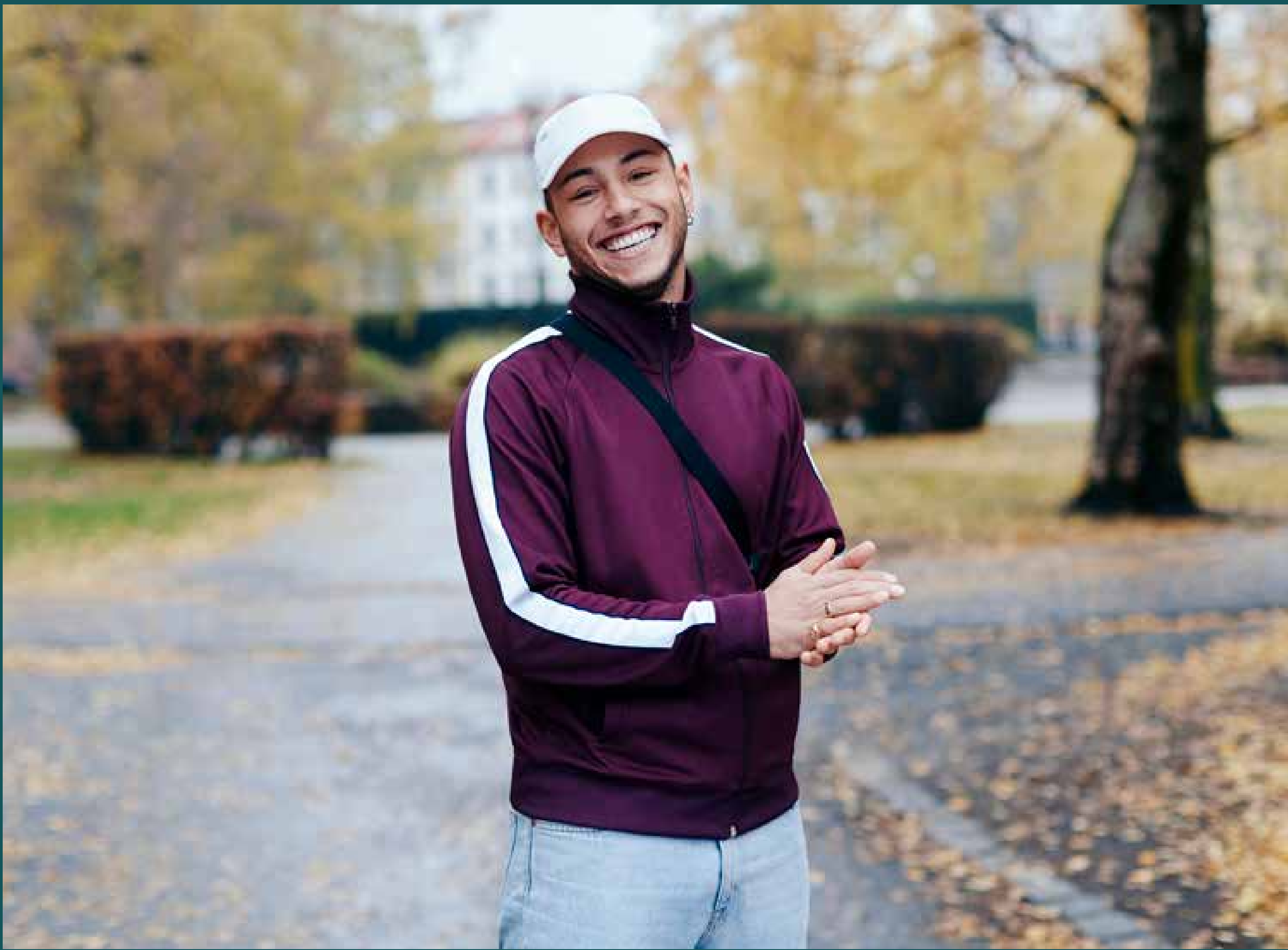
DNB Bank

A company in the DNB group

Annual report 2019



Financial highlights

Income statement

Amounts in NOK million	2019	2018	2017	2016	2015
					DNB Bank Group
Net interest income	39 908	37 388	35 914	34 517	35 535
Net commissions and fees	*6 618*	*6 605*	*5 884*	*5 634*	*5 956*
Net gains on financial instruments at fair value	*3 173*	*1 351*	*4 513*	*6 506*	*8 704*
Other operating income	*2 482*	*2 522*	*2 029*	*3 176*	*2 248*
Net other operating income, total	12 272	10 478	12 425	15 316	16 909
Total income	52 181	47 866	48 339	49 833	52 444
Operating expenses	(21 952)	(20 681)	(20 801)	(19 892)	(20 275)
Restructuring costs and non-recurring effects	(326)	(565)	(1 128)	(624)	1 084
Pre-tax operating profit before impairment	29 903	26 620	26 410	29 317	33 253
Net gains on fixed and intangible assets	(33)	529	735	(19)	45
Impairment of financial instruments	(2 191)	139	(2 428)	(7 424)	(2 270)
Pre-tax operating profit	27 678	27 288	24 718	21 874	31 028
Tax expense	(4 825)	(4 976)	(4 903)	(3 964)	(7 755)
Profit from operations held for sale, after taxes	(49)	(204)	(1)	4	(51)
Profit for the year	**22 805**	**22 109**	**19 813**	**17 914**	**23 222**

Balance sheet

Amounts in NOK million	31 Dec. 2019	31 Dec. 2018	31 Dec. 2017	31 Dec. 2016	31 Dec. 2015
					DNB Bank Group
Total assets	2 470 640	2 307 710	2 359 860	2 348 272	2 315 603
Loans to customers	1 671 350	1 598 017	1 531 345	1 492 268	1 531 932
Deposits from customers	977 530	940 087	980 374	945 694	957 322
Total equity	229 619	207 933	203 685	190 078	173 412
Average total assets	2 564 525	2 434 354	2 537 681	2 545 103	2 662 039

Key figures

	2019	2018	2017	2016	2015
					DNB Bank Group
Return on equity, annualised (per cent) [1)]	11.1	11.5	10.5	10.3	15.1
Combined weighted total average spread for lending and deposits (per cent) [1)]	1.33	1.30	1.30	1.32	1.33
Average spread for ordinary lending to customers (per cent) [1)]	1.84	1.94	2.07	2.04	2.17
Average spread for deposits to customers (per cent) [1)]	0.51	0.29	0.17	0.21	0.01
Cost/income ratio (per cent) [1)]	42.7	44.4	45.4	41.2	36.6
Ratio of customer deposits to net loans to customers at end of period [1)]	58.5	58.8	64.0	63.4	62.5
Net loans and financial commitments in stage 2, per cent of net loans [1)]	6.65	6.96			
Net loans and financial commitments in stage 3, per cent of net loans [1)]	1.09	1.45	1.13	1.67	0.91
Impairment relative to average net loans to customers (per cent) [1)]	(0.13)	0.01	(0.16)	(0.48)	(0.15)
Common equity Tier 1 capital ratio at year-end (per cent)	18.3	17.3	16.6	17.7	15.9
Leverage ratio (per cent)	7.2	7.4	6.9	7.1	6.4
Number of full-time positions at year-end	8 614	8 597	8 544	10 366	10 608

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

Contents – annual accounts

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 customer service centres, online banking services and branch offices.

