# DNB Bank

A company in the DNB Group

## Annual report

# 2018

DNB

# Financial highlights

**Income statement** — **DNB Bank Group**

| *Amounts in NOK million* | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Net interest income | 37 388 | 35 914 | 34 517 | 35 535 | 32 607 |
| *Net commissions and fees* | *6 605* | *5 884* | *5 634* | *5 956* | *5 891* |
| *Net gains on financial instruments at fair value* | *1 351* | *4 513* | *6 506* | *8 704* | *5 404* |
| *Other operating income* | *2 522* | *2 029* | *3 176* | *2 248* | *2 827* |
| Net other operating income, total | 10 478 | 12 425 | 15 316 | 16 909 | 14 122 |
| Total income | 47 866 | 48 339 | 49 833 | 52 444 | 46 729 |
| Operating expenses | (20 681) | (20 801) | (19 892) | (20 275) | (19 618) |
| Restructuring costs and non-recurring effects | (565) | (1 128) | (624) | 1 084 | (218) |
| Pre-tax operating profit before impairment | 26 620 | 26 410 | 29 317 | 33 253 | 26 893 |
| Net gains on fixed and intangible assets | 529 | 735 | (19) | 45 | 52 |
| Impairment of financial instruments | 139 | (2 428) | (7 424) | (2 270) | (1 639) |
| Pre-tax operating profit | 27 288 | 24 718 | 21 874 | 31 028 | 25 306 |
| Tax expense | (4 976) | (4 903) | (3 964) | (7 755) | (6 174) |
| Profit from operations held for sale, after taxes | (204) | (1) | 4 | (51) | (22) |
| **Profit for the year** | **22 109** | **19 813** | **17 914** | **23 222** | **19 110** |

**Balance sheet** — **DNB Bank Group**

| *Amounts in NOK million* | 31 Dec. 2018 | 31 Dec. 2017 | 31 Dec. 2016 | 31 Dec. 2015 | 31 Dec. 2014 |
|---|---|---|---|---|---|
| Total assets | 2 307 710 | 2 359 860 | 2 348 272 | 2 315 603 | 2 361 990 |
| Loans to customers | 1 598 017 | 1 531 345 | 1 492 268 | 1 531 932 | 1 447 465 |
| Deposits from customers | 940 087 | 980 374 | 945 694 | 957 322 | 951 049 |
| Total equity | 207 933 | 203 685 | 190 078 | 173 412 | 141 309 |
| Average total assets | 2 434 354 | 2 537 681 | 2 545 103 | 2 662 039 | 2 433 599 |

**Key figures** — **DNB Bank Group**

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Return on equity, annualised (per cent) 1) | 11.5 | 10.5 | 10.3 | 15.1 | 14.5 |
| Combined weighted total average spread for lending and deposits (per cent) 1) | 1.30 | 1.30 | 1.32 | 1.33 | 1.31 |
| Average spread for ordinary lending to customers (per cent) 1) | 1.94 | 2.07 | 2.04 | 2.17 | 2.33 |
| Average spread for deposits to customers (per cent) 1) | 0.29 | 0.17 | 0.21 | 0.01 | (0.25) |
| Cost/income ratio (per cent) 1) | 44.4 | 45.4 | 41.2 | 36.6 | 42.4 |
| Ratio of customer deposits to net loans to customers at end of period 1) | 58.8 | 64.0 | 63.4 | 62.5 | 65.7 |
| Net loans and financial commitments in stage 2, per cent of net loans 1) | 6.96 | | | | |
| Net loans and financial commitments in stage 3, per cent of net loans 1) | 1.45 | 1.13 | 1.67 | 0.91 | 1.19 |
| Impairment relative to average net loans to customers (per cent) 1) | 0.01 | (0.16) | (0.48) | (0.15) | (0.12) |
| Common equity Tier 1 capital ratio, transitional rules, at year-end (per cent) | 16.5 | 16.2 | 15.7 | 14.3 | 12.5 |
| Tier 1 capital ratio, transitional rules, at year-end (per cent) | 18.0 | 17.7 | 17.4 | 15.3 | 12.9 |
| Capital ratio, transitional rules, at year-end (per cent) | 20.9 | 20.6 | 20.0 | 17.9 | 15.2 |
| Leverage ratio (per cent) | 7.4 | 6.9 | 7.1 | 6.4 | n/a |
| Number of full-time positions at year-end | 8 626 | 8 544 | 10 366 | 10 608 | 10 854 |

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

# Contents

# Directors' report

The DNB Bank Group is part of the DNB Group [1]. The DNB Group, hereinafter called DNB, is Scandinavia's largest financial services group. DNB offers a full range of financial services, including loans, savings, advisory services, real estate broking, insurance and pension products for retail and corporate customers and the public sector. The banking group serves customers in Norway through its 24/7 telephone and online banking service, branch offices and in-store postal outlets. Internationally, the banking group is among the world's leading banks within its priority areas, especially the energy, shipping and seafood sectors.

## Operations in 2018

The banking group recorded profits of NOK 22 109 million in 2018, up NOK 2 296 million compared with 2017. The increase in profits was driven by higher net interest income, lower impairment of financial instruments and a gain of NOK 464 million following the merger of BankID, BankAxept and Vipps.

The common equity Tier 1 capital ratio was 16.5 per cent at end-December, up from 16.2 per cent a year earlier.

The leverage ratio for the banking group was 7.4 per cent, up from 6.9 at end-December 2017.

Return on equity was 11.5 per cent, compared with 10.5 per cent in 2017.

Net interest income increased by NOK 1 475 million from 2017. Reclassification effects related to IFRS 9 offset most of the loss of revenues as a result of the sale of the Baltic operations. Effects from amortisation of fees and higher volumes contributed positively with NOK 424 million and 318 million, respectively. There were rising volumes in the personal customers and small and medium-sized enterprises segments, and a planned reduction in volumes to large corporates and international customers.

Net other operating income was NOK 10 478 million, down NOK 1 947 million compared with 2017. Net gains on other financial instruments at fair value contributed negatively with NOK 3 812 million, due to volatility in the fixed-income markets and effects from reclassifications under IFRS 9. Basis swaps contributed negatively with NOK 687 million. Net commissions and fees grew by NOK 721 million, mainly due to reclassifications under IFRS 9.

Operating expenses were down NOK 683 million compared with 2017. The reduction was mainly due to the fact that operating expenses relating to the Baltics were included in the accounts up to October 2017, as well as impairment of goodwill of NOK 502 million related to the external distribution of credit cards under the Cresco brand in 2017. Corrected for these factors, IT expenses increased in 2018 mainly, due to higher digitalisation activity.

There were net reversals on impairment losses on financial instruments of NOK 139 million in 2018. The net reversals were primarily related to the large corporates and international customers segment. The main drivers were restructurings of selected large exposures, positive development in oil and gas-related industries combined with a general improvement in the underlying credit quality of the portfolio. The reversals were offset by impairments within the personal customers segment and from individually assessed corporate customers in stage 3.

### Important events

An overview of important events for DNB can be found on page 18 of the annual report for DNB Group.

[1] *DNB Bank ASA is a subsidiary of DNB ASA and part of the DNB Group. The DNB Bank Group, hereinafter called "the banking group", comprises the bank and the bank's subsidiaries. Other companies owned by DNB ASA, including DNB Livsforsikring, DNB Forsikring and DNB Asset Management, are not part of the banking group. Operations in DNB ASA and the total DNB Group are not covered in this report but described in a separate report.*

## Strategy and targets

DNB's overarching goals are to create the best customer experiences and to reach its financial targets. Several strategic initiatives have been defined to ensure attainment of these goals. Read more about the strategy and how DNB and the banking group creates value in chapter 2 in DNB Group's annual report.

## Review of the annual accounts

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, the banking group prepares consolidated annual accounts in accordance with IFRS, International Financial Reporting Standards, approved by the EU. The statutory accounts of DNB Bank ASA have been prepared in accordance with Norwegian IFRS regulations.

### Net interest income

| *Amounts in NOK million* | 2018 | 2017 |
|---|---|---|
| Lending spread, customer segments | 28 152 | 29 467 |
| Deposit spreads, customer segments | 2 742 | 1 635 |
| Amortisation effects and fees | 3 200 | 2 776 |
| Operational leasing | 1 525 | 1 555 |
| Baltics | | 822 |
| Other net interest income | 1 769 | (341) |
| Net interest income | 37 388 | 35 914 |

Net interest income increased by NOK 1 475 million from 2017. Reclassification effects related to IFRS 9 offset most of the loss of revenues from the sale of the Baltic operations. Effects from amortisation of fees and higher volumes contributed positively with NOK 424 million and 318 million, respectively. In the comments below, volumes and spreads have been adjusted for the effects of the Baltic operations in 2017.

Average lending spreads contracted by 12 basis points from 2017, while deposit spreads widened by 12 basis points. There was an average increase of NOK 21.5 billion in the healthy loan portfolio, while average deposits decreased by NOK 18.7 billion compared with 2017.

### Net other operating income

| *Amounts in NOK million* | 2018 | 2017 |
|---|---|---|
| Net commissions and fees | 6 605 | 5 884 |
| Basis swaps | (1 358) | (672) |
| Exchange rate effects additional Tier 1 capital | 721 | (616) |
| Net gains on other financial instruments | 1 989 | 5 801 |
| Other operating income | 2 522 | 2 029 |
| Net other operating income | 10 478 | 12 425 |

Net other operating income was down NOK 1 947 million from 2017. Net gains on other financial instruments at fair value contributed negatively with NOK 3 812 million, due to volatility in the fixed-income markets and effects from reclassifications under IFRS 9. Basis swaps contributed negatively with NOK 687 million. There was a strong increase in exchange rate effects on additional Tier 1 capital. Net commissions and fees grew by NOK 721 million, partly due to reclassifications under IFRS 9. Other operating income rose by NOK 493 million mainly due to a positive contribution from Luminor.

### Operating expenses

| *Amounts in NOK million* | 2018 | 2017 |
|---|---|---|
| Salaries and other personnel expenses | (11 216) | (11 561) |
| Other expenses | (7 658) | (7 899) |
| Depreciation and impairment of fixed and intangible assets | (2 371) | (2 469) |
| Operating expenses | (21 246) | (21 928) |

Total operating expenses were down NOK 683 million or 3.1 per cent from 2017. This was mainly due to the fact that operating expenses relating to the Baltics were included in the accounts up to October 2017, in addition to increased costs due to impairment of goodwill of NOK 502 million related to the external distribution of credit cards under the Cresco brand in 2017. Corrected for the Baltic operations, operating expenses increased by NOK 15 million mainly due to a higher level of IT activity.

The cost/income ratio was 44.4 per cent in 2018.

### Impairment of financial instruments

| *Amounts in NOK million* | 2018 |
|---|---|
| Personal customers | (287) |
| Commercial real estate | 82 |
| Shipping | 8 |
| Oil, gas and offshore | 1 079 |
| Other industry segments | (744) |
| Impairment of financial instruments | 139 |

Net reversals on impairment of financial instruments amounted to NOK 139 million in 2018. The impairment losses within the most relevant industry segments are shown above.

The personal customers segment had stable credit quality and low impairments of NOK 287 million in 2018. Commercial real estate had a net reversal of NOK 82 million due to improved credit quality during the year.

There were net reversals of NOK 1 079 million for the oil, gas and offshore industry in 2018. The reversals reflected an improved market situation, especially for oil and gas, in line with the forecast at the start of the year. Further, there were reversals related to successful restructurings of financially distressed customers. However, the net reversals were somewhat curtailed by impairments of specific customers in stage 3 within rigs and offshore supply vessels.

There were net reversals of NOK 8 million within the shipping segment. The macro forecasts for shipping during 2018 were fairly stable. Further, the NOK 8 million included both increases and reversals related to specific customers in stage 2 and 3.

The net impairment losses of NOK 744 million within other industry segments primarily reflected negative credit development on individually assessed customers within the industry segments trade and services. In general, relevant macro drivers developed in line with the forecasts at the start of the year for most industries. Net stage 3 loans and financial guarantees and unutilised credit lines amounted to NOK 23.1 billion at end-December 2018.

### Taxes

The banking group's tax expense for the full year 2018 was NOK 4 976 million, or 18.2 per cent of pre-tax operating profits.

## Funding, liquidity and balance sheet

Throughout 2018, DNB still had good access to the short-term funding market. Competition on price is the main driver of volume, partly due to high funding demands among Scandinavian peers and increased supply of short-term US government debt. The market is becoming more of an "investors' market" where issuers adapt to the levels investors are looking for. The USD market is still the most important short-term funding market for DNB. European markets, except GBP which is getting better, still suffer from very low or negative interest rates in the short end.

The long-term funding markets in 2018 proved to be more volatile than the year before. The first quarter turned out to be very good for issuers, with low spreads and high activity in the long-term funding markets. Several issuers were expecting a widening of the spreads later in the year and wanted to ensure long-term funding at low spread levels. As the European Central Bank (ECB) started to reduce its asset purchase programme in March, spreads were widening and raised the funding costs for issuers in both covered bonds and senior preferred bonds. This trend was amplified by some political uncertainty in May. Despite this, DNB issued its first green covered bond in June, which was very well received by the investors. During the third quarter, the supply of new covered bonds was high, but the spreads were kept at a stable and low level until October for both covered bonds and senior bonds. In the market for senior bonds, there were more issuances of so-called senior non-preferred bonds due to the coming Minimum Requirement for own funds and Eligible Liabilities (MREL). During the last part of the year, there was more instability in the long-term funding markets, and spreads increased quite a lot for all instruments. This was partly due to the ECB asset purchase programme coming to an end, as well as political conditions involving Italy, Brexit and the global trade conflict between US and China. Overall, DNB had good access to long-term funding markets at attractive spreads throughout the year.

The nominal value of long-term debt securities issued by the banking group was NOK 606 billion at end-December 2018, compared with NOK 598 billion a year earlier. The average remaining term to maturity for these debt securities was 4.1 years at end December 2018, up from 4.0 at end-December 2017.

The short-term liquidity requirement, Liquidity Coverage Ratio (LCR), remained stable at above 100 per cent throughout the year. At end-December 2018, the LCR was 117 per cent.

Total assets in the banking group were NOK 2 308 billion at year-end 2018, down from NOK 2 360 billion a year earlier.

Loans to customers increased by NOK 66.7 billion or 4.4 per cent from end-December 2017. Customer deposits were down NOK 40.3 billion or 4.1 per cent during the same period. The ratio of customer deposits to net loans to customers was 58.8 per cent at end-December 2018, down from 64.0 per cent a year earlier. The ambition is to have a ratio of customer deposits to net loans, of minimum 60 per cent.

## Corporate governance

The management of DNB is based, inter alia, on the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance. Read more about the DNB Group's corporate governance principles and practice in the chapter Corporate governance in the DNB Group's annual report.

## Capital

The banking group's Basel III common equity Tier 1 (CET 1) capital ratio, calculated according to transitional rules, was 16.5 per cent at the end of 2018, up from 16.2 a year earlier. The CET 1 capital ratio according to Basel III was 17.3 per cent at year-end 2018.

The CET 1 capital increased by NOK 8.7 billion from a year earlier to NOK 173.2 billion at year-end 2018. Retained earnings contributed to the increase.

The risk-weighted assets increased by NOK 36.5 billion from year-end 2017 to NOK 1 051.2 billion. The increase was mainly due to underlying growth in the segments in combination with foreign exchange effects as the Norwegian krone depreciated against both the euro and the US dollar.

The non-risk based leverage ratio was 7.4 per cent at end-December, up from 6.9 in the year-earlier period. The ratio increased from year-end 2017 due to higher Tier 1 capital in combination with a reduction in the total exposure.

### Capital requirements

The capital adequacy regulations specify a minimum primary capital requirement based on risk-weighted assets that include credit risk, market risk and operational risk. In addition to meeting the minimum requirement, the bank must satisfy various buffer requirements (Pillar 1 and Pillar 2 requirements).

| | 2018 | 2017 |
|---|---|---|
| *Transitional rules:* | | |
| CET 1 capital ratio, per cent | 16.5 | 16.2 |
| Tier 1 capital ratio, per cent | 18.0 | 17.7 |
| Capital ratio, per cent | 20.9 | 20.6 |
| Risk-weighted assets, NOK billion | 1 051 | 1 015 |
| | | |
| CET 1 capital ratio, Basel III, per cent | 17.3 | 16.6 |
| Leverage ratio, per cent | 7.4 | 6.9 |

## Segments

Financial governance in DNB is adapted to the different customer segments. The follow-up of total customer relationships and segment profitability are important dimensions when making strategic priorities and deciding where to allocate the banking group's resources. Reported figures reflect the banking group's total sales of products and services to the relevant segments.

### Personal customers

This segment includes the banking group's more than 2 million personal customers in Norway. The personal customers segment delivered sound results in 2018, with a pre-tax operating profit before impairment of NOK 9 499 million and a return on allocated capital of 15.4 per cent. The cost/income ratio remained stable at 45 per cent, which is on a level with 2017.

| *Income statement in NOK million* | 2018 | 2017 |
|---|---|---|
| Net interest income | 13 422 | 13 336 |
| Net other operating income | 3 920 | 3 716 |
| Total income | 17 342 | 17 051 |
| Operating expenses | (7 842) | (7 731) |
| Pre-tax operating profit before impairment | 9 499 | 9 320 |
| Net gain on fixed and intangible assets | 49 | (0) |
| Impairment of financial instruments | (318) | (207) |
| Pre-tax operating profit | 9 230 | 9 113 |
| Profit for the year | 6 923 | 6 835 |
| | | |
| **Average balance sheet items in NOK billion** | | |
| Net loans to customers | 760.0 | 725.6 |
| Deposits from customers | 408.9 | 402.2 |
| | | |
| **Key figures in per cent** | | |
| Return on allocated capital | 15.4 | 18.1 |

Net interest income increased by 0.6 per cent from 2017. The combined spreads on loans and deposits narrowed by 0.08 percentage points in the period. Average net loans for 2018 rose by 4.7 per cent from the previous year, while deposits showed an increase of 1.7 percent on average.

Net other operating income increased by 5.5 per cent from 2017. There was a positive development in net income from payment services. Several cooperation and agent agreements were terminated in 2018, contributing to a reduction in credit broking commission, while a new incentive agreement with VISA Norway and repricing of certain services lead to increased income in the period.

Expenses increased by NOK 111 million or 1.4 per cent from 2017. Costs related to IT and real estate broking showed a slight increase, but the rise was partly counteracted by reduced restructuring costs, lower costs relating to premises and reduced impairment losses for goodwill.

On 1 November 2018, DNB sold its SAS AMEX customer portfolio to AMEX. The sales revenue amounted to NOK 49 million for 2018.

Net impairment losses on financial instruments remained stable at a low level of 0.04 per cent of average net loans. There is low risk in the home mortgage portfolio, and impairments within consumer finance also remained stable throughout the year.

The market share of credit to households stood at 24.0 per cent at end-December 2018, which represented a decline from 24.7 per cent at the end of 2017. The market share of total household savings was 30.8 per cent. DNB Eiendom had an average market share of 18.7 per cent in 2018, down from 19.7 per cent a year earlier.

DNB aspires to achieve continued profitable growth in the personal customers segment and will sustain its efforts to adapt products, solutions, customer service and cost level to the competitive situation of the future. Customers are becoming increasingly self-sufficient, not least through the use of mobile solutions. The communication between the customer and the bank is changing, and what we like to call personalised automated communication (PAC) enables us to engage in more effective communication with the customers. In 2018, the digital pre-qualification letter for use on mobiles was launched as part of the further development of a fully automated loan application process. In addition, we introduced 'Enkel Bilhandel' (simple car purchase), an app that helps the customer through the whole process of purchasing and selling second-hand cars. Furthermore, our chatbot Aino was launched in the fourth quarter and after a few months in operation, Aino is already answering the majority of customer inquiries received via chat and email.

## Small and medium-sized enterprises

This segment includes sales of products and advisory services to the banking group's small and medium-sized corporate customers in Norway. Strong growth in net interest income combined with a reduced cost level contributed to a solid pre-tax operating profit before impairment in 2018. Impairments were up from the previous year, but remained at a satisfactorily low level. Combined, this resulted in an improvement in the pre-tax operating profit of as much as 16.9 per cent from 2017. The segment delivered a total return on allocated capital of 17.6 per cent in 2018, compared with 16.4 per cent in 2017.

| *Income statement in NOK million* | 2018 | 2017 |
|---|---|---|
| Net interest income | 9 530 | 8 578 |
| Net other operating income | 1 541 | 1 549 |
| Total income | 11 071 | 10 127 |
| Operating expenses | (3 946) | (4 106) |
| Pre-tax operating profit before impairment | 7 125 | 6 021 |
| Net gains on fixed and intangible assets | 3 | (1) |
| Impairment of financial instruments | (566) | (413) |
| Profit from repossessed operations | 8 | 14 |
| Pre-tax operating profit | 6 570 | 5 621 |
| Profit for the year | 4 927 | 4 216 |
| **Average balance sheet items in NOK billion** | | |
| Net loans to customers | 301.0 | 276.8 |
| Deposits from customers | 211.4 | 205.6 |
| **Key figures in per cent** | | |
| Return on allocated capital | 17.6 | 16.4 |

Net loans to customers showed an average increase of 8.7 per cent from 2017, while deposits rose by 2.8 per cent. Higher loan volumes and wider deposit spreads contributed to a growth in net interest income of 11.1 per cent compared with 2017.

Net other operating income remained unchanged from 2017.

Operating costs decreased by 3.9 per cent from 2017. A reduction in restructuring expenses was the main reason for the decrease in costs from the previous year.

Net impairment losses on financial instruments were NOK 566 million in 2018. This constituted 0.19 per cent of average loans. The impairment losses in 2018 primarily stemmed from a few exposures. The quality of the loan portfolio is considered to be satisfactory. Developments are closely monitored, and preventive measures are continually considered and implemented to retain the strong portfolio quality.

The banking group wants to help its corporate customers succeed. This involves making it easy to be our customer by offering easy-to-use digital solutions and by being more than a bank. We have a strong focus on automation and digitalisation of products and services to meet our customers' needs and expectations in the time ahead. Throughout 2018, DNB has developed and launched new services to make our customers' everyday lives easier. Examples include the automated accounting solution DNB Regnskap for the smallest companies and DNB Puls, which is a separate app that helps corporate customers' manage their finances via their mobiles. In parallel with this, DNB is working to be the best possible adviser with expertise in start-up and growth companies, selected industries and a wide range of traditional banking services.

## Large corporates and international customers

This segment includes the DNB Bank group's largest Norwegian corporate customers and all international corporate customers. Lower volumes were offset by wider spreads, while reversals on impairments losses on loans helped increase pre-tax operating profits compared with 2017, and thus an increased return on allocated capital.

| *Income statement in NOK million* | 2018 | 2017 |
|---|---|---|
| Net interest income | 12 110 | 12 682 |
| Net other operating income | 4 511 | 4 897 |
| Total income | 16 621 | 17 579 |
| Operating expenses | (6 340) | (7 086) |
| Pre-tax operating profit before impairment | 10 280 | 10 493 |
| Net gains on fixed and intangible assets | (0) | 20 |
| Impairment of financial instruments | 1 022 | (1 800) |
| Profit from repossessed operations | (263) | (19) |
| Pre-tax operating profit | 11 039 | 8 694 |
| Profit for the year | 8 490 | 6 260 |
| **Average balance sheet items in NOK billion** | | |
| Net loans to customers | 409.0 | 478.8 |
| Deposits from customers | 315.9 | 375.2 |
| **Key figures in per cent** | | |
| Return on allocated capital | 12.8 | 7.7 |

The trend in volume growth over the past years has been affected by measures to rebalance operations, which includes restructuring the portfolios and reducing exposures within shipping, oil and offshore-related sectors.

Average loans to customers were down 14.6 per cent from 2017. Adjusted for the operations in the Baltics, which was included in the segment during the first three quarters of 2017, the reduction was 7.9 per cent. From year-end 2017 to year-end 2018, lending increased by 3.5 per cent, while the underlying growth rate excluding exchange rate effects was 1.5 per cent. Average customer deposits declined by 9.0 per cent adjusted for the Baltics. Deposit volumes were down 9.2 per cent from year-end 2017 to year-end 2018.

The reduction in net interest income from 2017 is solely due to the fact that the Baltic operation is no longer included in the segment. Adjusted for the Baltic operation, the net interest income showed an increase of 2.1 per cent despite reduced volumes. Volume-weighted spreads widened by 0.05 percentage points from 2017, ending at 1.25 per cent in 2018. Both the lending and deposit spreads showed a positive development.

Net other operating income adjusted for the Baltics increased by 0.6 per cent from the previous year. A strong focus on using the entire product range and a shift towards reducing final hold on DNB's books helped raise income from arranging debt capital issues. Based on adjusted figures, total operating expenses showed an increase of 0.4 per cent from 2017.

Net reversals of NOK 1 022 million on impairment losses on financial instruments contributed significantly to profits in 2018. Among the reasons for the reversals were successful efforts to restructure the portfolio, more favourable economic conditions and an overall reduced credit risk in the portfolio. Net reversals represented 0.25 per cent of average loans in 2018. Net stage 3 exposures totalled NOK 15.9 billion at the end of 2018.

The banking group is operating in highly competitive markets, and one of the challenges the bank faces is different capital requirements for banks. The main aim is to strengthen profitability and contribute to fulfilling DNB's long-term ambitions. Active portfolio management in the large corporates segment will continue in 2018 by channelling capital and resources to segments, customers and transactions that will ensure higher profitability in the longer term. An 'originate and distribute' approach, which gives higher turnover in the portfolio, will ensure lower final hold on DNB's books and increase ancillary income. The banking group will continue to focus on utilising in-depth industry expertise, offering a wide range of financial services and modern technological solutions to priority customers. Through close relations with leading companies, DNB is well-positioned to help our customers to meet their extensive financial needs. This will form the basis for increasing the contribution from non-lending products, such as investment banking, trade finance, leasing, factoring and defined-contribution pensions.

### Other operations

The segment comprises the business activities in the risk management operations in Markets in addition to several group items not allocated to the segments. Pre-tax operating profit was NOK 449 million in 2018.

| *Income statement in NOK million* | 2018 | 2017 |
|---|---|---|
| Net interest income | 2 327 | 1 318 |
| Net other operating income | 2 227 | 4 488 |
| Total income | 4 554 | 5 806 |
| Operating expenses | (4 838) | (5 229) |
| Pre-tax operating profit before impairment | (284) | 577 |
| Net gain on fixed and intangible assets | 477 | 716 |
| Impairment of financial instruments | (0) | (8) |
| Profit from repossessed operations | 256 | 4 |
| Pre-tax operating profit | 449 | 1 289 |
| Tax expenses | 1 513 | 1 214 |
| Profit from operations held for sale, after taxes | (194) | (1) |
| Profit of the year | 1 769 | 2 503 |
| | | |
| **Average balance sheet items in NOK billion** | | |
| Net loans to customers | 81.5 | 40.4 |
| Deposits from customers | 61.7 | 71.2 |

The market making and other trading activities in the risk management operations in Markets showed a satisfactory result in 2018 with a return on allocated capital of in excess of 12 per cent. However, the segments total income was reduced by 43 per cent from 2017 to NOK 1 346 million in 2018. Reduced volumes and increased competition in the money market resulted in a lower level of trading revenues compared to 2017. Wider credit spreads towards the end of 2018 resulted in negative market value changes for bonds and credit value adjustments.

The profits in the other operations segment are affected by several group items which vary greatly from year to year. Net other operating income in 2018 was affected negatively by mark-to-market effects related to changes in basis swaps spreads, while exchange rate effects on additional Tier 1 capital were positive.

In the presentation of the segments, a normalised tax rate is applied to each segment, while the tax rate applied to the other operations segment is the difference between the bank group's tax expense and the calculated tax in the segments.

## Corporate social responsibility

As Norway's largest financial institution, DNB plays a major role in society. As an employer, investor, lender, facilitator and provider of financial infrastructure, the banking group will create values to the benefit of society and lay the foundation for further growth. How these values are created, is what constitutes the core of DNB's corporate responsibility. We are convinced that the companies that will maintain their competitive edge and thus succeed in the future are the ones that take responsibility for making society a better place, and that consider both risks and opportunities in a long-term perspective.

DNB meets the authorities' requirements for reporting relating to human rights, labour rights and social conditions, the external environment and the fight against corruption in its business strategies, daily operations and in the relationships with stakeholders through integrated annual reporting and through reporting according to the Global Reporting Initiative, GRI.

DNB Group's integrated annual report fully reflects how DNB and the banking group works for, and safeguards, its corporate responsibility.

## Employees and competence

Adapting to the new banking reality, with rapid changes in customer behaviour, digitalisation and stricter capital adequacy requirements, characterised organisational and leadership development in 2018. Systematic efforts were made to ensure that DNB has the right competencies and promotes change capacity and employee engagement. Sickness absence in banking group's Norwegian operations was 4.5 per cent in 2018, up from 4.4 per cent in 2017.

Read more about the priorities that are considered to be essential to ensuring the right competencies, and about working conditions, equality and diversity in the chapter People in DNB Group's annual report and a more detailed description in note 21 Salaries and other personnel expenses in the annual accounts.

## New regulatory framework

### Incorporation of CRD IV and CRR into the EEA Agreement

The EU's capital requirements legislation CRD IV and CRR is expected to be incorporated into the EEA Agreement during the first half of 2019. The regulatory framework has for the most part already been implemented in Norwegian law, but the Norwegian Ministry of Finance has underlined that provisions that are not in line with the EU legislation, including the Basel I floor for IRB banks and the exception from the SME supporting factor, will not be continued. The introduction of the SME supporting factor implies that the banks' capital requirement for loans to small and medium-sized enterprises will be reduced by approximately 24 per cent.

### Increased counter-cyclical capital buffer requirement

The Ministry of Finance has decided that the counter-cyclical capital buffer requirement will be increased by 0.5 percentage points to 2.5 percent with effect from 31 December 2019. The requirement is the weighted average of the buffer rates for the countries where the bank has credit exposures. Several countries in which DNB has exposures have set the requirement to zero per cent, and as a result, DNB's effective counter-cyclical buffer rate will increase by less than 0.5 percentage points.

In the course of 2019, certain Norwegian provisions that are not in line with the EU legislation will cease to apply in connection with the implementation of the CRR/CRD IV in Norwegian law. The expected removal of the Basel I transitional floor will give a reduction in risk-weighted assets (Basel III). This reduction is expected to absorb the increased capital requirement for the CET 1 ratio related to the counter-cyclical buffer, and the nominal capital base is expected to be stable.

### New Personal Data Act

The Norwegian Parliament (Stortinget) has adopted a new Personal Data Act, which implements the EU General Data Protection Regulation (GDPR) in Norway. The new Act entered into force on 20 July 2018. New Personal Data Regulations and separate transitional Regulations have also been adopted.

### New anti-money laundering legislation

The new Money Laundering Act and Anti-Money Laundering Regulations entered into force on 15 October 2018. The new legislation implements the EU's fourth Anti-Money Laundering Directive in Norwegian law and involves, among other things, stricter requirements for customer due diligence and more responsibilities for the management and Board of Directors. Administrative sanctions for companies and individuals who do not abide by the law have also been introduced.

### Government proposal for an adjustment of the financial activities tax

The financial activities tax was introduced in 2017 and implies a 5 percentage point increase in employer's national insurance contributions and a 2 percentage point increase in the corporate income tax rate for the financial services industry in 2018. The Norwegian Parliament has decided to reduce the corporate income tax rate from 23 to 22 per cent in 2019. However, this reduction does not include companies that are liable to financial activities tax. The tax rate for the financial services industry will thus increase from 2 to 3 percentage points above the rate in other sectors. The Ministry of Finance is examining a new amendment in the financial activities tax from 2020 where salary costs and taxable profit will be combined into one common tax base with one tax rate.

### Minimum Requirement for own funds and Eligible Liabilities

The Norwegian Parliament has adopted the Act related to the Norwegian Banks' Guarantee Fund and the Act related to amendments to the Financial Institutions Act, etc. The adopted acts implement the EU's Bank Recovery and Resolution Directive (BRRD) and Deposit Guarantee Scheme Directive (DGSD) in Norwegian law and came into force on 1 January 2019. The BRRD has already been incorporated into the EEA Agreement, and efforts are now being made to incorporate the DGSD.

On 19 December 2018, the Norwegian Ministry of Finance laid down amendments to the Financial Services Regulations and new Regulations to the Act related to the Norwegian Banks' Guarantee Fund that supplement the new statutory provisions. The amendments involve new rules and tasks for both banks and public authorities. These include rules on recovery plans and crisis resolution plans, rules on writing down or converting of own funds and eligible liabilities into equity and establishing a national resolution fund.

Among the new crisis resolution measures, the most significant change is internal recapitalisation (bail-in). Bail-in implies that parts of the debt of a bank in resolution are converted to equity, whereby losses are covered and the bank is capitalised to a level where operations can be continued. The new crisis resolution rules are therefore introducing a minimum requirement for own funds and eligible liabilities (MREL) that can be written down or converted into equity. Finanstilsynet (the Financial Supervisory Authority of Norway) shall, as the crisis resolution authority, lay down specific MREL requirements for each individual bank, and will return with more information about the process for determining MREL in 2019.

### Deposit guarantee level

The DGSD implies that Norway would have to lower its deposit guarantee from NOK 2 million per customer per bank to EUR 100 000. However, as part of the negotiations with the European Commission to incorporate the directive into the EEA Agreement, Norway will most likely be granted a transitional arrangement beyond 2018.

### Securitisation in Norway

The Ministry of Finance has asked Finanstilsynet to establish a working group to consider the implementation of the EU's rules on securitisation in Norway. The report must be submitted to the Ministry by the end of May 2019. The purpose of a Norwegian regulatory framework for securitisation is to give Norwegian banks an important tool for modern risk management and help increase the supply of capital to the business community.

### The home mortgage lending provisions are continued

The Ministry of Finance has laid down new home mortgage lending regulations effective as of 1 July 2018. Both the general provisions, the banks' flexibility quota and the special requirements for Oslo have been continued in the new regulations, which will apply until 31 December 2019.

### Introduction of PSD2 into Norwegian law

The EU's revised Payment Services Directive, PSD2, entered into force in the EU in 2018. The implementation into Norwegian law is now under way in the form of a bill and updated regulations. In dialogue with the authorities, DNB is working actively to explore the possibilities for new services within so-called "open banking", i.e. data exchange with third parties, among other things to clarify the implications of GDPR and electronic ID (eIDAS) for such services.

### New rules on markets in financial instruments

In the spring of 2018, the Norwegian Parliament adopted a number of amendments to the securities legislation, as part of the implementation of the EU's regulatory framework for markets in financial instruments, MiFID II and MiFIR. The amendments entered into force on 1 January 2019. In terms of content, the amended provisions have already been implemented in Norwegian law through the temporary MiFID II and MiFIR regulations that were urgently adopted in December 2017 to ensure Norwegian market participants continued access to the European Single Market. The provisions have now been given a permanent and carefully considered formulation, but parts of the temporary legislation will nevertheless be applicable for a while longer. This is the case for the rules which are included in the EU Regulation, and which, due to the connection with the Norwegian Constitution, cannot be given direct effect in Norwegian law before the MiFID II and MiFIR have been included in the EEA Agreement.

### Expansion of the interest limitation rule

The current rules on interest limitation have been expanded to include interest on external loans with new threshold values and exceptions. The exception for financial institutions is maintained.

### Withholding tax on interest paid out of Norway

In the National Budget for 2019, the Norwegian government announced that it intends to circulate for comments a proposal to introduce withholding tax on interest and also present a bill on the matter in 2019. The announcement included no information about the details of this withholding tax scheme. Withholding tax on cross-border interest payments will be a Norwegian tax on international creditors.

### DAC 6

In 2018, the EU adopted a Council Directive which imposes a disclosure obligation on lawyers, accountants, banks and other tax advisers for matters concerning tax planning strategies that are offered to customers (DAC 6). The directive is the last in a series of EU measures on automatic exchange of information in the field of taxation (Directive on Administrative Cooperation, DAC 1-5). The new rules require intermediaries (or taxpayers) to report to the authorities any potentially aggressive tax planning strategies that are developed for customers and that involve two or more countries. Whether a tax planning strategy is to be considered potentially aggressive is determined by certain characteristics set out in DAC 6. The directive also implies an obligation for Member States to exchange information about such arrangements with each other through the automatic exchange of information. Norway is not covered by the directive. Whether similar rules will be implemented in Norway, is being considered by the committee tasked with examining the disclosure obligation and duty of confidentiality of tax advisers. The committee will present its recommendation in 2019.

## Macroeconomic developments

The growth in the world economy held up well during the first half of 2018, but slowed down markedly through the second half. The slowdown, which was particularly evident in Europe and China, was caused by several factors. High energy prices contributed to a weakening of the real household disposable income and put a damper on demand. New emission rules for cars were part of the reason for a pronounced drop in the German automotive industry. These are both presumably temporary effects, which will be reversed in 2019. In addition, the ongoing trade war between the US and China contributed to reducing the growth in the Chinese economy. The trade conflict will probably continue in 2019, but the negative effects on the global economy will nevertheless be relatively limited. It is also possible that the two parties will reach a solution that will prevent further escalation of the conflict.

In the US, lower tax rates and increased public spending boosted the economy in 2018, thus preventing a slowdown in the growth. In 2019, the effects of this fiscal policy will gradually diminish. Financial turmoil and a significant fall in the stock markets at the end of 2018 may put a damper on economic activity in the time ahead. However, this may cause the Federal Reserve (Fed) to raise the key policy rate by less than would otherwise be the case, despite the fact that the unemployment rate is very low. In any case, the GDP growth will be slightly lower in 2019 than in 2018.

Growth in the eurozone was disappointing in 2018, but this stagnation is most likely temporary. In 2019, DNB expects a GDP growth of 1.5 per cent. The European Central Bank (ECB) has announced that it will gradually depart from its expansionary monetary policy and at the turn of the year, it finalised its asset purchases. The first rate hike may be expected towards the end of 2019.

The uncertainty surrounding Brexit has put a damper on the British economy in the wake of the referendum. This has particularly affected investments in the business world.

The GDP for Mainland Norway rose by an estimated 2.2 per cent in 2018, which was slightly higher than the growth rate the year before. After a very hot and dry summer there was a decline in the agricultural production, which contributed to a slowdown in the economy. A cold winter, dry summer and higher energy prices in Europe led to an increase in the electricity prices of more than 25 per cent in 2018. This was the main reason why an expected real wage growth failed to occur. The increase in electricity prices was probably also a major contributor to the stagnation in household consumption. Although electricity prices have been high in the winter of 2019, there is little reason to expect the same price growth in 2019 as in 2018. This could mean that the real wage growth will pick up, and thereby also the growth in consumption. A marked upswing in oil investments is also expected to contribute positively to the economic growth in 2019. In addition, other business investments are expected to rise and support further growth in domestic demand. On the other hand, the trade war between China and the US is contributing to slowing down the increase. We assume, however, that the effects will be relatively moderate as long as a global trade war is avoided. We forecast a growth in the mainland economy of close to 2 per cent in 2019.

Higher manufacturing growth has been reflected in stronger employment growth. The rate of unemployment has fallen, but the decline levelled out somewhat in the autumn of 2018. DNB expects a moderate decrease in the unemployment rate in 2019. The marked rise in electricity prices contributed to an overall increase in consumer prices of 2.7 per cent last year. Adjusted for tax changes and energy prices, the rise ended at 1.6 per cent. Slightly lower electricity prices in the course of 2019 will cause a marked drop in the inflation rate. In the housing market, prices increased by 0.7 per cent from 2017 to 2018. Prices rose somewhat at the beginning of 2018, but then levelled out. In 2019, we expect housing prices to remain relatively stable for the country as a whole. Over the last two years, the activity in the Norwegian economy has increased somewhat faster than normal, and capacity utilisation has gone up. The inflation outlook is relatively stable, and the risk of a marked drop in the inflation rate is significantly reduced. The Norwegian krone is weak. Based on this situation, Norges Bank raised the key policy rate in September 2018 and has notified a new increase in March 2019, in which case the rate will stand at 1.00 per cent. One more rate hike is expected in the course of 2019.

## Future prospects

DNB’s overriding financial target is a return on equity (ROE) above 12 per cent towards the end of 2019. Several factors will contribute to reaching the ROE target, including profitable lending growth, growth in capital-light products, greater cost efficiency through the automation of internal processes, and optimal use of capital.

The increase in Norges Bank’s key policy rate from 0.5 per cent to 0.75 per cent, followed by DNB’s announcement of an interest rate rise on loans that was effective from 4 November, will have full effect on net interest income in 2019. The annual increase in lending volumes is anticipated to be 3 to 4 per cent in 2019 and 2020. In this period, higher growth in lending volumes is expected for small and medium-sized enterprises, while lending to large corporates and international customers is expected to grow at a slower pace.

DNB’s ambition is to have a cost/income ratio below 40 per cent towards the end of 2019.

The increase in the counter-cyclical buffer requirement from 2019 will raise the CET 1 capital ratio requirement to 16.8 per cent including a management buffer of around 1 per cent. The expected removal of the Basel I transitional floor will give a reduction in risk-weighted assets (Basel III). This reduction is expected to absorb the increased capital requirement for the CET 1 ratio, and the nominal capital base is expected to be stable. For DNB, the CET 1 capital ratio achieved at end 2018 was 16.4 per cent (transitional rules) and according to Basel III, 17.2 per cent.

## Allocation of profits

Profits for 2018 in DNB Bank ASA came to NOK 19 366 million, compared with NOK 18 910 million in 2017.

The Board of Directors has proposed a dividend from DNB Bank ASA to DNB ASA of NOK 10 000 million and a group contribution of NOK 568 million after tax, totalling NOK 10 568 million.

The banking group’s capital ratio (Basel III) as at 31 December 2018 was 20.9 per cent, while the common equity Tier 1 capital ratio was 16.5 per cent. Correspondingly, the capital ratio (Basel III) in DNB Bank ASA was 23.5 per cent and the common equity Tier 1 capital ratio 18.1 per cent.

In the opinion of the Board of Directors, following the proposed allocations, DNB Bank ASA will have adequate financial strength and flexibility to provide sufficient support to operations in subsidiaries and meet the banking group's expansion requirements and changes in external parameters.

