.

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 basis of these financial statements.

As part of an audit in accordance with 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 the board of directors 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 the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to 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 the board of directors, 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.

Oslo, 8 March 2023
ERNST & YOUNG AS

The auditor's report is signed electronically

Johan-Herman Stene
State Authorised Public Accountant (Norway)

Governing bodies
as at 31 December 2022

Board of Directors

Members
Henrik Lidman, Oslo
Bjørn Hauge Spjeld, Bergen
Karianne Kvernmo Wasenden, Oslo

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Other sources of information
Annual and quarterly reports
DNB Boligkreditt AS is part of the DNB Group. Annual and quarterly reports for DNB Boligkreditt AS and the DNB Group are available on ir.dnb.no.

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