Operations in 2019

The banking group recorded profits of NOK 22 805 million in 2019, up NOK 696 million, or 3.1 per cent, compared with 2018, driven by higher net interest income.

Return on equity was 11.1 per cent, compared with 11.5 per cent in the year-earlier period.

The common equity Tier 1 (CET1) capital ratio was 18.3 per cent, up from 17.3 per cent in 2018.

Net interest income increased by NOK 2 520 million, or 6.7 per cent, from 2018, as a result of higher volumes in all customer segments and positive repricing effects.

Net other operating income increased by NOK 1 795 million compared with 2018, mainly due to a positive effect from basis swaps of NOK 1 628 million. Net commissions and fees were at the same level as in 2018.

Total operating expenses increased by NOK 1 032 million from 2018 due to increased IT expenses as well as higher salaries and personnel expenses.

There were net impairment losses on financial instruments of NOK 2 191 million in the full year of 2019, compared with net reversals of 139 million in 2018. Impairment losses within the personal customers and small and medium-sized enterprises segments were on the same level as last year, whereas the large corporates and international customers segment had an increase in impairment losses of approximately NOK 2 260 million. This increase can partly be explained by large net reversals within oil, gas and offshore in 2018 and a large impairment loss related to one specific customer in the third quarter of 2019.

Overall, forecasts for most macro indicators remained stable and the asset quality of the portfolio as a whole remained strong in 2019.

Strategy and targets

The banking group's overarching goals are to create the best customer experiences and to reach its financial targets. Several strategic initiatives priorities and ambitions have been drawn up to ensure target attainment. Read more about the banking group's strategy in the chapter 'Strategic report' 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.

[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 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.*

Net interest income

Amounts in NOK million	2019	2018
Lending spreads, customer segments	28 096	28 152
Deposit spreads, customer segments	4 808	2 742
Amortisation effects and fees	3 369	3 200
Operational leasing	1 731	1 525
Resolution fund fee and deposit guarantee fund levy	(1 106)	(564)
Other net interest income	3 011	2 333
Net interest income	39 908	37 388

Net interest income increased by NOK 2 520 million, or 6.7 per cent, from 2018. This was mainly due to increased lending volumes, deposit spreads and higher interest income from equity. Four interest hikes were implemented over the course of the year. The positive net interest income development was partly offset by an increase in the resolution fund fee and deposit guarantee fund levy of NOK 542 million.

There was an average increase in the healthy loan portfolio of NOK 77.7 billion, or 5.4 per cent, parallel to a NOK 15.4 billion, or 1.6 per cent, increase in average deposit volumes from 2018. Combined spreads widened by 3 basis points compared with the year-earlier period. Average lending spreads for the customer segments narrowed by 10 basis points, and deposit spreads widened by 21 basis points.

Net other operating income

Amounts in NOK million	2019	2018
Net commissions and fees	6 618	6 605
Basis swaps	270	(1 358)
Exchange rate effects additional Tier 1 capital	(143)	721
Net gains on other financial instruments	3 046	1 989
Net profit from associated companies	302	314
Other operating income	2 180	2 208
Net other operating income	12 272	10 478

Net other operating income was up NOK 1 795 million from 2018. Net commissions and fees were stable, while there was a strong increase in revenues from investment banking services. Basis swaps contributed positively with NOK 1 628 million compared with the previous year.

Operating expenses

Amounts in NOK million	2019	2018
Salaries and other personnel expenses	(11 920)	(11 089)
Restructuring expenses	(70)	(127)
Other expenses	(7 131)	(7 658)
Depreciation of fixed and intangible assets	(2 950)	(1 997)
Impairment of fixed and intangible assets	(207)	(374)
Operating expenses	(22 278)	(21 246)

Total operating expenses were up NOK 1 032 million. This was mainly due to increased IT, personnel and pension expenses. The increase in pension expenses was largely a result of an increased return related to the compensation scheme.

The cost/income ratio was 42.7 per cent in 2019, down from 44.4 per cent in 2018.

Impairment of financial instruments

Amounts in NOK million	2019	2018
Personal customers	(354)	(287)
Commercial real estate	(124)	82
Shipping	105	8
Oil, gas and offshore	(274)	1 079
Other industry segments	(1 544)	(744)
Total impairment of financial instruments	(2 191)	139

There were net impairment losses on financial instruments of NOK 2 191 million in the full year of 2019, compared with reversals of 139 million in 2018.

Impairment losses increased in both the personal customers and commercial real estate segments compared with 2018, but impairment losses nevertheless remained at a low level.

The shipping segment experienced net reversals of NOK 105 million in 2019. This was an increase in reversals of NOK 97 million compared with 2018. The reversals were primarily related to a positive development for one customer in stage 3.

Net impairment of financial instruments for the oil, gas and offshore segment amounted to NOK 274 million in 2019. This represents an increase of NOK 1 354 million compared with 2018. The increase can primarily be explained by large reversals within stage 2 in 2018 due to improved macro forecasts. Although the modest improvement in macroeconomic developments continued in 2019, impairment losses on stage 3 customers resulted in net impairment losses in 2019.

For other industry segments, net impairment losses increased by NOK 800 million in 2019 compared with 2018. The increase can primarily be explained by a large impairment loss related to one specific customer in stage 3 in the third quarter of 2019.

Overall, forecasts for most macro indicators remained stable and the asset quality of the portfolio as a whole remained strong in 2019.

Taxes

The banking group's tax expense for the full year 2019 is estimated at NOK 4 825 million, representing 17.4 per cent of pre-tax operating profit.

Funding, liquidity and balance sheet

2019 was an active year for DNB in the short-term funding market and there was generally a high level of interest in the bank's securities with both long and short maturities. While USD was the main short-term funding currency for DNB, the European market was influenced by low interest rates in continental Europe, and due to Brexit in the UK, some instability was noticed here. On the other hand, with high activity in the long-term funding market towards the end of 2019, the bank used this increased flexibility to reduce the outstanding volumes somewhat in the short-term market.