Oslo, 6 March 2019
The Board of Directors of DNB Bank ASA

Olaug Svarva
(chair of the board)

Gro Bakstad
(vice chair of the board)

Lillian Hattrem

Kim Wahl

Rune Bjerke
(group chief executive)

# Income statement

| DNB Bank ASA | | | | DNB Bank Group | |
|---|---|---|---|---|---|
| 2017 | 2018 | *Amounts in NOK million* | Note | 2018 | 2017 |
| 30 763 | 38 336 | Interest income, amortised cost | 17 | 53 261 | 47 883 |
| 6 363 | 4 055 | Other interest income | 17 | 5 009 | 6 516 |
| (9 604) | (19 026) | Interest expenses, amortised cost | 17 | (23 694) | (15 515) |
| (3 105) | 3 835 | Other interest expenses | 17 | 2 812 | (2 970) |
| **24 416** | **27 199** | **Net interest income** | 17 | **37 388** | **35 914** |
| 7 340 | 8 463 | Commission and fee income etc. | 19 | 9 983 | 9 228 |
| (3 296) | (3 424) | Commission and fee expenses etc. | 19 | (3 378) | (3 344) |
| 5 942 | 3 659 | Net gains on financial instruments at fair value | 20 | 1 351 | 4 513 |
| | | Profit from investments accounted for by the equity method | 34 | 314 | (112) |
| | | Net gains on investment properties | 33 | 62 | 143 |
| 6 325 | 6 231 | Other income | | 2 146 | 1 997 |
| **16 312** | **14 928** | **Net other operating income** | | **10 478** | **12 425** |
| **40 728** | **42 127** | **Total income** | | **47 866** | **48 339** |
| (9 639) | (9 629) | Salaries and other personnel expenses | 21 | (11 216) | (11 561) |
| (6 904) | (6 947) | Other expenses | 22 | (7 658) | (7 899) |
| (2 318) | (2 431) | Depreciation and impairment of fixed and intangible assets | 23 | (2 371) | (2 469) |
| **(18 860)** | **(19 008)** | **Total operating expenses** | | **(21 246)** | **(21 928)** |
| **21 867** | **23 120** | **Pre-tax operating profit before impairment** | | **26 620** | **26 410** |
| 2 047 | 837 | Net gains on fixed and intangible assets | | 529 | 735 |
| (1 937) | (1 029) | Impairment of financial instruments | 9, 10 | 139 | (2 428) |
| **21 978** | **22 927** | **Pre-tax operating profit** | | **27 288** | **24 718** |
| (3 068) | (3 561) | Tax expense | 25 | (4 976) | (4 903) |
| | | Profit from operations held for sale, after taxes | | (204) | (1) |
| **18 910** | **19 366** | **Profit for the year** | | **22 109** | **19 813** |
| 17 972 | 18 407 | Portion attributes to shareholders | | 21 150 | 18 876 |
| 938 | 959 | Portion attributable to additional Tier 1 capital holders | | 959 | 938 |
| **18 910** | **19 366** | **Profit for the year** | | **22 109** | **19 813** |
| 103.34 | 106.08 | Earnings/diluted earnings per share (NOK) | | 121.11 | 108.27 |
| | | Earnings per share for operations held for sale (NOK) | | (1.12) | (0.01) |
| 103.34 | 106.08 | Earnings per share for continuing operations excluding operations held for sale (NOK) | | 122.22 | 108.28 |
| 0.86 | 0.92 | Profit for the year as a percentage of total assets | | 0.91 | 0.78 |

# Comprehensive income statement

| DNB Bank ASA | | | DNB Bank Group | |
|---|---|---|---|---|
| 2017 | 2018 | *Amounts in NOK million* | 2018 | 2017 |
| **18 910** | **19 366** | **Profit for the year** | **22 109** | **19 813** |
| (115) | (103) | Actuarial gains and losses | (102) | (97) |
| | 85 | Financial liabilities designated at FVTPL, changes in credit risk | 221 | |
| (4) | 13 | Tax | (22) | (9) |
| (120) | (6) | Items that will not be reclassified to the income statement | 98 | (107) |
| 53 | (34) | Currency translation of foreign operations | 1 310 | 1 182 |
| | | Currency translation reserve reclassified to the income statement | (2) | (1 303) |
| | | Hedging of net investment | (1 060) | (687) |
| | | Hedging reserve reclassified to the income statement | 1 | 1 224 |
| | | Investments according to the equity method | | 160 |
| | | Tax | 265 | 172 |
| | | Tax reclassified to the income statement | | (338) |
| 53 | (34) | Items that may subsequently be reclassified to the income statement | 514 | 410 |
| **(67)** | **(39)** | **Other comprehensive income for the year** | **612** | **303** |
| **18 843** | **19 327** | **Comprehensive income for the year** | **22 721** | **20 117** |

# Balance sheet

| DNB Bank ASA | | | | DNB Bank Group | |
|---|---|---|---|---|---|
| 31 Dec. 2017 | 31 Dec. 2018 | *Amounts in NOK million* | Note | 31 Dec. 2018 | 31 Dec. 2017 |
| | | **Assets** | | | |
| 151 147 | 154 595 | Cash and deposits with central banks | 26, 27, 28 | 155 592 | 151 595 |
| 580 973 | 428 648 | Due from credit institutions | 8, 9, 26, 27, 28 | 128 415 | 237 849 |
| 730 782 | 793 702 | Loans to customers | 8, 9, 26, 27, 28 | 1 598 017 | 1 531 345 |
| 271 607 | 262 207 | Commercial paper and bonds | 26, 27, 28 | 257 725 | 266 642 |
| 6 310 | 6 580 | Shareholdings | 26, 28, 30, 31 | 7 955 | 7 303 |
| 146 953 | 138 306 | Financial derivatives | 15, 26, 28 | 125 358 | 132 649 |
| | | Investment properties | 33 | 638 | 990 |
| 9 007 | 9 541 | Investments accounted for by the equity method | 34 | 11 807 | 11 176 |
| 115 142 | 100 670 | Investments in subsidiaries | 35 | | |
| 3 515 | 3 429 | Intangible assets | 36 | 3 742 | 3 756 |
| 8 415 | 2 664 | Deferred tax assets | 25 | 983 | 757 |
| 7 842 | 8 413 | Fixed assets | 37 | 8 470 | 7 911 |
| | | Assets held for sale | | 1 258 | |
| 22 092 | 21 928 | Other assets | 39 | 7 750 | 7 888 |
| **2 053 787** | **1 930 683** | **Total assets** | | **2 307 710** | **2 359 860** |
| | | **Liabilities and equity** | | | |
| 332 798 | 277 437 | Due to credit institutions | 26, 27, 28 | 187 307 | 222 501 |
| 956 525 | 916 258 | Deposits from customers | 26, 27, 28, 40 | 940 087 | 980 374 |
| 179 534 | 162 683 | Financial derivatives | 15, 26, 28 | 110 005 | 112 020 |
| 326 171 | 335 317 | Debt securities issued | 26, 27, 28, 41 | 803 796 | 782 127 |
| 3 765 | 807 | Payable taxes | 25 | 2 012 | 4 702 |
| 74 | 90 | Deferred taxes | 25 | 3 471 | 847 |
| 51 103 | 25 546 | Other liabilities | 26, 43 | 15 903 | 19 304 |
| | | Liabilities held for sale | | 382 | |
| 1 652 | 1 790 | Provisions | | 2 534 | 1 766 |
| 2 906 | 3 111 | Pension commitments | 24 | 3 198 | 2 995 |
| 29 538 | 31 082 | Subordinated loan capital | 26, 27, 28, 42 | 31 082 | 29 538 |
| **1 884 067** | **1 754 121** | **Total liabilities** | | **2 099 777** | **2 156 175** |
| 18 256 | 18 256 | Share capital | | 18 256 | 18 256 |
| 19 895 | 19 895 | Share premium | | 20 611 | 20 611 |
| 16 159 | 16 194 | Additional Tier 1 capital | | 16 194 | 16 159 |
| 115 411 | 122 218 | Other equity | | 152 872 | 148 660 |
| **169 720** | **176 562** | **Total equity** | 44 | **207 933** | **203 685** |
| **2 053 787** | **1 930 683** | **Total liabilities and equity** | | **2 307 710** | **2 359 860** |

# Statement of changes in equity

**DNB Bank ASA**

| *Amounts in NOK million* | Share capital | Share premium | Additional Tier 1 capital | Net currency translation reserve | Liability credit reserve | Other equity | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance sheet as at 31 December 2016** | **18 314** | **19 895** | **15 952** | **517** | | **113 425** | **168 104** |
| Profit for the year | | | 938 | | | 17 972 | 18 910 |
| Actuarial gains and losses | | | | | | (115) | (115) |
| Currency translation of foreign operations | | | | 53 | | | 53 |
| Tax on other comprehensive income | | | | | | (4) | (4) |
| Comprehensive income for the year | | | 938 | 53 | | 17 852 | 18 843 |
| Demerger Vipps AS | (59) | | | | | (641) | (700) |
| Interest payments additional Tier 1 capital | | | (724) | | | | (724) |
| Currency movements taken to income | | | (7) | | | 7 | |
| Transfer of lending portfolio to subsidiary (continuity) | | | | | | 2 | 2 |
| Dividends and group contribution to DNB ASA for 2017 | | | | | | (15 804) | (15 804) |
| **Balance sheet as at 31 December 2017** | **18 256** | **19 895** | **16 159** | **570** | | **114 841** | **169 720** |
| Implementation IFRS 9 | | | | | (127) | (899) | (1 026) |
| **Balance sheet as at 1 January 2018** | **18 256** | **19 895** | **16 159** | **570** | **(127)** | **113 942** | **168 694** |
| Profit for the year | | | 959 | | | 18 407 | 19 366 |
| Actuarial gains and losses | | | | | | (103) | (103) |
| Financial liabilities designated at FVTPL, changes in credit risk | | | | | 85 | | 85 |
| Currency translation of foreign operations | | | | (34) | | | (34) |
| Tax on other comprehensive income | | | | | (21) | 34 | 13 |
| Comprehensive income for the period | | | 959 | (34) | 64 | 18 338 | 19 327 |
| Interest payments additional Tier 1 capital | | | (892) | | | | (892) |
| Currency movements taken to income | | | (32) | | | 32 | |
| Dividends and group contribution to DNB ASA for 2018 | | | | | | (10 568) | (10 568) |
| **Balance sheet as at 31 December 2018** | **18 256** | **19 895** | **16 194** | **536** | **(63)** | **121 745** | **176 562** |

**DNB Bank Group**

| *Amounts in NOK million* | Share capital | Share premium | Additional Tier 1 capital | Net currency translation reserve | Liability credit reserve | Other equity | Total equity |
|---|---|---|---|---|---|---|---|
| **Balance sheet as at 31 December 2016** | **18 314** | **20 611** | **15 952** | **4 266** | | **130 934** | **190 078** |
| Profit for the year | | | 938 | | | 18 876 | 19 813 |
| Actuarial gains and losses | | | | | | (97) | (97) |
| Currency translation of foreign operations | | | | (121) | | | (121) |
| Hedging of net investment | | | | 537 | | | 537 |
| Investments according to the equity method | | | | | | 160 | 160 |
| Tax on other comprehensive income | | | | (166) | | (9) | (176) |
| Comprehensive income for the year | | | 938 | 250 | | 18 929 | 20 116 |
| Demerger Vipps AS | (59) | | | | | (641) | (700) |
| Interest payments additional Tier 1 capital | | | (724) | | | | (724) |
| Currency movements taken to income | | | (7) | | | 7 | |
| Dividends and group contribution to DNB ASA for 2016 | | | | | | (5 084) | (5 084) |
| **Balance sheet as at 31 December 2017** | **18 256** | **20 611** | **16 159** | **4 516** | | **144 144** | **203 685** |
| Implementation IFRS 9 | | | | | (342) | (1 437) | (1 779) |
| **Balance sheet as at 1 January 2018** | **18 256** | **20 611** | **16 159** | **4 516** | **(342)** | **142 707** | **201 907** |
| Profit for the year | | | 959 | | | 21 150 | 22 109 |
| Actuarial gains and losses | | | | | | (102) | (102) |
| Financial liabilities designated at FVTPL, changes in credit risk | | | | | 221 | | 221 |
| Currency translation of foreign operations | | | | 1 308 | | | 1 308 |
| Hedging of net investment | | | | (1 060) | | | (1 060) |
| Tax on other comprehensive income | | | | 265 | (55) | 34 | 243 |
| Comprehensive income for the year | | | 959 | 514 | 166 | 21 082 | 22 721 |
| Interest payments additional Tier 1 capital | | | (892) | | | | (892) |
| Currency movements taken to income | | | (32) | | | 32 | |
| Dividends and group contribution to DNB ASA for 2017 | | | | | | (15 804) | (15 804) |
| **Balance sheet as at 31 December 2018** | **18 256** | **20 611** | **16 194** | **5 029** | **(176)** | **148 019** | **207 933** |

# Cash flow statement

| DNB Bank ASA | | | DNB Bank Group | |
|---|---|---|---|---|
| 2017 | 2018 | *Amounts in NOK million* | 2018 | 2017 |
| | | **Operating activities** | | |
| (39 831) | (68 939) | Net payments on loans to customers | (58 722) | (36 193) |
| 27 604 | 35 182 | Interest received from customers | 54 875 | 47 789 |
| 36 940 | (36 552) | Net receipts on deposits from customers | (48 364) | 34 723 |
| (5 346) | (8 881) | Interest paid to customers | (8 998) | (4 425) |
| (28 516) | 98 864 | Net receipts/payments on loans to credit institutions | 75 975 | (40 214) |
| 5 074 | 7 393 | Interest received from credit institutions | 4 082 | 2 449 |
| (3 058) | (4 769) | Interest paid to credit institutions | (3 783) | (2 428) |
| (21 783) | 18 872 | Net receipts/payments on the sale of financial assets for investment or trading | 40 583 | (20 381) |
| 4 521 | 3 866 | Interest received on bonds and commercial paper | 3 797 | 4 394 |
| 3 920 | 4 875 | Net receipts on commissions and fees | 6 440 | 6 035 |
| (16 322) | (16 071) | Payments to operations | (19 424) | (19 505) |
| (1 897) | (3 977) | Taxes paid | (4 585) | (10 004) |
| 5 289 | (5 741) | Other receipts | 1 774 | 6 282 |
| **(33 406)** | **24 123** | **Net cash flow from operating activities** | **43 651** | **(31 478)** |
| | | **Investment activities** | | |
| (1 010) | (2 094) | Net payments on the acquisition of fixed assets | (2 404) | (2 274) |
| | | Net receipts/payments, investment properties | 349 | 382 |
| (2 517) | 5 868 | Net investment in long term shares | (92) | (585) |
| 347 | 869 | Dividends received on long-term investments in shares | 13 | 7 |
| **(3 181)** | **4 642** | **Net cash flow from investment activities** | **(2 134)** | **(2 470)** |
| | | **Funding activities** | | |
| 1 788 376 | 1 050 476 | Receipts on issued bonds and commercial paper (see note 42) | 1 115 987 | 1 849 030 |
| (1 804 568) | (1 049 827) | Payments on redeemed bonds and commercial paper (see note 42) | (1 109 463) | (1 856 373) |
| (5 926) | (6 926) | Interest payment on issued bonds and commercial paper | (14 193) | (13 853) |
| 10 106 | 9 419 | Receipts on the raising of subordinated loan capital (see note 43) | 9 419 | 10 106 |
| (10 544) | (8 542) | Redemptions of subordinated loan capital (see note 43) | (8 542) | (10 544) |
| (780) | (574) | Interest payments on subordinated loan capital | (579) | (784) |
| (724) | (892) | Interest payments on additional Tier 1 capital | (892) | (724) |
| (4 018) | (17 735) | Group contributions payments | (16 094) | (5 318) |
| **(28 080)** | **(24 600)** | **Net cash flow from funding activities** | **(24 357)** | **(28 459)** |
| **6 082** | **509** | **Effects of exchange rate changes on cash and cashs equivalents** | **(12 038)** | **5 436** |
| **(58 584)** | **4 674** | **Net cash flow** | **5 122** | **(56 971)** |
| 211 768 | 153 184 | Cash as at 1 January | 154 051 | 214 790 |
| | | Amount of cash in subsidiaries which control is lost | | (3 768) |
| (58 584) | 4 674 | Net payments of cash | 5 122 | (56 971) |
| 153 184 | 157 858 | Cash as at 31 December *) | 159 173 | 154 051 |
| | | *) *Of which:* | | |
| *151 147* | *154 595* | *Cash and deposits with central banks* | *155 592* | *151 595* |
| *2 036* | *3 263* | *Deposits with credit institutions with no agreed period of notice* 1) | *3 581* | *2 456* |

1) *Recorded under "Due from credit institutions" in the balance sheet.*

The cash flow statement shows receipts and payments of cash and cash equivalents during the year. The statement has been prepared in accordance with the direct method. Cash flows are classified as operating activities, investment activities or funding activities. Balance sheet items are adjusted for the effects of exchange rate movements. Cash is defined as cash and deposits with central banks, and deposits with credit institutions with no agreed period of notice.

# Note 1 Accounting principles



## 1. Corporate information

DNB Bank ASA is a subsidiary of DNB ASA, which is a Norwegian public limited company listed on the Oslo Stock Exchange (Oslo Børs). The consolidated financial statements for 2018 were approved by the Board of Directors on 6 March 2019.

The banking group offers banking services and securities and investment services and real estate broking services in the Norwegian and international retail and corporate markets.

The visiting address to the banking group's head office is Dronning Eufemias gate 30, Bjørvika, Oslo, Norway.

## 2. Basis for preparation

DNB Bank group has prepared the consolidated financial statements for 2018 in accordance with International Financial Reporting Standards (IFRSs), as issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (EU).

DNB Bank ASA has prepared its stand-alone financial statements according to the Norwegian Ministry of Finance's regulations on annual accounts, Section 1-6, on the use of IFRS, hereinafter called the Norwegian IFRS regulations, which implies that recognition and measurements are in accordance with IFRS. The only exception is that the Norwegian IFRS regulations also give permission to recognise provisions for dividends and group contributions in subsidiaries as income and recognise the Board of Directors' proposed dividends and group contributions as liabilities on the balance sheet date. According to IFRS, dividends should be presented as equity until approved by the general meeting.
DNB Bank ASA presents disclosure information in accordance with IFRS.

The consolidated financial statements are based on the historic cost principle, with the exception of: financial assets and liabilities measured at fair value and investment properties. The consolidated financial statements are presented in Norwegian kroner. Unless otherwise specified, all amounts are rounded to the nearest million.

The banking group's consolidated balance sheets are primarily based on an assessment of the liquidity of the assets and liabilities.

## 3. Changes in accounting principles

The following new standards were adopted with effect from 1 January 2018:

**IFRS 9 Financial Instruments**

In July 2014, the IASB issued the new standard for financial instruments IFRS 9 Financial Instruments. The new standard is effective from 1 January 2018 and replaces the current IAS 39. Comparative information has not been restated. The implementation effect has been recognised as a reduction in "Other equity".

DNB Bank Group early applied the amendments to IFRS 9 regarding financial assets with prepayment features with negative compensation, in connection with the implementation of IFRS 9 on 1 January 2018. The amendments have no material impact on the DNB Bank Group's financial statements.

The accounting principles for financial instruments for the year 2017 as well as disclosures related to the line item Loans to customers in the balance sheet and the line item Impairment of loans and guarantees in the income statement for 2017 can be found in note 49 Additional financial instruments disclosures from 2017. The transition disclosures are presented under 19. Transition to IFRS 9.

Changes to classification and measurement

Under IFRS 9 the banking goup classifies its financial assets based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The IAS 39 measurement categories of financial assets were replaced by three main measurement categories: amortised cost, fair value through other comprehensive income and fair value through profit or loss.

Classification of financial liabilities remains unchanged, except for the treatment of changes in fair value related to credit risk for financial liabilities that are designated at fair value through profit or loss. The change in fair value related to credit risk is separated and presented in other comprehensive income.

The banking group's classification and measurement of financial assets and liabilities is explained under 7. Financial Instruments.

Changes to impairment

The IFRS 9 expected credit loss model replaces the incurred loss model from IAS 39.

The measurement of the provision for expected credit losses on financial assets under IFRS 9 depends on whether the credit risk has increased significantly since initial recognition. In this assessment, a three-stage approach is introduced. At initial recognition, as well as if the credit risk has not increased significantly since initial recognition, the provision should equal 12-month expected credit losses ("stage 1"). If the credit risk has increased significantly, the provision should equal lifetime expected credit losses ("stage 2"). This dual approach replaced the collective impairment model. For credit impaired financial assets there is no significant changes in the rules compared to the IAS 39 rules. Credit impaired financial assets is from now on referred to as the third stage ("stage 3").

The DNB Bank Group's expected credit loss measurement model is explained under 7. Financial Instruments and note 5 Measurement of expected credit loss.

IFRS 15 Revenue from contracts with customers

IFRS 15 was published by the IASB in May 2014 and is effective from 1 January 2018.

IFRS 15 establishes a new five-step model that applies to revenue arising from contracts with customers. Revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. According to the new rules, variable revenue can only be recognised to the extent it is highly probable that a significant reversal of the amount of cumulative revenue will not occur. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

Contracts with customers that are accounted for in accordance with IFRS 9 Financial instruments follow the requirements in IFRS 9 as they are scoped out of IFRS 15. The new rules have no material impact on the banking group's financial statements. See 6. Recognition in the income statement and in other comprehensive income, for further description of the revenue accounting principles.

## 4. Consolidation

The consolidated financial statements for DNB Bank ASA ("DNB Bank" or "the banking group") include DNB Bank and subsidiaries.

The accounting principles are applied consistently when consolidating ownership interests in subsidiaries and are based on the same reporting periods as those used for the parent company.

When preparing the consolidated financial statements, intragroup transactions and balances, along with gains and losses on transactions between the bankinggroup units, are eliminated.

### Subsidiaries

Subsidiaries are defined as companies in which DNB Bank, directly or indirectly, has control. Control over an entity is evidenced by the banking group's ability to exercise its power in order to affect any variable returns that the banking group is exposed to through its involvement with the entity. When assessing whether to consolidate an entity the banking group evaluates a range of control factors, including:

- the purpose and design of the entity
- the relevant activities and how these are determined
- whether the banking group's rights result in the ability to direct the relevant activities
- whether the banking group's has exposure or right to variable returns
- whether the banking group's has the ability to use its power to affect its return

Where voting rights are relevant, the banking group is deemed to have control where it holds, directly or indirectly, more than half of the voting rights in an entity, unless the banking group through agreements does not have corresponding voting rights in relevant decision-making bodies. With respect to companies where the banking group's holding represent less than half of the rights, it makes an assessment of whether other factors indicate de facto control.

Subsidiaries are fully consolidated from the date on which control is obtained and until control ceases.

### Associated companies and joint arrangements

Associated companies are companies in which DNB Bank has a significant influence, that is the power to participate in the financial and operating policy decisions of the companies, but is not in control or joint control of the companies. DNB Bank assumes that significant influence exists when the banking group holds between 20 and 50 per cent of the voting share capital or primary capital in another entity. Associated companies are recognised in the consolidated financial statements according to the equity method.

Joint arrangements are classified as either joint ventures or joint operations. When accounting for joint ventures, the equity method is applied. For joint operations, the parties recognise their rights to assets and liabilities in their balance sheets and recognise their share of income and costs incurred jointly in their income statements. DNB's joint arrangements are determined to be joint ventures.

Under the equity method of accounting, the investment is recognised at cost at the time of. Any goodwill is included in the acquisition cost. The banking group's share of profits or losses is recognised in the income statement and added to the cost price of the investment along with other changes in equity which have not been reflected in the income statement. The banking group's share of losses is not reflected in the income statement if the carrying amount of the investment will be negative, unless the banking group has taken on commitments or issued guarantees for the commitments of the associated company or joint venture.

At the end of each reporting period the banking group assess whether any indication of impairment exists. If such indication exists, the investment will be tested for impairment. The carrying value of the investment will be compared with the recoverable amount (the higher of fair value less costs to sell and value in use). If necessary, the carrying value will be written down to the recoverable amount.

The banking group's share of unrealised gains on transactions between the banking group and its associated companies or joint ventures is eliminated. The same applies to unrealised losses unless the transaction indicates an impairment of the transferred assets.

### Conversion of transactions in foreign currency

The presentation currency in the banking group's consolidated financial statements is Norwegian kroner. The parent entity in the banking group, DNB Bank ASA, has Norwegian kroner as its functional currency. Balance sheet items of foreign branches and subsidiaries in other functional currencies are translated into the presentation currency, Norwegian kroner, according to the exchange rates prevailing on the balance sheet date, while profit or loss items are translated according to exchange rates on the transaction date. Changes in net assets resulting from exchange rate movements are recognised in other comprehensive income.

Monetary assets and liabilities in foreign currency are translated into the entities' functional currency at the exchange rates prevailing on the balance sheet date. Changes in the carrying amount of such assets due to exchange rate movements between the transaction date and the balance sheet date are recognised within the line item "Net gains on financial instruments at fair value" in the income statement.

## 5. Segment information

Financial governance in DNB Bank is adapted to the different customer segments. The follow-up of total customer relationships and segment profitability are two important dimensions when making strategic priorities and deciding where to allocate the banking group's resources. Reported figures for the various segments reflect the banking group's total sales of products and services to the specific segment.

The segment information has been prepared on the basis of internal financial reporting to the banking group management team (chief operating decision-making body) for an assessment of developments and the allocation of resources. Figures for the operating segments are based on DNB Bank's management model and the banking group's accounting principles. The figures are based on a number of assumptions, estimates and judgmental distribution.

According to DNB Bank's management model, the operating segments are independent profit centres that are fully responsible for their profit after tax and for achieving the targeted returns on allocated capital. All of the banking group's customer activities are divided among the operating segments, along with the related balance-sheet items, income and expenses.

Excess liquidity and liquidity deficits in the operating segments are placed in or borrowed from the bank's Treasury at market terms, where interest rates are based on duration and the banking group's financial position.

When operating segments cooperate on the delivery of financial services to customers, internal deliveries are based on market prices.

Services provided by group services and staff units are charged to the operating segments in accordance with service agreements. Joint expenses which are indirectly linked to activities in the operating segments, are charged to the operating segments on the basis of distribution formulas.

A number of key functions and profits from activities not related to the operating segments' strategic operations are presented within Other operations. This item comprises income and expenses relating to the banking group's liquidity management, income from investments in equity instruments not included in the trading portfolio, interest income assigned to the banking group's unallocated capital, ownership-related expenses and income from the management of the bank's real estate portfolio.

Effective from 2018 the Risk management segment, previously reported as Trading, was combined with Other operations.

Net profits from repossessed operations which are fully consolidated in the banking group are presented as "Profit from repossessed operations" in the segment reporting. The effect of consolidation of the repossessed companies is presented within Other operations.

Return on capital is estimated on the basis of internal measurement of risk-adjusted capital requirements. See note 2 Segments for further information about the principles for allocation of capital.

## 6. Recognition in the income statement and in other comprehensive income

Interest income is recognised using the effective interest method. This implies that interest is recognised when incurred, with the addition of amortised front-end fees and any other fees which are regarded as an integral part of the effective interest rate.

The effective interest rate is set by discounting contractual cash flows based on the expected life of the asset. Cash flows include front-end fees and direct transaction costs which are not paid directly by the customer.

Interest is recognised according to the effective interest method with respect to both balance sheet items measured at amortised cost and balance sheet items measured at fair value in the income statement, with the exception of front-end fees on loans at fair value, which are recognised when earned. Interest on impaired loans ("stage 3") corresponds to the effective interest rate on the book value, net of impairment.

"Net other operating income" includes, among others, fees and commissions relating to money transfers, financial guarantees, performance/success fees, credit broking, real estate broking, corporate finance and securities services. Credit broking commissions include syndication income in the form of fees and commissions from transactions where DNB Bank arranges the loans without retaining parts of the loan itself or participates in a loan syndicate and receives compensation in excess of the effective interest received by the other participants. Fees that are not included in the effective interest rate calculation, as well as commissions, are recognised over time when the services are rendered or at point in time when the transactions are completed.

Variable performance/ success fees are only recognised to the extent it is highly probable that a significant reversal of the amount of cumulative revenue will not occur.

Fees related to credit broking, real estate broking and corporate finance services include issuing services, are recognised when the transactions are completed.

Dividends on investments are recognised at the date the dividends are approved at the general meeting.

Income from financial instruments carried at fair value through profit or loss is described under 7. Financial instruments while net income from investment property is described under 8. Investment property and fixed assets.

Items of income and expense in other comprehensive income are grouped based on whether or not they can be reclassified to the income statement at a future date.

## 7. Financial instruments

### Recognition and derecognition

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 the banking group becomes a party to the contractual provisions of the instrument.

Derecognition of financial assets

Financial assets are derecognised when the right to receive and retain cash flows from the asset has expired or been transferred, and also if modifications lead to derecogntion. The banking group enters into certain transactions where it transfers assets recognised on its balance sheet, but retains either all or parts of the risks and rewards of the transferred asset. If all or substantially all of the risks and rewards are retained, the transferred financial asset is not derecognised from the balance sheet.

Derecognition of financial liabilities

Financial liabilities are derecognised when the contractual obligations have been discharged, cancelled or have 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
- an assessment of whether the modification is caused by distress or made on commercial terms.

### Repurchase and reverse repurchase agreements

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 banking group. This is done irrespective of whether the banking group has the right to sell or repledge the securities. Upon the sale of securities received, the banking group recognises an obligation in the balance sheet. For more information, see note 32 Securities received which can be sold or repledged.

Securities sold under agreements to repurchase are generally not derecognised as the risk and returns are normally not transferred. This is done irrespective of whether the recipient is entitled to sell or repledge the securities. These securities are presented as securities in the banking group's balance sheet and are specified in note 31 Transferred assets or assets with other restrictions.

### Securities borrowing and lending agreements

Transactions mainly include equity borrowing or lending. Agreements on securities borrowing and lending are generally based on collateral in the form of cash or securities.

Equities which have been received or transferred in such transactions, are generally not recognised or derecognised, as risks and returns associated with ownership of the assets are normally not taken over or transferred.

Equities received, including equities received as collateral, are registered off the balance sheet irrespective of whether the banking group has the right to sell or repledge the securities. Upon the sale of securities received, the banking group will recognise an obligation in the balance sheet. For more information, see note 32 Securities received which can be sold or repledged.

Transferred equities and collateral which the recipient is entitled to sell or repledge, are presented as equities or securities in the banking group's balance sheet and are specified in note 31 Transferred assets or assets with other restrictions.

### Classification and presentation

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

- amortised cost
- fair value through other comprehensive income (FVOCI)
- 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, the banking group assesses at portfolio level how the business is managed, sales activities, risk management and how information is provided to the executive management. The business model assessment has been performed for each business area. The portfolios belonging to the customer areas are held within a business model whose objective is to hold the assets and collect the contractual cash flows, while there are several different business models for the portfolios belonging to the product area Markets. For instance, the business model for the liquidity portfolio in Markets is to both hold the assets to collect the contractual cash flows and to sell the assets. However, the portfolio is designated at fair value through profit or loss in order to reduce an accounting mismatch.

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 (SPPI) pass the test if the interest only compensates for the time value of money, credit risk, liquidity risk, servicing and administrative costs and a profit margin.

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

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

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

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

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

Financial assets measured at amortised cost

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

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

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

A change in expected credit loss allowance for financial assets 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, cash and deposits, receivables, reverse repurchase agreements and bond investments.

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

This category includes deposits from customers and credit institutions, repurchase agreements, issued commercial paper and bonds, subordinated loan capital and perpetual subordinated loan capital securities.

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

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

At initial recognition, financial assets measured at fair value through other comprehensive income are recognised at fair value plus any directly attributable transaction costs. Subsequent measurement is fair value through other comprehensive income. Changes in fair value are recognised in other comprehensive income and accumulated within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains or losses are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss recognised in other comprehensive income, is recycled over profit or loss and recognised in "Net gains on financial instruments at fair value". Impairment losses and reversals are measured based on a three-stage expected credit loss model, which is described under Expected credit loss measurement.

This category comprises mortgage loans with variable interest rates in DNB Bank ASA. Since these loans are regularly sold to DNB Boligkreditt AS, the business model is hold to collect and sell.

Financial instruments measured at fair value through profit or loss
The following instruments are recognised in this category:

- derivatives
- equity instruments
- financial instruments held for trading
- financial assets managed at fair value
- 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", except for interest income and interest expenses from financial instruments belonging to the trading portfolio.

The trading portfolio consists of instruments, which are acquired primarily for the purpose of selling or repurchasing in the short term. This includes financial derivatives, shareholdings and bond portfolios. Interest income and interest expenses from financial instruments belonging to the trading portfolio are presented as "Net gains on financial instruments at fair value".

Financial assets designated at fair value through profit or loss on initial recognition, mainly consist of bonds and fixed-rate mortgage loans in Norwegian kroner.

Financial liabilities designated at fair value through profit or loss on initial recognition mainly consist of fixed-rate securities issued in Norwegian kroner. The change in fair value related to changes in DNB Bank's credit risk is calculated using relevant credit spread curves from Nordic Bond Pricing. Fair value of changes in credit risk on other financial liabilities is limited due to the short term nature of the instruments. Changes in credit risk on DNB Bank's long-term borrowings in Norwegian kroner designated at fair value through profit or loss do not create or enlarge an accounting mismatch and are therefore separated and recognised in other comprehensive income. See the statement of changes in equity for a presentation of the effects.

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.

Issued financial guarantees
Contracts resulting in the banking group having to reimburse the holder for a loss incurred because a specific debtor fails to make payments when due, are classified as issued financial guarantees.

On initial recognition, issued financial guarantees are recognised at the consideration received for the guarantee. Issued financial guarantees are subsequently measured at the higher of the amount of loss allowance and the amount initially recognised less the cumulative amount of any revenue recognised in the income statement.

When issuing financial guarantees, the consideration for the guarantee is presented under the line item "Provisions" in the balance sheet. Income from issued financial guarantees and expenses from bought financial guarantees, are amortised over the duration of the instruments and presented as "Commission and fee income" or "Commission and fee expense".

Change in expected credit loss is recognised under the line item "Impairment of financial instruments" in the income statement.

Loan commitments
An expected credit loss is calculated for loan commitments and presented under the line item "Provisions" in the balance sheet. Any change in the expected credit loss allowance is recognised under the line item "Impairment of financial instruments" in the income statement.

For instruments containing both a drawn and an undrawn component, the expected credit loss is split pro rata between the loss allowance and provisions in the balance sheet based on the relative parts of the exposure.

Financial instruments with the characteristics of equity
Issued additional Tier 1 capital instruments are instruments where DNB has a unilateral right not to repay interest or the principal to the investors. As a consequence of these terms, the instruments do not meet the requirements for a liability and are therefore presented on the line "Additional Tier 1 Capital" within the banking group's equity. Transaction expenses and accrued interest are presented as a reduction in "Other equity", while the advantage of the tax deduction for the interest will give an increase in "Other equity".

Equity in foreign currency shall be converted to Norwegian kroner based on the exchange rate on the transaction date and is not subject to subsequent revaluation.

### Offsetting

Financial assets and financial liabilities are offset and presented net in the balance sheet when the banking group has a legally enforceable right to offset recognised amounts and has agreed to settle the balances on a net basis or to realise the asset and settle the liability simultaneously. Master netting agreements or similar agreements give the right to offset in the event of default. Such agreements reduce the banking group's exposure in the event of default, but do not on their own qualify for offsetting in accordance with IFRS, as there also needs to be an intention to settle the contractual cash flows net on an ongoing basis. See note 29 Offsetting for details about the financial assets and financial liabilities subject to offsetting agreements.

### Determination of 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 liabilities in active markets are measured at the price within the bid-ask spread that is most representative of the fair value at the measurement date. In most cases bid or asking prices for these instruments are the most representative price for assets and liabilities respectively. Derivatives which are carried net are recognised at midmarket prices at the balance sheet date.

Financial instruments measured at fair value are valued on a daily basis with the exception of a few financial instruments that are valued on a monthly or quarterly basis. As far as possible, directly observable market prices are used. Valuations of the various types of financial instruments are based on well-acknowledged techniques and models. The prices and input parameters used are controlled and assessed based on established routines and control procedures.

The control environment for fair value measurement of financial instruments is an integrated part of the company's financial reporting. A number of controls are carried out on a daily basis, including controls of the day-one results on traded positions and controls of the key input parameters in the valuation. At the end of each month and quarter, extended controls are carried out to ensure that the valuations are consistent with the accounting policy for fair value including variation analyses. Special emphasis is placed on valuations in the level 3 in the valuation hierarchy, where the effects may be significant or particularly challenging.

<u>Instruments traded in an active market</u>

With respect to instruments traded in an active market, quoted prices are used, obtained from a stock exchange, a broker or a price-setting agency.

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.

Some investments in equities and commercial paper and bonds are traded in active markets.

<u>Instruments not traded in an active market</u>

Financial instruments not traded in an active market are valued according to different valuation techniques and are divided into two categories:

Valuation based on observable market data:

- recently observed transactions in the relevant instrument between informed, willing and independent parties
- 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.

Valuation based on other factors than observable market data:

- estimated cash flows
- valuation of assets and liabilities in companies
- models where key parameters are not based on observable market data
- possible industry standards

In the valuation of OTC derivatives, a fair value adjustment is made for the counterparty's credit risk (CVA) and for the banking group's own credit risk (DVA). In addition, an adjustment is made for expected funding costs (FVA).

The banking group estimates CVA as a function of a simulated expected positive exposure, the counterparty's probability of default and loss given default. The majority of the banking group's derivative counterparties have no market-implied credit spread and no external rating. Internal ratings are therefore combined with historical credit default swap (CDS) spreads as well as current CDS index prices to arrive at the counterparty's estimated CDS spreads. This means that the banking group uses its own credit models and their discriminatory power, but calibrates against pricing levels for similar credit risk in the market. The DVA is based on the same approach, using an assessment of the banking group's credit spread.

FVA reflects the estimated present value of the future funding costs associated with funding uncollateralised derivative exposures. It is calculated by applying a funding spread to the expected exposure. Funding benefits are not estimated for positions for which DNB calculates DVA.

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 factors that market participants would take into account.

### 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 and loss:

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

The banking group 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.

The banking group 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 5 Measurement of expected credit loss for more information on the methodology for estimating expected credit loss.

Repossession of assets
Assets which are repossessed as part of the management of defaulted loans are recognised at fair value at the time of acquisition. Such assets are recognised in the balance sheet according to the nature of the asset. Any difference between the carrying amount of the loan and the fair value of the asset is presented within the line item "Impairment of financial instruments" in the income statement. Subsequent valuations and presentation of the impact to the income statement follow the principles for the relevant balance sheet item.

**Hedge accounting**
The banking group has elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

Both derivative and non-derivative instruments are used to manage exposures to interest rate risk and foreign exchange risk. Hedge accounting is applied to economic hedge relationships in order to reduce or eliminate an accounting mismatch. Fair value hedge accounting is applied to hedges of interest rate risk on issued debt in foreign currency in DNB Bank ASA and DNB Bank Group. Net investment hedge is applied to currency translation of investments in foreign operations in DNB Bank Group. See note 15 Financial derivatives and hedge accounting for more information.

Fair value hedge of interest rate risk on issued debt
DNB uses interest rate swaps to protect against changes in the fair value of fixed-rate issued bonds and subordinated debt in foreign currency 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, the correlation between the debt instrument and the derivative is documented at the inception of the hedge. Thereafter it is periodically assessed whether the derivatives designated as hedging instruments have been highly effective in offsetting changes in fair value of the hedged item. The accumulated fair value changes related to interest rate risk on the debt instruments is compared with the accumulated fair value changes related to movements in the interest rate swaps. A hedge is effective if the result is within a range of 80 to 125 per cent.

DNB's 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 income statement. Interest income and expense from financial instruments designated as hedging instruments are presented as "Net interest income".

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 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.

Net investment hedge of investments in foreign operations
DNB hedges investments in foreign subsidiaries to eliminate the foreign currency exposure that arises when a subsidiary has a different functional currency from that of the banking group. The amount of the investment varies as a result of fluctuations in spot exchange rates between the functional currency of the subsidiaries and the banking group's functional currency. This risk is hedged, since it may have significant financial impact on the banking group's financial statements.

Foreign currency borrowings are used as hedging instruments. Hedge effectiveness is periodically assessed by comparing changes in the carrying amount of the foreign currency borrowings, that are attributable to a change in spot rate, with changes in the investment in the subsidiary due to movement in the spot rate. The hedges are expected to be highly effective, since the investments are hedged with instruments in the same currency and with an amount corresponding to the size of the investment.

Gains or losses after taxes on the hedging instruments are recognised directly in the banking group's equity and presented in the statement of changes in equity as "Net investment hedge reserve" and in the comprehensive income statement as "Hedging of net investment". If a foreign operation is disposed of, the cumulative gains or losses of the hedging instruments recognised in equity is reclassified to the income statement.

## 8. Investment property and fixed assets
Properties held to generate profits through rental income or for an increase in value, are presented in the balance sheet as investment property. Other tangible assets are presented as fixed assets in the balance sheet.

On initial recognition, investment properties are measured at cost including acquisition costs.

In subsequent periods, investment properties are measured at fair value. Therefore, no annual depreciation is made on an investment property. Fair value is determined by using well-acknowledged valuation techniques. Internal and external expertise is used for valuations. A selection of external appraisals are obtained and compared with internal valuations for control purposes. Providers of valuations are also followed up on an ongoing basis through dialogue and enquiries concerning the valuation of individual properties. Changes in fair value of investment property are recognised within the line item "Net gains on investment property" in the income statement.

Other tangible assets are measured at cost less accumulated depreciation and impairment losses. Cost includes expenses directly related to the acquisition of the asset. Subsequent expenses are capitalised on the relevant assets when it is probable that future economic benefits associated with the expenditure will flow to DNB Bank and can be measured reliably. Expenses for repairs and maintenance are recognised in the income statement as they occur. The residual values and useful lives of the assets are reviewed annually and adjusted if required.

Gains and losses on the sale of fixed assets are recognised within the line item "Net gain on fixed and intangible assets" in the income statement.

## 9. Intangible assets
**Goodwill**
Goodwill is initially measured at the acquisition date, as the excess of the aggregate of the consideration transferred and the amount recognised for any non-controlling interest over the fair value of the identifiable assets acquired and liabilities assumed in a business combination. Goodwill acquired is allocated to each cash generating unit, or group of units, expected to benefit from the combinaion's synergies. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

### Development of IT systems and software

Acquired software is recognised at cost with the addition of expenses incurred to make the software ready for use. Identifiable costs for internally developed software controlled by the banking group where it is probable that economic benefits will cover development expenses at the balance sheet date, are recognised as intangible assets. When assessing capitalisation, the economic benefits are evaluated on the basis of profitability analyses. Development expenses include expenses covering pay to employees directly involved in the project, materials and a share of directly related overhead expenses. Expenses relating to maintenance of software and IT systems are recognised in the income statement as they occur. Software expenses recognised in the balance sheet are depreciated according to a straight line principle over their expected useful life, usually five years. The assessment for whether there is a need for impairment is considered according to the principles described below.

## 10. Impairment of fixed and intangible assets

At end of each reporting period the banking group considers whether any indication of impairment of fixed or intangible assets exists. If such indication exists, the recoverable amount of the asset is calculated to estimate possible impairment. Goodwill and intangible assets with an indefinite useful life are tested for impairment minimum once a year. DNB has chosen to perform this annual test in the fourth quarter.

The recoverable amount represents the higher of an asset's fair value less costs to sell and its value in use. If the asset's carrying amount exceeds the estimated recoverable amount, the asset is written down to its recoverable amount. See note 36 Intangible assets for description of impairment testing.

The following relevant criteria are considered when assessing whether indications of impairment exists:

- a decline in the asset's market value
- changes in the long-term return requirement which may affect the discount rate used in the calculation of the asset's value in use
- plans to restructure or liquidate the asset
- the asset generates less income than anticipated.

Calculations of value in use are based on historical results and plan figures approved by management. On the basis of plan figures for the cash-generating units, a future cash flow is estimated, defined as the potential return to the owner. The return includes profits from the cash-generating unit adjusted for the need to build sufficient capital to meet expected future capital adequacy requirements. Higher capital requirements due to expanded operations could make it necessary to retain part of the profits or to inject more capital from the owner, if profits from the cash-generating unit are not adequate to build the necessary capital. Beyond the plan period, which is three years, cash flow trends are assumed to reflect market expectations for the type of operations carried out by the cash-generating unit. Future expected cash flows are established for a ten year period where the Gordons growth formula is used to estimate the terminal value to be included.

The required rate of return is based on an assessment of the market's required rate of return for the type of operations carried out by the cash-generating unit. The required rate of return reflects the risk of the operations.

## 11. Pensions

DNB has country-specific pension schemes for its employees. In Norway, DNB has a defined-contribution pension scheme. See note 24 Pensions for more information.

### Defined-contribution pension schemes

Under defined-contribution pension schemes, the banking group does not commit itself to paying specified future pension benefits, but makes annual contributions to the employees' pension savings. Future pensions will depend on the size of annual contributions and the annual return on pension savings. After paying annual contributions, the banking group has no further commitments linked to employees' work performance. The expenses following from the defined-contribution pension schemes are recognised in the income statement

### Defined-benefit pension schemes

Pension expenses are calculated based on a linear distribution of pension entitlements measured against estimated accumulated commitments at the time of retirement. Pension commitments are matched against the pension funds in the schemes. Pension commitments are estimated based on the present value of estimated future pension payments at the balance sheet date. The calculation of the pension commitments is based on actuarial and economic assumptions about life expectancy, rise in salaries and early retirement. The discount rate used is determined by reference to the yield on covered bonds at the balance sheet date, plus an add-on that reflects the relevant duration of the pension commitments.

## 12. Income tax

Taxes for the year comprise payable taxes for the financial year, any payable taxes for previous years and changes in deferred taxes on temporary differences. Temporary differences are differences between the carrying amount 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 are applied 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 DNB Bank Group recognises liabilities related to the future outcome of tax dispute based on estimates of changed income taxes. When assessing the recognition of uncertain tax liabilities it is considered if the liability is probable.

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 utilised. Deferred taxes and deferred tax assets within the same tax group are presented net in the balance sheet.

Taxes payable and deferred taxes relating to elements of other comprehensive income are presented net along with the related income or cost in the comprehensive income statement.

See note 25 Taxes for more information.

## 13. Provisions

Provisions are recognised when it is probable that the DNB Bank will need to settle a present obligation in connection with a past event, and it can be reliably estimated.

If restructuring plans that change the scope of the banking group's operations or the way the banking group carries out its operations are approved and communicated to the affected employees, the need for restructuring provisions is considered. This includes provisions for agreements on severance packages with employees when used as part of the restructuring.

Provisions are measured at best estimate, reviewed on each reporting date and adjusted as necessary.

## 14. Leasing

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Other leases are classified as operating leases.

### DNB Bank as lessor

Operating leases

Operating leases are leases where not an insignificant share of the risk and rewards relating to the investment in the leased object accrues to DNB Bank at the end of the lease period. Operating assets are recognised as fixed assets in the balance sheet. Income from operating leases is recognised over the lease term on a straight-line basis. Depreciation of the fixed assets is presented as ordinary depreciation in the income statement.

Financial leases

Financial leases are presented as lending in the balance sheet, and at inception the lease is measured at an amount equal to the net investment in the lease. The net investment represents minimum lease payments, unguaranteed residual values and any direct expenses incurred by the lessor in negotiating the lease, discounted by the implicit interest rate (internal rate of return). Leasing income is recognised in the income statement according to the annuity method, where the interest component is recognised within the line item "Net interest income" while instalments reduce the balance sheet value of the loan.

### DNB Bank as lessee

Operating leases

Lease payments are recognised in the income statement as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of DNB Bank's use of the asset.

## 15. Cash flow statements

The cash flow statements show cash flows grouped according to source and use. The cash flows are presented as operating activities, investment activities or funding activities. Cash is defined as cash, deposits with central 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.

## 16. Dividends

Proposed dividends are part of equity until approved by the general meeting. At that time, the dividend is presented as liability in the financial statement. Proposed dividends are not included in capital adequacy calculations.

## 17. Approved standards and interpretations that have not entered into force

By the end of 2018 the IASB had published a number of amendments to current regulations which have not entered into force. Below is a description of the amendments which may have impact on the banking group's future reporting.

### IFRS 16 Leases

IFRS 16 Leases is effective from 1 January 2019 and replaces the current IAS 17 Leases. IFRS 16 establishes significant new accounting requirements for lessees, while the requirements for lessors are more or less unchanged. For lessees, IFRS 16 eliminates the distinction between operating and finance leases as is required by IAS 17, and instead introduces a single lessee accounting model. When applying the new model, DNB Bank Group will recognise a liability to make lease payments (lease liability) and an asset representing the right to use the underlying asset during the lease term (right-of-use asset). In the income statement, depreciation of the right-of-use assets will be recognised separately from interest on lease liabilities.

DNB Bank Group has decided on the following policy choices and practical expedients:

- to apply the low value exception (primarily for office equipment)
- to not recognise non-lease components in the lease liability
- to apply the modified retrospective approach for transition to IFRS 16, meaning that the banking group will not restate the comparatives for 2018. Right-of-use assets and lease liabilities will be measured at the same amount, taking into consideration prepayments, accruals and provisions recognised as of 31 December 2018.

The right-of-use asset will be classified as part of the fixed assets in the balance sheet, while the lease liability will be classified as other liabilities.

The major part of DNB's lease liabilities arises from leases on commercial real estate as well as some IT equipment. Within real estate, the most significant liabilities are related to head offices in Norway and DNB's international offices. The total lease liabilities and right-of-use assets on 1 January 2019 will be NOK 6 billion for DNB Bank Group. The right-of-use-asset is assigned a risk weight of 100 per cent, and the impact on the CET1 ratio will be approximately 8 basis points (negative) for DNB Bank Group.

The impact on profit and loss will vary over time, but the combination of interest and depreciation expenses from IFRS 16 is expected to be slightly higher than the lease expenses from IAS 17 at the start of the lease term and lower towards the end.

## 18. Important accounting estimates, judgments and assumptions

When preparing the consolidated financial statements, management makes estimates, judgment and assumptions that affect the application of the accounting principles and the carrying amount of assets, liabilities, income and expenses. Estimates and assumptions are subject to continual evaluation and are based on historical experience and other factors, including expectations of future events that are believed to be probable on the balance sheet date.

### Impairment of financial instruments

See note 4 Credit risk management for information about the management and follow-up of credit risk and note 5 Measurement of expected credit loss for information about methodology for estimating impairment including an assessment of measurement uncertainty.

### Fair value of financial derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using different valuation techniques. The banking group 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 banking group 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 banking group's financial instruments. For more information see note 28 Financial instruments at fair value.

### Income taxes, including deferred tax assets and uncertain tax liabilities

The banking group is subject to income taxes in a number of jurisdictions. Significant judgment is required in determining the income tax in the consolidated financial statements, including assessments of recognised deferred tax assets and uncertain tax liabilities.

Deferred tax assets are recognised to the extent it is probable that the banking group will have future taxable income against which they can be utilised. Extensive assessments must be made to determine the amount which can be recognised, included the expected time of utilisation, the level of profits computed for tax purposes as well as strategies for tax planning and the existence of taxable temporary differences.

There will be uncertainty related to the final tax liability for many transactions and calculations. The banking group recognises liabilities related to the future outcome of tax disputes based on estimates of changed income taxes. When assessing the recognition of uncertain tax liabilities it is considered if the liability is probable. If the final outcome of the tax disputes deviates from the amounts recognised in the balance sheet, the deviations will impact the income tax expense in the income statement for the applicable period.

## 19. Transition to IFRS 9

The application of the accounting policies under IFRS 9 has resulted in the reclassifications set out in the tables below upon transition to the new standard.

In the table below, the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for DNB Bank's financial assets and liabilities are shown.