There was some instability in the long-term funding market at the end of 2018, which continued into the first quarter of 2019. Spread levels peaked in mid-January before starting to narrow again. The spreads narrowed significantly from mid-January until the summer, while spread levels remained more or less stable in the second half of the year. Despite volatile markets, funding activity was high as usual in the first quarter, with large volumes issued. In March, the US ten-year Treasury yield fell below the three-month Treasury bill, and ten-year German bonds fell below 0 per cent, a clear indication of the market's fear of an upcoming recession. The ongoing trade war between the US and China, in addition to concerns about Brexit, added to this sense of uncertainty. In October, the European Central Bank (ECB) restarted their asset purchase programme, which had been on hold since the beginning of 2019. DNB was very active in the senior and covered bonds market in the first half of the year. In the fourth quarter, the bank reassumed the activity with some sizeable senior bond issues. Over the course of the year there was also an increasing number of issues of so-called senior non-preferred bonds in the market, due to the upcoming minimum requirement for own funds and eligible liabilities (MREL). 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 655 billion at the end of 2019, compared with NOK 606 billion the previous year. The average remaining term to maturity for these long-term debt securities was 3.7 years at the end of December, compared with 4.1 years a year earlier.

The short-term liquidity requirement, Liquidity Coverage Ratio, LCR, remained stable at above 100 per cent throughout the year and stood at 138 per cent at end-December 2019.

Total assets in the banking group were NOK 2 471 billion at year-end 2019 and NOK 2 308 billion a year earlier.

Loans to customers increased by NOK 73.3 billion, or 4.6 per cent, from end-December 2018. Customer deposits were up NOK 37.4 billion, or 4.0 per cent, during the same period. The ratio of customer deposits to net loans to customers was 58.5 per cent at end-December, down from 58.8 per cent a year earlier.

Corporate governance

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

Capital

On 31 December 2019, Norway fully implemented the EU's capital requirements legislation CRR/CRD IV, and the so-called Basel I floor was removed.

The banking group's common equity Tier 1 (CET1) capital ratio was 18.3 per cent at the end of December 2019, up from 17.3 per cent at year-end 2018. The CET1 capital decreased by NOK 4.1 billion from a year earlier to NOK 169.0 billion at year-end 2019. The reduction was caused by the fact that the paid group contribution was higher than this year's retained earnings.

Risk-weighted assets were reduced by NOK 76 billion from end-December 2018 to NOK 925 billion at end-December 2019. Reduced risk-weighted assets in stage 3 loans and the Luminor sale contributed to a reduction of NOK 44 and 18 billion respectively. Furthermore, a reduction in the capital requirement for loans to small and medium-sized enterprises (the SME supporting factor) was introduced as a consequence of the new CRR / CRD IV regulations. This resulted in a reduction in the risk-weighted assets of NOK 17 billion, partly offset by a higher risk factor for regional portfolios as a result of regulatory, increased security margins for loss given default (LGD).

The leverage ratio was 7.2 per cent at the end of December 2019, down from 7.4 per cent at the end of December 2018. The banking group meets the minimum requirement of 6 per cent by a good margin.

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 banking group must satisfy various buffer requirements (Pillar 1 and Pillar 2 requirements).

	2019	2018
CET 1 capital ratio, per cent	18.3	17.3
Tier 1 capital ratio, per cent	21.1	18.9
Capital ratio, per cent	24.4	21.9
Risk-weighted assets, NOK billion	925	1 000
Leverage ratio, per cent	7.2	7.4

Segments

Financial governance in the banking group 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 on 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.

Due to the reorganisation of the banking group in the autumn of 2019, segment reporting will change from the first quarter of 2020.

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 2019, with a pre-tax operating profit before impairment of NOK 9 190 million and a return on allocated capital of 14.2 per cent.

Income statement in NOK million	2019	2018
Net interest income	13 693	13 422
Net other operating income	3 766	3 920
Total income	17 459	17 342
Operating expenses	(8 269)	(7 842)
Pre-tax operating profit before impairment	9 190	9 499
Net gain on fixed and intangible assets	(0)	49
Impairment of financial instruments	(353)	(318)
Pre-tax operating profit	8 837	9 230
Profit for the year	6 628	6 923
Average balance sheet items in NOK billion		
Net loans to customers	784.3	760.0
Deposits from customers	424.6	408.9
Key figures in per cent		
Return on allocated capital	14.2	15.4

Net interest income increased by NOK 271 million, corresponding to 2.0 per cent, from 2018. Combined spreads on loans and deposits narrowed by 0.03 percentage points in the period. Average net loans for 2019 rose by 3.2 per cent from the previous year, while deposits showed an increase of 3.8 per cent on average.

Net other operating income decreased by 3.9 per cent from 2018. A reduction in net income from payment services are the main explanations for the negative development, while the increase in activity in DNB Eiendom contributed positively.

Operating expenses increased by 5.5 per cent due to increased IT and real estate activity, in addition to extraordinary impairment of IT systems, which explain the cost growth from 2018. The development was partly offset by a streamlining of distribution.

Net impairment of financial instruments maintained a stable, low level with 0.05 per cent of average net loans. There is low risk in the home mortgage portfolio, and impairment losses within consumer finance also remained stable throughout the year.

The market share of credit to households stood at 23.5 per cent at the end of December 2019, down from 24.0 per cent from the same period in 2018. The market share of total household savings was 30.2 per cent. DNB Eiendom had an average market share of 18.4 per cent in 2019, down from 18.7 per cent a year earlier.

The banking group 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. The mobile bank is one of the main communication channels between the banking group and its customers, and is continuously developed. In December 2019, it passed the 1 million mark for unique users, while the Internet bank had 1.5 million unique users with a total of 65 million logins in 2019.

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 contributed to very solid pre-tax profits before impairments in 2019, despite increased costs. Impairment losses 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 14.1 per cent from 2018. The segment delivered a total return on allocated capital of 17.7 per cent in 2019, compared with 17.6 per cent in 2018.

Income statement in NOK million	2019	2018
Net interest income	10 627	9 530
Net other operating income	1 724	1 541
Total income	12 351	11 071
Operating expenses	(4 274)	(3 946)
Pre-tax operating profit before impairment	8 077	7 125
Net gains on fixed and intangible assets	(0)	3
Impairment of financial instruments	(595)	(566)
Profit from repossessed operations	16	8
Pre-tax operating profit	7 497	6 570
Profit for the year	5 623	4 927
Average balance sheet items in NOK billion		
Net loans to customers	323.6	301.0
Deposits from customers	219.5	211.4
Key figures in per cent		
Return on allocated capital	17.7	17.6

Net loans to customers showed an average increase of 7.5 per cent from 2018, while deposits rose by 3.8 per cent. Higher loan volumes and wider deposit spreads contributed to a growth in net interest income of 11.5 per cent compared with 2018.

Net other operating income showed an increase of 11.9 per cent from 2018. Income from interest rate hedging products and capital market activities contributed to raising the income in this product area from the previous year. Increased sales of guarantees, as well as higher income from payment services, also contributed to the income increase.

Operating expenses increased by 8.3 per cent from 2018, of which ordinary expenses increased by 5.0 per cent and depreciation related to increased operational leasing increased by 16.3 per cent. Restructuring costs amounted to NOK 23 million in 2019 compared to 1 million in 2018.