**Financial assets as at 1 January 2018** — **DNB Bank ASA**

| *Amounts in NOK million* | Original measurement category under IAS 39 | New measurement category under IFRS 9 | Original carrying amount IAS 39 | New carrying amount IFRS 9 |
|---|---|---|---|---|
| Cash and deposits with central banks | FVTPL (held for trading) | Amortised cost | 143 463 | 143 461 |
| | FVTPL (designated) | Amortised cost | 3 251 | 3 251 |
| | Amortised cost | Amortised cost | 4 434 | 4 434 |
| Due from credit institutions | FVTPL (held for trading) | Amortised cost | 348 588 | 348 564 |
| | FVTPL (designated) | Amortised cost | 4 863 | 4 856 |
| | Amortised cost | Amortised cost | 227 522 | 227 517 |
| Loans to customers | FVTPL (held for trading) | Amortised cost | 55 839 | 55 837 |
| | FVTPL (designated) | Amortised cost | 12 322 | 6 050 |
| | | FVTPL (designated) | | 6 259 |
| | Amortised cost | FVOCI | 662 622 | 97 531 |
| | | Amortised cost | | 564 847 |
| Commercial paper and bonds | FVTPL (held for trading) | FVTPL (held for trading) | 169 639 | 167 414 |
| | | FVTPL (designated) | | 2 224 |
| | FVTPL (designated) | FVTPL (designated) | 92 355 | 92 355 |
| | Held-to-maturity | FVTPL (held for trading) | 9 613 | 9 581 |
| Shareholdings | FVTPL (held for trading) | FVTPL (mandatory) | 5 508 | 5 508 |
| | FVTPL (designated) | FVTPL (mandatory) | 802 | 802 |
| Financial derivatives | FVTPL (held for trading) | FVTPL (held for trading) | 138 346 | 138 346 |
| | FVTPL (hedging derivatives) | FVTPL (mandatory) | 8 606 | 8 606 |
| Other assets | Amortised cost | Amortised cost | 22 092 | 22 092 |
| **Total** | | | **1 909 865** | **1 909 536** |

**Financial liabilities as at 1 january 2018** — **DNB Bank ASA**

| *Amounts in NOK million* | Original measurement category under IAS 39 | New measurement category under IFRS 9 | Original carrying amount IAS 39 | New carrying amount IFRS 9 |
|---|---|---|---|---|
| Due to credit institutions | FVTPL (held for trading) | Amortised cost | 285 817 | 285 822 |
| | FVTPL (designated) | Amortised cost | 4 657 | 4 657 |
| | Amortised cost | Amortised cost | 42 324 | 42 324 |
| Deposits from customers | FVTPL (held for trading) | Amortised cost | 41 692 | 39 827 |
| | | FVTPL (designated) | | 1 895 |
| | FVTPL (designated) | Amortised cost | 14 090 | 192 |
| | | FVTPL (designated) | | 13 897 |
| | Amortised cost | Amortised cost | 900 744 | 900 744 |
| Financial derivatives | FVTPL (held for trading) | FVTPL (held for trading) | 178 324 | 178 324 |
| | FVTPL (hedging derivatives) | FVTPL (mandatory) | 1 210 | 1 210 |
| Debt securities issued | FVTPL (held for trading) | FVTPL (held for trading) | 158 693 | (12) |
| | | Amortised cost | | 158 701 |
| | FVTPL (designated) | FVTPL (designated) | 9 751 | 9 751 |
| | Amortised cost | Amortised cost | 157 727 | 157 727 |
| Other liabilities | FVTPL (held for trading) | FVTPL (held for trading) | 6 214 | 6 214 |
| | Amortised cost | Amortised cost | 44 889 | 44 889 |
| Subordinated loan capital | FVTPL (designated) | FVTPL (designated) | 2 873 | 2 873 |
| | Amortised cost | Amortised cost | 26 666 | 26 666 |
| **Total** | | | **1 875 669** | **1 875 700** |

## Note 1 Accounting principles (continued)

**Financial assets as at 1 January 2018** — **DNB Bank Group**

| *Amounts in NOK million* | Original measurement category under IAS 39 | New measurement category under IFRS 9 | Original carrying amount IAS 39 | New carrying amount IFRS 9 |
|---|---|---|---|---|
| Cash and deposits with central banks | FVTPL (held for trading) | Amortised cost | 143 463 | 143 461 |
| | FVTPL (designated) | Amortised cost | 3 251 | 3 251 |
| | Amortised cost | Amortised cost | 4 881 | 4 881 |
| Due from credit institutions | FVTPL (held for trading) | Amortised cost | 199 288 | 199 277 |
| | Amortised cost | Amortised cost | 38 561 | 38 555 |
| Loans to customers | FVTPL (held for trading) | Amortised cost | 55 839 | 55 837 |
| | FVTPL (designated) | Amortised cost | 55 373 | 8 764 |
| | | FVTPL (designated) | | 46 596 |
| | Amortised cost | Amortised cost | 1 420 133 | 1 419 820 |
| Commercial paper and bonds | FVTPL (held for trading) | FVTPL (held for trading) | 169 059 | 166 835 |
| | | FVTPL (designated) | | 2 224 |
| | FVTPL (designated) | FVTPL (designated) | 87 970 | 80 805 |
| | | Amortised cost | | 7 156 |
| | Held-to-maturity | FVTPL (held for trading) | 9 613 | 9 581 |
| Shareholdings | FVTPL (held for trading) | FVTPL (held for trading) | 6 304 | 5 508 |
| | | FVTPL (mandatory) | | 795 |
| | FVTPL (designated) | FVTPL (mandatory) | 999 | 999 |
| Financial derivatives | FVTPL (held for trading) | FVTPL (held for trading) | 106 318 | 106 318 |
| | FVTPL (hedging derivatives) | FVTPL (mandatory) | 26 331 | 26 331 |
| Other assets | Amortised cost | Amortised cost | 7 888 | 7 888 |
| **Total** | | | **2 335 271** | **2 334 884** |

**Financial liabilities as at 1 January 2018** — **DNB Bank Group**

| *Amounts in NOK million* | Original measurement category under IAS 39 | New measurement category under IFRS 9 | Original carrying amount IAS 39 | New carrying amount IFRS 9 |
|---|---|---|---|---|
| Due to credit institutions | FVTPL (held for trading) | Amortised cost | 182 335 | 182 316 |
| | FVTPL (designated) | Amortised cost | 4 657 | 4 657 |
| | Amortised cost | Amortised cost | 35 508 | 35 508 |
| Deposits from customers | FVTPL (held for trading) | Amortised cost | 41 692 | 39 827 |
| | | FVTPL (designated) | | 1 895 |
| | FVTPL (designated) | Amortised cost | 14 090 | 192 |
| | | FVTPL (designated) | | 13 897 |
| | Amortised cost | Amortised cost | 924 593 | 924 593 |
| Financial derivatives | FVTPL (held for trading) | FVTPL (held for trading) | 108 755 | 108 755 |
| | FVTPL (hedging derivatives) | FVTPL (mandatory) | 3 265 | 3 265 |
| Debt securities issued | FVTPL (held for trading) | FVTPL (held for trading) | 158 693 | (12) |
| | | Amortised cost | | 158 701 |
| | FVTPL (designated) | FVTPL (designated) | 83 703 | 83 703 |
| | Amortised cost | Amortised cost | 539 731 | 539 731 |
| Other liabilities | FVTPL (held for trading) | FVTPL (held for trading) | 6 214 | 6 214 |
| | Amortised cost | Amortised cost | 13 091 | 13 091 |
| Subordinated loan capital | FVTPL (designated) | FVTPL (designated) | 2 873 | 2 873 |
| | Amortised cost | Amortised cost | 26 666 | 26 666 |
| **Total** | | | **2 145 864** | **2 145 871** |

Based on the business model assessment, certain portfolios in Markets have been reclassified from fair value through profit and loss to amortised cost. This includes portfolios presented as cash and deposits with central banks and reverse repurchase agreements presented as due from credit institutions and loans to customers. The assessment of the business model under IFRS 9 has been made in connection with the assessment of the new regulations following the Fundamental Review of the Trading Book (FRTB) introduced by the Basel Committee. Under IAS 39, the instruments, which are of a very short-term nature, have been presented as held for trading and measured at fair value. Based on the analysis made of the instruments in the banking book, the business model will be hold to collect going forward as the instruments typically are held to collect cash flows at maturity and not managed on a fair value basis.

## Note 1 Accounting principles (continued)

Furthermore, as a result of the business model assessment of the bond portfolios in Markets some reclassifications have been made. Part of the liquidity portfolio classified as held for trading under IAS 39 has been reclassified as designated at fair value through profit and loss, since fair value measurement significantly reduces an accounting mismatch. The bond portfolio classified as held-to-maturity under IAS 39 has been reclassified to fair value through profit or loss due to a held for trading business model.

A portfolio of margin loans that was designated at fair value using the fair value option under IAS 39, has been reclassified to amortised cost under IFRS 9 since fair value measurement does not significantly reduce an accounting mismatch.

Shareholdings are mandatorily measured at fair value through profit and loss under IFRS 9.

The portfolio of fixed rate mortgage loans with a carrying amount of NOK 6 259 million in DNB Bank ASA and NOK 46 596 million in DNB Bank Group at 31 December 2017 consists of instruments with prepayment features with negative compensation. The instruments were designated at fair value under IAS 39 and continue to be designated at fair value under IFRS 9. See note 28 Financial instruments at fair value for information about fair value at 31 December 2018.

As a consequence of the reclassifications of financial assets, certain financial liabilities have also been reclassified in order to prevent accounting inconsistencies. The reclassified financial liabilities include cash, deposits and repurchase agreements presented as due to credit institutions and deposits from customers. Furthermore, a portfolio of commercial paper liabilities in Markets has been reclassified from fair value through profit or loss (held for trading) to amortised cost based on an assessment of the sales activities in the portfolio.

In the tables above financial assets and financial liabilities reclassified out of FVTPL, as a result of the transition to IFRS 9, are shown. The majority of the reclassified instruments has a short term to maturity and has therefore expired during the year. The difference between fair value and amortised cost measurement and the interest income over the year is modest for the reclassified instruments remaining recognised in the balance sheet at 31 December 2018. The difference in measurement is mainly caused by fair value changes related to interest rates.

DNB’s long-term borrowings in Norwegian kroner are designated at fair value through profit or loss using the fair value option. Changes in credit spreads on fixed-rate securities issued in Norwegian kroner have been compared with changes in credit spreads on bond investments and fixed-rate mortgage loans in Norwegian kroner. Based on the analysis, it has been concluded that the presentation of changes in credit risk in other comprehensive income neither creates nor enlarges an accounting mismatch.

In the table below, reconciliation of carrying amounts under IAS 39 to carrying amounts under IFRS 9 upon transition is shown.

## Note 1 Accounting principles (continued)

**Financial assets** **DNB Bank ASA**

| *Amounts in NOK million* | IAS 39 carrying amount 31 Dec. 2017 | Reclassification | Remeasurement | IFRS 9 carrying amount 1 Jan. 2018 |
|---|---|---|---|---|
| **Amortised cost** | | | | |
| Cash and deposits with central banks, opening balance | 4 434 | | | |
| From FVTPL | | 146 712 | | |
| Closing balance | | | | 151 146 |
| Due from credit institutions, opening balance | 227 522 | | (5) | |
| From FVTPL | | 353 419 | | |
| Closing balance | | | | 580 936 |
| Loans to customers, opening balance | 662 622 | | (241) | |
| To FVOCI | | (97 531) | | |
| From FVTPL | | 61 887 | (2) | |
| Closing balance | | | | 626 733 |
| Commercial paper and bonds, held-to-maturity, opening balance | 9 613 | | | |
| To commercial paper and bonds, FVTPL | | (9 613) | | |
| Closing balance | | | | 0 |
| Other assets | 22 092 | | | 22 092 |
| **Total amortised cost** | **926 282** | **454 873** | **(248)** | **1 380 907** |
| **Fair value through profit and loss (FVTPL)** | | | | |
| Cash and deposits with central banks, opening balance | 146 714 | | | |
| To amortised cost | | (146 712) | (2) | |
| Closing balance | | | | 0 |
| Due from credit institutions, opening balance | 353 451 | | | |
| To amortised cost | | (353 419) | (32) | |
| Closing balance | | | | 0 |
| Loans to customers, opening balance | 68 161 | | | |
| To amortised cost | | (61 887) | (15) | |
| Closing balance | | | | 6 259 |
| Commercial paper and bonds, opening balance | 261 994 | | | |
| From Commercial paper and bonds, held-to-maturity | | 9 613 | (32) | |
| Closing balance | | | | 271 575 |
| Shareholdings | 6 310 | | | 6 310 |
| Financial derivatives | 146 953 | | | 146 953 |
| **Total FVTPL** | **983 583** | **(552 405)** | **(81)** | **431 097** |
| **FVOCI** | | | | |
| Loans to customers, opening balance | | | | |
| From amortised cost | | 97 531 | | |
| Closing balance | | | | 97 531 |
| **Total FVOCI** | | **97 531** | **0** | **97 531** |

## Note 1 Accounting principles (continued)

### Financial liabilities

DNB Bank ASA

| *Amounts in NOK million* | IAS 39 carrying amount 31 Dec. 2017 | Reclassification | Remeasurement | IFRS 9 carrying amount 1 Jan. 2018 |
|---|---|---|---|---|
| **Amortised cost** | | | | |
| Due to credit institutions, opening balance | 42 324 | | | |
| From FVTPL | | 290 480 | | |
| Closing balance | | | | 332 803 |
| Deposits from customers, opening balance | 900 744 | | | |
| From FVTPL | | 40 019 | | |
| Closing balance | | | | 940 763 |
| Debt securities issued, opening balance | 157 727 | | | |
| From FVTPL | | 158 701 | | |
| Closing balance | | | | 316 428 |
| Other liabilities | 44 889 | | | 44 889 |
| Subordinated loan capital | 26 666 | | | 26 666 |
| **Total amortised cost** | **1 172 349** | **489 200** | | **1 661 549** |
| **Fair value through profit and loss (FVTPL)** | | | | |
| Due to credit institutions, opening balance | 290 474 | | | |
| To amortised cost | | (290 480) | 5 | |
| Closing balance | | | | (0) |
| Deposits from customers, opening balance | 55 782 | | | |
| To amortised cost | | (40 019) | 30 | |
| Closing balance | | | | 15 792 |
| Debt securities issued, opening balance | 168 444 | | | |
| To amortised cost | | (158 701) | (4) | |
| Closing balance | | | | 9 739 |
| Other liabilities | 6 214 | | | 6 214 |
| Subordinated loan capital | 2 873 | | | 2 873 |
| Financial derivatives | 179 534 | | | 179 534 |
| **Total FVTPL** | **703 320** | **(489 200)** | **31** | **214 151** |

# Note 1 Accounting principles (continued)

**Financial assets** **DNB Bank Group**

| *Amounts in NOK million* | IAS 39 carrying amount 31 Dec. 2017 | Reclassification | Remeasurement | IFRS 9 carrying amount 1 Jan. 2018 |
|---|---|---|---|---|
| **Amortised cost** | | | | |
| Cash and deposits with central banks, opening balance | 4 881 | | | |
| From FVTPL | | 146 712 | | |
| Closing balance | | | | 151 593 |
| Due from credit institutions, opening balance | 38 561 | | (6) | |
| From FVTPL | | 199 277 | | |
| Closing balance | | | | 237 832 |
| Loans to customers, opening balance | 1 420 133 | | (311) | |
| From FVTPL | | 64 601 | (2) | |
| Closing balance | | | | 1 484 421 |
| Commercial paper and bonds, opening balance | 0 | | | |
| From FVTPL | | 7 156 | (0) | |
| Closing balance | | | | 7 156 |
| Commercial paper and bonds, held-to-maturity, opening balance | 9 613 | | | |
| To commercial paper and bonds, FVTPL | | (9 613) | | |
| Closing balance | | | | 0 |
| Other assets | 7 888 | | | 7 888 |
| **Total amortised cost** | **1 481 076** | **408 134** | **(320)** | **1 888 889** |
| **Fair value through profit and loss (FVTPL)** | | | | |
| Cash and deposits with central banks, opening balance | 146 714 | | | |
| To amortised cost | | (146 712) | (2) | |
| Closing balance | | | | 0 |
| Due from credit institutions, opening balance | 199 288 | | | |
| To amortised cost | | (199 277) | (10) | |
| Closing balance | | | | 0 |
| Loans to customers, opening balance | 111 212 | | | |
| To amortised cost | | (64 601) | | |
| Closing balance | | | | 46 596 |
| Commercial paper and bonds, opening balance | 257 029 | | | |
| To amortised cost | | (7 156) | (8) | |
| From commercial paper and bonds, held-to-maturity | | 9 613 | (32) | |
| Closing balance | | | | 259 446 |
| Shareholdings | 7 303 | | | 7 303 |
| Financial derivatives | 132 649 | | | 132 649 |
| **Total FVTPL** | **854 195** | **(408 134)** | **(67)** | **445 994** |

## Note 1 Accounting principles (continued)

### Financial liabilities

| *Amounts in NOK million* | IAS 39 carrying amount 31 Dec. 2017 | Reclassification | Remeasurement | DNB Bank Group IFRS 9 carrying amount 1 Jan. 2018 |
|---|---|---|---|---|
| **Amortised cost** | | | | |
| Due to credit institutions, opening balance | 35 508 | | | |
| From FVTPL | | 186 974 | | |
| Closing balance | | | | 222 482 |
| Deposits from customers, opening balance | 924 593 | | | |
| From FVTPL | | 40 019 | | |
| Closing balance | | | | 964 612 |
| Debt securities issued, opening balance | 539 731 | | | |
| From FVTPL | | 158 701 | | |
| Closing balance | | | | 698 432 |
| Other liabilities | 13 091 | | | 13 091 |
| Subordinated loan capital | 26 666 | | | 26 666 |
| **Total amortised cost** | **1 539 588** | **385 694** | | **1 925 282** |
| **Fair value through profit and loss (FVTPL)** | | | | |
| Due to credit institutions, opening balance | 186 993 | | | |
| To amortised cost | | (186 974) | (19) | |
| Closing balance | | | | (0) |
| Deposits from customers, opening balance | 55 782 | | | |
| To amortised cost | | (40 019) | 30 | |
| Closing balance | | | | 15 792 |
| Debt securities issued, opening balance | 242 396 | | | |
| To amortised cost | | (158 701) | (4) | |
| Closing balance | | | | 83 691 |
| Other liabilities | 6 214 | | | 6 214 |
| Subordinated loan capital | 2 873 | | | 2 873 |
| Financial derivatives | 112 020 | | | 112 020 |
| **Total FVTPL** | **606 276** | **(385 694)** | **7** | **220 589** |

## Note 1 Accounting principles (continued)

In the table below financial assets and financial liabilities that are no longer designated at fair value are shown.

| | | | | DNB Bank ASA |
|---|---|---|---|---|
| *Amounts in NOK million* | Classification under IAS 39 | Classification under IFRS 9 | Reason for reclassification | IAS 39 carrying amount 31 Dec. 2018 |
| Cash and deposits with central banks | Fair value option | Amortised cost | Required by IFRS 9 | 3 251 |
| Due from credit institutions | Fair value option | Amortised cost | Elected to reclassify | 4 863 |
| Loans to customers | Fair value option | Amortised cost | Elected to reclassify | 6 063 |
| Shareholdings | Fair value option | FVTPL | Required by IFRS 9 | 802 |
| **Total financial assets** | | | | **14 979** |
| Due to credit institutions | Fair value option | Amortised cost | Elected to reclassify | 4 657 |
| Deposits from customers | Fair value option | Amortised cost | Elected to reclassify | 192 |
| **Total financial liabilities** | | | | **4 850** |

| | | | | DNB Bank Group |
|---|---|---|---|---|
| *Amounts in NOK million* | Classification under IAS 39 | Classification under IFRS 9 | Reason for reclassification | IAS 39 carrying amount 31 Dec. 2018 |
| Cash and deposits with central banks | Fair value option | Amortised cost | Required by IFRS 9 | 3 251 |
| Loans to customers | Fair value option | Amortised cost | Elected to reclassify | 8 777 |
| Commercial paper and bonds | Fair value option | Amortised cost | Elected to reclassify | 7 165 |
| Shareholdings | Fair value option | FVTPL | Required by IFRS 9 | 999 |
| **Total financial assets** | | | | **20 191** |
| Due to credit institutions | Fair value option | Amortised cost | Elected to reclassify | 4 657 |
| Deposits from customers | Fair value option | Amortised cost | Elected to reclassify | 192 |
| **Total financial liabilities** | | | | **4 850** |

### Accumulated impairments

In the tables below, the effect of reclassification and remeasurment of accumulated impairment following the implementation of IFRS 9 is presented.

| | | | | | | | DNB Bank ASA |
|---|---|---|---|---|---|---|---|
| | Balance as at 31 December 2017 | | | Balance as at 1 January 2018 | | | |
| *Amounts in NOK million* | IAS 39 and IAS 37 | Reclassi-fication | Remeasure-ment | IFRS 9 | Stage 1 | Stage 2 | Stage 3 |
| Accumulated impairment due from credit institutions | | | | (5) | (5) | | |
| Accumulated impairment loans to customers | (8 653) | (2) | (241) | (8 896) | (196) | (2 138) | (6 562) |
| Accumulated impairment loan commitments and guarantees | (911) | | (898) | (1 809) | (137) | (1 164) | (508) |
| Total accumulated impairments | (9 654) | (2) | (1 144) | (10 710) | (338) | (3 302) | (7 070) |

| | | | | | | | DNB Bank Group |
|---|---|---|---|---|---|---|---|
| | Balance as at 31 December 2017 | | | Balance as at 1 January 2018 | | | |
| *Amounts in NOK million* | IAS 39 and IAS 37 | Reclassi-fication | Remeasure-ment | IFRS 9 | Stage 1 | Stage 2 | Stage 3 |
| Accumulated impairment due from credit institutions | | | (6) | (6) | (6) | | |
| Accumulated impairment loans to customers | (11 870) | 11 | (312) | (12 171) | (381) | (3 081) | (8 709) |
| Accumulated impairment loan commitments and guarantees | (919) | | (1 891) | (2 810) | (171) | (2 128) | (511) |
| Total accumulated impairments | (12 789) | 11 | (2 209) | (14 987) | (558) | (5 209) | (9 221) |

## Note 2 Segments

According to DNB's management model, the operating segments are independent profit centres that are fully responsible for their profit after tax and for achieving the targeted returns on allocated capital. DNB Bank has the following operating segments: Personal customers, Small and medium-sized enterprises, Large corporates and international customers and Risk management, (previously reported as Trading). With effect from the first quarter of 2018, DNB Bank changed the composition of reportable segments, as the Risk management segments were combined with Other operations. In addition, eliminations were separated from Other operations/eliminations and are now presented in a separate column. Figures for 2017 have been adjusted correspondingly.

| | | |
|---|---|---|
| Personal customers | - | includes the banking group's total products and activities to private customers in all channels, both digital and physical. DNB offers a wide range of products through Norway's largest distribution network, comprising branches, telephone banking (24/7), digital banking, real estate broking as well as external channels (post offices and in-store postal). Creditcards and consumer financing in Sweden are also included in this business area. |
| Small and medium-sized enterprises | - | is responsible for product sales and advisory services to small and medium-sized enterprises in Norway. Customers in this segment range from small businesses and start-up companies to relatively large corporate customers, and the product offerings are adapted to the customers' different needs. Small and medium-sized enterprises are served through the banking group's physical distribution network throughout Norway as well as digital and telephone banking (24/7). Factoring, leasing and asset financing for small and medium-sized enterprises in Sweden and Denmark are also included in this business area. |
| Large corporates and international customers | - | includes large Norwegian and international corporate customers. Operations are based on sound industry expertise and long-term customer relationships. |

The income statement and balance sheet for the segments have been prepared on the basis of internal financial reporting for the functional organisation of the DNB Bank Group into segments, as reported to group management (chief operating decision maker) for an assessment of current developments and the allocation of resources. Figures for segments are based on the banking group's accounting principles and DNB's management model. Allocation of costs and capital between segments involves a number of assumptions, estimates and discretionary distributions.

Capital allocated to the segments is calculated on the basis of the DNB bank group's common equity Tier 1 capital and long-term capitalisation ambition. The allocation of capital to all units is based on the banking group's adaptation to Basel III with capital requirement related to credit risk, market risk and operational risk. The allocation of capital for credit risk is based on the DNB bank group's internal measurement of risk-adjusted capital requirements for credit. Capital requirements for market risk are allocated directly in accordance with risk-weighted volume, and operational risk is allocated based on the respective units' total income.

# Note 2 Segments (continued)

## Income statement

DNB Bank Group

| | Personal customers | | Small and medium-sized enterprises | | Large corporates and international customers | | Other operations | | Eliminiations | | DNB Bank Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Amounts in NOK million* | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Net interest income | 13 422 | 13 336 | 9 530 | 8 578 | 12 110 | 12 682 | 2 327 | 1 318 | | | 37 388 | 35 914 |
| Net other operating income | 3 920 | 3 716 | 1 541 | 1 549 | 4 511 | 4 897 | 2 227 | 4 488 | (1 721) | (2 225) | 10 478 | 12 425 |
| Total income | 17 342 | 17 051 | 11 071 | 10 127 | 16 621 | 17 579 | 4 554 | 5 806 | (1 721) | (2 225) | 47 866 | 48 339 |
| Operating expenses | (7 773) | (7 626) | (3 221) | (3 420) | (5 619) | (6 360) | (3 984) | (4 279) | 1 721 | 2 225 | (18 875) | (19 460) |
| Depreciation and impairment of fixed and intangible assets | (70) | (106) | (726) | (686) | (722) | (727) | (854) | (950) | | | (2 371) | (2 469) |
| Total operating expenses | (7 842) | (7 731) | (3 946) | (4 106) | (6 340) | (7 086) | (4 838) | (5 229) | 1 721 | 2 225 | (21 246) | (21 928) |
| Pre-tax operating profit before impairment | 9 499 | 9 320 | 7 125 | 6 021 | 10 280 | 10 493 | (284) | 577 | | | 26 620 | 26 410 |
| Net gains on fixed and intangible assets | 49 | (0) | 3 | (1) | (0) | 20 | 477 | 716 | | | 529 | 735 |
| Impairment of financial instruments [1] | (318) | (207) | (566) | (413) | 1 022 | (1 800) | (0) | (8) | | | 139 | (2 428) |
| Profit from repossessed operations | | | 8 | 14 | (263) | (19) | 256 | 4 | | | | |
| Pre-tax operating profit | 9 230 | 9 113 | 6 570 | 5 621 | 11 039 | 8 694 | 449 | 1 289 | | | 27 288 | 24 718 |
| Tax expense | (2 308) | (2 278) | (1 642) | (1 405) | (2 539) | (2 434) | 1 513 | 1 214 | | | (4 976) | (4 903) |
| Profit from operations held for sale, after taxes | | | | | (10) | (0) | (194) | (1) | | | (204) | (1) |
| Profit for the year | 6 923 | 6 835 | 4 927 | 4 216 | 8 490 | 6 260 | 1 769 | 2 503 | | | 22 109 | 19 813 |

1) *See note 10 Development in accumulated impairment of financial instruments for an analysis of the gross change in impairment for the banking group.*

## Balance sheets

DNB Bank Group

| | Personal customers | | Small and medium-sized enterprises | | Large corporates and international customers | | Other operations | | Eliminations | | DNB Bank Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Amounts in NOK billion* | 31.12.18 | 31.12.17 | 31.12.18 | 31.12.17 | 31.12.18 | 31.12.17 | 31.12.18 | 31.12.17 | 31.12.18 | 31.12.17 | 31.12.18 | 31.12.17 |
| Loans to customers [1] | 772 | 747 | 313 | 291 | 424 | 410 | 93 | 84 | (4) | (1) | 1 598 | 1 531 |
| Assets held for sale | | | | | 0 | | 1 | | | | 1 | |
| Other assets | 16 | 21 | 6 | 12 | 73 | 82 | 1 566 | 1 679 | (952) | (966) | 708 | 829 |
| Total assets | 788 | 768 | 319 | 303 | 497 | 492 | 1 660 | 1 763 | (956) | (967) | 2 308 | 2 360 |
| Deposits from customers [1] | 412 | 403 | 210 | 207 | 296 | 326 | 23 | 51 | (1) | (6) | 940 | 980 |
| Liabilities held for sale | | | | | | | 0 | | | | 0 | |
| Other liabilities | 331 | 327 | 79 | 71 | 139 | 94 | 1 566 | 1 645 | (955) | (961) | 1 159 | 1 176 |
| Total liabilities | 743 | 730 | 289 | 277 | 435 | 419 | 1 589 | 1 696 | (956) | (967) | 2 100 | 2 156 |
| Allocated capital [2] | 45 | 38 | 29 | 26 | 62 | 73 | 71 | 67 | | | 208 | 204 |
| Total liabilities and equity | 788 | 768 | 319 | 303 | 497 | 492 | 1 660 | 1 763 | (956) | (967) | 2 308 | 2 360 |

1) *Loans to customers include accrued interest, impairment and value adjustments. Correspondingly, deposits from customers include accrued interest and value adjustments.*
2) *Allocated capital for the segments is calculated based on the external capital adequacy requirement (Basel III/Solvency II) which must be met by the banking group. The capital allocated in 2018 corresponds to a common equity Tier 1 capital ratio of 16.2 per cent compared to 16.0 per cent in 2017. Recorded capital is used for the banking group.*

## Key figures

DNB Bank Group

| | Personal customers | | Small and medium-sized enterprises | | Large corporates and international customers | | Other operations | | eliminations | | DNB Bank Group | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| *Per cent* | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Cost/income ratio [1] | 45.2 | 45.3 | 35.6 | 40.5 | 38.1 | 40.3 | | | | | 44.4 | 45.4 |
| Ratio of deposits to loans as at 31 December [2] | 53.4 | 54.0 | 67.3 | 70.9 | 69.7 | 79.5 | | | | | 58.8 | 64.0 |
| Return on allocated capital [3] | 15.4 | 18.1 | 17.6 | 16.4 | 12.8 | 7.7 | | | | | 11.5 | 10.5 |

1) *Total operating expenses relative to total income.*
2) *Deposits from customers relative to loans to customers.*
3) *Allocated capital for the segments is calculated based on the external capital adequacy requirement (Basel III/Solvency II) which must be met by the banking group. Recorded capital is used for the banking group.*

## Note 3 Capitalisation policy and capital adequacy

The DNB Group aims to maintain a management buffer of approximately 1.0 percentage point in addition to the total regulatory common equity Tier 1 (CET1) capital ratio.  The object of the management buffer is to cushion against fluctuations in risk-weighted assets and earnings that can occur as a result of, for example, exchange rate movements or changes in credit spreads, and thereby enable the Group to maintain normal growth in lending and a predictable dividend policy. At year-end 2018, the total regulatory CET1 capital ratio requirement was 15.5 per cent. The requirement will vary due to the counter-cyclical buffer, which is determined based on the total exposure in each country.The capitalisation targets relate to the Group's risk-weighted assets at any given time. Norwegian banks are subject to a transitional rule for capital adequacy calculations, which stipulates that total risk-weighted assets cannot be reduced below 80 per cent of the corresponding figure calculated according to the Basel I regulations.

At year-end 2018, the DNB Bank Group had a CET1 capital ratio of 16.5 per cent and a capital adequacy ratio of 20.9 per cent, compared with 16.2 per cent and 20.6 per cent, respectively, a year earlier. Risk-weighted assets came to NOK 1 051 billion at year-end 2018, compared with NOK 1 015 billion the year before.

DNB Bank ASA had a CET1 capital ratio of 18.1 per cent at year-end 2018, compared with 17.7 per cent a year earlier. The capital adequacy ratio was 23.5 per cent at year-end 2018, compared with 23.0 per cent a year earlier.

At year-end 2018, DNB Boligkreditt AS had a CET1 capital ratio of 16.9 per cent and a capital adequacy ratio of 18.9 per cent, calculated according to the transitional rules for risk-weighted assets. If the transitional rules were not applied, DNB Boligkreditt's CET1 capital ratio and capital adequacy ratio would have been 24.7 and 27.7 per cent, respectively, at year-end 2018.

As a supplement to the risk-weighted capital adequacy regime, the Basel Committee introduced a new capital measure, "leverage ratio" or non-risk based CET1 capital ratio. The Norwegian Ministry of Finance has set a minimum requirement for the leverage ratio in credit institutions and investment firms in Norway that entered into effect as of 30 June 2017, calculated on the basis of CET1 capital including additional Tier 1 capital. The basis of calculation consists of assets and off-balance sheet items converted by means of the conversion factors used in the standardised approach for calculating ordinary capital adequacy. In addition, some special adjustments are made for derivatives and repo transactions. Insurance operations are not included. The definitions of capital and the basis of calculation are in conformity with international rules. The Norwegian leverage ratio requirement consists of a minimum requirement of 3 per cent that will apply to all financial institutions, a mandatory 2 per cent buffer for banks and an additional mandatory buffer of 1 per cent for systematically important banks. DNB is the only institution in Norway that will be required to have a leverage ratio of 6 per cent.

The DNB Bank Group calculates its leverage ratio in accordance with the revised article 429 of the CRR, and the European Commission Regulation that entered into force on 18 January 2015. At year-end 2018, the Bank Group's leverage ratio was 7.4 per cent, compared with 6.9 per cent a year earlier. DNB meets the minimum requirement of 6 per cent by a wide margin.

## Note 3 Capitalisation policy and capital adequacy (continued)

### Capital adequacy

Capital adequacy is calculated and reported in accordance with Norwegian regulations, which are broadly in line with the EU capital requirements regulations for credit institutions and investment firms (CRD IV/CRR). The regulatory consolidation deviates from consolidation in the accounts and comprises the parent company, subsidiaries and associated companies within the financial sector. Associated companies are consolidated pro rata.

| DNB Bank ASA | | Primary capital | DNB Bank Group | |
|---|---|---|---|---|
| 31 Dec. 2017 | 31 Dec. 2018 | *Amounts in NOK million* | 31 Dec. 2018 | 31 Dec. 2017 |
| 169 720 | 176 562 | Total equity | 207 933 | 203 685 |
| | | Effect from regulatory consolidation | (234) | 183 |
| (15 574) | (15 574) | Additional Tier 1 capital instruments included in total equity | (15 574) | (15 574) |
| (439) | (465) | Net accrued interest on additional Tier 1 capital instruments | (465) | (439) |
| 153 708 | 160 523 | Common equity Tier 1 capital instruments | 191 660 | 187 856 |
| | | Deductions | | |
| (2 404) | (2 389) | Goodwill | (2 929) | (2 559) |
| (584) | (562) | Deferred tax assets that are not due to temporary differences | (524) | (454) |
| (1 110) | (1 040) | Other intangible assets | (1 712) | (1 984) |
| | | Group contribution, payable | (10 758) | (15 804) |
| (951) | (1 286) | Expected losses exceeding actual losses, IRB portfolios | (1 719) | (1 915) |
| (449) | (467) | Value adjustments due to the requirements for prudent valuation (AVA) | (886) | (720) |
| 123 | 63 | Adjustments for unrealised losses/(gains) on debt measured at fair value | 176 | 123 |
| (481) | (596) | Adjustments for unrealised losses/(gains) arising from the institution's own credit risk related to derivative liabilities (DVA) | (149) | (113) |
| 147 851 | 154 247 | Common equity Tier 1 capital | 173 159 | 164 431 |
| 15 574 | 15 574 | Additional Tier 1 capital instruments | 15 574 | 15 574 |
| 163 425 | 169 820 | Tier 1 capital | 188 733 | 180 005 |
| 5 361 | 5 693 | Perpetual subordinated loan capital | 5 693 | 5 361 |
| 23 897 | 25 110 | Term subordinated loan capital | 25 110 | 23 897 |
| 29 258 | 30 804 | Tier 2 capital | 30 804 | 29 258 |
| 192 683 | 200 624 | Total eligible capital | 219 537 | 209 263 |
| 835 986 | 852 363 | Risk-weighted assets transitional rules | 1 051 159 | 1 014 683 |
| 66 879 | 68 189 | Minimum capital requirement, transitional rules | 84 093 | 81 175 |
| 17.7 | 18.1 | Common equity Tier 1 capital ratio, transitional rules (%) | 16.5 | 16.2 |
| 19.5 | 19.9 | Tier 1 capital ratio, transitional rules (%) | 18.0 | 17.7 |
| 23.0 | 23.5 | Capital ratio, transitional rules (%) | 20.9 | 20.6 |

# Note 3 Capitalisation policy and capital adequacy (continued)

## Basel III

The majority of the credit portfolios are reported according to the IRB approach.

**Specification of risk-weighted assets and capital requirements** **DNB Bank ASA**

| *Amounts in NOK million* | Nominal exposure 31 Dec. 2018 | EAD [1] 31 Dec. 2018 | Average risk weights in per cent 31 Dec. 2018 | Risk-weighted assets 31 Dec. 2018 | Capital requirements 31 Dec. 2018 | Capital requirements 31 Dec. 2017 |
|---|---|---|---|---|---|---|
| IRB approach | | | | | | |
| Corporate | 726 994 | 596 649 | 53.3 | 317 824 | 25 426 | 25 542 |
| Specialised Lending (SL) | 11 233 | 10 778 | 52.8 | 5 689 | 455 | 396 |
| Retail - mortgage loans | 118 007 | 118 007 | 24.2 | 28 586 | 2 287 | 1 974 |
| Retail - other exposures | 102 012 | 87 560 | 24.7 | 21 589 | 1 727 | 1 745 |
| Securitisation | | | | | | 626 |
| Total credit risk, IRB approach | 958 246 | 812 994 | 46.0 | 373 688 | 29 895 | 30 283 |
| Standardised approach | | | | | | |
| Central government | 249 720 | 232 815 | 0.0 | 107 | 9 | 6 |
| Institutions | 749 022 | 577 716 | 24.0 | 138 540 | 11 083 | 7 570 |
| Corporate | 144 620 | 98 867 | 93.7 | 92 650 | 7 412 | 6 059 |
| Retail - mortgage loans | 10 151 | 9 591 | 38.7 | 3 712 | 297 | 240 |
| Retail - other exposures | 112 192 | 39 399 | 74.5 | 29 358 | 2 349 | 2 104 |
| Equity positions | 111 007 | 111 007 | 100.2 | 111 225 | 8 898 | 10 018 |
| Other assets | 9 425 | 9 425 | 91.1 | 8 587 | 687 | 1 898 |
| Total credit risk, standardised approach | 1 386 136 | 1 078 820 | 35.6 | 384 179 | 30 734 | 27 895 |
| Total credit risk | 2 344 382 | 1 891 814 | 40.1 | 757 867 | 60 629 | 58 178 |
| Market risk | | | | | | |
| Position risk, debt instruments | | | | 11 502 | 920 | 1 620 |
| Position risk, equity instruments | | | | 195 | 16 | 21 |
| Currency risk | | | | | | |
| Commodity risk | | | | 9 | 1 | 2 |
| Credit value adjustment risk (CVA) | | | | 3 534 | 283 | 888 |
| Total market risk | | | | 15 239 | 1 219 | 2 531 |
| Operational risk | | | | 79 257 | 6 341 | 6 170 |
| Total risk-weighted assets and capital requirements before transitional rule | | | | 852 363 | 68 189 | 66 879 |
| Additional capital requirements according to transitional rules | | | | | | |
| Total risk-weighted assets and capital requirements | | | | 852 363 | 68 189 | 66 879 |

*1) EAD, exposure at default.*

# Note 3 Capitalisation policy and capital adequacy (continued)

**Specification of risk-weighted assets and capital requirements** **DNB Bank Group**

| *Amounts in NOK million* | Nominal exposure 31 Dec. 2018 | EAD [1] 31 Dec. 2018 | Average risk weights in per cent 31 Dec. 2018 | Risk-weighted assets 31 Dec. 2018 | Capital requirements 31 Dec. 2018 | Capital requirements 31 Dec. 2017 |
|---|---|---|---|---|---|---|
| IRB approach | | | | | | |
| Corporate | 955 626 | 789 415 | 53.4 | 421 452 | 33 716 | 35 197 |
| Specialised Lending (SL) | 12 445 | 11 990 | 54.9 | 6 579 | 526 | 454 |
| Retail - mortgage loans | 773 419 | 773 419 | 22.0 | 170 213 | 13 617 | 13 220 |
| Retail - other exposures | 102 012 | 87 560 | 24.7 | 21 589 | 1 727 | 1 745 |
| Securitisation | | | | | | 626 |
| Total credit risk, IRB approach | 1 843 502 | 1 662 385 | 37.3 | 619 833 | 49 587 | 51 241 |
| Standardised approach | | | | | | |
| Central government | 273 420 | 256 743 | 0.1 | 148 | 12 | 6 |
| Institutions | 264 968 | 148 410 | 30.9 | 45 799 | 3 664 | 3 312 |
| Corporate | 225 852 | 166 452 | 88.8 | 147 795 | 11 824 | 9 816 |
| Retail - mortgage loans | 67 981 | 64 835 | 48.9 | 31 733 | 2 539 | 2 207 |
| Retail - other exposures | 124 556 | 49 276 | 75.0 | 36 973 | 2 958 | 2 941 |
| Equity positions | 10 508 | 10 506 | 92.1 | 9 674 | 774 | 662 |
| Other assets | 11 141 | 11 141 | 57.0 | 6 354 | 508 | 513 |
| Total credit risk, standardised approach | 978 426 | 707 362 | 39.4 | 278 476 | 22 278 | 19 458 |
| Total credit risk | 2 821 928 | 2 369 747 | 37.9 | 898 309 | 71 865 | 70 699 |
| Market risk | | | | | | |
| Position risk, debt instruments | | | | 11 583 | 927 | 1 120 |
| Position risk, equity instruments | | | | 195 | 16 | 21 |
| Currency risk | | | | | | |
| Commodity risk | | | | 9 | 1 | 2 |
| Credit value adjustment risk (CVA) | | | | 3 891 | 311 | 469 |
| Total market risk | | | | 15 678 | 1 254 | 1 612 |
| Operational risk | | | | 86 428 | 6 914 | 7 139 |
| Total risk-weighted assets and capital requirements before transitional rule | | | | 1 000 415 | 80 033 | 79 450 |
| Additional capital requirements according to transitional rules [2] | | | | 50 744 | 4 060 | 1 725 |
| Total risk-weighted assets and capital requirements | | | | 1 051 159 | 84 093 | 81 175 |

1) *EAD, exposure at default*
2) *Due to transitional rules, the minimum capital adequacy requirements cannot be reduced below 80 per cent of the corresponding figure calculated according to the Basel I regulations.*

# Note 4 Credit risk management

Credit risk or counterparty risk is the risk of financial losses due to failure by the banking group's customers/counterparties to meet their payment obligations towards DNB. Credit risk refers to all claims against customers/counterparties, mainly loans, but also commitments in the form of other extended credits, guarantees, interest-bearing securities, unutilised credit lines, derivative trading and interbank deposits. Credit risk also includes residual value risk and concentration risk. Residual value risk is the risk that the value of collateral is lower than expected. Concentration risk includes risk associated with large exposures to a single customer and clusters of commitments in geographical areas or industries, or with homogeneous customer groups.

Credit risk management and measurement is described in detail in the Risk and Capital Management (Pillar 3) report. The banking 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 banking group's short and long-term profitability. The quality of the portfolio should be consistent with DNB's aim of maintaining a low risk profile.

The Board of Directors of DNB ASA sets long-term targets for the risk profile through the risk appetite framework. The aim of this framework is to ensure that risk is managed and integrated with the banking group's governance processes. The risk appetite framework should provide a holistic and balanced view of the risk in the business and it defines maximum limits for credit exposure. Limits have been set for annual growth in lending, risk concentrations, total credit risk exposure and predicted expected loss. An upper limit for growth, measured in terms of EAD, is set for each business area. To limit concentration risk, limits are set for exposure on individual customers and certain industries. The limit for expected losses applies to all types of credit risk and is measured by means of the banking group's internal credit models. The risk appetite framework is operationalised through credit strategies for the individual customer segments. In addition, risk indicators are established and used for monitoring managers on all levels.

## Credit risk exposure

The maximum credit risk exposure will be the carrying amount of financial assets plus off-balance sheet exposure, which mainly includes guarantees, unutilised credit lines and loan offers. The banking group's maximum credit risk exposure and related collateral at year end are presented in note 6 Credit risk exposure and collateral.

## Classification

DNB's internal models for risk classification of customers are subject to continual improvement and testing. The models are adapted to different industries and segments and are updated if calibrations show that their explanatory power has diminished over time. DNB has been granted permission to use IRBA models in capital adequacy calculations for the corporate portfolio, for other portfolios IRB is being used. The same models are used in calculations of capital requirements and in risk management.

All corporate customers granted credit must be classified according to risk in connection with every significant credit approval and, unless otherwise decided, at least once a year. 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 banking 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 banking group's portfolio divided into risk grades and IFRS 9 stages is presented in note 7 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 | Standard & Poor's |
| 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 | impaired | 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

DNB's guidelines and processes for approving credits are described in DNB Group's guidelines for credit activity. The guidelines describe how DNB shall grant and follow up credit exposures in the various segments. Detailed descriptions are given of the assessment of new customers, follow-up of performing credit exposures, customers in financial difficulty and procedures for handling credit-impaired loans.

## Note 4 Credit risk management (continued)

The granting of credit in DNB is based on authorisation and approval matrices. As a fundamental principle, one person makes a recommendation and another one approves it. The matrices are differentiated on the basis of volume, risk and, if relevant, industry. While only two persons may be involved in recommending and approving a low-risk exposure in the form of a home mortgage, recommendations for large/complex exposures must be endorsed by a senior credit officer. In addition, advice will be sought from credit committees and the involvement of industry specialists may be required.

A decisive element when granting credit is the customers' debt servicing capacity in the form of incoming future cash flows, such as earned income or income from the business operations which are being financed. The bank seeks to further mitigate the risk of future losses by requiring that collateral are furnished. Collateral can be in the form of physical assets, guarantees, cash deposits or netting agreements. As a rule, physical collateral shall be insured. Negative pledges, whereby customers undertake to keep their assets free from encumbrances vis-à-vis other lenders, are also used as a risk-mitigating measure.

In addition to collateral, most corporate credit agreements will include financial covenants, which represent an additional risk-mitigating element to ensure that DNB becomes aware of and involved in any financial challenges at an early stage. Examples of financial covenants are minimum net cash flow and equity ratio requirements.

Monitoring credit risk

*Performing customers*

According to the guidelines for credit activity for corporate customers, a credit assessment shall be made of all customers at least once a year. This is a complete review of all risks identified by DNB relating to the customer. A new evaluation of all collateral provided is an integral part of the annual review. The decision-making and authorisation matrices shall also be used in connection with the renewal of all existing credits and thus ensure that persons with relevant expertise are always involved when considering large and complicated exposures. Performing customers also include customers that have experienced significant increase in credit risk.

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

*Watchlist*

The watchlist is the Banking group's primary tool for following up corporate customers when credit risk has increased. If customers breach financial covenants or a loss event has occurred, it will be considered to include the exposure on the watchlist. Loss events include serious financial problems or major changes in market conditions. In addition it is an integral part of credit activity to consider whether to place high-risk customers(risk grades 8-10) on the watchlist. Watchlisted customers are subject to special monitoring. More frequent, often quarterly risk assessments are required, including an updated valuation of collateral. In addition, an action plan must be prepared amend the risk situation that has arisen. The particularly close follow-up of customers facing greater challenges is based on the bank's experience that special monitoring both reduces the risk that losses will occur and minimises the losses that actually materialise. Each time watchlisted exposures are reviewed, the need for individual assessment of impairment losses will be performed.

*Forbearance*

If a customer gets into financial difficulties, DNB may in some cases grant voluntary concessions in the form of less stringent financial covenants or reduced/deferred interest and instalment payments. Such measures are offered in accordance with DNB Group's credit guidelines, thus aiming to help customers through a tough financial period when it is expected that they will meet their obligations on a later date. This is part of DNB's strategy to reduce losses. The banking group's total forbearance exposures, in accordance with the definition of forbearance in CRD IV, are shown in the following table:

| **DNB Bank ASA** | | | | | | **DNB Bank Group** |
|---|---|---|---|---|---|---|
| Stage 2 | Stage 3 | Total | *Amounts in NOK million* | Total | Stage 3 | Stage 2 |
| 21 292 | 12 631 | 33 923 | Gross carrying amount and loan commitments | 40 839 | 15 299 | 25 540 |
| 390 | 3 398 | 3 788 | Expected credit loss | 4 138 | 3 679 | 459 |

*Credit-impaired portfolio*

In the event of credit impairment, customers are closely monitored. In the bank's experience, other supplementary resources are required during this stage than for performing customers. Customer exposures which fall into this category will either be transferred in their entirety to a separate unit with special expertise in this field, or persons from this unit will join the customer team.

*Repossessed companies and assets*

In connection with the follow-up of defaulted exposures, DNB will in some cases take over assets provided as collateral for loans and guarantees. All acquired assets are normally followed up by the DNB Group Investment unit, whose main target is to secure/recover values for DNB's shareholders through financial restructuring when companies or other assets are repossessed due to default. At the time of acquisition, such assets are valued at their estimated realisable value. Any deviations from the carrying amount of the exposures at the time of acquisition are classified as impairment of loans and guarantees in the income statement. Repossessed assets are recognised in the balance sheet and measured after initial recognition according to the rules that apply for the foreclosed assets.

### Counterparty risk for derivatives

DNB enters into derivative transactions on the basis of customer demand and to hedge positions resulting from such activity. In addition, derivatives are used to hedge positions in the trading portfolio and take positions in the interest rate, currency, commodity and equity markets.

# Note 4 Credit risk management (continued)

In addition, derivatives are used to hedge currency and interest rate risk arising in connection with funding and lending. Derivatives are generally traded “over the counter” (OTC), which means that individual contracts are agreed upon by the parties. The credit risk that arises in connection with derivative trading is included in the DNB Group’s overall credit risk measurement.

Netting agreements and bilateral guarantee agreements are used as a means of minimising counterparty risk associated with individual counterparties. These agreements make it possible to net the positive and negative market values linked to contracts with individual counterparties. CSA (Credit Support Annex) agreements are another type of risk-mitigating measure. CSA agreements have been entered into with most major bank counterparties and other financial counterparties, as well as a steadily increasing number of non-financial counterparties. Under these agreements, the market value of all derivative contracts between DNB and the counterparty is settled either daily or weekly, which largely eliminates counterparty risk. These transactions are mostly settled in cash, though government bonds and covered bonds are used as well. The agreements are not normally dependent on the credit quality of the counterparty, but some of them stipulate that the maximum exposure level before collateral is required (the threshold value) will be reduced if the counterparty is downgraded.

The different interest rate products (interest rate swaps and Forward Rate Agreements (FRAs) in different currencies) are settled through clearing houses like LCH. DNB’s counterparty risk on an individual counterparty is thus transferred to the clearing house. Equity forward contracts, securities loans and currency trading for personal customers are monitored and increases/decreases in value are settled daily.

# Note 5 Measurement of expected credit loss

DNB applies a three-stage approach when measuring expected credit loss (ECL) on loans to customers, loan commitments, financial guarantees and other financial instruments 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 stage 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 at 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’s loan portfolio is split into 22 segments based on geography and industry. All customers within a 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 impeaired | Lifetime | Individual measurement per customer | Amortised cost |

## Note 5 Measurement of expected credit loss (continued)

### Measurement of expected credit loss in stage 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. In order to reflect the effect of macro drivers in a reasonable and supportable manner DNB's portfolio has been divided into 22 segments with shared credit risk characteristics. The segmentation is based on industry and geographical location, but about half of the industry segments are exposed to global markets and are influenced by global risk drivers.

Based on a statistical regression analysis, key risk drivers impacting PD are identified for the different segments. The assessments used to select the different 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. Relevant macro drivers and their impact on ECL will vary by financial instrument. Forecasts of each of the relevant 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. DNB Markets bases its forecast on a range of information sources, primarily external market information, but also internal sources. The forecast period varies between three and four years.

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 a given 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 for each segment 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. If the CCI moves towards better times, the PD will everything else equal be reduced and vice versa.

#### Multiple scenarios

In order to capture the non-linear relationship between negative credit risk development and ECL the use of multiple scenarios in determining significant increase in credit risk and measuring ECL is required. DNB has solved this by using the base scenario for each risk driver as a starting point and 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 the 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.

#### 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.

<u>Probability of default (PD)</u>

DNB applies a range of different models to determine a customer's PD. The choice of model depends on whether it is a personal or corporate customer and on which industry the customer operates in. The development in the customer's PD is a key component in DNB's monitoring of credit risk in the portfolio, see note 4 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.

Based on the converted PDs and reflecting the forward looking credit cycle index two types of PDs are generated and used in the ECL calculation:

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

## Note 5 Measurement of expected credit loss (continued)

Loss given default (LGD)

LGD represents the percentage of EAD which the banking group expects to lose if the customer fails to meet his 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 4 Credit risk management.

Qualitative criteria

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

Back stop

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

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

### Expert credit judgement

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

## Note 5 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 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 the DNB Group:

- 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 for assuming that the payment obligation will not be met (anticipated default).

A commitment is defined to represent anticipated default if it is considered likely that the customer, based on its regular business activities, does not have debt payment ability for its total obligations (unlikeliness to pay).

### Measurement of expected credit loss for credit-impaired financial instruments

In DNB, the ECL for credit-impaired financial instruments is calculated individually per customer and without the use of modelled inputs. The ECL provision is estimated as the difference between the carrying amount and the net present value of the estimated future cash flows discounted by the original effective interest rate. The estimated future cash flows are based on developments in the customer's exposure, past experience with the customer, the probable outcome of negotiations and expected macroeconomic developments that will influence the customer's expected cash flow. If the exposure is collateralised, the value of the collateral in going concern scenarios is included in the estimated future cash flows regardless of whether foreclosure is probable or not. When establishing the estimated future cash flows, weighting of two possible scenarios, both assuming going concern, is incorporated. In addition, in some cases the probability of debt settlement proceedings and bankruptcies is taken into consideration in a liquidation scenario, including the probability that assets provided as collateral will be foreclosed and sold. Collateral is measured at fair value where acknowledged methods for measuring underlying assets are used.

DNB's write-off policy

DNB 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 maintains the legal claim towards the customer even though a write-off has been recognised. For corporate customers, there is a difference between internal write-offs and debt forgiveness. In the latter, DNB does not maintain a legal claim.

### 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 stage 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 determination of how to do the segmentation of the loan portfolio, the identification of relevant risk drivers for each 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 where ECL is measured individually per customer, 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 6 Credit risk exposure and collateral

**Credit risk exposure and collateral as at 31 December 2018** **DNB Bank ASA**

| *Amounts in NOK million* | Maximum exposure to credit risk | Secured by real estate | Collateralised by securities | Other collateral [1)] |
|---|---|---|---|---|
| Deposits with central banks | 153 535 | | 30 241 | |
| Due from credit institutions | 428 648 | | 74 939 | 3 |
| Loans to customers | 793 702 | 330 835 | 61 357 | 211 960 |
| Commercial paper and bonds | 262 207 | | | |
| Financial derivatives | 138 306 | | 26 172 | 88 626 |
| Other assets | 21 515 | | | |
| Total maximum exposure to credit risk reflected on the balance sheet | 1 797 913 | 330 835 | 192 709 | 300 589 |
| Guarantees | 15 745 | 28 | | 4 441 |
| Unutilised credit lines and loan offers | 561 347 | 44 978 | | 62 824 |
| Other commitments | 71 552 | 7 556 | | 15 073 |
| Total maximum exposure to credit risk not reflected on the balance sheet | 648 644 | 52 562 | | 82 338 |
| Total | 2 446 556 | 383 397 | 192 709 | 382 926 |
| | | | | |
| *Of which subject to expected credit loss:* | | | | |
| *Deposits with central banks* | *153 535* | | *30 241* | |
| *Due from credit institutions* | *428 648* | | *74 939* | *3* |
| *Loans to customers* | *786 193* | *324 721* | *61 357* | *211 906* |
| *Commercial paper and bonds* | | | | |
| *Total maximum exposure to credit risk reflected on the balance sheet* | *1 368 376* | *324 721* | *166 536* | *211 909* |
| *Guarantees* | *15 745* | *28* | | *4 441* |
| *Unutilised credit lines and loan offers* | *561 347* | *44 974* | | *62 820* |
| *Other commitments* | *71 552* | *7 556* | | *15 073* |
| *Total maximum exposure to credit risk not reflected on the balance sheet* | *648 644* | *52 558* | | *82 335* |
| *Total* | *2 017 020* | *377 280* | *166 536* | *294 243* |
| | | | | |
| *Of which stage 3:* | | | | |
| *Loans to customers* | *16 243* | *2 604* | | *10 903* |
| *Total maximum exposure to credit risk reflected on the balance sheet* | *16 243* | *2 604* | | *10 903* |
| *Guarantees* | *1 090* | | | *324* |
| *Unutilised credit lines and loan offers* | *1 602* | *137* | | *575* |
| *Other commitments* | *661* | *89* | | *204* |
| *Total maximum exposure to credit risk not reflected on the balance sheet* | *3 353* | *226* | | *1 103* |
| *Total* | *19 596* | *2 830* | | *12 006* |

Financial assets of NOK 1 442 million in stage 3 has no credit loss due to collateralisation.

## Note 6 Credit risk exposure and collateral (continued)

**Credit risk exposure and collateral as at 31 December 2018** **DNB Bank Group**

| *Amounts in NOK million* | Maximum exposure to credit risk | Secured by real estate | Collateralised by securities | Other collateral 1) |
|---|---|---|---|---|
| Deposits with central banks | 154 470 | | 30 241 | |
| Due from credit institutions | 128 415 | | 74 939 | 363 |
| Loans to customers | 1 598 017 | 989 098 | 62 049 | 261 534 |
| Commercial paper and bonds | 257 725 | | | |
| Financial derivatives | 125 358 | | 26 172 | 87 653 |
| Other assets | 7 272 | | | |
| Total maximum exposure to credit risk reflected on the balance sheet | 2 271 257 | 989 098 | 193 401 | 349 549 |
| Guarantees | 15 732 | 28 | | 4 441 |
| Unutilised credit lines and loan offers | 609 886 | 118 579 | | 79 376 |
| Other commitments | 75 127 | 7 633 | | 15 277 |
| Total maximum exposure to credit risk not reflected on the balance sheet | 700 744 | 126 239 | | 99 094 |
| Total | 2 972 001 | 1 115 337 | 193 401 | 448 643 |
| *Of which subject to expected credit loss:* | | | | |
| *Deposits with central banks* | *154 470* | | *30 241* | |
| *Due from credit institutions* | *128 415* | | *74 939* | *363* |
| *Loans to customers* | *1 549 223* | *941 994* | *62 049* | *261 466* |
| *Commercial paper and bonds* | *5 201* | | | |
| *Total maximum exposure to credit risk reflected on the balance sheet* | *1 837 310* | *941 994* | *167 229* | *261 829* |
| *Guarantees* | *15 732* | *28* | | *4 441* |
| *Unutilised credit lines and loan offers* | *609 886* | *118 347* | | *79 280* |
| *Other commitments* | *75 127* | *7 556* | | *15 073* |
| *Total maximum exposure to credit risk not reflected on the balance sheet* | *700 744* | *125 931* | | *98 794* |
| *Total* | *2 538 054* | *1 067 925* | *167 229* | *360 623* |
| *Of which stage 3:* | | | | |
| *Loans to customers* | *19 511* | *3 612* | | *12 713* |
| *Total maximum exposure to credit risk reflected on the balance sheet* | *19 511* | *3 612* | | *12 713* |
| *Guarantees* | *1 090* | | | *324* |
| *Unutilised credit lines and loan offers* | *1 830* | *144* | | *575* |
| *Other commitments* | *662* | *89* | | *204* |
| *Total maximum exposure to credit risk not reflected on the balance sheet* | *3 583* | *233* | | *1 103* |
| *Total* | *23 094* | *3 845* | | *13 816* |

1) *Other collateral includes the assessed fair value of movables, sureties, ships and cash as well as other credit enhancements, such as netting agreements and guarantees received.*

Financial assets of NOK 2 084 million in stage 3 has no credit loss due to collateralisation.

The table above includes on and off-balance sheet items which entail credit risk and the assessed value of related collateral. If available, fair values are used. In general, fair values are estimated according to different techniques depending on the type of collateral. With respect to properties, models estimating the value of collateral based on market parameters for similar properties, are used. Corresponding techniques are used for other non-financial collateral. In order to reflect the effective available collateral value, the fair value of collateral included in the table is limited to the maximum credit exposure of the individual loan or exposure.

Comments to the main items as at 31 December 2018:

- *Deposits with central banks:* Deposits with Norges Bank totalled NOK 6 625 million. DNB engages only in short-term transactions with central banks outside Norway, mainly in OECD countries.
- *Loans to customers:* See further description under "Guidelines for credit activity" in note 4 Credit risk management.
- *Commercial paper and bonds:* The Group's investments in commercial paper and bonds, are within market risk limits approved by the Board of Directors.
- *Financial derivatives:* Other collateral represents netting opportunities against other outstanding balances with customers and cash collateral received.

*Guarantees:* See further description under "Guidelines for credit activity" in note 4 Credit risk management.

*Unutilised credit lines and loan offers:* Offers of loans, credits and credit lines totalling NOK 117 853 million for the DNB Bank Group and 148 056 for the DNB Bank ASA were included in the maximum credit exposure. No formal collateral has been established for such exposure, and the assessed value is not included in the table. Collateral is established once the offers are accepted by the customers. The assessment of the value of any collateral established in connection with such offers follows the procedure and criteria described under "Guidelines for credit activity" in note 4 Credit risk management.

## Note 7 Credit risk exposure by risk grade

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

**Credit risk exposure by risk grade as at 31 December 2018** **DNB Bank ASA**

| | Loans | | | | |
|---|---|---|---|---|---|
| *Amounts in NOK million* | Stage 1 | Stage 2 | Stage 3 | Loans at fair value | Total |
| Risk grade based on probability of default | | | | | |
| 1 - 4 | 519 951 | 2 732 | | 5 618 | 528 301 |
| 5 - 7 | 179 320 | 21 799 | | 1 746 | 202 865 |
| 8 - 10 | 18 650 | 28 563 | | 126 | 47 339 |
| Credit impared | | | 23 719 | 18 | 23 737 |
| Total | 717 921 | 53 094 | 23 719 | 7 509 | 802 243 |

| | Financial commitments | | | |
|---|---|---|---|---|
| *Amounts in NOK million* | Stage 1 | Stage 2 | Stage 3 | Total |
| Risk grade based on probability of default | | | | |
| 1 - 4 | 375 482 | 3 151 | | 378 633 |
| 5 - 7 | 73 209 | 7 970 | | 81 179 |
| 8 - 10 | 8 902 | 7 602 | | 16 504 |
| Credit impared | | | 3 922 | 3 922 |
| Total | 457 594 | 18 722 | 3 922 | 480 237 |

**Credit risk exposure by risk grade as at 31 December 2018** **DNB Bank Group**

| | Loans | | | | |
|---|---|---|---|---|---|
| *Amounts in NOK million* | Stage 1 | Stage 2 | Stage 3 | Loans at fair value | Total |
| Risk grade based on probability of default | | | | | |
| 1 - 4 | 1 115 964 | 3 329 | | 37 890 | 1 157 183 |
| 5 - 7 | 307 924 | 41 783 | | 10 263 | 359 969 |
| 8 - 10 | 25 144 | 37 143 | | 587 | 62 875 |
| Credit impared | | | 27 832 | 54 | 27 886 |
| Total | 1 449 032 | 82 255 | 27 832 | 48 794 | 1 607 913 |

| | Financial commitments | | | |
|---|---|---|---|---|
| *Amounts in NOK million* | Stage 1 | Stage 2 | Stage 3 | Total |
| Risk grade based on probability of default | | | | |
| 1 - 4 | 519 987 | 3 417 | | 523 405 |
| 5 - 7 | 90 294 | 11 055 | | 101 349 |
| 8 - 10 | 10 635 | 14 990 | | 25 625 |
| Credit impared | | | 4 152 | 4 152 |
| Total | 620 917 | 29 462 | 4 152 | 654 531 |

## Note 8 Impairment of financial instruments

**DNB Bank ASA**

| | 2018 | | | |
|---|---|---|---|---|
| *Amounts in NOK million* | Stage 1 | Stage 2 | Stage 3 | Total |
| Originated and purchased | (17) | (3) | | (20) |
| Increased expected credit loss | (212) | (990) | (4 978) | (6 180) |
| Decreased expected credit loss | 284 | 2 966 | 2 306 | 5 556 |
| Derecognition | 9 | 4 | 1 | 14 |
| Write-offs | (0) | (3) | (567) | (570) |
| Recoveries on loans previously written off | (0) | | 171 | 171 |
| Other | | | | |
| **Total impairment** | **63** | **1 974** | **(3 066)** | **(1 029)** |

**DNB Bank Group**

| | 2018 | | | |
|---|---|---|---|---|
| *Amounts in NOK million* | Stage 1 | Stage 2 | Stage 3 | Total |
| Originated and purchased | (34) | (14) | (1) | (49) |
| Increased expected credit loss | (352) | (1 739) | (5 296) | (7 387) |
| Decreased expected credit loss | 459 | 4 730 | 2 888 | 8 078 |
| Derecognition | 22 | 13 | 6 | 42 |
| Write-offs | 0 | (2) | (730) | (732) |
| Recoveries on loans previously written off | (0) | | 187 | 187 |
| Other | | | | |
| **Total impairment** | **96** | **2 989** | **(2 946)** | **139** |

The contractual amount outstanding on financial assets that were written off during the reporting period and is still subject to enforcement activity, was NOK 67 million as at 31 December 2018.

## Note 9 Development in gross carrying amount and maximum exposure

The following tables reconcile the opening and closing balances for gross carrying amount and the maximum exposure for loans to customers at amortised cost and financial commitments. Reconciling items include the following:

- Transfers between stages due to significant changes in credit risk
- Changes due to the derecognition of loans and financial commitments during the period
- Changes due to the origination of new financial instruments during the period
- Exchange rate movements and other changes affecting the gross carrying amount and maximum exposure

**Loans to customers at amortised cost and fair value over other comprehensive income** — **DNB Bank ASA**

| *Amounts in NOK million* | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Gross carrying amount as at 1 January 2018** | **664 024** | **57 732** | **19 949** | **741 705** |
| Transfer to stage 1 | 24 460 | (23 920) | (540) | |
| Transfer to stage 2 | (34 556) | 36 469 | (1 912) | |
| Transfer to stage 3 | (3 162) | (10 327) | 13 489 | |
| Originated and purchased | 262 792 | 6 275 | 3 954 | 273 020 |
| Derecognition | (194 942) | (13 090) | (11 269) | (219 301) |
| Exchange rate movements | (695) | (45) | 49 | (691) |
| **Gross carrying amount as at 31 December 2018** | **717 921** | **53 094** | **23 719** | **794 734** |

**Loans to customers at amortised cost** — **DNB Bank Group**

| *Amounts in NOK million* | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Gross carrying amount as at 1 January 2018** | **1 389 207** | **90 102** | **25 843** | **1 505 152** |
| Transfer to stage 1 | 58 077 | (57 223) | (854) | 0 |
| Transfer to stage 2 | (74 398) | 76 833 | (2 435) | |
| Transfer to stage 3 | (3 978) | (11 858) | 15 836 | |
| Originated and purchased | 429 908 | 5 052 | 3 964 | 438 923 |
| Derecognition | (351 129) | (20 752) | (14 563) | (386 443) |
| Exchange rate movements | 1 345 | 101 | 41 | 1 488 |
| **Gross carrying amount as at 31 December 2018** | **1 449 032** | **82 255** | **27 832** | **1 559 120** |

**Financial commitments** — **DNB Bank ASA**

| *Amounts in NOK million* | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Maximum exposure as at 1 January 2018** | **564 001** | **9 805** | **3 039** | **576 845** |
| Transfer to stage 1 | 7 278 | (6 531) | (747) | |
| Transfer to stage 2 | (15 561) | 16 307 | (745) | |
| Transfer to stage 3 | (1 655) | (1 579) | 3 234 | |
| Originated and purchased | 159 353 | 3 576 | 3 481 | 166 410 |
| Expired | (257 128) | (2 875) | (4 351) | (264 355) |
| Exchange rate movements | 1 306 | 18 | 12 | 1 336 |
| **Maximum exposure as at 31 December 2018** | **457 594** | **18 722** | **3 922** | **480 237** |

**Financial commitments** — **DNB Bank Group**

| *Amounts in NOK million* | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Maximum exposure as at 1 January 2018** | **649 570** | **28 358** | **3 208** | **681 136** |
| Transfer to stage 1 | 14 184 | (13 415) | (769) | |
| Transfer to stage 2 | (20 916) | 21 665 | (749) | |
| Transfer to stage 3 | (1 663) | (1 587) | 3 250 | |
| Originated and purchased | 277 773 | 5 247 | 3 599 | 286 619 |
| Expired | (301 176) | (11 201) | (4 400) | (316 776) |
| Exchange rate movements | 3 177 | 394 | 13 | 3 584 |
| Other | (32) | | | (32) |
| **Maximum exposure as at 31 December 2018** | **620 917** | **29 462** | **4 152** | **654 531** |

## Note 10 Development in accumulated impairment of financial instruments

The following tables reconcile the opening and closing balances for accumulated impairment of loans to customers at amortised cost and financial commitments. 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 financial instruments during the period
- Increases and decreases in expected credit loss resulting from changes in input parameters and assumptions, including macro forecasts, as well as the effect of partial repayments on existing facilities and the unwinding of the time value of discounts due to the passage of time
- Changes in allowance due to the derecognition of financial instruments during the period
- Write-offs, exchange rate movements and other changes affecting the expected credit loss

**Loans to customers at amortised cost** — **DNB Bank ASA**

| *Amounts in NOK million* | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Accumulated impairment as at 1 January 2018** | **(196)** | **(2 138)** | **(6 562)** | **(8 896)** |
| Transfer to stage 1 | (171) | 157 | 14 | |
| Transfer to stage 2 | 23 | (179) | 155 | |
| Transfer to stage 3 | 2 | 1 167 | (1 169) | |
| Originated and purchased | (60) | (118) | | (177) |
| Increased expected credit loss | (128) | (708) | (5 741) | (6 577) |
| Decreased (reversed) expected credit loss | 362 | 797 | 4 075 | 5 233 |
| Write-offs | (0) | (1) | 1 831 | 1 830 |
| Derecognition (including repayments) | 14 | 172 | 1 | 187 |
| Exchange rate movements | (0) | (0) | (19) | (20) |
| **Accumulated impairment as at 31 December 2018** | **(154)** | **(850)** | **(7 416)** | **(8 420)** |

**Loans to customers at amortised cost** — **DNB Bank Group**

| *Amounts in NOK million* | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Accumulated impairment as at 1 January 2018** | **(380)** | **(3 081)** | **(8 709)** | **(12 171)** |
| Transfer to stage 1 | (453) | 424 | 28 | (0) |
| Transfer to stage 2 | 79 | (280) | 202 | (0) |
| Transfer to stage 3 | 3 | 1 351 | (1 353) | |
| Originated and purchased | (176) | (161) | (1) | (337) |
| Increased expected credit loss | (231) | (988) | (6 368) | (7 587) |
| Decreased (reversed) expected credit loss | 935 | 1 243 | 4 981 | 7 159 |
| Write-offs | | 0 | 2 900 | 2 899 |
| Derecognition (including repayments) | (125) | 275 | 5 | 155 |
| Exchange rate movements | (2) | (7) | (5) | (15) |
| **Accumulated impairment as at 31 December 2018** | **(351)** | **(1 224)** | **(8 321)** | **(9 897)** |

## Note 10 Development in accumulated impairment of financial instruments (continued)

### Financial commitments

DNB Bank ASA

| *Amounts in NOK million* | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Accumulated impairment as at 1 January 2018** | **(137)** | **(1 164)** | **(508)** | **(1 809)** |
| Transfer to stage 1 | (124) | 124 | | |
| Transfer to stage 2 | 20 | (23) | 4 | |
| Transfer to stage 3 | 0 | 584 | (584) | |
| Originated and purchased | (114) | (20) | | (134) |
| Increased expected credit loss | (38) | (346) | (316) | (700) |
| Decreased (reversed) expected credit loss | 275 | 341 | 821 | 1 436 |
| Write-offs | (0) | 0 | 15 | 15 |
| Expired | 0 | 72 | | 72 |
| Exchange rate movements | (1) | (2) | (0) | (3) |
| **Accumulated impairment as at 31 December 2018** | **(117)** | **(436)** | **(569)** | **(1 122)** |

### Financial commitments

DNB Bank Group

| *Amounts in NOK million* | Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|
| **Accumulated impairment as at 1 January 2018** | **(171)** | **(2 128)** | **(511)** | **(2 810)** |
| Transfer to stage 1 | (194) | 194 | | |
| Transfer to stage 2 | 27 | (31) | 4 | |
| Transfer to stage 3 | 0 | 584 | (584) | |
| Originated and purchased | (134) | (338) | | (472) |
| Increased expected credit loss | (49) | (580) | (316) | (946) |
| Decreased (reversed) expected credit loss | 371 | 958 | 821 | 2 150 |
| Write-offs | | 0 | 15 | 15 |
| Expired | 2 | 370 | 2 | 374 |
| Exchange rate movements | (1) | (30) | 0 | (31) |
| **Accumulated impairment as at 31 December 2018** | **(149)** | **(1 001)** | **(569)** | **(1 719)** |

# Note 11 Loans and financial commitments to customers by industry segment

**Loans** **DNB Bank ASA**

| *Amounts in NOK million* | Gross carrying amount | Accumulated impairment Stage 1 | Stage 2 | Stage 3 | Loans at fair value | Total |
|---|---|---|---|---|---|---|
| Bank, insurance and portfolio management | 69 992 | (5) | (3) | (55) | | 69 929 |
| Commercial real estate | 143 415 | (7) | (37) | (245) | 153 | 143 279 |
| Shipping | 32 561 | (32) | (28) | (623) | | 31 878 |
| Oil, gas and offshore | 45 057 | (24) | (377) | (3 686) | | 40 970 |
| Power and renewables | 22 990 | (3) | (81) | (8) | | 22 898 |
| Healthcare | 529 | (0) | (6) | (0) | | 522 |
| Public sector | 19 473 | (0) | (1) | (0) | | 19 472 |
| Fishing, fish farming and farming | 33 312 | (3) | (12) | (69) | 146 | 33 373 |
| Trade | 35 392 | (3) | (12) | (809) | 11 | 34 578 |
| Manufacturing | 36 197 | (7) | (8) | (324) | 6 | 35 863 |
| Technology, media and telecom | 11 952 | (8) | (4) | (30) | 0 | 11 910 |
| Services | 53 099 | (8) | (16) | (465) | 73 | 52 682 |
| Residential property | 71 017 | (5) | (7) | (222) | 122 | 70 905 |
| Personal customers | 180 352 | (37) | (236) | (518) | 6 966 | 186 526 |
| Other corporate customers | 39 397 | (11) | (21) | (359) | 33 | 39 038 |
| Adjustment loans at fair value over other comprehensive income | | | | | | (121) |
| **Loans as at 31 December 2018 1)** | **794 734** | **(154)** | **(850)** | **(7 416)** | **7 509** | **793 702** |

*1) Of which NOK 38 783 million in repo trading volumes.*

**Loans** **DNB Bank Group**

| Amounts in NOK million | Gross carrying amount | Accumulated impairment Stage 1 | Stage 2 | Stage 3 | Loans at fair value | Total |
|---|---|---|---|---|---|---|
| Bank, insurance and portfolio management | 92 825 | (9) | (4) | (55) | | 92 757 |
| Commercial real estate | 160 272 | (9) | (43) | (261) | 179 | 160 138 |
| Shipping | 57 750 | (67) | (117) | (655) | | 56 911 |
| Oil, gas and offshore | 61 201 | (54) | (586) | (4 336) | | 56 225 |
| Power and renewables | 30 556 | (8) | (85) | (107) | | 30 355 |
| Healthcare | 22 601 | (7) | (9) | (0) | | 22 585 |
| Public sector | 22 303 | (0) | (1) | (0) | | 22 301 |
| Fishing, fish farming and farming | 34 983 | (3) | (13) | (70) | 165 | 35 063 |
| Trade | 40 210 | (15) | (13) | (595) | 65 | 39 653 |
| Manufacturing | 45 914 | (19) | (9) | (339) | 21 | 45 568 |
| Technology, media and telecom | 27 530 | (28) | (4) | (30) | 17 | 27 485 |
| Services | 64 577 | (18) | (18) | (545) | 203 | 64 200 |
| Residential property | 91 562 | (6) | (7) | (222) | 375 | 91 702 |
| Personal customers | 758 495 | (91) | (288) | (678) | 47 688 | 805 126 |
| Other corporate customers | 48 342 | (17) | (30) | (427) | 80 | 47 948 |
| **Loans as at 31 December 2018 1)** | **1 559 120** | **(351)** | **(1 224)** | **(8 321)** | **48 794** | **1 598 017** |

*1) Of which NOK 38 783 million in repo trading volumes.*

## Note 11 Loans and financial commitments to customers by industry segment (continued)

**Financial commitments** **DNB Bank ASA**

| *Amounts in NOK million* | Maximum exposure | Accumulated impairment Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|---|
| Bank, insurance and portfolio management | 17 348 | (5) | (7) | (0) | 17 337 |
| Commercial real estate | 27 191 | (2) | (1) | (4) | 27 185 |
| Shipping | 8 454 | (5) | (11) | | 8 439 |
| Oil, gas and offshore | 41 614 | (47) | (260) | (322) | 40 985 |
| Power and renewables | 26 525 | (3) | (38) | 0 | 26 484 |
| Healthcare | 1 975 | (2) | (0) | | 1 973 |
| Public sector | 6 651 | | | | 6 651 |
| Fishing, fish farming and farming | 13 357 | (3) | (1) | (3) | 13 351 |
| Trade | 25 643 | (7) | (5) | (98) | 25 534 |
| Manufacturing | 42 431 | (13) | (28) | (5) | 42 385 |
| Technology, media and telecom | 9 261 | (5) | (3) | (2) | 9 251 |
| Services | 24 007 | (9) | (11) | (11) | 23 976 |
| Residential property | 34 049 | (2) | (3) | (2) | 34 040 |
| Personal customers | 168 504 | (12) | (59) | (0) | 168 432 |
| Other corporate customers | 33 227 | (4) | (9) | (122) | 33 091 |
| **Financial commitments as at 31 December 2018** | **480 237** | **(117)** | **(436)** | **(569)** | **479 115** |

**Financial commitments** **DNB Bank Group**

| Amounts in NOK million | Maximum exposure | Accumulated impairment Stage 1 | Stage 2 | Stage 3 | Total |
|---|---|---|---|---|---|
| Bank, insurance and portfolio management | 17 884 | (7) | (7) | (0) | 17 871 |
| Commercial real estate | 26 867 | (2) | (1) | (4) | 26 861 |
| Shipping | 10 605 | (6) | (22) | | 10 577 |
| Oil, gas and offshore | 73 945 | (53) | (809) | (322) | 72 761 |
| Power and renewables | 30 481 | (4) | (38) | 0 | 30 439 |
| Healthcare | 24 000 | (7) | (0) | | 23 992 |
| Public sector | 10 711 | (0) | | | 10 711 |
| Fishing, fish farming and farming | 14 578 | (3) | (1) | (3) | 14 571 |
| Trade | 30 386 | (9) | (5) | (98) | 30 275 |
| Manufacturing | 56 392 | (16) | (28) | (5) | 56 343 |
| Technology, media and telecom | 17 799 | (8) | (3) | (2) | 17 785 |
| Services | 26 142 | (11) | (11) | (11) | 26 109 |
| Residential property | 34 240 | (2) | (3) | (2) | 34 232 |
| Personal customers | 241 943 | (15) | (63) | (0) | 241 866 |
| Other corporate customers | 38 558 | (6) | (10) | (123) | 38 419 |
| **Financial commitments as at 31 December 2018** | **654 531** | **(149)** | **(1 001)** | **(569)** | **652 812** |

## Note 12 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 the banking Group’s unhedged transactions and exposure to the foreign exchange, property, interest rate, commodity, credit and equity markets. The risk level reflects market price volatility and the size of the exposure.

DNB quantifies risk by calculating economic capital for individual risk categories and for the banking group's overall risk, see note 4 Risk management. Economic capital for market risk should cover potential market risk losses at the 99.9 per cent confidence level over a one year horizon. Exposures included in the model could be either actual exposures or limits.

Economic capital for total market risk in the banking group at year-end 2018 was NOK 7.3 billion, compared with NOK 7.6 billion in 2017. Most of the market risk stems from banking activities and counts for 87 per cent of total market risk. Market risk for operational activities and pension commitments count for 12 per cent and 1 per cent respectively.

## Note 13 Interest rate sensitivity

### Interest rate sensitivity for different time intervals

The value of items on and off the balance sheet is affected by interest rate movements. The table shows potential losses for the DNB Bank Group excluding DNB Poland and the Baltics resulting from parallel one percentage point changes in all interest rates. The calculations are based on a hypothetical situation where interest rate movements in all currencies are unfavourable for the DNB Bank Group relative to the bank's positions. Also, all interest rate movements within the same interval will be unfavourable for the banking group. The figures will thus reflect maximum losses for the DNB Bank Group.

The calculations are based on the banking group's positions as at 31 December and market rates on the same date. The table does not include administrative interest rate risk and interest rate risk tied to non-interest-earning assets.

| | | | | | | DNB Bank Group [1] |
|---|---|---|---|---|---|---|
| *Amounts in NOK million* | Up to 1 month | From 1 months to 3 months | From 3 months to 1 year | From 1 year to 5 years | Over 5 years | Total |
| **31 December 2018** | | | | | | |
| NOK | 445 | 73 | 750 | 332 | 255 | 155 |
| USD | 91 | 1 | 1 | 97 | 83 | 86 |
| EUR | 65 | 32 | 85 | 27 | 25 | 40 |
| GBP | 7 | 8 | 3 | 7 | | 2 |
| SEK | 10 | 6 | 12 | 8 | 4 | 7 |
| Other currencies | 15 | 34 | 30 | 9 | 4 | 57 |
| **31 December 2017** | | | | | | |
| NOK | 392 | 117 | 350 | 175 | 194 | 94 |
| USD | 51 | 47 | 52 | 23 | 53 | 77 |
| EUR | 42 | 117 | 48 | 7 | 2 | 129 |
| GBP | 3 | 6 | 10 | 1 | 2 | 3 |
| SEK | 33 | 14 | 6 | 27 | 5 | 21 |
| Other currencies | 17 | 20 | 13 | 7 | 12 | 46 |

*1) The figures do not include the operations in Poland and the Baltics, and are identical for DNB Bank ASA.*

## Note 14 Currency positions

The table shows net currency positions as at 31 December, including financial derivatives as defined by Norges Bank. Net positions in individual currencies may represent up to 15 per cent of eligible primary capital. Aggregate currency positions must be within 30 per cent of eligible primary capital. Foreign exchange risk related to investments in subsidiaries is included in the currency position by the amount recorded in the accounts.

| **DNB Bank ASA** | | | **DNB Bank Group** | |
|---|---|---|---|---|
| Net currency positions | | | Net currency positions | |
| 31 Dec. 2017 | 31 Dec. 2018 | *Amounts in NOK million* | 31 Dec. 2018 | 31 Dec. 2017 |
| 1 212 | 1 935 | USD | 1 936 | 1 213 |
| 140 | 4 | EUR | 4 | 140 |
| 52 | (11) | GBP | (11) | 52 |
| 7 | 39 | SEK | 39 | 7 |
| (13) | (23) | DKK | (23) | (13) |
| 4 | 27 | CHF | 27 | 4 |
| 9 | 6 | JPY | 7 | 9 |
| 165 | 216 | Other | 216 | 165 |
| 1 575 | 2 195 | Total foreign currencies | 2 196 | 1 575 |

## Note 15 Financial derivatives and hedge accounting

The majority of derivative transactions in DNB relate to transactions with customers, where DNB enables them to transfer, modify, take or reduce prevailing or expected risk. Derivatives are also used to hedge currency and interest rate risk arising in connection with funding and lending. In addition, Markets conducts derivative trading for their own account and also acts as market maker. A market maker is obliged to furnish both offer and bid prices with a maximum differential between offer and bid price, together with a minimum volume. Market makers always trade for their own account.

DNB uses a range of financial derivatives for both trading and hedging purposes. “Over the counter” (OTC) derivatives are contracts entered into outside an exchange where terms are negotiated directly with the counterparties. OTC derivatives are usually traded under a standardised International Swaps and Derivatives Association (ISDA) master agreement between DNB and its counterparties. Exchange-traded derivatives are derivative contracts with standardised terms for amounts and settlement dates, which are bought and sold on regulated exchanges.

**DNB Bank ASA**

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| *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 contracts** | | | | | | |
| Forward rate agreements | 1 058 532 | 154 | 175 | 1 009 324 | 219 | 263 |
| Swaps | 2 981 561 | 56 452 | 64 380 | 3 092 921 | 60 597 | 63 326 |
| OTC options | 77 254 | 630 | 608 | 49 133 | 597 | 591 |
| Total interest rate contracts | 4 117 347 | 57 237 | 65 163 | 4 151 378 | 61 413 | 64 180 |
| **Foreign exchange contracts** | | | | | | |
| Forward contracts | 28 533 | 7 896 | 6 347 | 24 027 | 6 736 | 5 614 |
| Swaps | 1 157 016 | 32 371 | 41 657 | 1 248 114 | 28 771 | 66 402 |
| OTC options | 26 236 | 1 387 | 1 046 | 25 929 | 1 454 | 1 158 |
| Total foreign exchange contracts | 1 211 785 | 41 654 | 49 050 | 1 298 071 | 36 962 | 73 174 |
| **Equity-related contracts** | | | | | | |
| Forward contracts | 3 315 | 2 281 | 938 | 3 350 | 1 439 | 971 |
| Other | 1 990 | 587 | 317 | 2 898 | 793 | 343 |
| Total OTC derivatives | 5 306 | 2 868 | 1 256 | 6 249 | 2 232 | 1 313 |
| Futures | 1 974 | | 0 | 523 | | 0 |
| Other | 3 783 | 183 | 80 | 3 423 | 126 | 91 |
| Total exchange-traded contracts | 5 757 | 183 | 80 | 3 946 | 126 | 91 |
| Total equity-related contracts | 11 063 | 3 052 | 1 336 | 10 195 | 2 359 | 1 405 |
| **Commodity-related contracts** | | | | | | |
| Swaps and options | 65 055 | 2 291 | 2 062 | 33 235 | 2 669 | 2 334 |
| Total commodity related contracts | 65 055 | 2 291 | 2 062 | 33 235 | 2 669 | 2 334 |
| Total financial derivatives trading | 5 405 250 | 104 234 | 117 611 | 5 492 878 | 103 402 | 141 092 |
| **Derivatives held for hedge accounting** | | | | | | |
| **Fair value hedges of interest rate risk** | | | | | | |
| Interest rate swaps | 136 304 | 7 225 | 1 093 | 133 849 | 8 606 | 1 210 |
| Total financial derivatives hedge accounting | 136 304 | 7 225 | 1 093 | 133 849 | 8 606 | 1 210 |
| **Collateral pledged/received on financial derivatives** | | | | | | |
| Total cash collateral pledged/received | | 26 847 | 43 979 | | 34 944 | 37 232 |
| **Total financial derivatives** | **5 541 554** | **138 306** | **162 683** | **5 626 727** | **146 953** | **179 534** |

## Note 15 Financial derivatives and hedge accounting (continued)

**DNB Bank Group**

| Amounts in NOK million | 31 December 2018 Total nominal values | 31 December 2018 Positive market value | 31 December 2018 Negative market value | 31 December 2017 Total nominal values | 31 December 2017 Positive market value | 31 December 2017 Negative market value |
|---|---|---|---|---|---|---|
| **Derivatives held for trading** | | | | | | |
| **Interest rate contracts** | | | | | | |
| Forward rate agreements | 1 058 532 | 154 | 175 | 1 009 324 | 219 | 263 |
| Swaps | 2 194 450 | 37 882 | 19 907 | 2 374 046 | 40 274 | 6 217 |
| OTC options | 77 245 | 630 | 608 | 49 191 | 606 | 599 |
| Total interest rate contracts | 3 330 227 | 38 666 | 20 690 | 3 432 561 | 41 098 | 7 079 |
| **Foreign exchange contracts** | | | | | | |
| Forward contracts | 29 570 | 7 945 | 6 356 | 27 695 | 6 798 | 5 630 |
| Swaps | 762 636 | 21 781 | 32 484 | 878 266 | 17 224 | 54 113 |
| OTC options | 26 235 | 1 387 | 1 046 | 26 039 | 1 454 | 1 159 |
| Total foreign exchange contracts | 818 441 | 31 114 | 39 886 | 931 999 | 25 477 | 60 902 |
| **Equity-related contracts** | | | | | | |
| Forward contracts | 3 315 | 2 281 | 938 | 3 350 | 1 439 | 971 |
| Other | 1 990 | 597 | 318 | 2 913 | 973 | 343 |
| Total OTC derivatives | 5 306 | 2 878 | 1 256 | 6 264 | 2 412 | 1 314 |
| Futures | 1 974 | | 0 | 523 | | 0 |
| Other | 3 783 | 288 | 80 | 3 423 | 126 | 91 |
| Total exchange-traded contracts | 5 757 | 288 | 80 | 3 946 | 126 | 91 |
| Total equity-related contracts | 11 063 | 3 166 | 1 337 | 10 210 | 2 538 | 1 405 |
| **Commodity-related contracts** | | | | | | |
| Swaps and options | 65 055 | 2 292 | 2 062 | 33 235 | 2 669 | 2 334 |
| Total commodity related contracts | 65 055 | 2 292 | 2 062 | 33 235 | 2 669 | 2 334 |
| Total financial derivatives trading | 4 224 786 | 75 237 | 63 974 | 4 408 004 | 71 782 | 71 720 |
| **Derivatives held for hedge accounting** | | | | | | |
| **Fair value hedges of interest rate risk** | | | | | | |
| Interest rate swaps | 487 763 | 23 927 | 2 371 | 466 911 | 26 331 | 3 265 |
| Total financial derivatives hedge accounting | 487 763 | 23 927 | 2 371 | 466 911 | 26 331 | 3 265 |
| **Collateral pledged/received on financial derivatives** | | | | | | |
| Total cash collateral pledged/received | | 26 194 | 43 659 | | 34 537 | 37 035 |
| **Total financial derivatives** | **4 712 549** | **125 358** | **110 005** | **4 874 916** | **132 649** | **112 020** |

### Risk related to financial derivatives

Derivatives are traded in portfolios which also include balance sheet products. The market risk on derivatives is handled, monitored and controlled as an integral part of the market risk of these portfolios. See note 12 Market risk. Derivatives are traded with many different counterparties and most of these are also engaged in other types of business with DNB. The credit risk arising in connection with derivatives trading is included in the total credit risk measurement of the DNB Bank Group. Netting agreements or bilateral agreements on collateral are entered into with a number of counterparties, thus reducing credit risk. The authorities' capital adequacy requirements take into account netting agreements and similar bilateral agreements, resulting in a reduction of capital adequacy requirements. See note 4 Credit risk management for a description of counter-party risk.

The DNB Bank Group uses basis swaps and cross currency interest swaps to convert foreign currency borrowings into the desired currency. As a typical example, DNB raises a loan in euro and converts it into US dollars through a basis swap. In this example DNB pays a US dollar interest rate based on a swap curve and receives a euro interest rate reduced or increased by a margin. The basis swaps are financial derivatives measured 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. This unhedged risk causes unrealised gains and losses. For the year 2018, there was a NOK 1 358 million decrease in value (negative effect on profits), compared with a NOK 672 million decrease in value in 2017.

### Hedge accounting

DNB applies fair value hedge of interest rate risk on issued bonds and subordinated debt with fixed interest and net investment hedge of investments in foreign operations in order to reduce or eliminate accounting mismatches. Fair value hedge of interest rate risk is applied both in DNB Bank ASA and in DNB Bank Group, while net investment hedge is only applied in DNB Bank Group.

Both derivative and non-derivative instruments are designated as hedging instruments in the hedge relationships that qualify for hedge accounting. See note 1 Accounting principles for information about hedge accounting and the presentation of financial derivatives in the financial statements.

## Note 15 Financial derivatives and hedge accounting (continued)

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. Interest rate risk is usually the largest component of changes in fair value on the debt instruments.

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

**Fair value hedges of interest rate risk as at 31 December 2018** — **DNB Bank ASA**

| *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 | 124 738 | 3 931 | 1 603 |
| Subordinated debt | Debt securities issued | 20 013 | 62 | 67 |

| *Amounts in NOK million* | Balance sheet item | Value changes used for calculating hedge ineffectiveness |
|---|---|---|
| **Hedging instrument** | | |
| Interest rate swaps | Financial derivatives | (1 794) |

**DNB Bank Group**

| *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 | 490 697 | 16 627 | 1 783 |
| Subordinated debt | Debt securities issued | 20 013 | 62 | 67 |

| *Amounts in NOK million* | Balance sheet item | Value changes used for calculating hedge ineffectiveness |
|---|---|---|
| **Hedging instrument** | | |
| Interest rate swaps | Financial derivatives | (2 088) |

The accumulated amount of fair value hedge adjustments remaining in the balance sheet for hedged items that have ceased to be adjusted for hedging gains and losses is NOK 28 million.

**Residual maturity of interest rate swaps held as hedging instruments at 31 December 2018** — **DNB Bank ASA**

| | 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** | | | | | |
| **Hedges of issued bonds** | | | | | |
| Nominal amounts | 7 135 | 50 | 50 | 97 141 | 14 693 |
| Average fixed interest rate (per cent) | 0.97 | 4.13 | 3.55 | 2.97 | 4.05 |
| **Hedges of subordinated debt** | | | | | |
| Nominal amounts | | | | 17 536 | |
| Average fixed interest rate (per cent) | | | | 1.23 | |

**Residual maturity of interest rate swaps held as hedging instruments at 31 December 2018** — **DNB Bank Group**

| | 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** | | | | | |
| **Hedges of issued bonds** | | | | | |
| Nominal amounts | 7 254 | 99 | 30 689 | 299 618 | 132 567 |
| Average fixed interest rate (per cent) | 1.03 | 4.25 | 1.58 | 2.08 | 1.92 |
| **Hedges of subordinated debt** | | | | | |
| Nominal amounts | | | | 17 536 | |
| Average fixed interest rate (per cent) | | | | 1.23 | |

## Note 15 Financial derivatives and hedge accounting (continued)

In net investment hedges of foreign operations in the DNB Bank Group, foreign currency deposits and foreign currency borrowings are used as hedging instruments. These instruments are presented as deposits from customers and debt securities issued in the balance sheet. Instruments in EUR, USD, GBP and SEK are used to hedge the investments in the DNB Bank Group's subsidiaries with functional currencies of EUR, USD, GBP, SEK and DKK.

The total hedged exposure in the net investment hedges amounted to NOK 73 227 million at 31 December 2018. There was no significant hedge ineffectiveness during the year, since the foreign currency gains and losses on the hedged items were offset by the foreign currency gains and losses on the hedging instruments. The effects of the net investment hedge can be seen in the statement of changes in equity.

Any reclassifications from net investment hedge reserve to the income statement, due to for instance sales of subsidiaries, can be seen in the comprehensive income statement and the statement of changes in equity.

## Note 16 Liquidity risk

Liquidity risk is the risk that the DNB Bank Group will be unable to meet its payment obligations. Overall liquidity management in the banking group implies that DNB Bank ASA is responsible for funding domestic and international group entities. Liquidity risk is managed and measured by means of various measurement techniques.

The Board of Directors has approved internal limits which restrict the short-term maturity of liabilities within different time frames. The various maturities are subject to stress testing based on a bank-specific crisis, a systemic crisis and a combination thereof, 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 banking group’s ratio of deposits to net loans was 58.8 per cent at end-December 2018, down from 64.0 per cent a year earlier. The ratio of deposits to net loans in DNB Bank ASA was 115.4 per cent at end-December 2018.