Net impairment of financial instruments in 2019 totalled NOK 595 million. This represented 0.18 per cent of average loans. Most of the impairment losses in 2019 were related to a few customers. The quality of the 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 aims to help companies succeed. This involves making it easy to be a customer by offering easy-to-use digital solutions and by being more than a bank. Much attention is paid to automation and digitalisation of products and services that meet customers' needs and expectations in the time ahead. Towards the end of 2018, the banking group launched two new services that made corporate customers' lives easier. These services were the accounting app DNB Regnskap for the smallest companies, and DNB Puls, which is a separate app for managing the company's finances from a mobile phone. Throughout 2019, there has been a strong focus on developing these services and reaching the target groups through targeted marketing. In parallel with this, the banking group 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.

In 2019, the banking group also performed a comprehensive analysis of the proportion of women in the corporate market, both among entrepreneurs and in the form of participation in the business sector. This was used in the second phase of the #huninvesterer ('#girlsinvest') marketing campaign, which focuses on gender equality and to inspire more women to become entrepreneurs. Read more about #huninvesterer in DNB Group's annual report.

Large corporates and international customers

This segment includes the banking group's largest Norwegian corporate customers and all international corporate customers. Higher loan volumes and wider deposit spreads, together with a low cost increase, led to an improvement of 9.8 per cent in operating profit before impairment. The large impairment reversals in 2018, nevertheless meant that the return on allocated capital was still somewhat reduced compared with 2018.

Income statement in NOK million	2019	2018
Net interest income	13 005	12 110
Net other operating income	4 762	4 511
Total income	17 767	16 621
Operating expenses	(6 480)	(6 340)
Pre-tax operating profit before impairment	11 287	10 280
Net gains on fixed and intangible assets	16	(0)
Impairment of financial instruments	(1 240)	1 022
Profit from repossessed operations	(124)	(263)
Pre-tax operating profit	9 938	11 039
Profit for the year	7 553	8 490
Average balance sheet items in NOK billion		
Net loans to customers	440.6	409.0
Deposits from customers	308.0	315.9
Key figures in per cent		
Return on allocated capital	11.6	12.8

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

Average loans to customers increased by 7.7 per cent from the previous year. From year-end 2018 to year-end 2019, lending increased by 1.5 per cent, while the underlying growth rate excluding exchange rate effects was 1.2 per cent. Average customer deposits decreased by 2.5 per cent. Deposit volumes were up 6.2 per cent from year-end 2018 to year-end 2019.

Net interest income increased by 7.4 per cent. Combined spreads widened by 0.09 percentage points from 2018, ending at 1.34 per cent in 2019. Both the lending and deposit spreads showed a positive development throughout the year.

Net other operating income increased by 5.6 per cent from the previous year. Low long-term interest rates and volatile foreign exchange markets resulted in increased income from currency and hedging products. There was a strong demand for investment banking services, and income increased from last year.

Total operating expenses showed an increase of 2.2 per cent from 2018.

Net impairment of financial instruments amounted to NOK 1 240 million in 2019. In comparison, there were reversals of NOK 1 022 million in 2018, mainly within oil, gas and offshore. Measured in proportion to average loans, net impairment of financial instruments amounted to 0.28 per cent in 2019. Net stage 3 exposures amounted to NOK 12.3 billion at the end of 2019.

The main aim for the segment is to strengthen profitability and contribute to fulfilling the banking group's long-term ambitions. Active portfolio management will continue in 2020 by channeling 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 hold on the banking group'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, the banking group is well-positioned to help our customers meet their extensive financial needs. This will form the basis for increasing the contribution from non-lending products, such as investment banking, defined-contribution pensions, trade finance, leasing and factoring products.

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.

Income statement in NOK million	2019	2018
Net interest income	2 584	2 327
Net other operating income	3 384	2 227
Total income	5 967	4 554
Operating expenses	(4 617)	(4 838)
Pre-tax operating profit before impairment	1 350	(284)
Net gain on fixed and intangible assets	(48)	477
Impairment of financial instruments	(4)	(0)
Profit from repossessed operations	109	256
Pre-tax operating profit	1 407	449
Tax expenses	1 644	1 513
Profit from operations held for sale, after taxes	(49)	(194)
Profit of the year	3 002	1 769
Average balance sheet items in NOK billion		
Net loans to customers	102.0	81.5
Deposits from customers	37.2	61.7

Pre-tax operating profit was NOK 1 407 million in 2019.

The profit in the segment is affected by several group items and market value changes that may vary greatly from year to year. Of the NOK 1 157 million increase from 2018 in net other operating income, 764 million were market value changes related to basis swaps and currency hedging of additional Tier 1 capital.

Markets' risk management activities reduced revenues by NOK 280 million compared with the year-earlier period, and return on allocated capital was just under 11 per cent. Increased regulatory requirements with associated costs and a flat interest rate curve were the main reasons for the declining result. Income from money market activities, repurchase agreements (repo trading) and credit spread entries contributed positively.

Corporate responsibility

Corporate responsibility is about how the banking group creates value by considering both risks and opportunities in a long-term perspective, and forms a natural part of the company's operations and activities. Ethical, environmental and social issues are integrated into corporate governance through corporate responsibility principles, which provide the overall framework for the strategic management of the banking group.

The banking group 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.

The 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, also characterised organisational and leadership development in 2019. Systematic efforts were made to ensure that the banking group has the right competencies and to promote change capacity, adaptability and employee engagement. Furthermore, work was done on the reorganisation of the banking group from September 2019.

The sickness absence rate in the banking group's Norwegian operations was 4.1 per cent in 2019.

Read more about the priorities that are considered to be essential for the banking group to ensure the right competencies, and about working conditions, equality and diversity 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

Changes in capital requirements for banks

On 31 December 2019, the EU's capital requirements regulations CRR/CRD IV were fully implemented in Norway. This regulatory framework helps highlight the strong capital adequacy of the banking group. At the same time, the Norwegian Ministry of Finance has clearly signalled that there should be no easing of the capital requirements for banks as a result of the removal of the so-called Basel I floor and the reduction of the capital requirement for lending to small and medium-sized enterprises (the SME supporting factor). The Ministry is therefore adjusting the use of policy instruments in the banks' capital requirements so that a greater share of the risk is covered by the capital requirements in Pillar 1.

For the DNB Bank Group and other banks using the advanced IRB approach, the systemic risk buffer requirement will increase from 3 to 4.5 per cent with effect from 31 December 2020. For the banking group's exposures abroad, the buffer rate set in the country in question will apply, and for exposures in countries that have not set a systemic risk buffer requirement, the rate will be 0 per cent. This means that the systemic risk buffer requirement for the banking group is reduced from 4.5 to about 3.1 per cent. In order to avoid double regulation, the Ministry intends to establish a transitional rule that will contribute to consistency between the capital requirements in Pillar 1 and Pillar 2.