Throughout 2018, DNB still had good access to the short-term funding market. Competition on price is now the main driver of volume, partly due to high funding demands among Scandinavian peers and increased supply of short-term US government debt. The market is becoming more of an “investors’ market” where issuers adapt to the levels investors are looking for. The USD market is still the most important short-term funding market for DNB. European markets, except GBP which is getting better, still suffer from very low to negative interest rates in the short end.

The long-term funding markets in 2018 proved to be more volatile than the year before. The first quarter turned out to be very good for issuers, with low spreads and high activity in the long-term funding markets. Several issuers were expecting a widening of the spreads later in the year and wanted to ensure long-term funding at low spread levels. As the European Central Bank (ECB) started to reduce its asset purchase programme in March, spreads were widening and raised the funding costs for issuers in both covered bonds and senior preferred bonds. This was strengthened due to some political uncertainty in May. Despite this, DNB issued its first green covered bond in June, which was very well received by the investors. During the third quarter, the supply of new covered bonds was high, but the spreads were kept at a stable and low level until October for both covered bonds and senior bonds. In the market for senior bonds, there were more issuances of so-called senior non-preferred bonds due to the coming Minimum Requirement for own funds and Eligible Liabilities (MREL). During the last part of the year, there was more instability in the long-term funding markets, and spreads increased quite a lot for all instruments. This was partly due to the ECB asset purchase programme coming to an end, as well as political issues involving Italy, Brexit and the global trade conflict between US and China. Overall, DNB had good access to long-term funding markets at attractive spreads throughout the year.

The short-term liquidity requirement, Liquidity Coverage Ratio (LCR), remained stable at above 100 per cent throughout the year. At end-December, the total LCR was 117 per cent, with an LCR of 190 per cent for EUR, 243 per cent for USD and 65 per cent for NOK.

The average remaining term to maturity for the portfolio of senior bond debt and covered bonds was 4.1 years at end-December 2018, up from 4.0 a year earlier. The DNB Group aims to maintain a sound and stable maturity structure for funding over the next five years.

## Note 16 Liquidity risk (continued)

### Residual maturity as at 31 December 2018 [1)] — DNB Bank ASA

| *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** | | | | | | | |
| Cash and deposits with central banks | 133 195 | 19 037 | 2 363 | | | | 154 595 |
| Due from credit institutions | 304 131 | 95 650 | 20 121 | 6 549 | 2 197 | | 428 648 |
| Loans to customers | 199 776 | 77 432 | 81 191 | 227 823 | 210 031 | (1 792) | 794 461 |
| Commercial paper and bonds | 35 830 | 22 706 | 48 689 | 141 097 | 15 452 | | 263 775 |
| Shareholdings | | | | | | 118 464 | 118 464 |
| Other assets | | 895 | | 18 | | | 913 |
| Total | 672 932 | 215 720 | 152 364 | 375 487 | 227 680 | 116 672 | 1 760 856 |
| **Liabilities** | | | | | | | |
| Due to credit institutions | 273 816 | 435 | 3 186 | | | | 277 437 |
| Deposits from customers | 916 263 | | | | | | 916 263 |
| Debt securities issued | 85 018 | 51 659 | 55 234 | 132 050 | 7 290 | | 331 250 |
| Other liabilities etc. | 645 | 3 770 | 116 | | | | 4 531 |
| Subordinated loan capital | | 218 | | 25 110 | 5 693 | | 31 021 |
| Total | 1 275 742 | 56 082 | 58 536 | 157 160 | 12 983 | | 1 560 502 |
| **Financial derivatives** | | | | | | | |
| Financial derivatives, gross settlement | | | | | | | |
| Incoming cash flows | 459 732 | 286 423 | 278 264 | 654 037 | 315 341 | | 1 993 797 |
| Outgoing cash flows | 456 973 | 283 370 | 279 712 | 669 948 | 324 863 | | 2 014 866 |
| Financial derivatives, net settlement | 594 | 1 800 | (920) | 2 878 | (201) | | 4 151 |
| Total financial derivatives | 3 353 | 4 853 | (2 368) | (13 033) | (9 723) | | (16 918) |

### Residual maturity as at 31 December 2017 [1)] — DNB Bank ASA

| *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** | | | | | | | |
| Cash and deposits with central banks | 151 145 | | | | | | 151 145 |
| Due from credit institutions | 239 408 | 82 409 | 36 706 | 216 254 | 6 163 | | 580 941 |
| Loans to customers | 200 050 | 65 949 | 44 986 | 207 952 | 214 685 | (2 096) | 731 525 |
| Commercial paper and bonds | 62 294 | 7 268 | 17 288 | 153 957 | 30 636 | | 271 444 |
| Shareholdings | | | | | | 130 459 | 130 459 |
| Other assets | | 2 042 | | 11 | | | 2 053 |
| Total | 652 897 | 157 669 | 98 980 | 578 174 | 251 485 | 128 362 | 1 867 566 |
| **Liabilities** | | | | | | | |
| Due to credit institutions | 178 782 | 59 026 | 68 326 | 26 668 | | | 332 803 |
| Deposits from customers | 956 493 | | | | | | 956 493 |
| Debt securities issued | 79 948 | 49 699 | 50 040 | 133 902 | 7 083 | | 320 671 |
| Other liabilities etc. | 458 | 3 836 | 177 | | | | 4 471 |
| Subordinated loan capital | | | | | 29 456 | | 29 456 |
| Total | 1 215 681 | 112 561 | 118 543 | 160 570 | 36 539 | | 1 643 894 |
| **Financial derivatives** | | | | | | | |
| Financial derivatives, gross settlement | | | | | | | |
| Incoming cash flows | 682 189 | 398 787 | 240 397 | 574 143 | 324 822 | | 2 220 338 |
| Outgoing cash flows | 680 003 | 399 407 | 244 379 | 596 830 | 334 168 | | 2 254 787 |
| Financial derivatives, net settlement | 277 | 1 023 | (866) | 3 497 | (107) | | 3 824 |
| Total financial derivatives | 2 463 | 403 | (4 848) | (19 190) | (9 453) | | (30 625) |

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

### Credit lines, commitments and documentary credit — DNB Bank ASA

| *Amounts in NOK million* | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Unutilised credit lines etc. under 1 year | 336 180 | 317 499 |
| Unutilised credit lines etc. over 1 year | 145 246 | 98 075 |

# Note 16 Liquidity risk (continued)

**Residual maturity as at 31 December 2018 1)** — **DNB Bank Group**

| *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** | | | | | | | |
| Cash and deposits with central banks | 134 192 | 19 037 | 2 363 | | | | 155 592 |
| Due from credit institutions | 77 004 | 44 659 | 6 262 | 197 | 293 | | 128 416 |
| Loans to customers | 208 144 | 88 665 | 155 742 | 293 269 | 855 863 | (2 442) | 1 599 241 |
| Commercial paper and bonds | 36 183 | 22 706 | 43 582 | 141 393 | 15 386 | | 259 250 |
| Shareholdings | | | | | | 21 455 | 21 455 |
| Other assets | | 1 131 | | 18 | | | 1 149 |
| Total | 455 523 | 176 198 | 207 949 | 434 877 | 871 542 | 19 013 | 2 165 103 |
| **Liabilities** | | | | | | | |
| Due to credit institutions | 183 489 | 448 | 3 271 | 100 | | | 187 307 |
| Deposits from customers | 940 092 | | | | | | 940 092 |
| Debt securities issued | 95 959 | 54 564 | 96 442 | 413 711 | 125 325 | | 786 001 |
| Other liabilities etc. | 645 | 4 051 | 138 | | | | 4 834 |
| Subordinated loan capital | | 218 | | 25 110 | 5 693 | | 31 021 |
| Total | 1 220 185 | 59 281 | 99 851 | 438 921 | 131 018 | | 1 949 255 |
| **Financial derivatives** | | | | | | | |
| Financial derivatives, gross settlement | | | | | | | |
| Incoming cash flows | 449 026 | 283 340 | 242 023 | 415 352 | 198 550 | | 1 588 291 |
| Outgoing cash flows | 444 947 | 281 071 | 246 331 | 433 392 | 202 338 | | 1 608 079 |
| Financial derivatives, net settlement | 1 119 | 2 720 | 2 969 | 17 676 | 10 870 | | 35 354 |
| Total financial derivatives | 5 198 | 4 989 | (1 339) | (364) | 7 082 | | 15 566 |

**Residual maturity as at 31 December 2017 1)** — **DNB Bank Group**

| *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** | | | | | | | |
| Cash and deposits with central banks | 151 593 | | | | | | 151 593 |
| Due from credit institutions | 99 095 | 75 078 | 38 440 | 17 556 | 7 671 | | 237 839 |
| Loans to customers | 269 464 | 75 703 | 56 070 | 274 360 | 859 859 | (3 157) | 1 532 298 |
| Commercial paper and bonds | 64 131 | 7 268 | 18 996 | 157 487 | 30 636 | | 278 518 |
| Shareholdings | | | | | | 18 479 | 18 479 |
| Other assets | | 2 042 | | 11 | | | 2 053 |
| Total | 584 282 | 160 091 | 113 506 | 449 414 | 898 166 | 15 322 | 2 220 781 |
| **Liabilities** | | | | | | | |
| Due to credit institutions | 76 437 | 63 038 | 68 308 | 14 699 | | | 222 482 |
| Deposits from customers | 980 342 | | | | | | 980 342 |
| Debt securities issued | 98 491 | 71 585 | 77 254 | 419 121 | 95 779 | | 762 230 |
| Other liabilities etc. | 458 | 4 136 | 195 | | | | 4 789 |
| Subordinated loan capital | | | | | 29 456 | | 29 456 |
| Total | 1 155 729 | 138 759 | 145 757 | 433 820 | 125 235 | | 1 999 299 |
| **Financial derivatives** | | | | | | | |
| Financial derivatives, gross settlement | | | | | | | |
| Incoming cash flows | 663 489 | 376 719 | 216 187 | 383 071 | 213 472 | | 1 852 938 |
| Outgoing cash flows | 661 310 | 378 009 | 221 220 | 393 222 | 213 788 | | 1 867 549 |
| Financial derivatives, net settlement | 818 | 2 103 | 3 205 | 19 652 | 9 787 | | 35 565 |
| Total financial derivatives | 2 997 | 813 | (1 828) | 9 501 | 9 471 | | 20 954 |

1) *Nominal future interest payments in excess of accrued interest are not included.*

**Credit lines, commitments and documentary credit** — **DNB Bank Group**

| *Amounts in NOK million* | 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Unutilised credit lines etc. under 1 year | 413 414 | 388 560 |
| Unutilised credit lines etc. over 1 year | 197 894 | 208 950 |

## Note 17 Net interest income

**DNB Bank ASA**

| Amounts in NOK million | 2018 Measured at FVTPL | 2018 Measured at FVOCI | 2018 Measured at amortised cost [1)] | 2018 Total | 2017 Measured at FVTPL | 2017 Measured at amortised cost [1)] | 2017 Total |
|---|---|---|---|---|---|---|---|
| Interest on amounts due from credit institutions | (0) | | 7 346 | 7 346 | 3 363 | 1 948 | 5 311 |
| Interest on loans to customers | 205 | 2 799 | 23 081 | 26 085 | 821 | 23 748 | 24 569 |
| Interest on commercial paper and bonds | 4 251 | | 0 | 4 251 | 4 123 | 157 | 4 281 |
| Front-end fees etc. | 1 | 4 | 259 | 264 | 1 | 281 | 282 |
| Other interest income | (402) | | 4 848 | 4 445 | (1 945) | 4 628 | 2 683 |
| **Total interest income** | **4 055** | **2 803** | **35 533** | **42 391** | **6 363** | **30 763** | **37 126** |
| Interest on amounts due to credit institutions | | | (5 021) | (5 021) | (2 829) | (273) | (3 102) |
| Interest on deposits from customers | (264) | | (7 510) | (7 774) | (799) | (6 388) | (7 187) |
| Interest on debt securities issued | (252) | | (4 965) | (5 217) | (2 247) | (1 546) | (3 792) |
| Interest on subordinated loan capital | (76) | | (403) | (479) | (75) | (374) | (449) |
| Guarantee fund levy | | | (512) | (512) | | (548) | (548) |
| Other interest expenses [2)] | 4 426 | | (615) | 3 811 | 2 845 | (476) | 2 369 |
| **Total interest expenses** | **3 835** | | **(19 026)** | **(15 192)** | **(3 105)** | **(9 604)** | **(12 709)** |
| **Net interest income** | **7 890** | **2 803** | **16 506** | **27 199** | **3 258** | **21 158** | **24 416** |

**DNB Bank Group**

| Amounts in NOK million | 2018 Measured at FVTPL | 2018 Measured at amortised cost [1)] | 2018 Total | 2017 Measured at FVTPL | 2017 Measured at amortised cost [1)] | 2017 Total |
|---|---|---|---|---|---|---|
| Interest on amounts due from credit institutions | (0) | 3 934 | 3 934 | 2 287 | 426 | 2 712 |
| Interest on loans to customers | 1 309 | 45 610 | 46 919 | 2 168 | 44 029 | 46 197 |
| Interest on commercial paper and bonds | 4 097 | 90 | 4 187 | 3 999 | 157 | 4 156 |
| Front-end fees etc. | 5 | 279 | 284 | 2 | 298 | 300 |
| Other interest income | (402) | 3 349 | 2 946 | (1 939) | 2 973 | 1 033 |
| **Total interest income** | **5 009** | **53 261** | **58 270** | **6 516** | **47 883** | **54 399** |
| Interest on amounts due to credit institutions | | (3 981) | (3 981) | (2 212) | (254) | (2 465) |
| Interest on deposits from customers | (264) | (7 932) | (8 196) | (799) | (6 772) | (7 571) |
| Interest on debt securities issued | (1 718) | (10 549) | (12 267) | (3 758) | (7 381) | (11 139) |
| Interest on subordinated loan capital | (76) | (408) | (484) | (75) | (377) | (452) |
| Guarantee fund levy | | (564) | (564) | | (637) | (637) |
| Other interest expenses [2)] | 4 870 | (260) | 4 610 | 3 873 | (94) | 3 779 |
| **Total interest expenses** | **2 812** | **(23 694)** | **(20 882)** | **(2 970)** | **(15 515)** | **(18 485)** |
| **Net interest income** | **7 821** | **29 567** | **37 388** | **3 546** | **32 368** | **35 914** |

*1) Includes hedged items.*

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

## Note 18 Interest rates on selected balance sheet items

| | DNB Bank ASA | | | |
|---|---|---|---|---|
| | Average interest rate in per cent [1)] | | Average volume in NOK million | |
| | 2018 | 2017 | 2018 | 2017 |
| **Assets** | | | | |
| Due from credit institutions | 0.93 | 0.60 | 788 964 | 885 039 |
| Loans to customers | 3.45 | 3.44 | 756 274 | 713 568 |
| Commercial paper and bonds | 1.86 | 1.90 | 228 987 | 225 805 |
| **Liabilities** | | | | |
| Due to credit institutions | 1.41 | 0.80 | 355 769 | 386 765 |
| Deposits from customers | 0.80 | 0.71 | 970 311 | 1 007 971 |
| Debt securities issued | 1.58 | 1.15 | 329 951 | 330 519 |

| | DNB Bank Group | | | |
|---|---|---|---|---|
| | Average interest rate in per cent [1)] | | Average volume in NOK million | |
| | 2018 | 2017 | 2018 | 2017 |
| **Assets** | | | | |
| Due from credit institutions | 0.83 | 0.51 | 472 203 | 531 989 |
| Loans to customers | 3.03 | 3.04 | 1 550 097 | 1 519 425 |
| Commercial paper and bonds | 1.84 | 1.88 | 226 998 | 221 073 |
| **Liabilities** | | | | |
| Due to credit institutions | 1.49 | 0.88 | 266 981 | 280 012 |
| Deposits from customers | 0.83 | 0.73 | 991 102 | 1 033 519 |
| Debt securities issued | 1.57 | 1.45 | 779 439 | 770 705 |

*1) Average interest rate in per cent is calculated as total interest in NOK for the specific products in relation to the appurtenant average capital.*

## Note 19 Net commission and fee income

| DNB Bank ASA | | | DNB Bank Group | |
|---|---|---|---|---|
| 2017 | 2018 | *Amounts in NOK million* | 2018 | 2017 |
| 3 747 | 3 651 | Money transfer and interbank transactions | 3 658 | 3 979 |
| | 835 | Guarantee commissions | 888 | |
| 376 | 426 | Asset management services | 429 | 421 |
| 357 | 377 | Custodial services | 391 | 378 |
| 689 | 742 | Securities broking | 779 | 789 |
| 612 | 654 | Corporate finance | 851 | 820 |
| 438 | 485 | Credit broking | 576 | 453 |
| 396 | 436 | Sales of insurance products | 436 | 416 |
| | | Real estate broking | 1 143 | 1 150 |
| 727 | 857 | Other commissions and fees | 834 | 822 |
| **7 340** | **8 463** | **Total commission and fee income** | **9 983** | **9 228** |
| | | | | |
| (2 128) | (1 786) | Money transfer and interbank transactions | (1 786) | (2 158) |
| | (75) | Guarantee commissions | (78) | |
| (12) | (14) | Asset management services | (14) | (12) |
| (180) | (205) | Custodial services | (207) | (183) |
| (148) | (153) | Securities broking | (152) | (150) |
| (135) | (253) | Corporate finance | (253) | (135) |
| (71) | | Credit broking | | (13) |
| (116) | (217) | Sale of insurance products | (217) | (116) |
| (506) | (722) | Other commissions and fees | (671) | (577) |
| **(3 296)** | **(3 424)** | **Total commission and fee expenses** | **(3 378)** | **(3 344)** |
| **4 044** | **5 039** | **Net commission and fee income** | **6 605** | **5 884** |

## Note 20 Net gains on financial instruments at fair value

| DNB Bank ASA | | | DNB Bank Group | |
|---|---|---|---|---|
| 2017 | 2018 | *Amounts in NOK million* | 2018 | 2017 |
| 5 322 | 5 016 | Foreign exchange and financial derivatives | 2 746 | 3 266 |
| (283) | (393) | Commercial paper and bonds | (388) | (294) |
| 89 | 145 | Shareholdings | 114 | 92 |
| (77) | | Other financial assets | 0 | (40) |
| 235 | 23 | Financial liabilities | 23 | 182 |
| 5 286 | 4 791 | Net gains on financial instruments, mandatorily at FVTPL | 2 495 | 3 206 |
| 26 | (78) | Loans at fair value [1] | (386) | 152 |
| (368) | (1 135) | Commercial paper and bonds [2] | (1 138) | (349) |
| (32) | | Shareholdings | | 26 |
| 150 | 211 | Financial liabilities [3] | 611 | 93 |
| (224) | (1 001) | Net gains on financial instruments, designated as at FVTPL | (913) | (78) |
| (3 475) | (1 794) | Financial derivatives, hedging | (2 088) | (9 750) |
| 0 | 0 | Financial assets, hedged items | (1) | (1) |
| 3 398 | 1 669 | Financial liabilities, hedged items | 1 850 | 10 149 |
| (77) | (125) | Net gains on hedged items [4) 5)] | (239) | 397 |
| 884 | | Financial guarantees | | 909 |
| 74 | (6) | Dividends | 8 | 78 |
| **5 942** | **3 659** | **Net gains on financial instruments at FVTPL** | **1 351** | **4 513** |

*1) The change in fair value due to credit risk amounted to a NOK 16 million gain during the year and a NOK 103 million loss cumulatively for DNB Bank Group and a NOK 1 million gain during the year and a NOK 20 million loss cumulatively for DNB Bank ASA. Credit risk reflected in fair value measurements is based on normalised losses and changes in normalised losses in the relevant portfolio.*
*2) The change in fair value due to changes in credit spreads amounted to a NOK 45 million gain during the year and a NOK 267 million gain cumulatively.*
*3) For liabilities designated as at FVTPL, changes in fair value due to credit risk are recognised in other comprehensive income.*
*4) With respect to hedged liabilities, the hedged risk is measured at fair value, while the rest of the instrument is measured at amortised cost. Derivatives used for hedging are measured at fair value. Changes in fair value arising from hedged risk are presented under Financial derivatives, hedging. Net gains on hedged financial liabilities include amortization of fair values on discontinued hedging relationships.*
*5) The DNB Group uses hedge accounting for long-term borrowings in foreign currency in DNB Boligkreditt and DNB Bank ASA. Loans are hedged 1:1 through external contracts where there is a correlation between currencies, interest rate flows and the hedging instrument. At the time the loans are raised, Markets considers whether to enter into a hedging transaction for the relevant loan based on the Group's foreign currency positions and the underlying interest rate exposure for the loan.*

## Note 21 Salaries and other personnel expenses

| DNB Bank ASA | | | DNB Bank Group | |
|---|---|---|---|---|
| 2017 | 2018 | *Amounts in NOK million* | 2018 | 2017 |
| (6 289) | (6 535) | Salaries [*)] | (7 759) | (7 772) |
| (1 219) | (1 248) | Employer's national insurance contributions | (1 389) | (1 428) |
| (1 205) | (1 103) | Pension expenses | (1 206) | (1 310) |
| (315) | (86) | Restructuring expenses | (127) | (335) |
| (612) | (657) | Other personnel expenses | (736) | (715) |
| **(9 639)** | **(9 629)** | **Total salaries and other personnel expenses** | **(11 216)** | **(11 561)** |
| *(5 250)* | *(5 437)* | **) Of which: Ordinary salaries* | *(6 146)* | *(6 196)* |
| *(761)* | *(804)* | *Performance-based pay* | *(1 314)* | *(1 295)* |

| DNB Bank ASA | | **Number of employees/full-time positions** | DNB Bank Group | |
|---|---|---|---|---|
| 2017 | 2018 | | 2018 [1] | 2017 [1] |
| 7 449 | 7 552 | Number of employees as at 31 December | 9 030 | 8 951 |
| 996 | 1 043 | - of which number of employees abroad | 1 410 | 1 396 |
| 7 171 | 7 274 | Number of employees calculated on a full-time basis as at 31 December | 8 626 | 8 544 |
| 979 | 1 022 | - of which number of employees calculated on a full-time basis abroad | 1 388 | 1 376 |
| 7 499 | 7 444 | Average number of employees | 8 962 | 10 279 |
| 7 198 | 7 164 | Average number of employees calculated on a full-time basis | 8 552 | 9 848 |

*1) 1 796 employees in the Baltics were included in 2017 until they were transferred to Luminor during the fourth quarter of 2017.*

## Note 22 Other expenses

| DNB Bank ASA | | | DNB Bank Group | |
|---|---|---|---|---|
| 2017 | 2018 | *Amounts in NOK million* | 2018 | 2017 |
| (432) | (527) | Fees | (593) | (522) |
| (3 479) | (3 684) | IT expenses [1] | (3 735) | (3 628) |
| (158) | (145) | Postage and telecommunications | (162) | (193) |
| (27) | (30) | Office supplies | (40) | (60) |
| (564) | (531) | Marketing and public relations | (741) | (798) |
| (212) | (200) | Travel expenses | (249) | (272) |
| (183) | (179) | Reimbursement to Norway Post for transactions executed | (179) | (183) |
| (52) | (53) | Training expenses | (64) | (63) |
| (1 097) | (1 087) | Operating expenses on properties and premises [2] | (1 184) | (1 261) |
| (61) | (60) | Operating expenses on machinery, vehicles and office equipment | (71) | (81) |
| (638) | (451) | Other operating expenses | (641) | (837) |
| **(6 904)** | **(6 947)** | **Total other expenses** | **(7 658)** | **(7 899)** |

1) *Systems development fees totalled NOK 1 370 million for DNB Bank ASA and NOK 1 370 million for the DNB Bank Group in 2018, compared with NOK 1 390 million and NOK 1 388 million, respectively, in 2017.*
2) *Costs relating to leased premises were NOK 937 million and NOK 987 million respectively for DNB Bank ASA and the DNB Bank Group in 2018, compared with NOK 945 million and NOK 1 012 million in 2017.*

## Note 23 Depreciation and impairment of fixed and intangible assets

| DNB Bank ASA | | | DNB Bank Group | |
|---|---|---|---|---|
| 2017 | 2018 | *Amounts in NOK million* | 2018 | 2017 |
| (1 429) | (1 513) | Depreciation of machinery, vehicles and office equipment | (1 523) | (1 458) |
| (338) | (459) | Other depreciation of tangible and intangible assets | (474) | (417) |
| | (134) | Impairment of capitalised systems development | (140) | (42) |
| (542) | | Impairment losses for goodwill [1] | | (545) |
| (8) | (325) | Other impairment of fixed and intangible assets | (234) | (8) |
| **(2 318)** | **(2 431)** | **Total depreciation and impairment of fixed and intangible assets** | **(2 371)** | **(2 469)** |

1) *Impairment losses for goodwill of NOK 502 million relating to Cresco were recorded in 2017.*

See note 36 Intangible assets and note 37 Fixed assets.

## Note 24 Pensions

### Description of the pension schemes

The DNB Group has a defined-contribution pension scheme for all employees in Norway, with the exception of around 310 employees from the former Postbanken who are covered by a closed group pension plan in the Norwegian Public Service Pension Fund.

The contribution rates are:

- Salary representing 0-7.1 times the National Insurance basic amount, G: 7 per cent
- Salary representing 7.1-12 times G: 15 per cent
- The Group has no defined-contribution pension scheme for salaries exceeding 12G (apart from the closed scheme)

The employees who were enrolled in the former defined-benefit occupational pension schemes (terminated between 2015 and 2017) are also covered by a compensation scheme that is structured as a supplementary, contribution-based direct pension scheme.

Based on the terms and conditions approved at the time of conversion, the savings plan in the compensation scheme aims to give the individual employee a total pension capital when reaching the age of 67 corresponding to what he or she would have received if the defined-benefit pension scheme had been retained. Both the pension entitlements and the return on the pension funds are funded through operations.

The DNB Group has a disability pension scheme for all employees in Norway. The disability pension represents:

- 3 per cent of pensionable income up to 12G
- 25 per cent of G, maximum 6 per cent of pensionable income, up to 12G
- 66 per cent of pensionable income in the interval between 6G and 12G

The Norwegian companies in the Group are part of the contractual pension (CPA) scheme for the private sector. In addition, the Group has an agreement on contractual pensions according to public sector rules for employees who are members of the Public Service Pension Fund.

The private CPA scheme will be funded by an annual premium representing a percentage of salaries between 1 and 7.1G.

Employer's contributions are included in pension expenses and commitments.

Subsidiaries and branches outside Norway have separate schemes for their employees, mainly in the form of defined-contribution schemes. Pension expenses for employees outside Norway represented NOK 211 million.

## Note 24 Pensions (continued)

Economic assumptions applied in calculating pension expenses and commitments are in accordance with the guidance from the Norwegian Accounting Standards Board per 31 December 2018.

| **Pension expenses** | **DNB Bank ASA** | |
|---|---|---|
| *Amounts in NOK million* | 2018 | 2017 |
| Net present value of pension entitlements | (285) | (452) |
| Interest expenses on pension commitments | (109) | (116) |
| Calculated return on pension funds | 43 | 84 |
| Curtailment | (47) | (46) |
| Administrative expenses | (2) | (1) |
| Total defined benefit pension schemes | (400) | (531) |
| Contractual pensions, new scheme | (89) | (88) |
| Risk coverage premium | (49) | (42) |
| Defined contribution pension schemes | (565) | (544) |
| Net pension expenses | (1 103) | (1 204) |

| **Pension expenses** | **DNB Bank Group** | |
|---|---|---|
| *Amounts in NOK million* | 2018 | 2017 |
| Net present value of pension entitlements | (446) | (483) |
| Interest expenses on pension commitments | (110) | (118) |
| Calculated return on pension funds | 43 | 84 |
| Curtailment | 98 | (41) |
| Administrative expenses | (1) | (1) |
| Total defined benefit pension schemes | (417) | (559) |
| Contractual pensions, new scheme | (100) | (97) |
| Risk coverage premium | (52) | (46) |
| Defined contribution pension schemes | (637) | (609) |
| Net pension expenses | (1 206) | (1 310) |

| **DNB Bank ASA** | | **Pension commitments** | **DNB Bank Group** | |
|---|---|---|---|---|
| 2017 | 2018 | *Amounts in NOK million* | 2018 | 2017 |
| 5 038 | 5 526 | Opening balance | 5 642 | 5 119 |
| 452 | 285 | Accumulated pension entitlements | 446 | 483 |
| 116 | 109 | Interest expenses | 110 | 118 |
| 111 | 108 | Actuarial losses/(gains), net | 102 | 112 |
| 22 | (5) | Changes in the pension schemes | (5) | 22 |
| 46 | (1) | Curtailment | (146) | 48 |
| (273) | (288) | Pension payments | (291) | (277) |
| 13 | (184) | Exchange rate differences | (195) | 18 |
| 5 526 | 5 551 | Closing balance | 5 663 | 5 642 |

| | | **Pension funds** | | |
|---|---|---|---|---|
| 2017 | 2018 | *Amounts in NOK million* | 2018 | 2017 |
| 2 584 | 2 620 | Opening balance | 2 647 | 2 603 |
| 84 | 43 | Expected return | 43 | 84 |
| (4) | 19 | Actuarial gains/(losses), net | 17 | (5) |
| | (48) | Curtailments | (48) | 7 |
| (36) | | Excess pension funds that cannot be carried forward | | (36) |
| 79 | 134 | Premium paid | 135 | 80 |
| (131) | (126) | Pension payments | (128) | (132) |
| (1) | (2) | Administrative expenses | (1) | (1) |
| 46 | (200) | Exchange rate differences | (201) | 47 |
| 2 620 | 2 440 | Closing balance | 2 464 | 2 647 |
| | | | | |
| 2 906 | 3 111 | Net defined benefit obligation | 3 198 | 2 995 |

## Note 24 Pensions (continued)

### Sensitivity analyses for pension calculations

The following estimates are based on facts and conditions prevailing on 31 December 2018, assuming that all other parameters are constant. Actual results may deviate significantly from these estimates.

| | | | | | | | | DNB Bank Group |
|---|---|---|---|---|---|---|---|---|
| | Discount rate | | Annual rise in salaries/ basic amount | | Annual rise in pensions | | Life expectancy | |
| *Change in percentage points* | +1% | -1% | +1% | -1% | +1% | 0% reg. | +1 year | -1 year |
| Percentage change in pensions | | | | | | | | |
| Pension commitments | 8-16 | 15-17 | 20-25 | 20-22 | 10-11 | 8-12 | 4 | 4 |
| Net pension expenses for the period | 10-20 | 20-22 | 22-25 | 20-22 | 10-11 | 8-12 | 4 | 4 |

## Note 25 Taxes

| DNB Bank ASA | | **Tax expense on pre-tax operating profit** | DNB Bank Group | |
|---|---|---|---|---|
| 2017 | 2018 | *Amounts in NOK million* | 2018 | 2017 |
| (9 603) | (1 022) | Current taxes | (2 268) | (5 850) |
| | 3 250 | Tax effect of group contribution | | |
| 6 535 | (5 788) | Changes in deferred taxes | (2 708) | 947 |
| **(3 068)** | **(3 560)** | **Tax expense** | **(4 976)** | **(4 903)** |

| | | **Reconciliation of tax expense against nominal tax rate** | | |
|---|---|---|---|---|
| | | *Amounts in NOK million* | | |
| 21 978 | 22 927 | Pre-tax operating profit | 27 288 | 24 718 |
| (5 275) | (5 273) | Estimated tax expense at nominal tax rate 23 per cent (24 per cent in 2017) | (6 276) | (5 932) |
| (121) | (286) | Tax effect of financial tax in Norway | (312) | (142) |
| | | Tax effect of different tax rates in other countries | (19) | (165) |
| 749 | 1 104 | Tax effect of debt interest distribution with international branches | 1 104 | 749 |
| 1 450 | 676 | Tax effect of tax-exempt income from shareholdings [1)] | 224 | 604 |
| 160 | 216 | Tax effect of other tax-exempt income and non-deductible expenses | 194 | 172 |
| | | Tax effect of tax losses carried forward not recognised in the balance sheet [2)] | (5) | (23) |
| (7) | | Tax effect of changed tax rate for deferred taxes recognised in the balance sheet | | (94) |
| (24) | 3 | Excess tax provision previous year | 114 | (72) |
| **(3 068)** | **(3 560)** | **Tax expense** | **(4 976)** | **(4 903)** |
| 14% | 16% | Effective tax rate | 18% | 20% |

| | | **Income tax on other comprehensive income** | | |
|---|---|---|---|---|
| | | *Amounts in NOK million* | | |
| (4) | 13 | Items that will not be reclassified to the income statement | (15) | (9) |
| | | Hedges of net investments | 265 | 171 |
| **(4)** | **13** | **Total income tax on other comprehensive income** | **250** | **162** |

1) *In Norway, a company's income from share investments is normally exempt from tax. As a rule, this applies to investments in companies domiciled in the EU/EEA. The tax exemption applies to both dividends and gains/ (losses) upon realisation. However, 3 per cent of dividends from tax-exempt investments is included in taxable income.*

2) *Deferred taxes for tax-deductible differences (mainly losses carried forward) in subsidiaries are not recognised in the balance sheet unless the Group can prove that these tax positions will be utilised in the future.*

### Tax effect of different tax rates in other countries

The Group has operations in a number of countries whose tax rates are different from that in Norway (23 per cent).

### Tax effect of debt interest distribution with international branches

According to Norwegian tax legislation, external interest expenses shall be distributed proportionally among operations in Norway and international branches based on the respective units' total assets. This could result in additions or deductions from income in Norway.

### Expectations regarding the effective tax rate

The nominal tax rate in Norway was 23 per cent in 2018. Business operations outside Norway are subject to local tax rates in their country of operation, and nominal tax rates range from 12 to 27.2 per cent. The effective taxation of operations outside Norway depends on both local tax rules and on whether it is possible to avoid double taxation. Tax-exempt income from share investments contributes to a lower expected tax rate than 23 per cent. In some periods, tax losses carried forward that are not recognised in the balance sheet have caused variations in the effective tax rate. In periods when such assets have not been recognised, the effective tax rate has been higher than the long-term expectation, whereas it has been lower in periods when tax losses not recognised as assets have been utilised.

## Note 25 Taxes (continued)

| DNB Bank ASA 2017 | 2018 | Deferred tax assets/(deferred taxes) Amounts in NOK million | DNB Bank Group 2018 | 2017 |
|---|---|---|---|---|
| | | **The year's changes in deferred tax assets/(deferred taxes)** | | |
| 1 826 | 8 341 | Deferred tax assets/(deferred taxes) as at 1 January | (90) | (990) |
| | 16 | Implementation of IFRS 9 | 347 | |
| 6 535 | (5 788) | Changes recorded against profits | (2 708) | 947 |
| (4) | 13 | Changes recorded against comprehensive income | (15) | (9) |
| (16) | (8) | Currency translation differences on deferred taxes | (22) | (38) |
| 8 341 | 2 574 | Deferred tax assets/(deferred taxes) as at 31 December | (2 488) | (90) |

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

DNB Bank ASA

| | Deferred tax assets | | Deferred taxes | |
|---|---|---|---|---|
| *Amounts in NOK million* | 31 Dec. 2018 | 31 Dec. 2017 | 31 Dec. 2018 | 31 Dec. 2017 |
| Fixed assets and intangible assets | (813) | (662) | 88 | 72 |
| Commercial paper and bonds | (1 532) | (1 781) | | |
| Debt securities issued | 1 030 | 1 404 | | |
| Financial derivatives | 2 800 | 8 278 | | |
| Net pension liabilities | 781 | 750 | | |
| Net other tax-deductable temporary differences | (164) | (148) | 2 | 2 |
| Tax losses and tax credits carried forward | 562 | 574 | | |
| Total deferred tax assets | 2 664 | 8 415 | 90 | 74 |

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

DNB Bank Group

| | Deferred tax assets | | Deferred taxes | |
|---|---|---|---|---|
| *Amounts in NOK million* | 31 Dec. 2018 | 31 Dec. 2017 | 31 Dec. 2018 | 31 Dec. 2017 |
| Fixed assets and intangible assets | 2 | 5 | 905 | 722 |
| Commercial paper and bonds | | | 1 568 | 1 821 |
| Debt securities issued | | | (4 557) | (5 099) |
| Financial derivatives | 10 | (4) | 6 499 | 4 400 |
| Net pension liabilities | 30 | 54 | (770) | (717) |
| Net other tax-deductable temporary differences | 417 | 261 | 301 | 187 |
| Tax losses and tax credits carried forward | 524 | 441 | (475) | (467) |
| Total deferred tax assets | 983 | 757 | 3 471 | 847 |

1) *A significant share of the financial instruments are measured at fair value in the accounts, while for tax purposes, the same instruments are recorded on an accrual basis in accordance with the realisation principle. This gives rise to large differences between profits stated in the accounts and profits computed for tax purposes for the individual accounting years, especially in years with significant fluctuations in interest rate levels and exchange rates. These differences are offset in the longer term.*
2) *Due to large exchange rate fluctuations in 2018 and 2017, there were significant changes in unrealised gains and losses on financial instruments used in managing the banking group's currency and interest rate risk. Financial instruments are recorded in accordance with the realisation principle, while the current rate method is used for receivables and liabilities in foreign currency. These differences are expected to be reversed within a short period of time.*

### Overview over tax assets from tax losses and tax credits carried forward

DNB Bank ASA

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| *Amounts in NOK million*<br>Tax losses carried forward | Total tax losses carried forward | Of which as basis for tax assets | Recognised tax asset | Total tax losses carried forward | Of which as basis for assets | Recognised tax asset |
| Singapore | 510 | 510 | 87 | 660 | 660 | 113 |
| Total of tax losses and tax assets | 510 | 510 | 87 | 660 | 660 | 113 |
| Tax credits carried forward [1)] | | | 475 | | | 461 |
| **Total of deferred tax assets from tax losses and tax credits carried forward** | | | **562** | | | **574** |

1) *All tax credits carried forward relates to tax payers in Norway*

## Note 25 Taxes (continued)

**Overview over deferred tax assets from tax losses and tax credits carried forward** **DNB Bank Group**

| | 31 December 2018 | | | 31 December 2017 | | |
|---|---|---|---|---|---|---|
| *Amounts in NOK million*<br>Tax losses carried forward | Total tax losses carried forward | Of which as basis for tax assets | Recognised tax asset | Total tax losses carried forward | Of which as basis for assets | Recognised tax asset |
| Norway | 677 | | | 20 | 20 | 5 |
| Singapore | 510 | 510 | 87 | 660 | 660 | 113 |
| Denmark | 1 986 | 1 986 | 437 | 2 065 | 1 491 | 329 |
| Total of tax losses and tax assets | 3 173 | 2 496 | 524 | 2 745 | 2 171 | 447 |
| Tax credits carried forward [1] | | | 475 | | | 461 |
| **Total of deferred tax assets from tax losses and tax credits carried forward** | | | **999** | | | **908** |

*1) All tax credits carried forward relates to tax payers in Norway*

### Recognition of deferred tax

Deferred tax assets are capitalised to the extent it is probable that the DNB Bank Group will have taxable income against which temporary differences can be utilised. Net deferred taxes on temporary differences within the same tax group are assessed and entered net in the accounts.

## Note 26 Classification of financial instruments

### As at 31 December 2018

**DNB Bank ASA**

| *Amounts in NOK million* | Mandatorily at FVTPL Trading | Mandatorily at FVTPL Other [1] | Designated as at FVTPL [2] | FVOCI | Amortised cost [3] | Carrying amount |
|---|---|---|---|---|---|---|
| Cash and deposits with central banks | | | | | 154 595 | 154 595 |
| Due from credit institutions | | | | | 428 648 | 428 648 |
| Loans to customers | | | 7 509 | 114 901 | 671 292 | 793 702 |
| Commercial paper and bonds | 114 167 | | 148 040 | | | 262 207 |
| Shareholdings | 5 823 | 757 | | | | 6 580 |
| Financial derivatives | 131 081 | 7 225 | | | | 138 306 |
| Investments in associated companies | | | | | 9 541 | 9 541 |
| Investments in subsidiaries | | | | | 100 670 | 100 670 |
| Other assets | | | | | 20 881 | 20 881 |
| Total financial assets | 251 070 | 7 983 | 155 549 | 114 901 | 1 385 627 | 1 915 129 |
| Due to credit institutions | | | | | 277 437 | 277 437 |
| Deposits from customers | | | 14 680 | | 901 578 | 916 258 |
| Financial derivatives | 161 590 | 1 093 | | | | 162 683 |
| Debt securities issued | 329 | | 6 915 | | 328 073 | 335 317 |
| Other liabilities | 3 157 | | | | 22 390 | 25 546 |
| Subordinated loan capital | | | 2 483 | | 28 599 | 31 082 |
| Total financial liabilities [4] | 165 075 | 1 093 | 24 078 | | 1 558 076 | 1 748 323 |

1) *Including 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) *Including hedged liabilities.*
4) *Contractual obligations of financial liabilities designated as at fair value totalled NOK 23 926 million.*

### As at 31 December 2017

**DNB Bank ASA**

| *Amounts in NOK million* | At fair value through profit and loss Trading | At fair value through profit and loss Designated as at fair value | Designated as hedging instruments | Amortised cost [1] | Held to maturity | Total |
|---|---|---|---|---|---|---|
| Cash and deposits with central banks | 143 463 | 3 251 | | 4 434 | | 151 147 |
| Due from credit institutions | 348 588 | 4 863 | | 227 522 | | 580 973 |
| Loans to customers | 55 839 | 12 322 | | 662 622 | | 730 782 |
| Commercial paper and bonds at fair value | 169 639 | 92 355 | | | | 261 994 |
| Shareholdings | 5 508 | 802 | | | | 6 310 |
| Financial derivatives | 138 346 | | 8 606 | | | 146 953 |
| Commercial paper and bonds, held to maturity | | | | | 9 613 | 9 613 |
| Investments in associated companies | | | | 9 007 | | 9 007 |
| Investments in subsidiaries | | | | 115 142 | | 115 142 |
| Other assets | | | | 22 092 | | 22 092 |
| Total financial assets | 861 384 | 113 592 | 8 606 | 1 040 819 | 9 613 | 2 034 015 |
| Due to credit institutions | 285 817 | 4 657 | | 42 324 | | 332 798 |
| Deposits from customers | 41 692 | 14 090 | | 900 744 | | 956 525 |
| Financial derivatives | 178 324 | | 1 210 | | | 179 534 |
| Debt securities issued | 158 693 | 9 751 | | 157 727 | | 326 171 |
| Other liabilities | 6 214 | | | 44 889 | | 51 103 |
| Subordinated loan capital | | 2 873 | | 26 666 | | 29 538 |
| Total financial liabilities [2] | 670 739 | 31 371 | 1 210 | 1 172 349 | | 1 875 669 |

1) *Includes hedged liabilities.*
2) *Contractual obligations of financial liabilities designated as at fair value totalled NOK 30 933  million.*

## Note 26 Classification of financial instruments (continued)

**As at 31 December 2018** **DNB Bank Group**

| *Amounts in NOK million* | Mandatorily at FVTPL Trading | Mandatorily at FVTPL Other [1] | Designated as at FVTPL [2] | FVOCI | Amortised cost [3] | Carrying amount |
|---|---|---|---|---|---|---|
| Cash and deposits with central banks | | | | | 155 592 | 155 592 |
| Due from credit institutions | | | | | 128 415 | 128 415 |
| Loans to customers | | 10 | 48 784 | | 1 549 223 | 1 598 017 |
| Commercial paper and bonds | 112 888 | 2 | 139 635 | | 5 201 | 257 725 |
| Shareholdings | 5 823 | 2 132 | | | | 7 955 |
| Financial derivatives | 101 431 | 23 927 | | | | 125 358 |
| Other assets | | | | | 6 510 | 6 510 |
| Total financial assets | 220 141 | 26 070 | 188 419 | | 1 844 941 | 2 279 572 |
| Due to credit institutions | | | | | 187 307 | 187 307 |
| Deposits from customers | | | 14 680 | | 925 407 | 940 087 |
| Financial derivatives | 107 634 | 2 371 | | | | 110 005 |
| Debt securities issued | 329 | | 79 073 | | 724 394 | 803 796 |
| Other liabilities | 3 157 | | | | 12 746 | 15 903 |
| Subordinated loan capital | | | 2 483 | | 28 599 | 31 082 |
| Total financial liabilities [4] | 111 119 | 2 371 | 96 237 | | 1 878 453 | 2 088 179 |

*1) Including 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) Including hedged liabilities.*
*4) Contractual obligations of financial liabilities designated as at fair value totalled NOK 95 052 million.*

**As at 31 December 2017** **DNB Bank Group**

| *Amounts in NOK million* | At fair value through profit and loss Trading | At fair value through profit and loss Designated as at fair value | Designated as hedging instruments | Amortised cost [1] | Held to maturity | Total |
|---|---|---|---|---|---|---|
| Cash and deposits with central banks | 143 463 | 3 251 | | 4 881 | | 151 595 |
| Due from credit institutions | 199 288 | | | 38 561 | | 237 849 |
| Loans to customers | 55 839 | 55 373 | | 1 420 133 | | 1 531 345 |
| Commercial paper and bonds at fair value | 169 059 | 87 970 | | | | 257 029 |
| Shareholdings | 6 304 | 999 | | | | 7 303 |
| Financial derivatives | 106 318 | | 26 331 | | | 132 649 |
| Commercial paper and bonds, held to maturity | | | | | 9 613 | 9 613 |
| Other assets | | | | 7 888 | | 7 888 |
| Total financial assets | 680 271 | 147 593 | 26 331 | 1 471 463 | 9 613 | 2 335 271 |
| Due to credit institutions | 182 335 | 4 657 | | 35 508 | | 222 501 |
| Deposits from customers | 41 692 | 14 090 | | 924 593 | | 980 374 |
| Financial derivatives | 108 755 | | 3 265 | | | 112 020 |
| Debt securities issued | 158 693 | 83 703 | | 539 731 | | 782 127 |
| Other liabilities | 6 214 | | | 13 091 | | 19 304 |
| Subordinated loan capital | | 2 873 | | 26 666 | | 29 538 |
| Total financial liabilities [2] | 497 688 | 105 323 | 3 265 | 1 539 588 | | 2 145 864 |

*1) Includes hedged liabilities.*
*2) Contractual obligations of financial liabilities designated as at fair value totalled NOK 103 319 million.*

## Note 27 Fair value of financial instruments at amortised cost

**DNB Bank ASA**

| *Amounts in NOK million* | 31 December 2018 Carrying amount | 31 December 2018 Fair value | 31 December 2017 Carrying amount | 31 December 2017 Fair value |
|---|---|---|---|---|
| Cash and deposits with central banks | 154 595 | 154 595 | 4 434 | 4 434 |
| Due from credit institutions | 428 648 | 428 697 | 227 522 | 227 522 |
| Loans to customers | 671 292 | 675 446 | 662 622 | 668 071 |
| Commercial paper and bonds | | | 9 613 | 9 581 |
| Total financial assets | 1 254 535 | 1 258 738 | 904 190 | 909 608 |
| Due to credit institutions | 277 437 | 277 437 | 42 324 | 42 324 |
| Deposits from customers | 901 578 | 901 578 | 900 744 | 900 744 |
| Debt securities issued | 328 073 | 330 167 | 157 727 | 160 827 |
| Subordinated loan capital | 28 599 | 27 384 | 26 666 | 26 378 |
| Total financial liabilities | 1 535 686 | 1 536 566 | 1 127 460 | 1 130 273 |

**DNB Bank Group**

| *Amounts in NOK million* | 31 December 2018 Carrying amount | 31 December 2018 Fair value | 31 December 2017 Carrying amount | 31 December 2017 Fair value |
|---|---|---|---|---|
| Cash and deposits with central banks | 155 592 | 155 592 | 4 881 | 4 881 |
| Due from credit institutions | 128 415 | 128 415 | 38 561 | 38 561 |
| Loans to customers | 1 549 223 | 1 553 049 | 1 420 133 | 1 425 991 |
| Commercial paper and bonds | 5 201 | 5 231 | 9 613 | 9 581 |
| Total financial assets | 1 838 431 | 1 842 288 | 1 473 188 | 1 479 014 |
| Due to credit institutions | 187 307 | 187 299 | 35 508 | 35 508 |
| Deposits from customers | 925 407 | 925 548 | 924 593 | 924 593 |
| Debt securities issued | 724 394 | 729 357 | 539 731 | 548 082 |
| Subordinated loan capital | 28 599 | 27 249 | 26 666 | 26 378 |
| Total financial liabilities | 1 865 707 | 1 869 453 | 1 526 497 | 1 534 561 |

**DNB Bank ASA**

| *Amounts in NOK million* | Valuation based on quoted prices in an active market Level 1 [1)] | Valuation based on observable market data Level 2 [1)] | Valuation based on inputs other than observable market data Level 3 [1)] | Total |
|---|---|---|---|---|
| **Assets as at 31 December 2018** | | | | |
| Cash and deposits with central banks | | 154 595 | | 154 595 |
| Due from credit institutions | | 428 697 | | 428 697 |
| Loans to customers | | 114 901 | 560 545 | 675 446 |
| Commercial paper and bonds | | | | |
| **Liabilities as at 31 December 2018** | | | | |
| Due to credit institutions | | 277 437 | | 277 437 |
| Deposits from customers | | 901 578 | | 901 578 |
| Debt securities issued | | 329 571 | 596 | 330 167 |
| Subordinated loan capital | | 27 384 | | 27 384 |

**DNB Bank Group**

| *Amounts in NOK million* | Valuation based on quoted prices in an active market Level 1 [1)] | Valuation based on observable market data Level 2 [1)] | Valuation based on inputs other than observable market data Level 3 [1)] | Total |
|---|---|---|---|---|
| **Assets as at 31 December 2018** | | | | |
| Cash and deposits with central banks | | 155 592 | | 155 592 |
| Due from credit institutions | | 128 415 | | 128 415 |
| Loans to customers | | 702 526 | 850 523 | 1 553 049 |
| Commercial paper and bonds | | | 5 231 | 5 231 |
| **Liabilities as at 31 December 2018** | | | | |
| Due to credit institutions | | 187 299 | | 187 299 |
| Deposits from customers | | 925 548 | | 925 548 |
| Debt securities issued | | 695 110 | 34 246 | 729 357 |
| Subordinated loan capital | | 27 249 | | 27 249 |

## Note 27 Fair value of financial instruments at amortised cost (continued)

**DNB Bank ASA**

| *Amounts in NOK million* | Valuation based on quoted prices in an active market Level 1 [1)] | Valuation based on observable market data Level 2 [1)] | Valuation based on inputs other than observable market data Level 3 [1)] | Total |
|---|---|---|---|---|
| **Assets as at 31 December 2017** | | | | |
| Cash and deposits with central banks | | 4 434 | | 4 434 |
| Due from credit institutions | | 227 522 | | 227 522 |
| Loans to customers | | 97 531 | 570 540 | 668 071 |
| Commercial paper and bonds | | | 9 581 | 9 581 |
| **Liabilities as at 31 December 2017** | | | | |
| Due to credit institutions | | 42 324 | | 42 324 |
| Deposits from customers | | 900 744 | | 900 744 |
| Debt securities issued | | 160 139 | 688 | 160 827 |
| Subordinated loan capital | | 15 943 | 10 435 | 26 378 |

**DNB Bank Group**

| *Amounts in NOK million* | Valuation based on quoted prices in an active market Level 1 [1)] | Valuation based on observable market data Level 2 [1)] | Valuation based on inputs other than observable market data Level 3 [1)] | Total |
|---|---|---|---|---|
| **Assets as at 31 December 2017** | | | | |
| Cash and deposits with central banks | | 4 881 | | 4 881 |
| Due from credit institutions | | 38 561 | | 38 561 |
| Loans to customers | | 678 337 | 747 653 | 1 425 991 |
| Commercial paper and bonds | | | 9 581 | 9 581 |
| **Liabilities as at 31 December 2017** | | | | |
| Due to credit institutions | | 35 508 | | 35 508 |
| Deposits from customers | | 924 593 | | 924 593 |
| Debt securities issued | | 519 955 | 28 127 | 548 082 |
| Subordinated loan capital | | 11 081 | 15 297 | 26 378 |

*1) See note 28 Financial instruments at fair value for a definition of the levels.*

See note 1 Accounting principles for a description of the reclassifications made as a consequence of the implementation of IFRS 9.