The Norwegian Ministry of Finance is also introducing a floor for the average risk weighting of lending for real estate, especially aimed at foreign banks with operations in Norway. The countercyclical capital buffer requirement was raised from 2 per cent to 2.5 per cent with effect from 31 December 2019, in line with the previous decision. The effective requirement for the banking group is 2.1 per cent.

New rules on securitisation underway

A working group appointed by the Norwegian Ministry of Finance has considered the implementation of the EU's rules on securitisation in Norwegian law. The working group has concluded that failure to implement the rules correctly and in full will constitute a breach of Norway's obligations under the EEA Agreement. DNB is thus one step closer to a system where Norwegian banks are allowed the same access as banks in the EU to use this type of instrument for both funding and risk management. The Ministry of Finance is expected to present a bill in the course of 2020.

Sustainable finance high on the EU's agenda

The European Commission's action plan on sustainable finance includes a number of different initiatives, and the pace of development is high. Among the initiatives introduced are a classification system (taxonomy) for sustainable economic activities, financial benchmarks for carbon footprints and more stringent requirements for disclosures relating to sustainable investments and sustainability risks. The Commission is also working on a labelling scheme for sustainable financial products and an EU standard for green bonds.

By 2022, banks are required to report on sustainability and ESG risk (Environmental, Social and Governance). The European Banking Authority (EBA) has been tasked with preparing a report on ESG risk management in banks, and on how supervisory authorities can include this in their supervisory review and evaluation process (SREP). The European Commission is also considering whether it is appropriate to give banks a capital requirement discount for 'green' assets and/or increased capital requirements for 'brown' assets. A revised version of the action plan for sustainable finance is expected in the third quarter of 2020.

Home Mortgage Regulations to be continued for one more year

The purpose of the Home Mortgage Regulations is to contribute to a sustainable development in household debt. Following a public consultation in the autumn of 2019, where Finanstilsynet recommended a tightening of the regulations, the Norwegian Ministry of Finance decided to continue the current Home Mortgage Regulations until 31 December 2020. The Ministry pointed out, among other things, that the Home Mortgage Regulations are having the intended effect, and that it would be expedient to evaluate the them and the Consumer Loan Regulations at the same time.

Credit information companies will enable better credit assessments

In 2019, two debt information companies became fully operational in Norway, and all banks licenced to provide unsecured loans are obliged to furnish these two companies with information about established loan agreements and credit line agreements.

The debt information services are intended to function as an aid for both customers and banks. It is now easier for customers to get an overview of their own debt situation, and banks can easily check the actual amount of debt a loan applicant has. Banks can thus conduct a better credit assessment of customers seeking loans, which may prevent consumers from taking up more debt than they can service.

PSD2 and Open Banking

The EU's revised payment services directive, PSD2, has now entered into force in Norway. The directive was mainly implemented in the Norwegian Financial Institutions Act and the Payment Services Regulations in March 2019. The technical regulations for secure customer authentication came into force on 14 September 2019, and this, in effect, marked the start of the provision of third-party services related to account information and account-to-account payments in Norway. So far, interest seems to be limited among potential providers as well as consumers. This is in line with the experience in markets where developments have progressed further. The DNB Bank group is actively working to position the bank with a view to protecting its existing business operations, while making the most of the potential and reducing the disadvantages of Open Banking.

Regulatory sandbox established to facilitate innovation

Finanstilsynet has created a regulatory sandbox for the fintech industry. The sandbox will give businesses the opportunity to test new products and services on a small scale under close supervision by Finanstilsynet, the aim being that the sandbox will contribute to technological innovation and the entry of more new players in the market. The sandbox is also intended help enhance Finanstilsynet's understanding of new technological solutions and business models, and make it easier to identify potential risks or the need for regulatory changes at an early stage.

Tax advisers' disclosure obligation and duty of confidentiality

In the Official Norwegian Report NOU 2019:15, the so-called Skatterådgiverutvalget (tax advisers committee) proposes that a disclosure obligation be imposed towards the Norwegian tax authorities. The disclosure obligation shall apply to both tax advisers and customers, who are thus obliged to disclose information about tax arrangements that pose a risk of aggressive tax planning, in line with international recommendations (BEPS). The committee proposes to implement this in Norway in the same manner as in the EU, to a large extent based on the EU Council Directive DAC 6. The proposal is comprehensive and will primarily have consequences for lawyers, accountants and others who offer tax advice. Financial institutions may also become subject to the disclosure obligation. In addition, the committee has proposed that correspondence between in-house lawyers and their clients shall no longer be subject to legal privilege. The proposals have been circulated for public comment and are now being considered by the Ministry of Finance.

New Security Act may result in stricter security measures

The new Security Act entered into force on 1 January 2019. In accordance with the act, the ministries have been responsible for designating so-called basic national functions ('grunnleggende nasjonale funksjoner', GNFs) in the course of 2019, and for identifying companies within their respective sectors that fulfil such functions. The government has announced that a proposal will be presented in the spring of 2020.

Macroeconomic developments

The escalation of trade barriers between China and the US was a contributing factor to weaker growth in the two economies in 2019. This had a negative impact on the rest of the world and contributed to weaker global growth. DNB believes growth will slow further to 2.8 per cent in 2020, the weakest year since 2001 (apart from the financial crisis). Eurozone economies have seen a sharp decline, not only as a result of the trade war, but also because of a downturn in the German automotive industry. In the UK, the economy is still characterised by the uncertainty over Brexit. The United Kingdom did leave the EU on 31 January 2020 with a transitional agreement, but negotiations on a trade agreement will be demanding and the economy will probably continue to be characterised by persistent uncertainty.

The central banks have responded to the weak economic development with a more expansionary monetary policy. The US Federal Reserve cut interest rates three times in 2019, while the European Central Bank announced a package of interest rate cuts and new quantitative easings. Monetary policy is likely to remain expansionary in the years ahead, but has already been stretched with both negative interest rates and large bond purchases in some economies. There is a risk that fiscal policy stimuli will be necessary. Improved economic key figures towards the end of 2019 may indicate that the need for further stimuli has been somewhat reduced.

The positive development in the Norwegian economy continued into the fourth quarter of 2019, and the Norwegian economy is currently experiencing a boom. It is modest in strength and duration, however, and primarily driven by positive growth impulses from oil investments. The outlook for oil investment in 2020 is considerably weaker because several large projects are moving towards completion without projects of similar scope taking over. Combined with weaker growth for our trading partners, this contributes to a slowdown in the Norwegian economy in 2020 and a slight drop below normal (which DNB Markets estimates at approximately 1.75 per cent) the following year.