### Due from credit institutions (level 2)

The value of loans to and deposits with credit institutions is assessed to equal amortised cost. The fixed-rate period is relatively short.

### Loans to customers (levels 2 and 3)

When valuing loans, the loan portfolio has been divided into the following categories: personal customers, small and medium-sized enterprises, Nordic corporates, international corporates, shipping, offshore and logistics and energy. In addition, separate calculations have been made for DNB Finans and Poland.

Loans in level 2 mainly consist of retail loans with floating interest rate measured at amortised cost. Since the fixed-rate period is very short amortised cost is considered to be a good estimate of fair value. All other loans measured at amortised cost are classified in level 3.

The valuations of loans in level 3 are based on average margins in December, considered relative to the business units' best estimate of the potential margin requirement at year-end 2018 if the loans had been extended at that time. Differentiated margin requirements have been calculated for each category, as specified above, based on estimated costs related to lending. The margin requirement includes costs covering normalised losses, which, as opposed to impairment recorded in the annual accounts, represent a long-term assessment of loss levels.

A margin requirement is calculated for margin loans, and the difference between the margin requirement and the agreed margin is discounted over the average expected time to repricing of the loan.

With respect to impaired loans, an assessment has been made of potential cash flows for the loans discounted by the effective rate of interest adjusted for changes in market conditions for corresponding non-impaired loans. Loan rates prior to provisions being made reflect the increased credit risk of the commitment. Given the general uncertainty in fair value measurements, it is evaluated that the impaired value gives a good reflection of the fair value of these loans.

## Note 27 Fair value of financial instruments at amortised cost (continued)

Customers will often use loan products which are carried partly at amortised cost and partly at fair value. The profitability of a customer relationship is considered on an aggregate basis, and prices are set based on an overall evaluation. Correspondingly, a possible reduction in the customer relationship value is based on an overall assessment of all products. Any decline in value apart from price changes on specific products is included in the overall assessment of credits in the relevant customer relationship. Any reduction in the total customer relationship value is measured on the basis of amortised cost and reported under impairment on loans.

### Commercial paper and bonds (level 3)

For papers classified as level 3, the valuation is based on models.

### Due to credit institutions (level 2)

Due to credit institutions is measured in the same manner as due from credit institutions. For these instruments with very short term to maturity fair value is assessed to equal amortised cost.

### Deposits from customers (level 2)

For deposits from customers fair value is assessed to equal amortised cost.

### Securities issued and subordinated loan capital (levels 2 and 3)

The valuation in level 2 is based on observable market data in the form of interest rate curves and credit margins when available. Securities and subordinated loan capital in level 3 are valued based on models. The items consist mainly of funding in foreign currency.

## Note 28 Financial instruments at fair value

| | | | | DNB Bank ASA |
|---|---|---|---|---|
| *Amounts in NOK million* | Valuation based on quoted prices in an active market Level 1 | Valuation based on observable market data Level 2 | Valuation based on inputs other than observable market data Level 3 | Total |
| **Assets as at 31 December 2018** | | | | |
| Loans to customers | | 114 901 | 7 509 | 122 410 |
| Commercial paper and bonds | 55 834 | 206 054 | 319 | 262 207 |
| Shareholdings | 5 765 | 231 | 583 | 6 580 |
| Financial derivatives | 238 | 136 031 | 2 036 | 138 306 |
| **Liabilities as at 31 December 2018** | | | | |
| Deposits from customers | | 14 680 | | 14 680 |
| Debt securities issued | | 7 244 | | 7 244 |
| Subordinated loan capital | | 2 483 | | 2 483 |
| Financial derivatives | 285 | 160 743 | 1 654 | 162 683 |
| Other financial liabilities [1] | 3 157 | | | 3 157 |
| **Assets as at 31 December 2017** | | | | |
| Deposits with central banks | | 146 714 | | 146 714 |
| Due from credit institutions | | 353 451 | | 353 451 |
| Loans to customers | | 55 839 | 12 322 | 68 161 |
| Commercial paper and bonds | 46 440 | 215 226 | 328 | 261 994 |
| Shareholdings | 5 530 | 254 | 527 | 6 310 |
| Financial derivatives | 131 | 144 753 | 2 069 | 146 953 |
| **Liabilities as at 31 December 2017** | | | | |
| Due to credit institutions | | 290 474 | | 290 474 |
| Deposits from customers | | 55 782 | | 55 782 |
| Debt securities issued | | 168 444 | | 168 444 |
| Subordinated loan capital | | 2 873 | | 2 873 |
| Financial derivatives | 150 | 177 635 | 1 749 | 179 534 |
| Other financial liabilities [1] | 6 153 | 61 | | 6 214 |

1) *Short positions, trading activities.*

## Note 28 Financial instruments at fair value (continued)

**DNB Bank Group**

| *Amounts in NOK million* | Valuation based on quoted prices in an active market Level 1 | Valuation based on observable market data Level 2 | Valuation based on inputs other than observable market data Level 3 | Total |
|---|---|---|---|---|
| **Assets as at 31 December 2018** | | | | |
| Loans to customers | | | 48 794 | 48 794 |
| Commercial paper and bonds | 55 834 | 196 371 | 319 | 252 524 |
| Shareholdings | 6 974 | 240 | 741 | 7 955 |
| Financial derivatives | 238 | 123 083 | 2 036 | 125 358 |
| **Liabilities as at 31 December 2018** | | | | |
| Deposits from customers | | 14 680 | | 14 680 |
| Debt securities issued | | 79 402 | | 79 402 |
| Subordinated loan capital | | 2 483 | | 2 483 |
| Financial derivatives | 285 | 108 065 | 1 654 | 110 005 |
| Other financial liabilities [1] | 3 157 | | | 3 157 |
| **Assets as at 31 December 2017** | | | | |
| Deposits with central banks | | 146 714 | | 146 714 |
| Due from credit institutions | | 199 288 | | 199 288 |
| Loans to customers | | 55 839 | 55 373 | 111 212 |
| Commercial paper and bonds | 53 391 | 203 311 | 328 | 257 029 |
| Shareholdings | 6 421 | 260 | 621 | 7 303 |
| Financial derivatives | 131 | 130 450 | 2 069 | 132 649 |
| **Liabilities as at 31 December 2017** | | | | |
| Due to credit institutions | | 186 993 | | 186 993 |
| Deposits from customers | | 55 782 | | 55 782 |
| Debt securities issued | | 242 396 | | 242 396 |
| Subordinated loan capital | | 2 873 | | 2 873 |
| Financial derivatives | 150 | 110 121 | 1 749 | 112 020 |
| Other financial liabilities [1] | 6 153 | 61 | | 6 214 |

*1) Short positions, trading activities.*

### The levels

Financial instruments are categorised within different levels based on the quality of the market data for the individual instruments. With respect to financial instruments categorised as level 2, the quality of market data may vary depending on whether the relevant instrument has been traded. Thus, it will be natural that some instruments are moved between level 2 and level 3. This applies primarily to commercial paper and bonds.

See note 1 Accounting principles for a description of the reclassifications made as a consequence of the implementation of IFRS 9. See note 28 Financial instruments at fair value in the 2017 annual report for a description of the financial instruments in the fair value hierarchy at the end of 2017.

**Level 1: Valuation based on quoted prices in an active market**

Classified as level 1 are financial instruments valued by using quoted prices in active markets for identical assets or liabilities. Instruments in this category include listed shares and mutual funds, Treasury bills and commercial paper traded in active markets.

**Level 2: Valuation based on observable market data**

Classified as level 2 are financial instruments which are valued by using inputs other than quoted prices, but where prices are directly or indirectly observable for the assets or liabilities, including quoted prices in non-active markets for identical assets or liabilities.

Included in this category are, among others, interbank derivatives such as interest rate swaps, currency swaps and forward contracts with prices quoted on Reuters or Bloomberg, basis swaps between the currencies NOK, EUR, USD and GBP and cross-currency interest rate derivatives with customers with insignificant credit margins. Exchange-traded options are classified as level 2 if it is possible to scan or interpolate/ extrapolate implicit volatility based on observable prices.

# Note 28 Financial instruments at fair value (continued)

**Level 3: Valuation based on other than observable market data**
Classified as level 3 are financial instruments which cannot be valued based on directly observable prices. For these instruments other valuation techniques are used, such as valuation of assets and liabilities in companies, estimated cash flows and other models where key parameters are not based on observable market data.

Included in this category are loans to customers and instruments where credit margins constitute a major part of adjustments to market value.

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 2018 or 2017.

## The instruments in the different levels

**Loans to customers (levels 2 and 3)**
Loans in level 2 in DNB Bank ASA mainly consist of retail loans with floating interest rate measured at FVOCI. Since the fixed-rate period is very short amortised cost is considered to be a good estimate of fair value. The corresponding loans are measured at amortised cost in the Bank Group, due to a hold to collect business model.

Loans in level 3 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.

**Commercial paper and bonds (levels 2 and 3)**
The valuation in level 2 is primarily based on observable market data in the form of interest rate curves, exchange rates and credit margins related to the individual credit and the characteristics of the bond or commercial paper. For paper classified as level 3, the valuation is based on indicative prices from third parties or comparable paper.

**Equities including mutual fund holdings (levels 2 and 3)**
Equities in level 2 comprise mutual fund holdings where the underlying investments are quoted equities, as well as a small volume of other mutual funds. Instruments which are classified as level 3 essentially comprise property funds, limited partnership units, private equity investments and investments in unquoted equities.

**Financial derivatives (levels 2 and 3)**
Financial derivatives classified as level 2 are primarily currency forward contracts and interest rate and currency swaps. The valuation is based on swap curves, and credit margins constitute a minor part of the value. In addition, the item comprises derivatives related to commodities and forward rate agreements. These are valued based on observable market prices. Derivatives classified as level 2 also comprise equity derivatives used in Markets' market-making activities. Most of these derivatives are related to the most traded equities on Oslo Børs, and the valuation is based on the price development of the relevant/underlying equity and observable or estimated volatility. Financial derivatives classified as level 3 are primarily connected to currency options, interest rate options in Norwegian kroner, as well as index derivatives. The valuation is based on indicative prices from third parties.

**Deposits from customers (level 2)**
The valuation of deposits carried at fair value includes primarily fixed-rate deposits. The valuation is primarily based on measurement in relation to a swap curve, and changes in credit margins have an insignificant effect.

**Debt securities issued (level 2)**
The valuation is primarily based on observable market data in the form of interest rate curves and credit margins. The item consists mainly of funding in Norwegian kroner. For foreign currency funding, hedge accounting is used where hedges are entered into. In all other respects, debt securities issued are carried at amortised cost.

**Subordinated loan capital (level 2)**
Subordinated loans carried at fair value consist of one loan in Norwegian kroner, and the valuation is based on observable interest rate curves and credit margins.

## Note 28 Financial instruments at fair value (continued)

### Financial instruments at fair value, level 3

**DNB Bank ASA**

| | Financial assets | | | | Financial liabilities |
|---|---|---|---|---|---|
| *Amounts in NOK million* | Loans to customers | Commercial paper and bonds | Share-holdings | Financial derivatives | Financial derivatives |
| **Carrying amount as at 31 December 2016** | **16 052** | **375** | **799** | **1 319** | **1 062** |
| Net gains recognised in the income statement | 13 | (63) | 22 | (75) | (99) |
| Additions/purchases | 2 039 | 331 | 55 | 1 422 | 1 349 |
| Sales | (951) | (291) | (350) | | |
| Settled | (4 831) | | | (592) | (578) |
| Transferred from level 1 or level 2 | | 100 | | | |
| Transferred to level 1 or level 2 | | (132) | | | |
| Other | | 8 | | (5) | 15 |
| **Carrying amount as at 31 December 2017** | **12 322** | **328** | **527** | **2 069** | **1 749** |
| Implementation impact from IFRS 9 at 1 January 2018 | (6 063) | | | | |
| Net gains recognised in the income statement | (76) | (459) | (63) | (462) | (237) |
| Additions/purchases | 3 198 | 358 | 190 | 1 185 | 886 |
| Sales | (45) | (27) | (70) | | |
| Settled | (1 827) | (0) | | (756) | (745) |
| Transferred from level 1 or level 2 | | 230 | | | |
| Transferred to level 1 or level 2 | | (69) | | | |
| Other | | (42) | | 0 | 2 |
| **Carrying amount as at 31 December 2018** | **7 509** | **319** | **583** | **2 036** | **1 654** |

### Financial instruments at fair value, level 3

**DNB Bank Group**

| | Financial assets | | | | Financial liabilities |
|---|---|---|---|---|---|
| *Amounts in NOK million* | Loans to customers | Commercial paper and bonds | Share-holdings | Financial derivatives | Financial derivatives |
| **Carrying amount as at 31 December 2016** | **69 442** | **375** | **946** | **1 319** | **1 062** |
| Net gains recognised in the income statement | 119 | (63) | 73 | (75) | (99) |
| Additions/purchases | 5 041 | 331 | 61 | 1 422 | 1 349 |
| Sales | | (291) | (459) | | |
| Settled | (19 228) | | | (592) | (578) |
| Transferred from level 1 or level 2 | | 100 | | | |
| Transferred to level 1 or level 2 | | (132) | | | |
| Other | | 8 | | (5) | 15 |
| **Carrying amount as at 31 December 2017** | **55 373** | **328** | **621** | **2 069** | **1 749** |
| Implementation impact from IFRS 9 at 1 January 2018 | (8 768) | | | | |
| Net gains recognised in the income statement | (390) | (459) | (63) | (462) | (237) |
| Additions/purchases | 15 324 | 358 | 258 | 1 185 | 886 |
| Sales | | (27) | (75) | | |
| Settled | (12 745) | (0) | | (756) | (745) |
| Transferred from level 1 or level 2 | | 230 | 0 | | |
| Transferred to level 1 or level 2 | | (69) | | | |
| Other | | (42) | 0 | 0 | 2 |
| **Carrying amount as at 31 December 2018** | **48 794** | **319** | **741** | **2 036** | **1 654** |

### Loans to customers

The portfolio of loans carried at fair value consists primarily of fixed-rate loans in Norwegian kroner.

### Fixed-rate loans

The value of fixed-rate loans is determined by discounting agreed interest flows over the term of the loan, using a discount factor adjusted for margin requirements. The discount factor used has as a starting point a swap rate based on a duration equal to the average remaining lock-in period for the relevant fixed-rate loans. The assumptions underlying the calculation of the margin requirement are based on a review of the market conditions on the balance sheet date and on an assessment of the deliberations made by external investors when investing in a corresponding portfolio. Fixed-rate loans carried at fair value totalled NOK 48 784 million at year-end 2018.

## Note 28 Financial instruments at fair value (continued)

### Commercial paper and bonds

Investments classified as level 3 primarily consist of corporate high-yield bonds with limited liquidity.

### Equities including mutual fund holdings

Investments classified as level 3 consist of private equity funds, limited partnerships and unquoted equities. A common denominator for these investments is that there is a lag in the access to information from the units. In times of financial market turmoil, there may be considerable uncertainty related to the valuation of these investments.

### Financial derivatives, assets and liabilities

Items classified as level 3 are primarily currency options, interest rate options in Norwegian kroner and derivatives related to developments in the consumer price index.

| DNB Bank ASA | | | Breakdown of fair value, level 3 | DNB Bank Group | | |
|---|---|---|---|---|---|---|
| 31 December 2018 | | | | 31 December 2018 | | |
| Share-holdings | Commercial paper and bonds | Loans to customers | *Amounts in NOK million* | Loans to customers | Commercial paper and bonds | Share-holdings |
| 536 | 362 | 7 537 | Principal amount/purchase price | 48 443 | 362 | 628 |
| 47 | (44) | (40) | Fair value adjustment 1) | 280 | (44) | 113 |
| | | 12 | Accrued interest | 70 | | |
| 583 | 319 | 7 509 | Carrying amount | 48 794 | 319 | 741 |

1) *Changes in the fair value of customer loans mainly result from changes in swap rates. A corresponding negative adjustment is made in the fair value of financial instruments used for economic hedging.*

| DNB Bank ASA | | | | Breakdown of shareholdings, level 3 | | | | DNB Bank Group |
|---|---|---|---|---|---|---|---|---|
| Total | Other | Private Equity (PE) funds | Unquoted equities | *Amounts in NOK million* | Unquoted equities | Private Equity (PE) funds | Other | Total |
| 583 | 11 | 183 | 390 | Carrying amount as at 31 December 2018 | 548 | 183 | 11 | 741 |

| DNB Bank ASA | | Sensitivity analysis, level 3 | | DNB Bank Group |
|---|---|---|---|---|
| Effect of reasonably possible alternative assumptions | Carrying amount 31 Dec. 2018 | *Amounts in NOK million* | Carrying amount 31 Dec. 2018 | Effect of reasonably possible alternative assumptions |
| (28) | 7 509 | Loans to customers | 48 794 | (147) |
| (4) | 319 | Commercial paper and bonds | 319 | (4) |
| | 583 | Shareholdings | 741 | |
| | 382 | Financial derivatives, net | 382 | |

In order to show the sensitivity of the loan portfolio, the discount rate on fixed-rate loans has been increased by 10 basis points.

Level 3 bonds mainly represent investments in Norwegian industries, offshore and power companies. A 10 basis point increase in the discount rate has had insignificant effects.

## Note 29 Offsetting

The table below presents the potential effects of the banking group's netting arrangements on financial assets and financial liabilities. See note 1 Accounting principles for more information.

**DNB Bank ASA**

| *Amounts in NOK million* | Gross amount | Amounts offset in the statement of financial position | Carrying amount | Netting agreements | Other collateral [1] | Amounts after possible netting |
|---|---|---|---|---|---|---|
| **Assets as at 31 December 2018** | | | | | | |
| Cash and deposits with central banks [2] | 30 241 | | 30 241 | | 30 241 | |
| Due from credit institutions [2] | 74 939 | | 74 939 | | 74 939 | |
| Loans to customers [2] | 61 357 | | 61 357 | | 61 357 | |
| Financial derivatives [3] | 138 306 | | 138 306 | 17 799 | 96 999 | 23 508 |
| **Liabilities as at 31 December 2018** | | | | | | |
| Due to credit institutions [2] | 54 051 | | 54 051 | | 54 051 | |
| Deposits from customers [2] | 1 846 | | 1 846 | | 1 846 | |
| Financial derivatives [3] | 162 683 | | 162 683 | 17 799 | 77 114 | 67 770 |
| | | | | | | |
| **Assets as at 31 December 2017** | | | | | | |
| Cash and deposits with central banks [2] | | | | | | |
| Due from credit institutions [2] | 192 707 | | 192 707 | | 192 707 | |
| Loans to customers [2] | 56 430 | | 56 430 | | 56 430 | |
| Financial derivatives [3] | 146 953 | | 146 953 | 23 797 | 73 930 | 49 226 |
| **Liabilities as at 31 December 2017** | | | | | | |
| Due to credit institutions [2] | 57 299 | | 57 299 | | 57 299 | |
| Deposits from customers [2] | 1 552 | | 1 552 | | 1 552 | |
| Financial derivatives [3] | 179 534 | | 179 534 | 23 797 | 91 201 | 64 536 |

1) *Includes cash collateral and securities received/transferred from/to counterparties and securities received/placed as collateral in depositories in Clearstream or Euroclear.*
2) *Includes repurchase and reverse repurchase agreements, securities borrowing and lending transactions.*
3) *Gross amounts represent the market value of the derivatives subject to master netting agreements or collateralized by cash or securities under Credit Support Annex.*

## Note 29 Offsetting (continued)

DNB Bank Group

| *Amounts in NOK million* | Gross amount | Amounts offset in the statement of financial position | Carrying amount | Netting agreements | Other collateral [1] | Amounts after possible netting |
|---|---|---|---|---|---|---|
| **Assets as at 31 December 2018** | | | | | | |
| Cash and deposits with central banks [2] | 30 241 | | 30 241 | | 30 241 | |
| Due from credit institutions [2] | 74 939 | | 74 939 | | 74 939 | |
| Loans to customers [2] | 61 357 | | 61 357 | | 61 357 | |
| Financial derivatives [3] | 125 358 | | 125 358 | 17 799 | 96 025 | 11 533 |
| **Liabilities as at 31 December 2018** | | | | | | |
| Due to credit institutions [2] | 38 874 | | 38 874 | | 38 874 | |
| Deposits from customers [2] | 1 846 | | 1 846 | | 1 846 | |
| Financial derivatives [3] | 110 005 | | 110 005 | 17 799 | 70 551 | 21 654 |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Assets as at 31 December 2017** | | | | | | |
| Cash and deposits with central banks [2] | | | | | | |
| Due from credit institutions [2] | 192 707 | | 192 707 | | 192 707 | |
| Loans to customers [2] | 56 430 | | 56 430 | | 56 430 | |
| Financial derivatives [3] | 132 649 | | 132 649 | 23 797 | 73 325 | 35 527 |
| **Liabilities as at 31 December 2017** | | | | | | |
| Due to credit institutions [2] | 30 922 | | 30 922 | | 30 922 | |
| Deposits from customers [2] | 1 552 | | 1 552 | | 1 552 | |
| Financial derivatives [3] | 112 020 | | 112 020 | 23 797 | 72 527 | 15 696 |

1) *Includes cash collateral and securities received/transferred from/to counterparties and securities received/placed as collateral in depositories in Clearstream or Euroclear.*
2) *Includes repurchase and reverse repurchase agreements, securities borrowing and lending transactions.*
3) *Gross amounts represent the market value of the derivatives subject to master netting agreements or collateralized by cash or securities under Credit Support Annex.*

## Note 30 Shareholdings

### Investments in shares, mutual funds and equity certificates [1]

| DNB Bank ASA 31 Dec. 2017 | DNB Bank ASA 31 Dec. 2018 | *Amounts in NOK million* | DNB Bank Group 31 Dec. 2018 | DNB Bank Group 31 Dec. 2017 |
|---|---|---|---|---|
| **6 310** | **6 580** | **Total investments in shares, mutual funds and equity certificates** | **7 955** | **7 303** |

1) *Equity certificates represent investments in savings banks.*

## Note 31 Transferred assets or assets with other restrictions

| DNB Bank ASA 31 Dec. 2017 | 31 Dec. 2018 | Transferred assets still recognised in the balance sheet *Amounts in NOK million* | DNB Bank Group 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|---|---|
| | | **Repurchase agreements** | | |
| 9 776 | 5 096 | Commercial paper and bonds | 1 588 | 2 688 |
| | | **Derivatives** | | |
| 4 596 | 30 575 | Commercial paper and bonds | 3 592 | 2 698 |
| | | **Securities lending** | | |
| 178 | 311 | Shares | 311 | 178 |
| 14 550 | 35 982 | Total repurchase agreements and securities lending | 5 490 | 5 564 |

| DNB Bank ASA 31 Dec. 2017 | 31 Dec. 2018 | Liabilities associated with the assets *Amounts in NOK million* | DNB Bank Group 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|---|---|
| | | **Repurchase agreements** | | |
| 8 889 | 4 233 | Due to credit institutions | 727 | 1 808 |
| 877 | 860 | Deposits from customers | 860 | 877 |
| 4 596 | 30 575 | **Derivatives** | 3 592 | 2 698 |
| 187 | 326 | **Securities lending** | 326 | 187 |
| 14 549 | 35 994 | Total liabilities | 5 505 | 5 570 |

### Restricted assets

Local statutory capital requirements might restrict the ability of the banking group to access or transfer assets freely to or from other entities within the banking group and to settle liabilities within the banking group.

Restrictions affecting the DNB Bank Group's ability to use assets:

- The DNB Bank Group has pledged assets to collateralise its obligations (pledged securities) and issued covered bonds (cover pool).
- The DNB Bank Group has pledged collateral in connection with derivative instruments, see note 15 Financial derivatives and hedge accounting for further information.

| Cover pool *Amounts in NOK million* | DNB Boligkreditt AS 31 Dec. 2018 | 31 Dec. 2017 |
|---|---|---|
| Pool of eligible loans | 623 859 | 617 756 |
| Market value of eligible derivatives | 39 482 | 52 878 |
| Total collateralised assets | 663 342 | 670 634 |
| | | |
| Debt securities issued, carrying value | 478 548 | 468 236 |
| Less valuation changes attributable to changes in credit risk on debt carried at fair value | (358) | (465) |
| Debt securities issued, valued according to regulation [1] | 478 189 | 467 771 |
| | | |
| Collateralisation (per cent) | 138.7 | 143.4 |

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 32 Securities received which can be sold or repledged

| DNB Bank ASA | | Securities received | DNB Bank Group | |
|---|---|---|---|---|
| 31 Dec. 2017 | 31 Dec. 2018 | *Amounts in NOK million* | 31 Dec. 2018 | 31 Dec. 2017 |
| | | **Reverse repurchase agreements** | | |
| 243 010 | 159 302 | Commercial paper and bonds | 159 302 | 243 010 |
| | | **Securities borrowing** | | |
| 45 801 | 54 807 | Shares | 54 807 | 45 801 |
| 288 811 | 214 109 | Total securities received | 214 109 | 288 811 |
| | | *Of which securities received and subsequently sold or repledged:* | | |
| *41 208* | *39 263* | *Commercial paper and bonds* | *25 272* | *11 616* |
| *9 021* | *16 140* | *Shares* | *16 140* | *9 199* |

## Note 33 Investment properties

| Amounts included in the income statement | DNB Bank Group | |
|---|---|---|
| *Amounts in NOK million* | 2018 | 2017 |
| Rental income from investment properties | 74 | 125 |
| Direct expenses (including repairs and maintenance) related to investment properties generating rental income | (46) | (55) |
| Direct expenses (including repairs and maintenance) related to investment properties not generating rental income | (0) | (12) |
| Total | 28 | 58 |

Investment properties are mainly related to acquired companies and are classified at level 3 in the valuation hierarchy.

| Changes in the value of investment properties | DNB Bank Group |
|---|---|
| *Amounts in NOK million* | Investment properties |
| **Carrying amount as at 31 December 2016** | **1 175** |
| Additions, purchases of new properties | 0 |
| Additions, capitalised investments | 0 |
| Additions, acquired companies | 0 |
| Net gains | 171 |
| Disposals | (382) |
| Exchange rate movements | 25 |
| **Carrying amount as at 31 December 2017** | **990** |
| Additions, purchases of new properties | 13 |
| Additions, capitalised investments | 0 |
| Additions, acquired companies | 0 |
| Net gains | 60 |
| Disposals | (362) |
| Exchange rate movements | (63) |
| **Carrying amount as at 31 December 2018** | **638** |

| | |
|---|---|
| Contractual commitments related to the acquisition or construction of investment properties, not capitalised as at 31 December 2017 | 0 |

## Note 34 Investments accounted for by the equity method

| | DNB Bank Group | |
|---|---|---|
| *Amounts in NOK million* | 2018 | 2017 |
| Reclassification effects related to the implementation of IFRS 9 in Luminor Group AB | (179) | |
| Carrying amount as at 1 January | 10 997 | 3 570 |
| Share of profits after tax | 293 | (587) |
| Share of other comprehensive income | 43 | 175 |
| Additions/disposals | 474 | 8 019 |
| **Carrying amount as at 31 December [1)]** | **11 807** | **11 176** |

| | | | | | | DNB Bank Group | |
|---|---|---|---|---|---|---|---|
| *Amounts in NOK million* | Assets 31 Dec. 2018 [2)] | Liabilities 31 Dec. 2018 [2)] | Income 2018 [2)] | Profit 2018 [2)] | Ownership share (%) 31 Dec. 2018 | Carrying amount 31 Dec. 2018 | Carrying amount 31 Dec. 2017 |
| Luminor Group AB [3)] | 152 178 | 134 290 | 3 591 | 1 228 | 43 | 7 680 | 7 387 |
| Eksportfinans AS | 19 225 | 12 804 | 185 | 71 | 40 | 2 569 | 2 721 |
| Vipps AS [4)] | 2 556 | 308 | 1 133 | (199) | 44 | 907 | 525 |
| Visa Norge | | | | | | 467 | 443 |
| Other associated companies | | | | | | 184 | 100 |
| **Total** | | | | | | **11 807** | **11 176** |

| | | DNB Bank ASA | |
|---|---|---|---|
| *Amounts in NOK million* | Ownership share (%) 31 Dec. 2018 | Carrying amount 31 Dec. 2018 | Carrying amount 31 Dec. 2017 |
| Luminor Group AB [3)] | 43 | 7 150 | 7 374 |
| Vipps AS [4)] | 44 | 1 529 | 629 |
| Eksportfinans AS | 40 | 719 | 919 |
| Other associated companies | | 143 | 85 |
| **Total** | | **9 541** | **9 007** |

1) *Include deferred tax positions and value adjustments not reflected in the company's balance sheet.*
2) *Values in the accounts of associated companies. Preliminary and unaudited accounts have been used.*
3) *In mid-September 2018, an agreement was signed with Blackstone to sell part of the Luminor Group AB. The agreement means that Blackstone will purchase 60.1 per cent of the Luminor Group from today's owners. DNB's ownership interest will be reduced from 43.5 per cent to 20 per cent as a consequence of the transaction. The transaction is expected to be completed during the first half of 2019, subject to regulatory approvals.*
4) *At the end of April 2018, the Norwegian Competition Authority approved the merger between Vipps, BankID Norge and BankAxept, and Finanstilsynet gave its approval at the beginning of June 2018. After the merger and a private placement in Vipps in June 2018, DNB owns 44.3 per cent of Vipps. The transaction had a total positive effect on profits of NOK 464 million presented as "Net gain on fixed and intangible assets".*

## Note 35 Investments in subsidiaries as at 31 December 2018

| | | | | | | | DNB Bank ASA |
|---|---|---|---|---|---|---|---|
| *Amounts in 1 000*<br>*Values in NOK unless otherwise indicated* | | Share capital | Number of shares | | Nominal value | Ownership share in per cent | Carrying amount |
| **Foreign subsidiaries** | | | | | | | |
| DNB Invest Denmark | DKK | 877 579 | 877 578 841 | DKK | 877 579 | 100 | 10 857 286 |
| DNB Bank Polska | PLN | 1 257 200 | 1 257 200 000 | PLN | 1 257 200 | 100 | 1 773 563 |
| DNB Asia [1)] | USD | 788 226 | 150 000 000 | USD | 788 226 | 100 | 6 841 093 |
| DNB Asia [1)] | SGD | 20 000 | 20 000 000 | SGD | 20 000 | 100 | 100 768 |
| DNB Capital [2)] | | | | | | 100 | 20 829 840 |
| DNB Luxembourg | EUR | 70 000 | 70 000 | EUR | 70 000 | 100 | 695 782 |
| DNB Markets Inc. | USD | 1 | 1 000 | USD | 1 | 100 | 3 180 |
| DNB Sweden | SEK | 100 000 | 100 000 000 | SEK | 100 000 | 100 | 14 059 384 |
| DNB (UK) Limited | GBP | 1 154 200 | 1 154 200 000 | GBP | 1 154 200 | 100 | 12 791 241 |
| **Domestic subsidiaries** | | | | | | | |
| Aksje- og Eiendomsinvest | | 100 | 100 000 | | 100 | 100 | 25 483 |
| Bryggetorget Holding | | 2 500 | 2 500 | | 2 500 | 100 | 28 230 |
| DNB Boligkreditt | | 4 157 000 | 41 570 000 | | 4 157 000 | 100 | 26 634 000 |
| DNB Eiendom | | 10 003 | 100 033 | | 10 003 | 100 | 168 241 |
| DNB Eiendomsutvikling | | 91 200 | 91 200 000 | | 91 200 | 100 | 253 931 |
| DNB Gjenstandsadministrasjon | | 3 000 | 30 | | 3 000 | 100 | 3 000 |
| DNB ID Solutions | | 600 | 3 000 | | 600 | 100 | 20 300 |
| DNB Invest Holding | | 10 000 | 200 000 | | 10 000 | 100 | 72 000 |
| DNB Næringskreditt | | 550 000 | 550 000 | | 550 000 | 100 | 5 240 942 |
| DNB Næringsmegling | | 1 000 | 10 000 | | 1 000 | 100 | 24 000 |
| DNB Polish Properties | | 1 200 | 1 200 | | 1 200 | 100 | 35 113 |
| DNB Ventures | | 100 | 1 000 | | 100 | 100 | 100 100 |
| Godfjellet | | 8 030 | 8 030 | | 8 030 | 100 | - |
| Godfjorden | | 1 000 | 10 000 | | 1 000 | 100 | 60 290 |
| IOS Tubular Management | | 900 | 750 | | 900 | 100 | 42 200 |
| Kongsberg Industrieiendom | | 100 | 1 000 | | 100 | 100 | 10 000 |
| **Total investments in subsidiaries** | | | | | | | **100 669 967** |

1) *DNB Asia Ltd has part of its share capital denominated in SGD (due to local requirements) and a part of its share capital denominated in USD.*
2) *DNB Capital LLC, a limited liability company, has paid-in capital of USD 2.4 billion.*

### Hedging of investments in subsidiaries

In DNB Bank ASA, currency risk associated with foreign currency investments in subsidiaries is subject to fair value hedging. The hedging instruments used are mainly debt securities issued. Changes in the value of the investments and hedging instruments resulting from exchange rate movements are recorded in the income statement. At group level, net investments in subsidiaries are hedged through cash flow hedges for an amount corresponding to DNB Bank's investments. Changes in the value of investments and hedging instruments are recorded in the comprehensive income statement. Ineffectiveness in the hedging relationship is recognised in the income statement. The weakening of the Norwegian krone through 2018 increased the value of investments in subsidiaries by NOK 1 060 million, which was offset by a corresponding reduction in the value of hedging contracts, adjusted for tax effects. In 2017, there was an increase in the value of investments in subsidiaries by NOK 687 million.

## Note 36 Intangible assets

| | | | | DNB Bank ASA |
|---|---|---|---|---|
| *Amounts in NOK million* | Goodwill | Capitalised systems development | Other intangible assets | Total |
| Cost as at 1 January 2017 | 3 543 | 1 857 | 681 | 6 081 |
| Additions | | 633 | 16 | 649 |
| Disposals [1)] | (697) | (43) | (0) | (740) |
| Exchange rate movements | 25 | 1 | 12 | 38 |
| Cost as at 31 December 2017 | 2 871 | 2 447 | 709 | 6 027 |
| Total depreciation and impairment as at 1 January 2017 | (622) | (1 286) | (575) | (2 482) |
| Depreciation | | (165) | (52) | (216) |
| Disposals [1)] | 155 | 43 | 0 | 198 |
| Exchange rate movements | (0) | (1) | (11) | (12) |
| Total depreciation and impairment as at 31 December 2017 | (467) | (1 408) | (638) | (2 513) |
| **Carrying amount as at 31 December 2017** | **2 404** | **1 040** | **71** | **3 515** |
| | | | | |
| Cost as at 1 January 2018 | 2 871 | 2 448 | 709 | 6 028 |
| Additions | | 377 | | 377 |
| Disposals | | (185) | | (185) |
| Exchange rate movements | (15) | 0 | (7) | (23) |
| Cost as at 31 December 2018 | 2 856 | 2 640 | 701 | 6 197 |
| Total depreciation and impairment as at 1 January 2018 | (467) | (1 408) | (638) | (2 513) |
| Depreciation | | (278) | (33) | (311) |
| Disposals | | 47 | (0) | 47 |
| Exchange rate movements | | 1 | 7 | 8 |
| Total depreciation and impairment as at 31 December 2018 | (467) | (1 637) | (664) | (2 768) |
| **Carrying amount as at 31 December 2018** | **2 389** | **1 003** | **37** | **3 429** |

1) *Impairment losses for goodwill in 2017 of NOK 502 million was related to Cresco.*

## Note 36 Intangible assets (continued)

| | | | | DNB Bank Group |
|---|---|---|---|---|
| *Amounts in NOK million* | Goodwill | Capitalised systems development | Other intangible assets | Total |
| Cost as at 1 January 2017 | 4 585 | 3 241 | 841 | 8 666 |
| Additions | 45 | 455 | 28 | 528 |
| Additions from the aquisition/establishment of other companies | | 2 | | 2 |
| Increase/reduction in cost price | | | (0) | (0) |
| Disposals [1] | (703) | (43) | (0) | (745) |
| Exchange rate movements | 22 | 147 | 95 | 263 |
| Cost as at 31 December 2017 | 3 949 | 3 801 | 964 | 8 714 |
| Total depreciation and impairment as at 1 January 2017 | (1 528) | (2 417) | (741) | (4 685) |
| Depreciation | | (199) | (69) | (268) |
| Impairment | (5) | (42) | | (46) |
| Disposals [1] | 160 | 43 | 0 | 203 |
| Exchange rate movements | 7 | (130) | (39) | (161) |
| Total depreciation and impairment as at 31 December 2017 | (1 365) | (2 745) | (848) | (4 958) |
| **Carrying amount as at 31 December 2017** | **2 584** | **1 056** | **116** | **3 756** |
| | | | | |
| Cost as at 1 January 2018 | 3 949 | 3 801 | 964 | 8 714 |
| Additions | 5 | 441 | 20 | 466 |
| Increase/reduction in cost price | | | 0 | 0 |
| Disposals | (8) | (205) | 22 | (191) |
| Exchange rate movements | (16) | 0 | (11) | (28) |
| Cost as at 31 December 2018 | 3 929 | 4 037 | 994 | 8 960 |
| Total depreciation and impairment as at 1 January 2018 | (1 365) | (2 745) | (848) | (4 958) |
| Depreciation | | (290) | (53) | (343) |
| Impairment | (5) | | 0 | (5) |
| Disposals | 8 | 68 | (0) | 76 |
| Exchange rate movements | 0 | 1 | 10 | 12 |
| Total depreciation and impairment as at 31 December 2018 | (1 362) | (2 966) | (891) | (5 218) |
| **Carrying amount as at 31 December 2018** | **2 567** | **1 071** | **104** | **3 742** |

1) *Impairment losses for goodwill in 2017 of NOK 502 million was related to Cresco.*

### Goodwill

The risk-free interest rate is set at 3 per cent, the market risk premium is set at 5 per cent, and the long-term growth factor is set at 2.5 per cent for all cash-generating units. Beta values are estimated separately for each cash-generating unit. Required rate of return is before tax. For a detailed description of methods and assumptions used in the calculation of the recoverable amount for goodwill, see note 1 Accounting principles.

# Note 36 Intangible assets (continued)

| DNB Bank ASA | | Goodwill per unit as at 31 December 2018 | DNB Bank Group | |
|---|---|---|---|---|
| Recorded (NOK million) | Required rate of return (per cent) | | Required rate of return (per cent) | Recorded (NOK million) |
| 982 | 11.4 | Personal customers | 11.4 | 982 |
| 483 | 11.4 | Small and medium sized enterprises | 11.4 | 483 |
| 791 | 11.5 | DNB Finans - car financing | 11.5 | 791 |
| 133 | 11.5 | Other | 11.5 | 311 |
| **2 389** | | **Total goodwill** | | **2 567** |

| DNB Bank ASA | | Goodwill per unit as at 31 December 2017 | DNB Bank Group | |
|---|---|---|---|---|
| Recorded (NOK million) | Required rate of return (per cent) | | Required rate of return (per cent) | Recorded (NOK million) |
| 982 | 11.9 | Personal customers | 11.9 | 982 |
| 483 | 11.9 | Small and medium sized enterprises | 11.9 | 483 |
| 791 | 11.9 | DNB Finans - car financing | 11.9 | 791 |
| 148 | 11.9 | Other | 11.9 | 328 |
| **2 404** | | **Total goodwill** | | **2 584** |

Personal customers

This unit encompasses banking operations (loans and deposits) for personal customers in the regional network in Norway, and recorded goodwill mainly stems from the merger between DnB and Gjensidige NOR and the acquisition of Nordlandsbanken. In addition, some goodwill remains from previously acquired offices in Gjensidige NOR. Key assumptions for cash flows during the plan period are developments in margins, volumes and impairment of loans.

Small and medium sized enterprises

This unit encompasses banking operations (loans and deposits) for corporate customers in the regional network in Norway, and recorded goodwill mainly stems from the merger between DnB and Gjensidige NOR. Key assumptions for cash flows during the plan period are developments in margins, volumes and impairment of loans.

DNB Finans – car financing

The unit encompasses DNB's car financing operations in Norway and Sweden, and goodwill stems from DNB's acquisition of Skandiabanken's car financing operations with effect from 2008. Critical assumptions for cash flows during the plan period are car sales figures and DNB Finans' ability to retain customer relations with important car dealers, along with long-term margin developments and the level of impairment of loans.