Good growth in employment in recent years has helped reduce unemployment to a low level in the historical context. DNB expects unemployment to remain low in 2020, but increase modestly over the next couple of years. Wage growth is projected at just over 3 per cent in the forecast period, which is from 2019 to 2023. A weak Norwegian krone will contribute to an inflation close to the target of 2 per cent this year, but the moderate wage growth leads us to believe that price inflation will decrease to slightly below the target in the coming years. Lower electricity prices will also help to curb inflation somewhat.

Due to low unemployment, a weak krone and inflation close to the target, Norges Bank has raised interest rates four times in just over a year, most recently to 1.50 per cent in September 2019. At the same time, the central bank signalled that the interest rate peak has most likely been reached. This message was reiterated at the monetary policy meeting in December, and DNB expects the key policy rate to remain at the current level in the years ahead.

Housing price growth was moderate in 2019, while the turnover remained high. Interest rate rises, a plentiful supply of housing and home loan and consumer loan adjustments have most likely contributed to curbing inflation, while low unemployment and good income growth have kept it up. Looking ahead, DNB expects a slightly weaker economy, but also that the number of new housing units will be somewhat lower than in 2019 and that interest rates will remain at current levels. DNB therefore expects continued moderate inflation in the coming years.

Household credit growth has diminished over the past two to three years, and is now approaching the income growth. Mortgage and consumer loan regulations, as well as the establishment of the debt register in the summer of 2019, have most likely contributed to this decline. A more moderate rise in housing prices and slightly higher interest rate levels in the past year have probably also been contributing factors. Due to continued moderate housing price growth and a continuation of regulations, we expect credit growth to slow down somewhat in the coming years.

Future prospects

On the Capital Markets Day in November, DNB announced that a return on equity (ROE) of more than 12 per cent remains the overall financial target for DNB. Several factors will contribute to reaching the ROE target: increased net interest income, growth in commissions and fees from capital-light products combined with a number of cost control initiatives. Growth in income is expected to exceed growth in costs. In addition, DNB will focus on capital efficiency based on the new CRR/CRD IV capital requirements implemented in Norway, effective as of year-end 2019.

The increase in Norges Bank's key policy rate from 1.25 per cent to 1.50 per cent in September, followed by DNB's announcement of increased interest rates effective from November, will have full effect in the first quarter of 2020.

Between 2020 and 2022, the annual increase in lending and deposit volumes is expected to be between 3 and 4 per cent. During the same period, DNB has an ambition to increase net commissions and fees by 4 to 5 per cent annually and to have a cost/income ratio below 40 per cent.

Allocation of profits

Profits for 2019 in DNB Bank ASA came to NOK 26 761 million, compared with NOK 19 366 million in 2018.

The Board of Directors has proposed a dividend from DNB Bank ASA to DNB ASA of NOK 24 428 million and a group contribution of NOK 572 million after tax, totalling NOK 25 000 million.

The banking group's capital ratio as at 31 December 2019 was 24.4 per cent, while the common equity Tier 1 capital ratio was 18.3 per cent. Correspondingly, the capital ratio in DNB Bank ASA was 26.3 per cent and the common equity Tier 1 capital ratio 19.3 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, 4 March 2020
The Board of Directors of DNB Bank ASA

Olaug Svarva
(Chair of the Board)

Kim Wahl
(Vice Chair of the Board)

Lillian Hattrem

Jens Petter Olsen

Kjerstin R. Braathen
(Group Chief Executive Officer, CEO)

Income statement

DNB Bank ASA				DNB Bank Group	
2018	2019	*Amounts in NOK million*	Note	2019	2018
38 336	44 084	Interest income, amortised cost	17	61 067	53 261
4 055	4 257	Other interest income	17	5 123	5 009
(19 026)	(23 799)	Interest expenses, amortised cost [1)]	17	(23 796)	(18 836)
3 835	5 638	Other interest expenses [1)]	17	(2 486)	(2 046)
27 199	**30 180**	**Net interest income**	17	**39 908**	**37 388**
8 463	8 343	Commission and fee income etc.	19	9 758	9 983
(3 424)	(3 168)	Commission and fee expenses etc.	19	(3 141)	(3 378)
3 659	2 688	Net gains on financial instruments at fair value	20	3 173	1 351
		Profit from investments accounted for by the equity method	34	302	314
	97	Net gains on investment properties	33	92	62
6 231	15 299	Other income [2)]		2 088	2 146
14 928	**23 260**	**Net other operating income**		**12 272**	**10 478**
42 127	**53 440**	**Total income**		**52 181**	**47 866**
(9 629)	(10 360)	Salaries and other personnel expenses	21	(11 989)	(11 216)
(6 947)	(6 477)	Other expenses	22	(7 131)	(7 658)
(2 431)	(3 203)	Depreciation and impairment of fixed and intangible assets	23	(3 157)	(2 371)
(19 008)	**(20 039)**	**Total operating expenses**		**(22 278)**	**(21 246)**
23 120	**33 401**	**Pre-tax operating profit before impairment**		**29 903**	**26 620**
837	(34)	Net gains on fixed and intangible assets		(33)	529
(1 029)	(2 484)	Impairment of financial instruments	8, 9, 10	(2 191)	139
22 927	**30 883**	**Pre-tax operating profit**		**27 678**	**27 288**
(3 561)	(4 121)	Tax expense	25	(4 825)	(4 976)
		Profit from operations held for sale, after taxes		(49)	(204)
19 366	**26 761**	**Profit for the year**		**22 805**	**22 109**
18 407	25 638	Portion attributable to shareholders		21 686	21 150
		Portion attributable to non-controlling interests		(5)	
959	1 123	Portion attributable to additional Tier 1 capital holders		1 123	959
19 366	**26 761**	**Profit for the year**		**22 805**	**22 109**
106.08	146.59	Earnings/diluted earnings per share (NOK)		124.94	121.11
		Earnings per share for operations held for sale (NOK)		(0.27)	(1.12)
106.08	146.59	Earnings per share for continuing operations excluding operations held for sale (NOK)		125.21	122.22
0.92	1.22	Profit for the year as a percentage of total assets		0.89	0.91

1) *The presentation of interest income from derivatives has been changed for the DNB Bank Group as of 31 December 2019. Figures in previous periods have been restated correspondingly. See Note 1 Accounting principles for more information.*
2) *Of which dividends from DNB Capital LLC, DNB Sweden AB and DNB (UK) Ltd. represented NOK 4 470 million, NOK 1 187 million and NOK 2 319 million respectively in the second, third and fourth quarter of 2019.*

Comprehensive income statement

DNB Bank ASA			DNB Bank Group	
2018	2019	*Amounts in NOK million*	2019	2018
19 366	**26 761**	**Profit for the year**	**22 805**	**22 109**
(103)	(11)	Actuarial gains and losses	(7)	(102)
85	9	Financial liabilities designated at FVTPL, changes in credit risk [1)]	232	221
13	(5)	Tax	(62)	(22)
(6)	(7)	Items that will not be reclassified to the income statement	163	98
(34)	(44)	Currency translation of foreign operations	463	1 310
		Currency translation reserve reclassified to the income statement		(2)
		Hedging of net investment	(459)	(1 060)
		Hedging reserve reclassified to the income statement		1
	59	Financial assets at fair value through OCI	59	
	(15)	Tax	(208)	265
(34)	0	Items that may subsequently be reclassified to the income statement	(146)	514
(39)	**(7)**	**Other comprehensive income for the year**	**17**	**612**
19 327	**26 754**	**Comprehensive income for the year**	**22 821**	**22 721**

1) The measurement category for debt securities issued in Norwegian kroner with floating rates has been changed from FVTPL to amortised cost as of 31 December 2019. A gain of NOK 38 million before tax (NOK 29 million after tax) for DNB Bank ASA and a gain of NOK 251 million before tax (NOK 188 million after tax) for the DNB Bank Group have been recognised in the Comprehensive income statement, due to the correction. Comparative information has not been restated. The correction does not impact the CET1 capital ratio.