## Note 37 Fixed assets

**DNB Bank ASA**

| *Amounts in NOK million* | Bank buildings and other properties | Machinery, equipment and vehicles | Fixed assets operating leases | Other fixed assets | Total |
|---|---|---|---|---|---|
| Accumulated cost as at 31 December 2016 | 172 | 3 007 | 8 018 | 11 | 11 209 |
| Additions | 3 | 362 | 2 883 | 2 | 3 250 |
| Disposals | (11) | (53) | (2 272) | (3) | (2 339) |
| Exchange rate movements | 2 | 2 | 228 | 0 | 232 |
| Cost as at 31 December 2017 | 167 | 3 318 | 8 857 | 10 | 12 352 |
| Total depreciation and impairment as at 31 December 2016 | (39) | (1 640) | (2 493) | (2) | (4 175) |
| Disposals | | 6 | 900 | | 905 |
| Depreciation [1)] | (9) | (297) | (853) | (2) | (1 161) |
| Exchange rate movements | (1) | 2 | (81) | (0) | (80) |
| Total depreciation and impairment as at 31 December 2017 | (49) | (1 928) | (2 528) | (4) | (4 510) |
| Carrying amount as at 31 December 2017 | 118 | 1 390 | 6 329 | 6 | 7 842 |
| | | | | | |
| Accumulated cost as at 31 December 2017 | 167 | 3 318 | 8 857 | 10 | 12 352 |
| Additions | 1 | 142 | 3 030 | 9 | 3 182 |
| Disposals | (6) | (18) | (2 067) | (1) | (2 093) |
| Exchange rate movements | (0) | 25 | (50) | 0 | (25) |
| Cost as at 31 December 2018 | 162 | 3 467 | 9 769 | 18 | 13 416 |
| Total depreciation and impairment as at 31 December 2017 | (49) | (1 928) | (2 528) | (4) | (4 510) |
| Disposals | | 13 | 1 164 | 1 | 1 178 |
| Depreciation [1)] | (9) | (316) | (1 333) | (2) | (1 660) |
| Impairment | | | (4) | | (4) |
| Exchange rate movements | 3 | (24) | 14 | (0) | (7) |
| Total depreciation and impairment as at 31 December 2018 | (56) | (2 255) | (2 688) | (5) | (5 003) |
| Carrying amount as at 31 December 2018 | 106 | 1 212 | 7 082 | 13 | 8 413 |

## Note 37 Fixed assets (continued)

**DNB Bank Group**

| *Amounts in NOK million* | Bank buildings and other properties | Machinery, equipment and vehicles | Fixed assets operating leases | Other fixed assets | Total |
|---|---|---|---|---|---|
| Accumulated cost as at 31 December 2016 | 173 | 3 136 | 8 018 | 67 | 11 394 |
| Reclassified fixed assets | | | | (22) | (22) |
| Additions | 3 | 388 | 2 883 | 3 | 3 276 |
| Disposals | (11) | (61) | (2 272) | (4) | (2 348) |
| Exchange rate movements | 2 | 8 | 228 | 5 | 244 |
| Cost as at 31 December 2017 | 168 | 3 471 | 8 857 | 50 | 12 545 |
| Total depreciation and impairment as at 31 December 2016 | (39) | (1 715) | (2 493) | (31) | (4 278) |
| Disposals | | 10 | 900 | (1) | 909 |
| Depreciation [1)] | (9) | (310) | (853) | (4) | (1 177) |
| Reversal of impairment losses | 0 | | | 2 | 2 |
| Exchange rate movements | (1) | (5) | (81) | (4) | (90) |
| Total depreciation and impairment as at 31 December 2017 | (49) | (2 021) | (2 528) | (37) | (4 634) |
| Carrying amount as at 31 December 2017 | 118 | 1 451 | 6 329 | 12 | 7 911 |
| | | | | | |
| Accumulated cost as at 31 December 2017 | 168 | 3 471 | 8 857 | 50 | 12 545 |
| Additions | 1 | 148 | 3 030 | 11 | 3 190 |
| Disposals | (6) | (27) | (2 067) | (4) | (2 104) |
| Exchange rate movements | 0 | 27 | (50) | (0) | (23) |
| Cost as at 31 December 2018 | 162 | 3 620 | 9 769 | 56 | 13 607 |
| Total depreciation and impairment as at 31 December 2017 | (49) | (2 019) | (2 528) | (37) | (4 634) |
| Disposals | | 17 | 1 164 | 4 | 1 185 |
| Depreciation [1)] | (9) | (330) | (1 333) | (5) | (1 676) |
| Impairment | | | (4) | | (4) |
| Exchange rate movements | 3 | (24) | 14 | 0 | (8) |
| Total depreciation and impairment as at 31 December 2018 | (56) | (2 356) | (2 688) | (38) | (5 138) |
| Carrying amount as at 31 December 2018 | 106 | 1 263 | 7 082 | 18 | 8 470 |

1) *Based on cost less any residual value, other assets are subject to straight-line depreciation over their expected useful life within the following limits:*

| | |
|---|---|
| *Technical installations* | *10 years* |
| *Machinery* | *3-10 years* |
| *Fixtures and fittings* | *5-10 years* |
| *Computer equipment* | *3-5 years* |
| *Means of transport* | *5-7 years* |

The DNB Bank ASA has not placed any collateral for loans/funding of fixed assets, including property.

## Note 38 Leasing

| DNB Bank ASA | | Financial leases (as lessor) | DNB Bank Group | |
|---|---|---|---|---|
| 31 Dec. 2017 | 31 Dec. 2018 | *Amounts in NOK million* | 31 Dec. 2018 | 31 Dec. 2017 |
| | | Gross investment in the lease | | |
| 12 439 | 13 630 | Due within 1 year | 13 685 | 12 500 |
| 31 827 | 34 359 | Due in 1-5 years | 34 995 | 32 515 |
| 3 850 | 3 828 | Due in more than 5 years | 3 829 | 3 850 |
| 48 116 | 51 817 | Total gross investment in the lease | 52 510 | 48 865 |
| | | Present value of minimum lease payments | | |
| 12 053 | 13 207 | Due within 1 year | 13 261 | 12 113 |
| 25 620 | 27 659 | Due in 1-5 years | 27 738 | 25 726 |
| 2 553 | 2 538 | Due in more than 5 years | 2 538 | 2 553 |
| 40 226 | 43 404 | Total present value of lease payments | 43 537 | 40 392 |
| 7 889 | 8 413 | Unearned financial income | 8 972 | 8 473 |
| | | | | |
| 72 | 78 | Unguaranteed residual values accruing to the lessor | 78 | 72 |
| 2 100 | 2 279 | Accumulated loan-loss provisions | 2 279 | 2 100 |
| 56 | 60 | Variable lease payments recognised as income during the period | 61 | 56 |

| DNB Bank ASA | | Operational leases (as lessor) | DNB Bank Group | |
|---|---|---|---|---|
| 31 Dec. 2017 | 31 Dec. 2018 | *Amounts in NOK million* | 31 Dec. 2018 | 31 Dec. 2017 |
| | | Future minimum lease payments under non-cancellable leases | | |
| 267 | 887 | Due within 1 year | 887 | 267 |
| 2 102 | 3 093 | Due in 1-5 years | 3 093 | 2 123 |
| 15 | 37 | Due in more than 5 years | 37 | 15 |
| 2 384 | 4 017 | Total future minimum lease payments under non-cancellable leases | 4 017 | 2 405 |

| DNB Bank ASA | | Operational leases (as lessee) | DNB Bank Group | |
|---|---|---|---|---|
| 31 Dec. 2017 | 31 Dec. 2018 | *Amounts in NOK million* | 31 Dec. 2018 | 31 Dec. 2017 |
| | | Minimum future lease payments under non-cancellable leases | | |
| 40 | 77 | Due within 1 year | 90 | 52 |
| 408 | 542 | Due in 1-5 years | 613 | 469 |
| 5 452 | 4 841 | Due in more than 5 years | 4 841 | 5 452 |
| 5 899 | 5 460 | Total minimum future lease payments under non-cancellable leases | 5 544 | 5 973 |
| 542 | 298 | Total minimum future sublease payments expected to be received under non-cancellable subleases | 284 | 365 |

| DNB Bank ASA | | | DNB Bank Group | |
|---|---|---|---|---|
| 2017 | 2018 | *Amounts in NOK million* | 2018 | 2017 |
| | | Leases recognised as an expense during the period | | |
| 685 | 855 | Minimum lease payments | 905 | 710 |
| 13 | 13 | Variable lease payments | 13 | 13 |
| 698 | 868 | Total leases recognised as an expense during the period | 918 | 723 |
| | | | | |
| (0) | (0) | Impairment of leases | (0) | (0) |

## Note 39 Other assets

| DNB Bank ASA | | | DNB Bank Group | |
|---|---|---|---|---|
| 31 Dec. 2017 | 31 Dec. 2018 | *Amounts in NOK million* | 31 Dec. 2018 | 31 Dec. 2017 |
| 462 | 412 | Accrued expenses and prepaid revenues | 478 | 527 |
| 1 734 | 1 000 | Amounts outstanding on documentary credits and other payment services | 1 000 | 1 743 |
| 2 677 | 2 320 | Unsettled contract notes | 2 320 | 2 677 |
| 17 218 | 18 195 | Other amounts outstanding 1) | 3 952 | 2 940 |
| **22 092** | **21 928** | **Total other assets 2)** | **7 750** | **7 888** |

1) *DNB Bank ASA had outstanding group contributions totaling NOK 15 450 million as at 31 December 2018.*
2) *Other assets are generally of a short-term nature.*

## Note 40 Deposits from customers by industry segment

| DNB Bank ASA | | DNB Bank Group |
|---|---|---|
| 31 Dec. 2018 | *Amounts in NOK million* | 31 Dec. 2018 |
| 32 154 | Bank, insurance and portfolio management | 32 299 |
| 44 340 | Commercial real estate | 44 065 |
| 39 015 | Shipping | 39 484 |
| 60 185 | Oil, gas and offshore | 60 185 |
| 10 931 | Power and renewables | 11 632 |
| 7 423 | Healthcare | 7 432 |
| 49 358 | Public sector | 50 046 |
| 13 535 | Fishing, fish farming and farming | 13 551 |
| 27 148 | Trade | 28 954 |
| 48 105 | Manufacturing | 50 484 |
| 12 380 | Technology, media and telecom | 14 386 |
| 88 613 | Services | 88 957 |
| 15 675 | Residential property | 15 419 |
| 364 662 | Personal customers | 372 024 |
| 102 736 | Other corporate customers | 111 168 |
| **916 258** | **Deposits from customers** | **940 087** |

## Note 41 Debt securities issued

### Changes in debt securities issued

**DNB Bank ASA**

| *Amounts in NOK million* | Balance sheet 31 Dec. 2018 | Issued 2018 | Matured/ redeemed 2018 | Exchange rate movements 2018 | Other adjustments 2018 | 31 Dec. 2017 |
|---|---|---|---|---|---|---|
| Commercial paper issued, nominal amount | 174 732 | 1 037 792 | (1 028 264) | 6 529 | | 158 675 |
| Bond debt, nominal amount [1] | 154 057 | 12 684 | (21 562) | 3 400 | | 159 536 |
| Adjustments | 6 528 | | | | (1 433) | 7 961 |
| **Total debt securities issued** | **335 317** | **1 050 476** | **(1 049 827)** | **9 929** | **(1 433)** | **326 171** |

### Maturity of debt securities issued measured at amortised cost as at 31 December 2018 [1] [2]

**DNB Bank ASA**

| *Amounts in NOK million* | NOK | Foreign currency | Total |
|---|---|---|---|
| 2019 | | 174 380 | 174 380 |
| Total commercial paper issued, nominal amount | | 174 380 | 174 380 |
| 2019 | | 13 926 | 13 926 |
| 2020 | | 51 012 | 51 012 |
| 2021 | | 35 448 | 35 448 |
| 2022 | | 20 504 | 20 504 |
| 2023 | | 19 309 | 19 309 |
| 2024 | | 1 451 | 1 451 |
| 2025 and later | | 5 701 | 5 701 |
| Total bond debt, nominal amount | | 147 351 | 147 351 |

### Maturity of debt securities issued measured at fair value as at 31 December 2018 [1]

**DNB Bank ASA**

| *Amounts in NOK million* | NOK | Foreign currency | Total |
|---|---|---|---|
| 2019 | 352 | | 352 |
| Total commercial paper issued, nominal amount | 352 | | 352 |
| 2019 | 791 | | 791 |
| 2020 | 1 408 | | 1 408 |
| 2021 | 3 453 | | 3 453 |
| 2022 | | | |
| 2023 | 916 | | 916 |
| 2024 | 125 | | 125 |
| 2025 and later | 12 | | 12 |
| Total bond debt, nominal amount | 6 705 | | 6 705 |
| Total debt securities issued, nominal amount | 7 057 | | 7 057 |
| | | | |
| Adjustments | 187 | 6 341 | 6 528 |
| Debt securities issued | 7 244 | 328 072 | 335 317 |

*1) Minus own bonds.*
*2) Includes hedged items.*

# Note 41 Debt securities issued (continued)

## Changes in debt securities issued

DNB Bank Group

| *Amounts in NOK million* | Balance sheet 31 Dec. 2018 | Issued 2018 | Matured/ redeemed 2018 | Exchange rate movements 2018 | Other adjustments 2018 | 31 Dec. 2017 |
|---|---|---|---|---|---|---|
| Commercial paper issued, nominal amount | 174 732 | 1 037 792 | (1 028 264) | 6 529 | | 158 675 |
| Bond debt, nominal amount [1)] | 605 952 | 78 195 | (81 198) | 10 754 | | 598 202 |
| Adjustments | 23 112 | | | | (2 138) | 25 250 |
| **Total debt securities issued** | **803 796** | **1 115 987** | **(1 109 463)** | **17 283** | **(2 138)** | **782 127** |

## Maturity of debt securities issued measured at amortised cost as at 31 December 2018 [1) 2)]

DNB Bank Group

| *Amounts in NOK million* | NOK | Foreign currency | Total |
|---|---|---|---|
| 2019 | | 174 380 | 174 380 |
| Total commercial paper issued, nominal amount | | 174 380 | 174 380 |
| 2019 | | 55 805 | 55 805 |
| 2020 | | 87 101 | 87 101 |
| 2021 | | 86 686 | 86 686 |
| 2022 | | 89 630 | 89 630 |
| 2023 | | 86 513 | 86 513 |
| 2024 | | 26 350 | 26 350 |
| 2025 and later | | 96 284 | 96 284 |
| Total bond debt, nominal amount | | 528 369 | 528 369 |

## Maturity of debt securities issued measured at fair value as at 31 December 2018 [1)]

DNB Bank Group

| *Amounts in NOK million* | NOK | Foreign currency | Total |
|---|---|---|---|
| 2019 | 352 | | 352 |
| Total commercial paper issued, nominal amount | 352 | | 352 |
| 2019 | 11 112 | | 11 112 |
| 2020 | 19 990 | | 19 990 |
| 2021 | 27 887 | | 27 887 |
| 2022 | 15 160 | | 15 160 |
| 2023 | 1 173 | | 1 173 |
| 2024 | 695 | | 695 |
| 2025 and later | 1 566 | | 1 566 |
| Total bond debt, nominal amount | 77 583 | | 77 583 |
| Total debt securities issued, nominal amount | 77 935 | | 77 935 |
| | | | |
| Adjustments | 1 467 | 21 645 | 23 112 |
| Debt securities issued | 79 402 | 724 394 | 803 796 |

1) *Minus own bonds. Nominal amount of outstanding covered bonds in DNB Boligkreditt totalled NOK 461.5 billion as at 31 December 2018. The cover pool market value represented NOK 623.9 billion.*
2) *Includes hedged items.*

## Note 42 Subordinated loan capital and perpetual subordinated loan capital securities

**Changes in subordinated loan capital and perpetual subordinated loan capital securities** **DNB Bank Group**

| *Amounts in NOK million* | Balance sheet 31 Dec. 2018 | Issued 2018 | Matured/ redeemed 2018 | Exchange rate movements 2018 | Other adjustments 2018 | Balance sheet 31 Dec. 2017 |
|---|---|---|---|---|---|---|
| Term subordinated loan capital, nominal amount | 25 110 | 9 419 | (8 542) | 336 | | 23 897 |
| Perpetual subordinated loan capital, nominal amount | 5 693 | | | 332 | | 5 361 |
| Perpetual subordinated loan capital securities, nominal amount | | | | | | |
| Adjustments | 278 | | | | (2) | 280 |
| **Total subordinated loan capital and perpetual subordinated loan capital securities** | **31 082** | **9 419** | **(8 542)** | **669** | **(2)** | **29 538** |

**DNB Bank Group**

| Year raised | Carrying amount in foreign currency | | Interest rate | Maturity | Call date | Carrying amount in NOK |
|---|---|---|---|---|---|---|
| Term subordinated loan capital | | | | | | |
| 2015 | SEK | 1 000 | 1.97% p.a. | 2025 | 2020 | 970 |
| 2015 | SEK | 3 000 | 3-month STIBOR + 1.40% | 2025 | 2020 | 2 909 |
| 2016 | JPY | 10 000 | 1.00% p.a. | 2026 | 2021 | 789 |
| 2017 | JPY | 11 500 | 1.04% p.a. | 2027 | 2022 | 908 |
| 2017 | NOK | 1 400 | 3-month NIBOR + 1.75% | 2027 | 2022 | 1 400 |
| 2017 | NOK | 170 | 3.08% p.a. | 2027 | 2022 | 170 |
| 2017 | SEK | 750 | 3-month STIBOR + 1.70% | 2027 | 2022 | 727 |
| 2017 | SEK | 1 000 | 1.98% p.a. | 2027 | 2022 | 970 |
| 2017 | EUR | 650 | 1.25% p.a. | 2027 | 2022 | 6 461 |
| 2018 | JPY | 25 000 | 0.75% p.a. | 2028 | 2023 | 1 974 |
| 2018 | NOK | 900 | 3-month NIBOR + 1.10% | 2028 | 2023 | 900 |
| 2018 | SEK | 700 | 3-month STIBOR + 1.06% | 2028 | 2023 | 679 |
| 2018 | SEK | 300 | 1.61% p.a. | 2028 | 2023 | 291 |
| 2018 | EUR | 600 | 1.13% p.a. | 2028 | 2023 | 5 964 |
| Total, nominal amount | | | | | | 25 110 |
| Perpetual subordinated loan capital | | | | | | |
| 1985 | USD | 215 | 3-month LIBOR + 0.25% | | | 1 866 |
| 1986 | USD | 200 | 6-month LIBOR + 0.13% | | | 1 736 |
| 1986 | USD | 150 | 6-month LIBOR + 0.15% | | | 1 302 |
| 1999 | JPY | 10 000 | 4.51% p.a. | | 2029 | 789 |
| Total, nominal amount | | | | | | 5 693 |

The subordinated loan capital and perpetual subordinated loan capital securities are issued by DNB Bank ASA.

## Note 43 Other liabilities

| DNB Bank ASA | | | DNB Bank Group | |
|---|---|---|---|---|
| 31 Dec. 2017 | 31 Dec. 2018 | *Amounts in NOK million* | 31 Dec. 2018 | 31 Dec. 2017 |
| 458 | 645 | Short-term funding | 645 | 458 |
| 6 214 | 3 157 | Short positions trading | 3 157 | 6 214 |
| 3 836 | 3 770 | Accrued expenses and prepaid revenues | 4 051 | 4 136 |
| 2 032 | 2 211 | Documentary credits, cheques and other payment services | 2 211 | 2 053 |
| 2 828 | 1 771 | Unsettled contract notes | 1 771 | 2 828 |
| 32 894 | 10 758 | Group contribution/dividends | 0 | |
| 1 202 | 720 | Accounts payable | 984 | 1 384 |
| 219 | 278 | General employee bonus | 278 | 219 |
| 1 420 | 2 237 | Other liabilities | 2 806 | 2 013 |
| **51 103** | **25 546** | **Total other liabilities** [1] | **15 903** | **19 304** |

1) *Other liabilities are generally of a short-term nature.*

## Note 44 Equity

### Share capital

DNB Bank ASA is wholly owned subsidiary of DNB ASA, which is a Norwegian public limited company listed on the Oslo Stock Exchange (Oslo Børs). The share capital of DNB Bank ASA at 31 December 2018 and 31 December 2017 was NOK 18 255 648 000 divided into 182 556 480 shares, each with a nominal value of NOK 100.

### Fund for unrealised gains

The restricted share of retained earnings (fund for unrealised gains) in DNB Bank ASA totalled NOK 1 956 million at 31 December 2018 and NOK 2 177 million at 31 December 2017.

### Additional Tier 1 capital

The additional Tier 1 capital is issued by DNB Bank ASA.

**Changes in additional Tier 1 capital** — **DNB Bank Group**

| *Amounts in NOK million* | Balance sheet 31 Dec. 2018 | Issued 2018 | Interest paid 2018 | Interest accrued 2018 | Exchange rate movements 2018 | Balance sheet 31 Dec. 2017 |
|---|---|---|---|---|---|---|
| Additional Tier 1 capital, nominal amount | 15 574 | | | | | 15 574 |
| Adjustments | 620 | | (892) | 959 | (32) | 585 |
| **Additional Tier 1 capital** | **16 194** | | **(892)** | **959** | **(32)** | **16 159** |

**DNB Bank Group**

| Year raised | | Carrying amount in currency | Interest rate | Carrying amount in NOK |
|---|---|---|---|---|
| 2015 | NOK | 2 150 | 3-month NIBOR + 3.25% | 2 150 |
| 2015 | USD | 750 | 5.75% p.a. | 5 903 |
| 2016 | NOK | 1 400 | 3-month NIBOR + 5.25% | 1 400 |
| 2016 | USD | 750 | 6.50% p.a. | 6 120 |
| Total, nominal amount | | | | 15 574 |

# Note 45 Remunerations etc.

## Pursuant to Section 6-16a of the Norwegian Public Limited Companies Act, the Board of Directors will present the following statement on remunerations to the Annual General Meeting for voting:

### "Information about DNB’s remuneration scheme

Pursuant to the Financial Institutions Regulations adopted by the Norwegian Ministry of Finance on 9 December 2016, companies are required to publish information about the main principles for determining remunerations, criteria for the stipulation of any variable remunerations and quantitative information on remuneration to senior executives. The information in this note, including the Board of Directors' statement on the stipulation of salaries and other remunerations to senior executives below, represents such information, as stipulated in the Financial Institutions Reguations.

The group standard for remuneration in the DNB Group applies to the total remuneration to all permanent employees in the DNB Group and has been approved by the Board of Directors. The standard comprises total remuneration (fixed salary, short and long-term incentives) and employee benefits (pensions, employer's liability insurance and other employee benefits). According to the standard, total remuneration is to be based on a total evaluation of the performance of the Group, as well as the unit's and each individual's contributions to value creation. Total remuneration should be structured to ensure that it does not expose the Group to unwanted risk. The remuneration should be competitive, but also cost-effective for the Group.

Furthermore, the standard specifies that total remuneration shall consist of fixed salary, any supplementary pay related to the relevant position and a variable part where this is appropriate. Fixed salary elements, including supplementary pay related to the position or market conditions, should correspond with the responsibilities and requirements assigned to each position, as well as its complexity, while variable remuneration should encourage increased performance and desired conduct.

**Variable remuneration**

The group standard shall ensure that the use of variable remuneration complies with the guidelines in the State Ownership Report, as well as the regulatory provisions that apply to the Group's various business segments and geographical locations. DNB has had separate group standards for variable remuneration since 2011, including special rules for variable remuneration to senior executives, employees with responsibilities which are of great importance to the company's risk exposure
(”risk takers”) and employees who are responsible for independent control functions.

The purpose of variable remuneration is to reward conduct and develop a corporate culture which ensures long-term value generation.

Variable remuneration is based on an overall performance assessment in relation to the results achieved within defined target areas for the Group, the unit and the individual (“what we deliver”), as well as behavior and compliance related to the Group's purpose, values, Code of Conduct and leadership principles (“how we deliver”). Furthermore, it should counteract excessive risk taking and promote sound and effective risk management in DNB. Variable remuneration cannot exceed 50 per cent of fixed salary for senior executives and 100 per cent for other risk takers.

DNB’s variable remuneration scheme applies globally, though non-Norwegian branches and subsidiaries will also be required to comply with local legislation, regulations and guidelines. There may be challenges of a legal nature in cases where the Norwegian regulations do not correspond to local legislation and local rules concerning remunerations in financial institutions. In such cases, the Group will seek advice from the relevant authorities and international experts to ensure that the Group's practices are in compliance with both Norwegian and local regulations.

**The Board of Directors' statement on the stipulation of salaries and other remunerations to senior executives**

DNB's standard for determining remunerations to the group chief executive and other members of the group management team should, at all times, support prevailing strategy and values, while contributing to the attainment of the Group’s targets. The remuneration should inspire conduct to build the desired corporate culture with respect to performance and profit orientation. No changes have been made in the principles for the stipulation of variable remunerations compared with the statement for the previous year.

**Decision-making process**

The Board of Directors in DNB ASA has established a compensation committee consisting of three members: the chair of the Board, one board member and one board member elected by the employees.

The Compensation Committee prepares matters for the Board of Directors and has the following main responsibilities:

- Annually evaluate and present its recommendations regarding the total remuneration awarded to the group chief executive
- Annually prepare recommended targets for the group chief executive
- Based on suggestions from the group chief executive, decide the remuneration and other key benefits awarded to the group chief audit executive, the group executive vice president, Group Risk Management, and the group executive vice president, Group Compliance.
- Act in an advisory capacity to the group chief executive regarding remunerations and other key benefits for members of the group management team and, when applicable, for others who report to the group chief executive
- Consider other matters as decided by the Board of Directors and/or the Compensation Committee
- Evaluate other personnel-related issues which can be assumed to entail great risk to the Group's reputation

## Note 45 Remunerations etc. (continued)

### A. Standards for the coming accounting year

Remuneration to the group chief executive

The total remuneration to the group chief executive consists of fixed salary (main element), benefits in kind, variable remuneration, and pension and insurance schemes. The total remuneration is determined based on a total evaluation of performance, and the variable part of the remuneration is primarily based on the Group's financial targets. In addition to the financial targets, strategic targets have been established, whereby developments in the Group's competence, innovative power and corporate responsibility are assessed. In addition, the total evaluation will reflect compliance with the Group's purpose, values, Code of Conduct and leadership principles.

The fixed salary is subject to an annual evaluation and is determined based on salary levels in the labour market in general and in the financial industry in particular, and on remuneration levels for comparable positions.

Variable salary to the group chief executive is determined based on an overall assessment of performance in relation to pre-defined target areas. Variable salary cannot exceed 50 per cent of fixed salary. The group chief executive is not awarded performance-based payments other than the stated variable remuneration.

In addition to variable remuneration, the group chief executive can be granted benefits in kind such as company car, newspapers/periodicals and telephone/ other communication. Benefits in kind should be relevant to the group chief executive's function or in line with market practice, and should not be significant relative to the group chief executive's fixed salary.

The group chief executive is a member of the defined-contribution pension scheme pursuant to the Norwegian Defined-contribution Pension Act in line with all other employees in Norway.

The group chief executive also has a defined-contribution direct pension agreement. In connection with the conversion from a defined-benefit to a defined-contribution direct pension scheme, the group chief executive was ensured entitlements which, calculated on the conversion date, were estimated to correspond to the technical insurance value of the former defined-benefit agreement. Based on the calculation assumptions, this agreement will have the same value as the former defined-benefit agreement would have had at retirement age, which is 60 years. After the age of 60, no further contributions will be earned under the direct pension agreement.

According to the agreement, the group chief executive is entitled to a termination payment for two years if employment is terminated prior to the age of 60. If, during this period, the group chief executive receives income from other employment, the termination payment will be reduced by an amount corresponding to the salary received from this employment. Benefits in kind will be maintained for a period of three months.

Remuneration to senior executives

The group chief executive determines the remunerations to senior executives in agreement with the chair of the Board of Directors. The Board of Directors will honour existing binding agreements.

The total remuneration to senior executives consists of fixed salary (main element), any supplementary pay related to the position, benefits in kind, variable remuneration and pension and insurance schemes. The total remuneration is determined based on the need to offer competitive terms in the various business areas. The remunerations should promote the Group's competitiveness in the relevant labour market, as well as the Group's profitability, including the desired trend in income and costs. The total remuneration should take DNB's reputation into consideration and ensure that DNB attracts and retains senior executives with the desired skills and experience.

The fixed salary and any supplementary pay related to the position are subject to an annual evaluation and are determined based on salary levels in the labour market in general and in the financial industry in particular.

The variable remuneration to senior executives is determined based on an overall assessment of the results achieved within defined target areas. Variable salary cannot exceed 50 per cent of fixed salary.

Benefits in kind may be offered to senior executives to the extent the benefits have a relevant connection to the employee's function in the Group or are in line with market practice. The benefits should not be significant relative to the employee's fixed salary.

Target structure 2019

The Compensation Committee approves principal criteria, principles and limits for variable remuneration. The Board of Directors has decided that the Group's return on equity, risk-adjusted return on equity and cost/income ratio will constitute the financial target figures for 2019, and that combined, they should have a weighting of 60 per cent. In addition to the financial targets, strategy-related qualitative and quantitative targets have been established, whereby developments in the Group's competence, customer insight, innovative power and corporate responsibility are assessed. The degree of achievement of these targets is determined based on an overall assessment and has a weighting of 40 per cent. The Group's financial target figures have been broken down into relevant targets for the various business areas and staff and support units.

The above targets will be key elements when calculating and paying out the variable remuneration for 2019. All targets have been defined and communicated to the relevant business areas and staff and support units as part of the work with and follow-up of the targets for 2019.

Remuneration structure

Fixed salary elements should normally constitute the main part of the total remuneration and be of such a size that in some years, it can be determined that no variable remuneration will be paid out. The individual salary level is determined on the basis of the responsibilities and complexity of each position, as well as the current market level for similar positions and competence.

To ensure the necessary flexibility and to be an attractive employer in the competition for sought-after competence, supplementary pay related to the position or market conditions can be added to the agreed fixed salary. The overall remuneration structure should be of such a nature that it does not contribute to unwanted risk-taking on the part of the individual employee. Variable remuneration shall be allocated based on a comprehensive assessment of performance, and shall as a main rule not exceed 50 per cent of the agreed fixed salary elements.

Determination of variable remuneration for 2019

The variable remuneration for 2019 will be determined by means of an overall assessment of performance, based on a combination of quantitative attainment of pre-set performance targets and qualitative assessments of how the targets were achieved.

The Board of Directors will determine a maximum limit for total variable remuneration for the Group, excluding DNB Markets, DNB Eiendom and investment managers in DNB Asset Management, based on the attainment of group targets over the last two years, combined with a general assessment of other important parameters and the Group's financial capacity. The total limit will be allocated to the organisation based on the individual units' target attainment and contributions to the Group's performance. With respect to DNB Markets and investment managers in DNB Asset Management, special limits will be determined for variable remuneration based on the profits achieved by the unit and an overall assessment, which is in line with market practice for these types of operations. Correspondingly, the remuneration model in DNB Eiendom is consistent with market practice, with a high share of variable remuneration based on individual performance.

Special rules for senior executives, identified risk takers and employees responsible for independent control functions

DNB has prepared and implemented special rules for identified risk takers, employees responsible for independent control functions and senior executives, hereinafter called risk takers. The special rules supplement the general group standard for remuneration and have been formulated in compliance with the Financial Institutions Regulations and the related circular from Finanstilsynet.

In accordance with prevailing requirements, DNB has surveyed the entire organisation to identify risk takers based on the criteria resulting from the circular and the EU regulation.

For risk takers, the following main principles apply to variable remuneration:

- The remuneration is earned over a period of two years.
- Variable remuneration cannot exceed the agreed fixed remuneration.
- Senior executives in independent control functions will receive no variable remuneration.

There will be a deferred and conditional payment of minimum 50 per cent of the net earned variable remuneration in the form of DNB shares. The remuneration paid in the form of shares will be divided into three, subject to minimum holding periods (deferred and conditional), with one-third each year over a period of three years. The deferred and conditional payments will be in compliance with the stipulations in the Financial Institutions Regulations.

Pensions etc.

Pension schemes and any agreements on termination payments etc. should be considered relative to other remuneration and should ensure competitive terms. The various components in pension schemes and severance pay, either alone or together, must not be such that they could pose a threat to DNB's reputation.

All employees in Norway are members of the defined-contribution pension scheme pursuant to the Norwegian Defined-contribution Pension Act.

Up to 31 December 2016, many senior executives in the Group had agreements entitling them to a defined-benefit pension which gave them rights beyond of the general occupational pension scheme. As of 1 January 2017, these agreements have been replaced by defined-contribution direct pension agreements based on the same calculation assumptions and principles as those used in connection with the conversion of the Group's defined-benefit occupational pension scheme in 2016 pursuant to the Norwegian Occupational Pension Act..

The pension entitlements of the senior executives, calculated on the conversion date, are estimated to correspond to the technical value of the former defined-benefit scheme. Future capital entitlements now comprise annual contributions and the return on the entitlements earned. The annual contributions are calculated individually to ensure that, based on the calculation assumptions, the defined-contribution direct pension scheme will have the same value as the former defined-benefit agreement would have given at the agreed retirement age.

As a main rule, no termination payment agreements will be signed. However, the Group will honour existing agreements.

When entering into new agreements, the group standards generally apply and comprise all senior executives.

See table of remunerations for senior executives below.

## B. Binding standards for shares, subscription rights, options etc. for the coming accounting year

An amount corresponding to 50 per cent of the earned variable remuneration of the group chief executive, senior executives and other risk takers is invested in shares in DNB ASA. The minimum holding periods are one year for one-third of the shares, two years for one-third of the shares and three years for the final one-third of the shares.

No additional shares, subscription rights, options or other forms of remuneration only linked to shares or only to developments in the share price of the company or other companies within the Group, will be awarded to the group chief executive or senior executives. The group chief executive and senior executives are, however, given the opportunity to participate in a share subscription scheme on the same terms as other employees in the DNB Group.

## C. Statement on the senior executive salary policy in the previous account year

The group standards determined in 2011, including changes effective as from 2017, have been followed.

# Note 45 Remunerations etc. (continued)

**D. Statement on the effects for the company and the shareholders of remuneration agreements awarding shares, subscription rights, options etc.**

An amount corresponding to 50 per cent of the gross variable remuneration earned by the group chief executive, senior executives and other risk takers in 2018 is invested in shares in DNB ASA. The Board of Directors believes that the awarding of shares to senior-executives, in view of the total number of shares in the company, will have no negative consequences for the company or the shareholders."

## Terms for the chair of the Board of Directors

Olaug Svarva became chair of the Board of Directors on 24 April 2018. In 2018, she received a remuneration of NOK 395 000 as chair of the Board of Directors of DNB ASA, and a remuneration of NOK 318 000 as chair of the Board of Directors of DNB Bank ASA. Former chair of the Board of Directors Anne Carine Tanum received a remuneration of NOK 187 000 in 2018 as chair of the Board of Directors of DNB ASA, compared with NOK 559 000 in 2017. In addition, she received a remuneration of NOK 151 000 as chair of the Board of Directors of DNB Bank ASA, compared with NOK 450 000 in 2017.

## Terms for the group chief executive

Rune Bjerke received an ordinary salary of NOK 6 173 000 in 2018, compared with NOK 5 957 000 in 2017. The Board of Directors of DNB ASA stipulated the group chief executive's variable remuneration for 2018 at NOK 2 450 000, compared with NOK 2 250 000 in 2017. The variable remuneration for 2018 will be paid in 2019. There wil be a deferred and conditional payment of 50 per cent of the earned variable remuneration in the form of DNB shares. The remuneration paid in the form of shares will be divided into three, subject to a minimum holding period of up to three years. Benefits in kind were estimated at NOK 385 000, compared with NOK 301 000 in 2017.

Costs in connection with the group chief executive's pension scheme of NOK 5 259 000 were recorded for the 2018 accounting year, compared with NOK 5 105 000 in 2017. Costs are divided between DNB ASA and DNB Bank ASA.

## Note 45 Remunerations etc. (continued)

The table has been constructed to show rights earned during the period.

**Remunerations etc. in 2018** — **DNB Bank Group**

| *Amounts in NOK 1 000* | Fixed annual salary as at 31 Dec. 2018 [1)] | Remunera-tion earned in 2018 [2)] | Paid salaries in 2018 [3)] | Variable remunera-tion earned in 2018 [4)] | Benefits in kind and other benefits in 2018 | Total remunera-tion earned in 2018 | Loans as at 31 Dec. 2018 [5)] | Specially agreed retire-ment age [7)] | Accrued pension expenses in 2018 [6)] |
|---|---|---|---|---|---|---|---|---|---|
| **Board of Directors of DNB Bank ASA** | | | | | | | | | |
| Olaug Svarva (chair, from 24.04.18) | | 713 | | | 5 | 718 | | | |
| Anne Carine Tanum (chair, until 24.04.18) | | 338 | | | 3 | 341 | | | |
| Gro Bakstad (vice chair) | | 437 | | | | 437 | 6 | | |
| Lillian Hattrem | 672 | 343 | 665 | 24 | 32 | 1 065 | 4 156 | | 84 |
| Kim Wahl | | 343 | | | | 343 | 97 | | |
| **Group management** | | | | | | | | | |
| Rune Bjerke, CEO | 5 855 | | 6 173 | 2 474 | 385 | 9 031 | 9 783 | 60 | 5 259 |
| Kjerstin Braathen, CFO | 4 205 | | 4 355 | 1 774 | 272 | 6 401 | 68 | 65 | 745 |
| Trond Bentestuen, group EVP (until 07.06.18) | 3 635 | | 3 063 | | 224 | 3 287 | 5 925 | 65 | 542 |
| Ottar Ertzeid, group EVP | 9 225 | | 9 610 | 3 874 | 248 | 13 731 | 0 | 62 | 805 |
| Benedicte S. Fasmer, group EVP | 3 405 | | 3 523 | 1 449 | 219 | 5 191 | 5 130 | | 119 |
| Rasmus Aage Figenschou, group EVP | 3 055 | | 3 150 | 1 349 | 237 | 4 736 | 11 590 | | 119 |
| Håkon Hansen, group EVP (from 07.06.18) | 3 400 | | 2 986 | 1 424 | 195 | 4 604 | 5 888 | | 351 |
| Solveig Hellebust, group EVP | 3 205 | | 3 324 | 1 349 | 236 | 4 909 | 6 | 65 | 404 |
| Ida Lerner, group EVP [8)] | 3 937 | | 4 047 | 24 | 2 326 | 6 398 | | | |
| Thomas Midteide, group EVP | 3 055 | | 3 031 | 1 294 | 247 | 4 572 | 2 107 | 65 | 272 |
| Alf Otterstad, group EVP | 3 110 | | 3 067 | 1 349 | 230 | 4 645 | 3 001 | | 119 |
| Hans Olav Rønningen, group EVP (until 08.01.18) | 1 690 | | 1 874 | 724 | 177 | 2 775 | 4 635 | | 80 |
| Harald Serck-Hanssen, group EVP | 4 265 | | 4 436 | 1 774 | 268 | 6 477 | 24 883 | 65 | 1 244 |
| Ingjerd Blekeli Spiten, group EVP (from 08.01.18) | 3 400 | | 3 196 | 1 449 | 259 | 4 904 | 5 768 | | 119 |
| Mirella E. Os Wassiluk, group EVP (from 02.04.18) | 3 100 | | 2 347 | 24 | 157 | 2 528 | 0 | | 90 |
| Loans to other employees | | | | | | | 20 536 745 | | |

*1) Fixed annual salary at year-end for employees who were members of the Board of Directors or the group management team during the year.*

*2) Includes remuneration received from all companies within the DNB Group for service on Boards of Directors and committees. For those who have received remuneration for more than one position in 2018, the following amounts are related to their board positions in DNB Bank ASA:*

*Olaug Svarva: NOK 318 000*

*Anne Carine Tanum: NOK 151 000*

*Some persons are members of more than one body.*

*3) Includes salary payments for the entire year and holiday pay on variable remuneration. Some employees were members of the Board of Directors or the group management team for only parts of the year.*

*4) Variable remuneration earned excluding holiday pay.*

*5) Loans to shareholder-elected representatives are extended on ordinary customer terms. Loans to DNB employees are extended on special terms, which are close to ordinary customer terms.*

*6) Pension rights earned during the year (SCC). The calculation of pension entitlements is based on the same economic and actuarial assumptions as those used in note 24 Pensions.*

*7) The agreed retirement age is specified when a special agreement has been entered into which includes related defined-contribution pension entitlements deviating from stipulations in the company's general group standards.*

*8) Ida Lerner is on international assignment from Sweden to Norway. Prior to joining DNB's management team on 11 December 2017, she was head of DNB CEMEA in London, also on an international assignment contract. In accordance with DNB's international assignment policy, she has assignment-related benefits in kind, such as accommodation and children's school costs. Both her salary and benefits in kind are provided as net entitlements. The amounts have been grossed up with Norwegian taxes by an external service provider. As she is not a member of the Norwegian National Insurance Scheme, no social security contributions have been included in the gross amounts.*

# Note 45 Remunerations etc. (continued)

The table has been constructed to show rights earned during the period.

**Remunerations etc. in 2017** **DNB Bank Group**

| *Amounts in NOK 1 000* | Fixed annual salary as at 31 Dec. 2017 1) | Remunera-tion earned in 2017 2) | Paid salaries in 2017 3) | Variable remunera-tion earned in 2017 4) | Benefits in kind and other benefits in 2017 | Total remunera-tion earned in 2017 | Loans as at 31 Dec. 2017 5) | Specially agreed retire-ment age 7) | Accrued pension expenses in 2017 6) |
|---|---|---|---|---|---|---|---|---|---|
| **Board of Directors of DNB Bank ASA** | | | | | | | | | |
| Anne Carine Tanum (chairman) | | 1 009 | | | | 1 009 | | | |
| Gro Bakstad (vice chairman, from 25.04.17) | | 225 | | | | 225 | 3 | | |
| Jarle Bergo (until 25.04.17) | | 253 | | | 1 | 254 | | | |
| Lillian Hattrem | 631 | 327 | 638 | 22 | 36 | 1 023 | 3 185 | | 74 |
| Kim Wahl | | 327 | | | | 327 | 46 | | |
| **Group management** | | | | | | | | | |
| Rune Bjerke, CEO | 5 695 | | 5 957 | 2 272 | 301 | 8 530 | 9 620 | 60 | 5 105 |
| Bjørn Erik Næss, CFO (until 01.03.17) | | | 2 045 | 250 | 3 308 | 5 603 | 957 | | 19 |
| Kjerstin Braathen, CFO (from 01.03.17) | 4 000 | | 3 881 | 1 522 | 216 | 5 618 | 12 | 65 | 707 |
| Trond Bentestuen, group EVP | 3 560 | | 3 675 | 1 362 | 263 | 5 300 | 6 144 | 65 | 881 |
| Ottar Ertzeid, group EVP | 9 020 | | 9 419 | 3 822 | 238 | 13 479 | 21 | 62 | 781 |
| Benedicte S. Fasmer, group EVP | 2 950 | | 3 179 | 1 122 | 270 | 4 571 | 6 014 | | 115 |
| Rasmus Aage Figenschou, group EVP (from 11.12.17) | 2 340 | | 2 130 | 647 | 163 | 2 940 | 11 666 | | 115 |
| Liv Fiksdahl, group EVP (until 11.12.17) | 3 200 | | 3 347 | 1 222 | 245 | 4 814 | 1 113 | 62 | 1 235 |
| Rune Garborg, group EVP (until 01.09.17) | 2 950 | | 2 179 | 950 | 214 | 3 343 | 6 401 | | 175 |
| Solveig Hellebust, group EVP | 3 200 | | 2 693 | 1 022 | 234 | 3 950 | 18 | 65 | 400 |
| Ida Lerner, group EVP (from 11.12.17) 8) | 3 992 | | 2 162 | 1 477 | 2 376 | 6 015 | | | |
| Bengt Olav Lund, group EVP (from 01.05.17 until 11.12.17) | 2 950 | | 3 232 | 1 072 | 255 | 4 558 | 6 592 | | 115 |
| Thomas Midteide, group EVP | 2 500 | | 2 568 | 1 022 | 251 | 3 840 | 2 186 | 65 | 269 |
| Kari Olrud Moen, group EVP (until 11.12.17) | 2 880 | | 3 021 | 1 000 | 234 | 4 255 | 21 | 62 | 1 441 |
| Alf Otterstad, group EVP (from 11.12.17) | 1 840 | | 1 664 | 622 | 150 | 2 436 | 3 124 | | 115 |
| Tom Rathke, group EVP (until 01.05.17) | 3 480 | | 3 795 | 872 | 245 | 4 912 | 6 078 | 62 | 2 454 |
| Hans Olav Rønningen, group EVP (from 11.12.17) | 1 650 | | 1 714 | 822 | 180 | 2 716 | 4 880 | | 206 |
| Harald Serck-Hanssen, group EVP | 4 175 | | 4 368 | 1 422 | 258 | 6 048 | 5 130 | 65 | 1 217 |
| Terje Turnes, group EVP (until 11.12.17) | 4 010 | | 4 143 | 582 | 242 | 4 967 | 92 | | 709 |
| Loans to other employees | | | | | | | 19 235 018 | | |

1) *Fixed annual salary at year-end for employees who were members of the Board of Directors or the group management team during the year.*
2) *Includes remuneration received from all companies within the DNB Group for service on Boards of Directors and committees. For those who have received remuneration for more than one position in 2017, the following amounts are related to their board positions in DNB Bank ASA:*
*Anne Carine Tanum: NOK 450 000*
*Jarle Bergo: NOK 108 000*
*Some persons are members of more than one body.*
3) *Includes salary payments for the entire year and holiday pay variable remuneration. Some employees were members of the Board of Directors or the group management team for only parts of the year.*
4) *Variable remuneration earned excluding holiday pay.*
5) *Loans to shareholder-elected representatives are extended on ordinary customer terms. Loans to DNB employees are extended on special terms, which are close to ordinary customer terms.*
6) *Pension rights earned during the year (SCC). The calculation of pension entitlements is based on the same economic and actuarial assumptions as those used in note 24 Pensions.*
7) *The agreed retirement age is specified when a special agreement has been entered into which includes related defined-contribution pension entitlements deviating from stipulations in the company's general group standards*
8) *Ida Lerner is on international assignment from Sweden to Norway. Prior to joining DNB's management team on 11 December 2017, she was head of DNB CEMEA in London, also on an international assignment contract. In accordance with DNB's international assignment policy, she has assignment-related benefits in kind, such as accommodation and children's school costs. Both her salary and benefits in kind are provided as net entitlements. The amounts have been grossed up with Norwegian taxes by an external service provider. As she is not a member of the Norwegian National Insurance Scheme, no social security contributions have been included in the gross amounts. In her new role as head of an independent control function, Ida Lerner will receive no variable remuneration as from the 2018 income year.*

# Note 45 Remunerations etc. (continued)

## Changes in the group management team

As of 16 April 2018, Rasmus Aage Figenschau and Alf Otterstad went from being acting members to becoming permanent members of the group management team. Trond Bentestuen left the group management team on 11 June 2018 and terminated his employment in DNB on 30 September 2018. Håkon Hansen became acting member of the group management team on 11 June 2018, and as of 24 October 2018, he became a permanent member. No other changes were made to the group management team in 2018.

## Other information on pension agreements

The pension schemes of all senior executives were changed as of 1 January 2017, as described in the annual report for 2016. Changes in the pension agreements did not entail any changes in previously agreed age limits. In line with the State Ownership Report, no new members of the group management team will be entitled to pension beyond the Group's current occupational pension scheme.

## Subscription rights programme for employees

There was no subscription rights programme for employees in the DNB Bank Group at year-end 2018.

| **DNB Bank ASA** | | **Remuneration to the statutory auditor** | **DNB Bank Group** | |
|---|---|---|---|---|
| 2017 | 2018 | *Amounts in NOK 1 000, excluding VAT* | 2018 | 2017 |
| (9 871) | (10 135) | Statutory audit [1] | (20 266) | (21 156) |
| (1 163) | (1 664) | Other certification services | (2 464) | (2 305) |
| (6 731) | (4 477) | Tax-related advice [2] | (5 483) | (11 456) |
| (4 555) | (2 346) | Other services | (2 346) | (5 975) |
| **(22 320)** | **(18 622)** | **Total remuneration to the statutory auditor** | **(30 559)** | **(40 892)** |

*1) Includes fees for interim audit and auditing funds managed by DNB.*

*2) Mainly refers to tax-related advice to employees on international assignments.*

## Note 46 Information on related parties

DNB Bank ASA is 100 per cent owned by DNB ASA. The largest owner of the DNB Group is the Norwegian government, represented by the Ministry of Trade and Industry, which owns and controls 34 per cent of the shares in the parent company DNB ASA.

A large number of bank transactions are entered into with related parties as part of ordinary business transactions, comprising loans, deposits and foreign exchange transactions. These transactions are based on market terms. The table below shows transactions with related parties, including balance sheets at year-end and related expenses and income for the year. Related companies in the table are associated companies plus DNB Savings Bank Foundation. See note 34 for a specification of associated companies. Loans to board members and their spouses/ partners and under-age children are extended on ordinary customer terms. Loans to group management, like loans to other group employees, are extended on special terms, which are close to ordinary customer terms. Transactions with other DNB Bank Group companies are shown in a separate table.