Balance sheet

DNB Bank ASA				DNB Bank Group	
31 Dec. 2018	31 Dec. 2019	*Amounts in NOK million*	Note	31 Dec. 2019	31 Dec. 2018
		Assets			
154 595	301 246	Cash and deposits with central banks	26, 27, 28	304 746	155 592
428 648	394 237	Due from credit institutions	9, 10, 26, 27, 28	101 165	128 415
793 702	880 203	Loans to customers	9, 10, 26, 27, 28	1 671 350	1 598 017
262 207	231 910	Commercial paper and bonds	26, 27, 28	222 368	257 725
6 580	6 008	Shareholdings	26, 28, 30, 31	7 479	7 955
138 306	136 255	Financial derivatives	15, 26, 28	125 364	125 358
	144	Investment properties	33	741	638
9 541	2 575	Investments accounted for by the equity method	34	7 467	11 807
100 670	113 810	Investments in subsidiaries	35		
3 429	3 392	Intangible assets	36	3 744	3 742
2 664	6 205	Deferred tax assets	25	1 959	983
8 413	14 557	Fixed assets	37	14 882	8 470
		Assets held for sale		1 274	1 258
21 928	11 897	Other assets	39	8 103	7 750
1 930 683	**2 102 439**	**Total assets**		**2 470 640**	**2 307 710**
		Liabilities and equity			
277 437	277 188	Due to credit institutions	26, 27, 28	202 177	187 307
916 258	956 655	Deposits from customers	26, 27, 28, 40	977 530	940 087
162 683	168 349	Financial derivatives	15, 26, 28	115 871	110 005
335 317	416 565	Debt securities issued	26, 27, 28, 41	871 632	803 796
807	7 495	Payable taxes	25	9 810	2 012
90	88	Deferred taxes	25	60	3 471
25 546	52 215	Other liabilities	26, 43	27 129	15 903
		Liabilities held for sale		423	382
1 790	1 341	Provisions		1 726	2 534
3 111	3 454	Pension commitments	24	3 568	3 198
31 082	31 095	Subordinated loan capital	26, 27, 28, 42	31 095	31 082
1 754 121	**1 914 446**	**Total liabilities**		**2 241 022**	**2 099 777**
16 194	26 729	Additional Tier 1 capital		26 729	16 194
		Non-controlling interests		45	
18 256	18 256	Share capital		18 256	18 256
19 895	19 895	Share premium		20 611	20 611
122 218	123 113	Other equity		163 978	152 872
176 562	**187 993**	**Total equity**	44	**229 619**	**207 933**
1 930 683	**2 102 439**	**Total liabilities and equity**		**2 470 640**	**2 307 710**

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	Retained earnings	Total equity
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 year			959	(34)	64	18 338	19 327
Interest payments additional Tier 1 capital			(892)				(892)
Currency movements taken to income			(32)			32	
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**
Profit for the year			1 123			25 638	26 761
Actuarial gains and losses						(11)	(11)
Financial assets at fair value through OCI						59	59
Financial liabilities designated at FVTPL, changes in credit risk					9		9
Currency translation of foreign operations				(44)			(44)
Tax on other comprehensive income					(2)	(18)	(20)
Comprehensive income for the period			1 123	(44)	7	25 668	26 754
Merger DNB Næringskreditt						163	163
Additional Tier 1 capital issued			10 474			(39)	10 436
Interest payments additional Tier 1 capital			(1 052)				(1 052)
Currency movements taken to income			(10)			10	
Transfer of loan portfolio from subsidiary						131	131
Group contribution to DNB ASA for 2019						(25 000)	(25 000)
Balance sheet as at 31 December 2019	**18 256**	**19 895**	**26 729**	**492**	**(57)**	**122 678**	**187 993**

Statement of changes in equity (continued)

DNB Bank Group

Amounts in NOK million	Non-controlling interests	Share capital	Share premium	Additional Tier 1 capital	Net currency translation reserve	Liability credit reserve	Retained earnings	Total equity
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	
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**
Profit for the year	(5)			1 123			21 686	22 805
Actuarial gains and losses							(7)	(7)
Financial assets at fair value through OCI							59	59
Financial liabilities designated at FVTPL, changes in credit risk						232		232
Currency translation of foreign operations	0				463			463
Hedging of net investment					(459)			(459)
Tax on other comprehensive income					(194)	(58)	(19)	(270)
Comprehensive income for the year	(4)			1 123	(190)	174	21 719	22 821
Additional Tier 1 capital issued				10 474			(39)	10 436
Interest payments additional Tier 1 capital				(1 052)				(1 052)
Currency movements taken to income				(10)			10	
Non-controlling interests DNB Auto Finance OY	49							49
Group contribution to DNB ASA for 2018							(10 568)	(10 568)
Balance sheet as at 31 December 2019	**45**	**18 256**	**20 611**	**26 729**	**4 840**	**(2)**	**159 141**	**229 619**