**Transactions with related parties** — **DNB Bank Group**

| *Amounts in NOK million* | Group management and Board of Directors 2018 | Group management and Board of Directors 2017 | Related companies 2018 | Related companies 2017 |
|---|---|---|---|---|
| Loans as at 1 January | 56 | 60 | 22 315 | 1 125 |
| New loans/repayments during the year | 26 | (6) | (339) | (48) |
| Changes in related parties | (3) | 2 | | 21 238 |
| **Loans as at 31 December** | **78** | **56** | **21 976** | **22 315** |
| **Interest income** | **1** | **2** | **34** | **25** |
| Deposits as at 1 January | 245 | 253 | 1 434 | 781 |
| Deposits/withdrawals during the year | 94 | 47 | (415) | 319 |
| Changes in related parties | (197) | (55) | 97 | 334 |
| **Deposits as at 31 December** | **141** | **245** | **1 116** | **1 434** |
| **Interest expenses** | **(0)** | **(1)** | **(6)** | **(7)** |
| **Guarantees** [1] | **-** | **-** | **2 480** | **3 543** |

1) *DNB Bank ASA has issued guarantees for other loans in Eksportfinans. The total guarantee commitment is included in the table above.*

No impairments were made on loans to related parties in 2017 and 2018. Reference is made to note 45 for information on loans to group management members and directors. Transactions with deputy members of the Board of Directors are not included in the table above. In general, DNB employee loans should be paid by automatic debit in monthly instalments in arrear. Employee loans are within the term limits applying to general customer relationships. Security is furnished for employee loans in accordance with legal requirements.

**Transactions with other DNB Group companies** [1]

| DNB Bank ASA 2017 | DNB Bank ASA 2018 | *Amounts in NOK million* | DNB Bank Group 2018 | DNB Bank Group 2017 |
|---|---|---|---|---|
| 369 488 | 321 860 | Loans as at 31 December | 27 435 | 25 950 |
| 30 347 | 29 425 | Other receiveables as at 31 December [2] | 805 | 394 |
| 126 077 | 105 661 | Deposits as at 31 December | 13 597 | 9 237 |
| 102 327 | 64 595 | Other liabilities as at 31 December [2] | 69 | 1 759 |
| 5 506 | 6 370 | Interest income | 653 | 578 |
| (3 055) | (3 213) | Interest expenses | (45) | (48) |
| 6 990 | 6 665 | Net other operating income [3] | 1 922 | 1 995 |
| (187) | (86) | Operating expenses | (105) | (166) |

1) *For DNB Bank ASA, the table includes transactions with subsidiaries, sister companies and DNB ASA. For the banking group, the table includes transactions with sister companies and DNB ASA. Investments in bonds issued by related parties are described below and are not included in the table.*
2) *Other receivables and other liabilities in DNB Bank ASA as at 31 December 2017 and 2018 were mainly financial derivative contracts with DNB Boligkreditt as counterparty and group contributions.*
3) *DNB Bank ASA recognised NOK 3 293 million and NOK 2 884 million in group contributions from subsidiaries in 2018 and 2017, respectively.*

## Note 46 Information on related parties (continued)

### Major transactions and agreements with related parties

**DNB Boligkreditt AS**

DNB Boligkreditt (Boligkreditt) is 100 per cent owned by DNB Bank ASA. As part of ordinary business transactions, a large number of banking transactions are entered into between Boligkreditt and the bank, including loans, deposits and financial derivatives used in currency and interest rate risk management. Transactions are carried out on 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 between DNB Bank ASA and DNB Boligkreditt AS concerning purchase of management services” (the maagement agreement).

The transfer agreement regulates the transfer of loan portfolios qualifying as collateral for the issue of covered bonds. During 2018, portfolios of NOK 3.5 billion (NOK 12.0 billion in 2017) were transferred from the bank to Boligkreditt.

Pursuant to the management agreement, Boligkreditt purchases services from the bank, including administration, bank production, distribution, customer contact, IT operations and financial and liquidity management. Boligkreditt pays an annual management fee for these services based on the lending volume under management and the achieved lending spreads. The management fee paid in 2018 totalled NOK 0.7 billion (NOK 1.2 billion in 2017).

At end-December 2018 the bank had invested NOK 9.7 billion (NOK 12.1 billion in 2017) in covered bonds issued by Boligkreditt.

Boligkreditt enters into reverse repurchasing agreements (reverse repos) with the bank as counterparty. The value of the repos amounted to NOK 15.1 billion at end-December 2018 (NOK 26.0 billion in 2017).

Boligkreditt has a long-term overdraft facility in DNB Bank ASA with a limit of NOK 220 billion.

**DNB Næringskreditt AS**

DNB Næringskreditt (Næringskreditt) is 100 per cent owned by DNB Bank ASA. The mortgage institution was established to issue covered bonds secured by a cover pool comprising commercial property.

The transfer agreement regulates the transfer of loan portfolios qualifying as collateral for issue of covered bonds. During 2017, portfolios of NOK 1.9 billion were transferred from the bank to Næringskreditt. All transactions are carried out on market terms.

Like Boligkreditt, Næringskreditt purchases management and administrative services from the bank. In addition, administrative services relating to the company's operations are purchased from Boligkreditt. The fee paid to the bank and Boligkreditt for 2018 amounting to NOK 57.9 million and NOK 3.2 million respectively.

In 2018 Næringskreditt entered into reverse repurchasing agreements (revers repos) with the bank as counterparty. The value of the repos amounted to NOK 50.0 million and end-December 2018 (NOK 108.3 million in 2017). The company has a long-term overdraft facility in DNB Bank ASA with a limit of NOK 20 billion.

**DNB Livsforsikring AS**

As part of the company's ordinary investment activity, DNB Livsforsikring has subscribed for covered bonds issued by DNB Boligkreditt.
At year-end 2018, DNB Livsforsikring’s holding of listed DNB Boligkreditt bonds was valued at NOK 1.9 billion (NOK 1.9 billion in 2017).

**Luminor Group AB**

DNB’s ownership interest in Luminor Group AB at year end 2018 is approximately 44 per cent. At end-December 2018 DNB Bank ASA’s funding of Luminor Group AB totalled NOK 21.0 billion (NOK 21.0 billion in 2017).

## Note 47 Contingencies

Due to its extensive operations in Norway and abroad, the DNB banking group will regularly be party to a number of legal actions. None of the current disputes are expected to have any material impact on the banking group's financial position.

The DNB banking group is subject to a number of complaints and disputes relating to structured products and other investment products.

# Note 48 Additional financial instruments disclosures from 2017

Below is the accounting principles for financial instruments, as well as disclosures for 2017 related to the line item Loans to customers in the balance sheet and Impairment of loans and commitments in the income statement, as presented in the annual report for 2017.

## ACCOUNTING PRINCIPLESFINANCIAL INSTRUMENTS

### Recognition and derecognition

Recognition of assets and liabilities

Financial assets and liabilities are recognised in the balance sheet when the Group becomes a party to the contractual provisions of the instrument. Settlement date accounting is applied for financial assets classified as loans and receivables, while trade date accounting is applied for the other classification categories.

Derecognition of financial assets

Financial assets are derecognised when the right to receive and retain cash flows from the asset has expired or been transferred. The banking group enters into certain transactions where it transfers assets recognised on its balance sheet, but retains either all or parts the risks and rewards of the transferred asset. If all or substantially all of the risks and rewards are retained, the transferred financial asset is not derecog-nised from the balance sheet, but reclassified to separate assets or liabilities reflecting the rights and obligations created or retained in the transfer. Such transactions could entail the transfer of a loan portfolio where the banking group retains the risks and returns associated with the transferred portfolio by guaranteeing for all risks in the portfolio or entering into a total return swap.

Derecognition of financial liabilities

Financial liabilities are derecognised when the contractual obligations have been discharged, cancelled or have expired.

Repurchase and reverse repurchase agreements

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 banking group. This is done irrespective of whether the banking group has the right to sell or repledge the securities. Upon the sale of securities received, the banking group recognises an obligation in the balance sheet. For more information, see note 32 Securities received which can be sold or repledged.

Securities sold under agreements to repurchase are generally not derecognised as the risk and returns are normally not transferred. This is done irrespective of whether the recipient is entitled to sell or repledge the securities. These securities are presented as securities in the Group's balance sheet and are specified in note 31 Transferred assets or assets with other restrictions.

Securities borrowing and lending agreements

Transactions mainly include equity borrowing or lending. Agreements on securities borrowing and lending are generally based on collateral in the form of cash or securities.

Equities which have been received or transferred in such transactions, are generally not recognised or derecognised, as risks and returns associated with ownership of the assets are normally not taken over or transferred.

Equities received, including equities received as collateral, are registered off the balance sheet irrespective of whether the banking group has the right to sell or repledge the securities. Upon the sale of securities received, the banking group will recognise an obligation in the balance sheet. For more information, see note 32 Securities received which can be sold or repledged.

Transferred equities and collateral which the recipient is entitled to sell or repledge, are presented as equities or securities in the banking group's balance sheet and are specified in note 31 Transferred assets or assets with other restrictions.

### Classification and presentation

On initial recognition financial assets are classified in one of the following categories according to the type of instrument and the purpose of the investment:

- financial assets held for trading and derivatives carried at fair value with changes in value recognised in profit or loss (trading portfolio)
- financial assets designated as at fair value with changes in value recognised in profit or loss
- financial derivatives designated as hedging instruments
- loans and receivables, carried at amortised cost
- held-to-maturity investments, carried at amortised cost
- financial assets available for sale carried at fair value with changes in value recognised in other comprehensive income

On initial recognition financial liabilities are classified in one of the following categories:

- financial liabilities held for trading and derivatives carried at fair value with changes in value recognised in profit or loss (trading portfolio)
- financial liabilities designated as at fair value with changes in value recognised in profit or loss
- financial derivatives designated as hedging instruments
- other financial liabilities carried at amortised cost

Guidelines for classification in the various portfolios of the banking group are given below.

## Note 48 Additional financial instruments disclosures from 2017 (continued)

Financial assets and liabilities in the trading portfolio
Financial instruments in the trading portfolio are initially recognised at fair value. The fair value corresponds to the transaction price, unless another value can be justified based on observable market transactions. See the paragraph below on determining fair value at subsequent valuation. See the paragraph below on determining fair value at subsequent valuation.

Changes in the fair value of the financial instruments are presented within "Net gains on financial instruments at fair value" in the income statement. Interest income and interest expenses from interest bearing securities are presented within "Net interest income".

Financial derivatives are presented as an asset if the fair value is positive and as a liability if the fair value is negative.

The trading portfolio mainly includes financial assets and liabilities in Markets and financial derivatives not used for hedge accounting purposes. In addition, the portfolio includes securities borrowing and deposits that are used actively in interest rate and liquidity management and have a short remaining maturity.

Financial assets and liabilities designated as at fair value with changes in value recognised in profit or loss
Financial instruments in the portfolio are recognised at fair value. See the paragraph below on determining fair value at subsequent valuation. Financial instruments are classified in this category if one of the following criteria is fulfilled:

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

Changes in fair value of the financial instruments are presented within "Net gains on financial instruments at fair value" in the income statement. Interest income and interest expenses on loans designated as at fair value and other fixed-income securities are presented within "Net interest income".

The portfolios include commercial paper, bonds, equities, fixed-rate loans in Norwegian kroner, fixed-rate securities issued in Norwegian kroner, such as index-linked bonds and equity-linked bank deposits and other fixed-rate deposits in Norwegian kroner.

Financial derivatives designated as hedging instruments
The banking group enters into hedging transactions to manage interest rate risk on long-term borrowings and deposits in foreign currencies. These transactions are recognised as fair value hedges. See item Hedge accounting.

Loans and receivables carried at amortised cost
Loans and receivables carried at amortised cost are recognised at the transaction price plus direct transaction expenses. Subsequent measurement follows the effective interest method, less any impairment charges. The effective interest method is described under Recognition in the income statement and in other comprehensive income.

Interest income on financial instruments classified as lending is presented within "Net interest income" using the effective interest method.

A decrease in value on the balance sheet date based on objective indications of impairment for loans valued at amortised cost and in the portfolios of fixed-rate loans measured at fair value, are presented within "Impairment of loans and guarantees".

Held-to-maturity investments carried at amortised cost
Held-to-maturity investments are carried at amortised cost and recognised at the transaction price plus direct transaction expenses. Subsequent measurement follows the effective interest method, less any impairment charges. The effective interest method is described under Recognition in the income statement and in other comprehensive income.

Interest income relating to the instruments is presented within "Net interest income". This category mainly comprises the international bond portfolio in DNB Markets.

Financial assets available for sale carried at fair value with changes in value recognised in other comprehensive income
Financial assets in the available for sale category are recognised at fair value with the subsequent change in fair value presented in other comprehensive income. See below about the determination of fair value. At the time of realisation the change in fair value shall be included as a part of the gain that is presented in the income statement. Financial assets are classified in this category if they do not meet the criteria for being classified in any of the other categories presented above.

Other financial liabilities carried at amortised cost
Financial liabilities carried at amortised cost are recognised at the transaction price plus direct transaction expenses. Interest expenses on such instruments are presented within "Net interest income" using the effective interest method. This category includes deposits from customers and credit institutions, commercial paper issued, bonds, subordinated loan capital and perpetual subordinated loan capital securities.

Issued financial guarantees
Contracts resulting in the banking group having to reimburse the holder for a loss incurred because a specific debtor fails to make payment when due, are classified as issued financial guarantees.

On initial recognition, issued financial guarantees are recognised at the consideration received for the guarantee. Issued financial guarantees are subsequently measured at the higher of the consideration received for the guarantee excluding any amortised amounts recognised in the income statement and the best estimate of the payment due if the guarantee is honoured.

## Note 48 Additional financial instruments disclosures from 2017 (continued)

When issuing financial guarantees, the consideration for the guarantee is presented within the line item "Provisions" in the balance sheet. Changes in the carrying amount of financial guarantees are recognised within the line item "Net gains on financial instruments at fair value", except for changes related to guarantees which are part of loans which are individually impaired. Changes in the value of such guarantee contracts are recognised within the line item "Impairment of loans and guarantees".

Financial instruments with the characteristics of equity

Issued additional Tier 1 capital instruments are instruments where DNB Bank has a unilateral right not to repay interest or the principal to the investors. As a consequence of these terms, the instruments do not meet the requirements for a liability and are therefore presented on the line Additional Tier 1 capital within the banking group's equity. Transaction expenses and accrued interest are presented as a reduction in Other equity, while the advantage of the tax deduction for the interest will give an increase in Other equity.

Equity in foreign currency shall be converted to Norwegian kroner based on the exchange rate on the transaction date and is not subject to subsequent revaluation.

### Offsetting

Financial assets and financial liabilities are offset and presented net in the balance sheet when the banking group has a legally enforceable right to offset recognised amounts and has agreed to settle the balances on a net basis or to realise the asset and settle the liability simultaneously. Master netting agreements or similar agreements give the right to offset in the event of default. Such agreements reduce the banking group's exposure in the event of default, but do not on their own qualify for offsetting in accordance with IFRS, as there also needs, to be an intention to settle the contractual cash flows net on an ongoing basis. See note 29 Offsetting for details about the financial assets and financial liabilities subject to offsetting agreements.

### Determination of 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 liabilities in active markets are measured at the price within the bid-ask spread that is most representative of the fair value at the measurement date. In most cases bid or asking prices for these instruments are the most representative price for assets and liabilities respectively. Derivatives which are carried net are recognised at midmarket prices at the balance sheet date.

Financial instruments measured at fair value are valued on a daily basis with the exception of a few financial instruments that are valued on a monthly or quarterly basis. As far as possible, directly observable market prices are used. Valuations of the various types of financial instruments are based on well-acknowledged techniques and models. The prices and input parameters used are controlled and assessed based on established routines and control procedures.

The control environment for fair value measurement of financial instruments is an integrated part of the company's financial reporting. A number of controls are carried out on a daily basis, including controls of the day-one results on traded positions and controls of the key input parameters in the valuation. At the end of each month and quarter, extended controls are carried out to ensure that the valuations are consistent with the accounting policy for fair value including variation analyses. Special emphasis is placed on valuations in the level 3 in the valuation hierarchy, where the effects may be significant or particularly challenging.

Instruments traded in an active market

With respect to instruments traded in an active market, quoted prices are used, obtained from a stock exchange, a broker or a price-setting agency.

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.

Some investments in equities and commercial paper and bonds are traded in active markets.

Instruments not traded in an active market

Financial instruments not traded in an active market are valued according to different valuation techniques and are divided into two categories:

Valuation based on observable market data:

- recently observed transactions in the relevant instrument between informed, willing and independent parties
- 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.

Valuation based on other factors than observable market data:

- estimated cash flows
- valuation of assets and liabilities in companies
- models where key parameters are not based on observable market data
- possible industry standards

In the valuation of OTC derivatives, a fair value adjustment is made for the counterparty's credit risk (CVA) and for the banking group's own credit risk (DVA). In addition, an adjustment is made for expected funding costs (FVA).

## Note 48 Additional financial instruments disclosures from 2017 (continued)

The banking group estimates CVA as a function of a simulated expected positive exposure, the counterparty's probability of default and loss given default. The majority of the banking group's derivative counterparties have no market-implied credit spread and no external rating. Internal ratings are therefore combined with historical credit default swap (CDS) spreads as well as current CDS index prices to arrive at the counter-party's estimated CDS spreads. This means that the banking group uses its own credit models and their discriminatory power, but calibrates against pricing levels for similar credit risk in the market. The DVA is based on the same approach, using an assessment of the banking group's credit spread.

FVA reflects the estimated present value of the future funding costs associated with funding uncollateralised derivative exposures. It is calculated by applying a funding spread above the expected exposure. Funding benefits are not estimated for positions for which DNB calculates DVA.

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 factors that market participants would take into account.

**Impairment of financial assets**

At end of each reporting period, the banking group consider whether any objective evidence of impairment exist as a result of one or more events have taken place after initial recognition (loss event) and the loss event has impact on the estimated future cash flows . A financial asset or group of financial assets is impaired if there is any objective evidence of impairment. Objective indications of impairment include an assessment of the following loss events:

- serious financial problems on the part of the debtor,
- non-payment or other serious breaches of contract,
- the probability that the debtor will enter into debt negotiations or
- other special circumstances that have occurred.

Renegotiation of loan terms to ease the position of the borrower qualifies as a loss event.

Individual impairment of loans

If objective evidence of impairment exists, impairment of loans is calculated as the difference between the carrying amount and the net present value of estimated future cash flows discounted by the original effective interest rate.

The business areas calculate estimated future cash flows based on developments in the exposure, past experience with the debtor, the probable outcome of negotiations and expected macroeconomic trends that will influence the customer's cash flow. In addition, the probability of debt settlement proceedings and bankruptcies is taken into consideration, including the probability that assets provided as collateral will be foreclosed. When measuring collaterals, recognised methods for measuring underlying assets are used.

Individual impairment of loans reduces the carrying amount of loans and guarantees. Impairment during the period is recognised as "Impairment of loans and guarantees" in profit or loss.

Collective impairment of loans

Loans which are not individually impaired are assessed collectively for impairment. The assessment is based on whether objective evidence of impairment exists that can be related to a group of financial assets.

Loans are grouped on the basis of similar credit risk characteristics and in accordance with the division of customers into sectors or industries and risk categories. Impairment is estimated per group of financial assets based on estimates of the general economic situation and loss experience for the respective groups.

Collective impairment reduces the carrying amount of the line item "Loans to customers" in the balance sheet. Changes during the period are recognised within the line item "Impairment of loans and guarantees" in the income statement. Like individual impairment, collective impairment is discounted. The discount factor is based on statistics derived from individual impairment.

Repossession of assets

Assets which are repossessed as part of the management of non-performing and impaired loans are recognised at fair value at the time of acquisition. Such assets are recognised in the balance sheet according to the nature of the asset. Any difference between the carrying amount of the loan and the fair value of the asset is presented within the line item "Impairment of loans and guarantees" in the income statement. Subsequent valuations and presentation of the impact to the income statement follow the principles for the relevant balance sheet item.

## Note 48 Additional financial instruments disclosures from 2017 (continued)

**Hedge accounting**

When instruments are individually hedged, there is a clear, direct and documented correlation between changes in the value of the hedged item resulting from the hedged risk and changes in the value of the financial derivative (hedging instrument).

Upon entering into the hedging relationship, the correlation between the hedged item and the hedging instrument is documented. In addition, the underlying risk management objective and strategy are documented. Changes in fair value related to the hedged risk of the hedged item and instrument are evaluated periodically to ensure the necessary hedge effectiveness. Hedging instruments are recognised at fair value in the financial statements and changes in the fair value are presented within "Net gains on financial instruments at fair value" in the income statement.

For fair value hedging, the changes in the fair value of the hedged item attributable to the hedged risk will be recognised as an addition to or deduction from the balance sheet value of financial liabilities and assets and presented within "Net gains on financial instruments at fair value" in the income statement.

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

The banking group undertakes hedging of investments in foreign subsidiaries to eliminate the currency risk on the invested amount. Hedging transactions are in the form of currency swaps or long-term borrowings in foreign currency. In the consolidated financial statement, the hedge relationships are presented as hedging of net investments in international operations.

# Note 48 Additional financial instruments disclosures from 2017 (continued)

## LOANS AND COMMITMENTS FOR PRINCIPAL CUSTOMER GROUPS

**Loans and commitments as at 31 December 2017** — **DNB Bank ASA**

| *Amounts in NOK million* | Loans and receivables | Guarantees | Unutilised credit lines | Total loans and commitments |
|---|---|---|---|---|
| Private individuals | 165 452 | 196 | 157 486 | 323 134 |
| Transportation by sea and pipelines and vessel construction | 44 617 | 10 075 | 14 546 | 69 238 |
| Real estate | 159 381 | 4 387 | 33 835 | 197 604 |
| Manufacturing | 45 837 | 18 169 | 29 473 | 93 479 |
| Services | 64 787 | 5 758 | 33 588 | 104 133 |
| Trade | 33 111 | 4 443 | 20 538 | 58 092 |
| Oil and gas | 16 080 | 5 027 | 8 517 | 29 624 |
| Transportation and communication | 36 629 | 8 429 | 13 206 | 58 263 |
| Building and construction | 56 904 | 10 110 | 32 737 | 99 751 |
| Power and water supply | 20 137 | 7 545 | 15 941 | 43 623 |
| Seafood | 17 238 | 139 | 5 032 | 22 409 |
| Hotels and restaurants | 5 787 | 365 | 887 | 7 039 |
| Agriculture and forestry | 4 632 | 43 | 876 | 5 551 |
| Central and local government | 13 439 | 168 | 5 677 | 19 284 |
| Other sectors | 48 847 | 947 | 4 808 | 54 602 |
| Total customers, nominal amount after individual impairment | 732 878 | 75 801 | 377 146 | 1 185 826 |
| – Collective impairment, customers | (2 096) | | | (2 096) |
| + Other adjustments | | (404) | | (404) |
| **Loans to customers** | **730 782** | **75 398** | **377 146** | **1 183 326** |
| Credit institutions, nominal amount after individual impairment | 580 973 | 7 490 | 111 797 | 700 261 |
| + Other adjustments | | | | |
| **Loans to and due from credit institutions** | **580 973** | **7 490** | **111 797** | **700 261** |

The breakdown into principal customer groups corresponds to the EU's standard industrial classification, NACE Rev.2.

**Loans and commitments as at 31 December 2017** — **DNB Bank Group**

| *Amounts in NOK million* | Loans and receivables | Guarantees | Unutilised credit lines | Total loans and commitments |
|---|---|---|---|---|
| Private individuals | 778 167 | 216 | 224 399 | 1 002 781 |
| Transportation by sea and pipelines and vessel construction | 78 314 | 10 135 | 28 454 | 116 902 |
| Real estate | 198 453 | 4 387 | 33 775 | 236 616 |
| Manufacturing | 76 051 | 18 596 | 59 998 | 154 645 |
| Services | 90 512 | 5 946 | 44 396 | 140 855 |
| Trade | 39 521 | 4 667 | 26 055 | 70 242 |
| Oil and gas | 22 599 | 5 792 | 28 927 | 57 319 |
| Transportation and communication | 59 740 | 8 741 | 28 454 | 96 935 |
| Building and construction | 60 573 | 10 482 | 34 068 | 105 123 |
| Power and water supply | 25 601 | 7 859 | 22 058 | 55 518 |
| Seafood | 20 390 | 139 | 5 546 | 26 074 |
| Hotels and restaurants | 7 389 | 365 | 1 219 | 8 973 |
| Agriculture and forestry | 4 867 | 43 | 1 912 | 6 822 |
| Central and local government | 15 895 | 168 | 8 759 | 24 822 |
| Other sectors | 56 428 | 952 | 3 581 | 60 961 |
| Total customers, nominal amount after individual impairment | 1 534 502 | 78 488 | 551 600 | 2 164 589 |
| – Collective impairment, customers | (3 157) | | | (3 157) |
| + Other adjustments | | (408) | | (408) |
| **Loans to customers** | **1 531 345** | **78 079** | **551 600** | **2 161 024** |
| Credit institutions, nominal amount after individual impairment | 237 849 | 8 344 | 38 023 | 284 216 |
| + Other adjustments | | | | |
| **Loans to and due from credit institutions** | **237 849** | **8 344** | **38 023** | **284 216** |

The breakdown into principal customer groups corresponds to the EU's standard industrial classification, NACE Rev.2.

# Note 48 Additional financial instruments disclosures from 2017 (continued)

## LOANS AND COMMITMENTS ACCORDING TO GEOGRAPHICAL LOCATION

**Loans and commitments as at 31 December 2017** **DNB Bank ASA**

| *Amounts in NOK million* | Loans to customers | Loans to and receivables from credit institutions | Guarantees | Unutilised credit lines | Total loans and commitments |
|---|---|---|---|---|---|
| Oslo | 149 675 | 207 458 | 11 560 | 269 732 | 638 425 |
| Eastern and southern Norway | 203 123 | 2 | 16 767 | 87 550 | 307 443 |
| Western Norway | 104 520 | 76 | 8 042 | 38 137 | 150 775 |
| Northern and central Norway | 116 334 | 95 | 7 390 | 36 077 | 159 896 |
| Total Norway | 573 652 | 207 631 | 43 760 | 431 497 | 1 256 539 |
| Sweden | 61 503 | 67 696 | 6 610 | 21 898 | 157 707 |
| United Kingdom | 1 150 | 125 681 | 3 299 | 2 099 | 132 229 |
| Other Western European countries | 56 423 | 100 389 | 5 427 | 23 549 | 185 788 |
| Poland | 738 | 10 169 | 292 | 57 | 11 256 |
| Other Eastern European countries | 860 | 920 | 1 002 | 86 | 2 866 |
| Total Europe outside Norway | 120 674 | 304 855 | 16 629 | 47 689 | 489 847 |
| USA and Canada | 1 163 | 41 776 | 13 066 | 3 023 | 59 028 |
| Bermuda and Panama 1) | 14 557 | 1 | 4 103 | 3 323 | 21 984 |
| Other South and Central American countries | 10 543 | 1 448 | 1 865 | 1 432 | 15 288 |
| Total America | 26 263 | 43 225 | 19 035 | 7 778 | 96 300 |
| Singapore 1) | 771 | 11 555 | 675 | 82 | 13 083 |
| Hong Kong | 1 060 | 62 | | 2 | 1 124 |
| Other Asian countries | 5 122 | 13 391 | 1 194 | 818 | 20 526 |
| Total Asia | 6 953 | 25 008 | 1 870 | 902 | 34 733 |
| Other African countries | 732 | 241 | 1 708 | 103 | 2 785 |
| Oceania 1) | 4 604 | 13 | 290 | 975 | 5 883 |
| Commitments | 732 878 | 580 973 | 83 291 | 488 943 | 1 886 086 |
| – Collective impairment | (2 096) | | | | (2 096) |
| + Other adjustments | | | (404) | | (404) |
| **Net loans and commitments** | **730 782** | **580 973** | **82 888** | **488 943** | **1 883 587** |

1) *Represents shipping loans and commitments.*

Based on the customer's address.

## Note 48 Additional financial instruments disclosures from 2017 (continued)

**Loans and commitments as at 31 December 2017** **DNB Bank Group**

| *Amounts in NOK million* | Loans to customers | Loans to and receivables from credit institutions | Guarantees | Unutilised credit lines | Total loans and commitments |
|---|---|---|---|---|---|
| Oslo | 312 107 | 8 240 | 11 554 | 209 690 | 541 590 |
| Eastern and southern Norway | 504 438 | 2 | 16 767 | 120 203 | 641 411 |
| Western Norway | 198 797 | 0 | 8 059 | 49 110 | 255 966 |
| Northern and central Norway | 209 590 | 95 | 7 390 | 44 501 | 261 577 |
| Total Norway | 1 224 932 | 8 337 | 43 770 | 423 505 | 1 700 544 |
| Sweden | 91 342 | 27 478 | 6 611 | 49 932 | 175 364 |
| United Kingdom | 18 766 | 87 287 | 4 127 | 15 762 | 125 942 |
| Other Western European countries | 80 423 | 97 592 | 5 793 | 34 223 | 218 030 |
| Poland | 17 593 | 29 | 1 535 | 2 468 | 21 625 |
| Other Eastern European countries | 1 201 | 922 | 1 002 | 253 | 3 378 |
| Total Europe outside Norway | 209 325 | 213 308 | 19 069 | 102 637 | 544 340 |
| USA and Canada | 32 625 | 963 | 14 138 | 48 770 | 96 496 |
| Bermuda and Panama [1)] | 20 968 | 1 | 4 104 | 4 878 | 29 950 |
| Other South and Central American countries | 13 582 | 1 448 | 1 868 | 3 731 | 20 629 |
| Total America | 67 175 | 2 411 | 20 110 | 57 379 | 147 075 |
| Singapore [1)] | 4 243 | 85 | 675 | 184 | 5 187 |
| Hong Kong | 1 588 | 62 | | 3 | 1 653 |
| Other Asian countries | 5 888 | 13 391 | 1 196 | 1 205 | 21 680 |
| Total Asia | 11 719 | 13 538 | 1 871 | 1 391 | 28 520 |
| Other African countries | 5 910 | 241 | 1 708 | 982 | 8 841 |
| Oceania [1)] | 15 441 | 13 | 303 | 3 728 | 19 485 |
| Commitments | 1 534 502 | 237 849 | 86 832 | 589 623 | 2 448 805 |
| – Collective impairment | (3 157) | | | | (3 157) |
| + Other adjustments | | | (408) | | (408) |
| **Net loans and commitments** | **1 531 345** | **237 849** | **86 423** | **589 623** | **2 445 240** |

*1) Represents shipping loans and commitments.*

Based on the customer's address.

## Note 48 Additional financial instruments disclosures from 2017 (continued)

### IMPAIRED LOANS AND GUARANTEES FOR PRINCIPAL CUSTOMER GROUPS [1)]

DNB Bank ASA

| *Amounts in NOK million* | Gross impaired loans and guarantees 31 December 2017 | Total individual impairment 31 December 2017 | Net impaired loans and guarantees 31 December 2017 |
|---|---|---|---|
| Private individuals | 1 937 | (578) | 1 358 |
| Transportation by sea and pipelines and vessel construction | 1 848 | (946) | 902 |
| Real estate | 1 206 | (518) | 688 |
| Manufacturing | 1 972 | (862) | 1 110 |
| Services | 936 | (469) | 467 |
| Trade | 2 158 | (761) | 1 397 |
| Oil and gas | 3 805 | (1 038) | 2 767 |
| Transportation and communication | 2 166 | (554) | 1 612 |
| Building and construction | 952 | (400) | 552 |
| Power and water supply | 1 596 | (867) | 730 |
| Seafood | 27 | (16) | 11 |
| Hotels and restaurants | 48 | (24) | 24 |
| Agriculture and forestry | 68 | (30) | 37 |
| Central and local government | 0 | | 0 |
| Other sectors | 2 | (1) | 1 |
| Total customers | 18 721 | (7 064) | 11 657 |
| Credit institutions | | | |
| Total impaired loans and guarantees | 18 721 | (7 064) | 11 657 |
| Non-performing loans and guarantees not subject to impairment | 1 920 | | 1 920 |
| Total non-performing and impaired loans and guarantees | 20 640 | (7 064) | 13 576 |

DNB Bank Group

| *Amounts in NOK million* | Gross impaired loans and guarantees 31 December 2017 | Total individual impairment 31 December 2017 | Net impaired loans and guarantees 31 December 2017 |
|---|---|---|---|
| Private individuals | 2 724 | (695) | 2 029 |
| Transportation by sea and pipelines and vessel construction | 2 787 | (1 407) | 1 381 |
| Real estate | 1 220 | (531) | 689 |
| Manufacturing | 2 892 | (1 112) | 1 780 |
| Services | 947 | (477) | 469 |
| Trade | 2 177 | (779) | 1 398 |
| Oil and gas | 3 805 | (1 038) | 2 767 |
| Transportation and communication | 3 334 | (1 391) | 1 943 |
| Building and construction | 1 049 | (494) | 556 |
| Power and water supply | 2 571 | (1 228) | 1 343 |
| Seafood | 27 | (16) | 11 |
| Hotels and restaurants | 48 | (24) | 24 |
| Agriculture and forestry | 68 | (31) | 38 |
| Central and local government | 0 | | 0 |
| Other sectors | 2 | (1) | 1 |
| Total customers | 23 652 | (9 224) | 14 427 |
| Credit institutions | | | |
| Total impaired loans and guarantees | 23 652 | (9 224) | 14 427 |
| Non-performing loans and guarantees not subject to impairment | 2 840 | | 2 840 |
| Total non-performing and impaired loans and guarantees | 26 491 | (9 224) | 17 267 |

1) *Includes loans and guarantees subject to individual impairment and total non-performing loans and guarantees not subject to impairment. The breakdown into principal customer groups corresponds to the EU's standard industrial classification, NACE Rev.2.*

## Note 48 Additional financial instruments disclosures from 2017 (continued)

### IMPAIRMENT OF LOANS AND GUARANTEES

**DNB Bank ASA**

| | 2017 | | |
|---|---|---|---|
| *Amounts in NOK million* | Loans [1)] | Guarantees | Total |
| Write-offs | (1 312) | | (1 312) |
| New/increased individual impairment | (2 964) | (218) | (3 182) |
| Total new/increased individual impairment | (4 276) | (218) | (4 494) |
| Reassessed individual impairment previous years | 1 515 | 212 | 1 727 |
| Recoveries on loans and guarantees previously written off | 155 | | 155 |
| Net individual impairment | (2 606) | (6) | (2 612) |
| Changes in collective impairment of loans | 675 | | 675 |
| **Impairment of loans and guarantees** | **(1 931)** | **(6)** | **(1 937)** |
| Write-offs covered by individual impairment made in previous years | 2 371 | 54 | 2 425 |

**DNB Bank Group**

| | 2017 | | |
|---|---|---|---|
| *Amounts in NOK million* | Loans [1)] | Guarantees | Total |
| Write-offs | (1 662) | | (1 662) |
| New/increased individual impairment | (4 227) | (218) | (4 445) |
| Total new/increased individual impairment | (5 889) | (218) | (6 106) |
| Reassessed individual impairment | 1 950 | 212 | 2 162 |
| Recoveries on loans and guarantees previously written off | 249 | | 249 |
| Net individual impairment | (3 690) | (6) | (3 696) |
| Changes in collective impairment of loans | 1 268 | | 1 268 |
| **Impairment of loans and guarantees** | **(2 422)** | **(6)** | **(2 428)** |
| Write-offs covered by individual impairment made in previous years | 3 232 | 54 | 3 286 |

1) *Including impairment of loans at fair value.*

## Note 48 Additional financial instruments disclosures from 2017 (continued)

### IMPAIRMENT OF LOANS AND GUARANTEES FOR PRINCIPAL CUSTOMER GROUPS

**DNB Bank ASA**

| *Amounts in NOK million* | 2017 New individual impairment | Reassessed individual impairment | Recoveries on loans and guarantees previously written off | Net impairment |
|---|---|---|---|---|
| Private individuals | (560) | 269 | 106 | (185) |
| Transportation by sea and pipelines and vessel construction | (582) | 164 | 12 | (406) |
| Real estate | (152) | 187 | 13 | 49 |
| Manufacturing | (274) | 362 | 5 | 94 |
| Services | (373) | 228 | 2 | (143) |
| Trade | (885) | 114 | 1 | (769) |
| Oil and gas | (435) | 84 | | (352) |
| Transportation and communication | (355) | 209 | 6 | (139) |
| Building and construction | (125) | 99 | 3 | (23) |
| Power and water supply | (738) | 0 | 5 | (733) |
| Seafood | (2) | 3 | 0 | 2 |
| Hotels and restaurants | (9) | 4 | 1 | (4) |
| Agriculture and forestry | (4) | 1 | 0 | (3) |
| Central and local government | (0) | | | (0) |
| Other sectors | (1) | 1 | 0 | 0 |
| Total customers | (4 494) | 1 727 | 155 | (2 612) |
| Credit institutions | | | | |
| Changes in collective impairment of loans | | | | 675 |
| **Impairment of loans and guarantees** | **(4 494)** | **1 727** | **155** | **(1 937)** |
| *Of which individual impairment of guarantees* | *(218)* | *212* | | *(6)* |

**DNB Bank Group**

| *Amounts in NOK million* | 2017 New individual impairment | Reassessed individual impairment | Recoveries on loans and guarantees previously written off | Net impairment |
|---|---|---|---|---|
| Private individuals | (715) | 401 | 174 | (140) |
| Transportation by sea and pipelines and vessel construction | (782) | 294 | 12 | (476) |
| Real estate | (176) | 203 | 23 | 50 |
| Manufacturing | (308) | 487 | 6 | 186 |
| Services | (387) | 233 | 11 | (143) |
| Trade | (896) | 122 | 2 | (772) |
| Oil and gas | (435) | 84 | | (352) |
| Transportation and communication | (1 331) | 216 | 11 | (1 104) |
| Building and construction | (132) | 102 | 4 | (26) |
| Power and water supply | (926) | 2 | 5 | (920) |
| Seafood | (2) | 3 | 0 | 2 |
| Hotels and restaurants | (9) | 5 | 1 | (4) |
| Agriculture and forestry | (7) | 8 | 1 | 1 |
| Central and local government | (0) | | | (0) |
| Other sectors | (1) | 2 | 0 | 0 |
| Total customers | (6 106) | 2 162 | 249 | (3 696) |
| Credit institutions | | | | |
| Changes in collective impairment of loans | | | | 1 268 |
| **Impairment of loans and guarantees** | **(6 106)** | **2 162** | **249** | **(2 428)** |
| *Of which individual impairment of guarantees* | *(218)* | *212* | | *(6)* |

The breakdown into principal customer groups corresponds to the EU's standard industrial classification, NACE Rev.2.

## Note 48 Additional financial instruments disclosures from 2017 (continued)

### DEVELOPMENTS IN IMPAIRMENT OF LOANS AND GUARANTEES

**DNB Bank ASA**

| | 2017 | | | |
|---|---|---|---|---|
| *Amounts in NOK million* | Loans to credit institutions | Loans to customers | Guarantees | Total |
| Impairment as at 1 January | | (9 808) | (526) | (10 334) |
| New impairment | | (1 620) | (105) | (1 726) |
| Increased impairment | | (1 344) | (112) | (1 456) |
| Reassessed impairment | | 1 515 | 212 | 1 727 |
| Write-offs covered by previous impairment | | 2 371 | 54 | 2 425 |
| Changes in individual impairment of accrued interest and amortisation | | | | |
| Changes in collective impairment | | 675 | | 675 |
| Changes due to exchange rate movement | | (441) | (30) | (470) |
| Impairment as at 31 December | | (8 652) | (508) | (9 160) |
| *Of which: Individual impairment* | | (6 151) | (508) | (6 658) |
| *Individual impairment of accrued interest and amortisation* | | (406) | | (406) |
| *Collective impairment* | | (2 096) | | (2 096) |

**DNB Bank Group**

| | 2017 | | | |
|---|---|---|---|---|
| *Amounts in NOK million* | Loans to credit institutions | Loans to customers | Guarantees | Total |
| Impairment as at 1 January | | (13 541) | (529) | (14 070) |
| New impairment | | (1 855) | (105) | (1 960) |
| Increased impairment | | (2 173) | (112) | (2 285) |
| Reassessed impairment | | 1 765 | 212 | 1 977 |
| Write-offs covered by previous impairment | | 3 232 | 54 | 3 286 |
| Changes in individual impairment of accrued interest and amortisation | | | | |
| Changes in collective impairment | | 1 271 | | 1 271 |
| Baltics, reclassified as assets held for sale | | | | |
| Changes due to exchange rate movement | | (568) | (30) | (598) |
| Impairment as at 31 December | | (11 870) | (511) | (12 381) |
| *Of which: Individual impairment* | | (8 234) | (511) | (8 745) |
| *Individual impairment of accrued interest and amortisation* | | (480) | | (480) |
| *Collective impairment* | | (3 157) | | (3 157) |

## Statement pursuant to Section 5-5 of the Securities Trading Act

We hereby confirm that the annual accounts for the banking group and the company for 2018 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 banking group and the company taken as a whole.

The directors' report gives a true and fair review of the development and performance of the business and the position of the banking group and the company, as well as a description of the principal risks and uncertainties facing the banking group.

Oslo, 6 March 2019
The Board of Directors of DNB Bank ASA

Olaug Svarva
(chair of the board)

Gro Bakstad
(vice chair of the board)

Lillian Hattrem

Kim Wahl

Rune Bjerke
(group chief executive)

Kjerstin R. Braathen
(chief financial officer)

Statsautoriserte revisorer
Ernst & Young AS

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

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

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**INDEPENDENT AUDITOR'S REPORT**

To the Annual Shareholders' Meeting of DNB Bank ASA

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of DNB Bank ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2018, the income statement, statement of comprehensive income, statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2018, the income statement, statements of comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

### Basis for opinion

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

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2018. 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.

### Impairment of loans and financial commitments

On 1 January 2018 the Group implemented the accounting standard IFRS 9. The implementation required the Group to reassess the classification of its financial assets and to make provisions for expected future credit losses "ECL" on debt instruments measured at amortised cost or fair value through other comprehensive income, as well as financial commitments, regardless of whether objective evidence of impairment exists on the balance sheet date.

Loans to customers represent NOK 1 598 017 million (69 % per cent) of total assets for the Group as at 31 December 2018. Financial commitments amount to NOK 652 812 million as at 31 December 2018. Total expected credit losses on loans to customers and financial commitments amount to NOK 11 616 million, of which NOK 2 725 million is based on model calculations (stages 1 and 2) and NOK 8 890 million is based on individual assessments (stage 3).

In respect of the ECL calculation, IFRS 9 requires models, but does not prescribe a specific approach, thus requiring management to use judgement to obtain an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes. In addition, the measurement of ECL shall reflect the time value of money and reasonable and supportable information about past events, current conditions and forecasts of economic expectations as well as assessing criteria for significant increases in credit risk at engagement or portfolio level. To calculate the provision the Group is required to make estimates and assumptions, including the probability of default, exposure at default, loss given default and forecasts of economic expectations. Loans subject to individual assessments (stage 3) require judgement about various assumptions, including the expected future cash flows and the value of underlying collateral. Due to the use of judgement in applying the ECL measurement criteria of IFRS 9, the complexity of the calculation and the effect of estimates, we consider provisioning for ECL a key audit matter.

We assessed the Group's methodology applied for calculating ECL including the criteria for determining significant increases in credit risk. We assessed the design and tested the effectiveness of controls related to assumptions, input and calculation of ECL. We also tested IT general controls over access and change management for related IT-systems.

We involved specialists on our team and assessed management's internal validation of the ECL models. We evaluated management's assessments of multiple economic scenarios as well as macroeconomic data used to create forward looking information, including parameters and conclusions from management's expert credit judgement forum. For loans subject to individual assessment by management (stage 3), we assessed the expected future cash flows and the estimated value of underlying collateral for a sample of engagements.

Furthermore, we assessed the adequacy of the disclosures in the financial statements related to IFRS 9 implementation and ECL, and refer to note 4, 5, 6, 7, 8, 9, 10 and 11 in the consolidated financial statements.

### Valuation of Financial Instruments

Unlisted or illiquid financial instruments measured at fair value are valued based on models that use assumptions that are not observable in the market place. The valuation of these instruments therefore have a higher risk of errors. Such instruments comprise assets of NOK 51 890 million and liabilities of NOK 1 654 million measured at fair value in the consolidated balance sheet and classified as level 3 instruments within the fair value hierarchy. Due to the materiality of the unlisted or illiquid instruments, and the increased risk of errors, we considered the valuation of these instruments a key audit matter.

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

Level 3 instruments which are presented at fair value on the balance sheet are disclosed in note 28 in the consolidated financial statements.

### Hedge accounting - Interest rate risk on long-term debt securities issued

Derivative instruments are used to manage exposure to interest rate risk related to long-term debt securities issued in foreign currencies. Derivatives and borrowings designated at initial recognition as hedging relationships, are accounted for as fair value hedges. The effectiveness of the hedging relationships is assessed at the beginning and end of the relevant period. The application of hedge accounting and ensuring hedge effectiveness is judgmental and requires close monitoring from management. Due to the materiality of the hedging relationships and judgement from management, we considered hedge accounting of interest rate risk on long-term debt securities issued a key audit matter.

We assessed the design and tested the operating effectiveness of internal controls over the designation and ongoing management of hedge accounting relationships, including testing of hedge effectiveness. We examined hedge documentation to assess whether the documentation complied with the requirements of the accounting standards. We tested reconciliations between underlying source systems and documents used to manage and document hedging relationships, including testing the mathematical accuracy and calculation of hedge effectiveness.

See note 15 in the consolidated financial statements for further information.

### IT environment supporting financial reporting

The Group 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 and measurement need to be designed and operate effectively. The operation of the IT environment is largely outsourced to various service providers. The IT environment supporting the financial reporting process is considered a Key Audit Matter as the IT environment is critical to ensure accurate, complete and reliable financial reporting.

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

## Other information

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

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

### Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, 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 law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

## Report on other legal and regulatory requirements

### Opinion on the Directors' report and on the statements on corporate governance and corporate social responsibility

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

### Opinion on registration and documentation

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

Oslo, 6 March 2019
ERNST & YOUNG AS

Anders Gøbel
State Authorised Public Accountant (Norway)

# Governing bodies in DNB Bank ASA
As at 31 December 2018

## Board of Directors

**Members**
Olaug Svarva, Oslo (chair)
Gro Bakstad, Oslo (vice chair)
Lillian Hattrem, Ski [1)]
Kim Wahl, Bærum

**Deputy for the employee representatives**
Sigmund Hollerud, Oslo [1)]

**Observer**
Eli Solhaug, Oslo [1)]

## Election Committee

Camilla Grieg, Bergen (chair)
Ingebret Hisdal, Oslo
Karl Moursund, Oslo
Mette Wikborg, Oslo

## Group management

**Group chief executive**
Rune Bjerke

**Chief financial officer**
Kjerstin Braathen

**Group executive vice president Personal Banking**
Ingjerd Blekeli Spiten

**Group executive vice president Corporate Banking**
Benedicte Schilbred Fasmer

**Group executive vice president Large Corporates and International**
Harald Serck-Hanssen

**Group executive vice president Wealth Management & Insurance**
Håkon Hansen

**Group executive vice president Markets**
Ottar Ertzeid

**Group executive vice president New Business**
Rasmus Figenschou

**Group executive vice president People & Operations**
Solveig Hellebust

**Group executive vice president Group Risk Management**
Ida Lerner

**Group executive vice president IT**
Alf Otterstad

**Group executive vice president Group Compliance**
Mirella E. Wassiluk

**Group executive vice president Media & Marketing**
Thomas Midteide

## Group audit

Tor Steenfeldt-Foss

## External auditor

Ernst & Young AS

*1) Not independent.*

## Cautionary statement regarding forward-looking statements

This annual report contains statements regarding the future prospects, including estimates, strategies and objectives. The risks and uncertainties inherent in all forward-looking statements can lead to actual developments and profits differing materially from what has been expressed or implied.


The annual report 2018 has been produced by Group Financial Reporting in DNB.

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MILJØMERKET 241 458 Trykksak

# We are here. So you can stay ahead.

**DNB Bank**

Mailing address:
P.O.Box 1600 Sentrum
N-0021 Oslo

Visiting address:
Dronning Eufemias gate 30
Bjørvika, Oslo

dnb.no