Cash flow statement

DNB Bank ASA			DNB Bank Group	
2018	2019	*Amounts in NOK million*	2019	2018
		Operating activities		
(68 939)	(92 995)	Net payments on loans to customers	(80 135)	(58 722)
35 182	42 475	Interest received from customers	58 082	54 875
(36 552)	44 455	Net receipts/(payments) on deposits from customers	41 519	(48 364)
(8 881)	(10 892)	Interest paid to customers	(11 289)	(8 998)
98 864	38 538	Net receipts on loans to credit institutions	41 700	75 975
7 393	7 686	Interest received from credit institutions	3 639	4 082
(4 769)	(5 549)	Interest paid to credit institutions	(4 287)	(3 783)
18 872	(43 319)	Net receipts/(payments) on the sale of financial assets for investment or trading	(13 684)	40 583
3 866	5 002	Interest received on bonds and commercial paper	4 882	3 797
4 875	4 910	Net receipts on commissions and fees	6 294	6 440
(16 071)	(16 279)	Payments to operations	(18 412)	(19 424)
(3 977)	(1 058)	Taxes paid	(1 878)	(4 585)
(5 741)	24 100	Other net receipts/(payments)	(778)	1 774
24 123	**(2 926)**	**Net cash flow from operating activities**	**25 653**	**43 651**
		Investment activities		
(2 094)	(4 067)	Net payments on the acquisition of fixed assets	(3 966)	(2 404)
	(144)	Net receipts/(payments) on investment properties	(116)	349
5 868	(218)	Net disposal/(investment) in long term shares	3 260	(92)
869	8 153	Dividends received on long-term investments in shares	942	13
4 642	**3 723**	**Net cash flow from investment activities**	**120**	**(2 134)**
		Funding activities		
1 050 476	1 068 424	Receipts on issued bonds and commercial paper (see note 41)	1 097 101	1 115 987
(1 049 827)	(909 130)	Payments on redeemed bonds and commercial paper (see note 41)	(955 115)	(1 109 463)
(6 926)	(9 302)	Interest payment on issued bonds and commercial paper	(16 922)	(14 193)
9 419	9	Receipts on the raising of subordinated loan capital (see note 42)	9	9 419
(8 542)	(9)	Redemptions of subordinated loan capital (see note 42)	(9)	(8 542)
(574)	(410)	Interest payments on subordinated loan capital	(413)	(579)
	10 436	Receipts on issue of additional Tier 1 capital	10 436	
(892)	(1 052)	Interest payments on additional Tier 1 capital	(1 052)	(892)
	(557)	Lease payments	(615)	
(17 735)	(10 568)	Group contributions payments	(10 568)	(16 094)
(24 600)	**147 840**	**Net cash flow from funding activities**	**122 850**	**(24 357)**
509	**(50)**	**Effects of exchange rate changes on cash and cashs equivalents**	**(174)**	**(12 038)**
4 674	**148 588**	**Net cash flow**	**148 449**	**5 122**
153 184	157 858	Cash as at 1 January	159 173	154 051
4 674	148 588	Net payments of cash	148 449	5 122
157 858	306 446	Cash as at 31 December *)	307 623	159 173
		*) *Of which:*		
154 595	*301 246*	*Cash and deposits with central banks*	*304 746*	*155 592*
3 263	*5 200*	*Deposits with credit institutions with no agreed period of notice* 1)	*2 877*	*3 581*

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 2019 were approved by the Board of Directors on 4 March 2020.

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 2019 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 DNB Bank group applied hedge accounting according to IFRS 9 Financial instruments as of 1 January 2019. Hedging relationships in the DNB Bank group that qualified for hedge accounting in accordance with IAS 39 Financial Instruments: Recognition and Measurement, also qualify for hedge accounting under IFRS 9.

The following new standards were adopted with effect from 1 January 2019:

IFRS 16 Leases

IFRS 16 Leases has been effective from 1 January 2019 when it replaced 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 recognises a liability representing 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 and together these replace lease expenses under IAS 17. DNB has decided on the following policy choices and practical expedients upon implementation:

- to apply a single discount rate to leases with similar characteristics
- to apply the low value exception (primarily for office equipment)
- to not recognise non-lease components in the lease liability
- to rely on the assessment of onerous contracts using IAS 37 immediately before the date of initial application. The right-of-use asset on initial application has been adjusted to reflect the provision for onerous contracts.
- to apply the modified retrospective approach for transition to IFRS 16, meaning that the 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 major part of DNB's lease liabilities arises from leases on commercial real estate in addition to 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 as at 1 January 2019 was NOK 6 billion.

The right-of-use-asset is assigned a risk weight of 100 per cent, and the impact on the CET1 ratio was approximately 8 basis points (negative). 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.

The weighted average incremental borrowing rate upon implementation was 2.3 per cent. There are no material differences between the leasing commitments under IAS 17 at 31 December 2018 discounted using the incremental borrowing rate, and the lease commitment recognised at 1 January 2019 under IFRS 16.

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, intra-group 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 discretionary 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.

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.

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

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

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

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

A change in expected credit loss allowance for 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.

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

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

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

<u>Financial assets measured at fair value through other comprehensive income</u>

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 a portfolio of bond investments and a portfolio of 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.

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). Adjustments are made based on the net exposure towards each counterparty for CVA and DVA, and towards a funding netting set for 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 or 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 applied hedge accounting according to IFRS 9 Financial instruments as of 1 January 2019.

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 and a portfolio of bond investments 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

DNB uses interest rate swaps to protect against changes in the fair value of fixed-rate issued bonds and subordinated debt in foreign currency, as well as a portfolio of bond investments 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. For bond investments, the hedge is also entered into at the same time as the investment is made.

Fair value hedge accounting is applied to the economic hedge relationships that qualify for hedge accounting. When hedge accounting is applied, there is a qualitative assessment of the economic relationship between the debt instrument or bond investment and the derivative that is documented at the inception of the hedge. Thereafter, it is periodically assessed whether the derivatives designated as hedging instruments have been 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.

DNB's fair value hedges of interest rate risk on issued debt and bond investments 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. At the inception of the hedge, there is a qualitative assessment of hedge effectiveness. Hedge designations are reassessed on a quarterly basis. 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

DNB Bank as lessor

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.

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

On contract inception, it is assessed whether the contract contains a lease. A lease entails that DNB is given control of an identified asset for a specific period of time against lease payment and receives substantially all the economic benefits of the asset in this period. On contract inception it is also assessed whether parts of the contract relates to non-lease components. For DNB, this will typically be overhead costs and taxes related to the leasing of commercial real estate. Further, DNB has elected not to recognise leases with low value. These are primarily related to office equipment.

On the lease commencement date, a right-of-use asset and a lease liability is recognised. The right-of-use asset is measured at cost on initial recognition. Cost equals the lease liability on initial recognition adjusted for prepayments made before rent commencement, lease incentives received related to the lease agreement, initial direct cost and any prospective cost of restoring the asset to its original state.

After initial recognition, the right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets. Periodical assessments of indicators of impairment are performed on the right-of-use asset. The right-of-use asset will also be adjusted for certain changes in the lease liability and primarily through the annual index adjustment of lease payments.

At initial recognition, the lease liability is measured as the present value of future lease payments discounted using the incremental borrowing rate. Lease payments consist of fixed payments and variable payments related to index adjustment of the lease. When establishing the lease period, it is assessed whether it can be determined with reasonably certainty if any extension or termination options will be exercised. The incremental borrowing rate reflects the currency of the lease payments and the length of the contract. DNB has elected to use the incremental borrowing rate for leases with similar characteristics such as equal type of asset, equal lease period and similar economic environment.

After initial recognition, the lease liability is measured at amortised cost using the effective interest rate method. The lease liability is re-measured following changes in lease payments due to index adjustments, or if DNB changes the assessment of the likelihood that a termination or extension option will be exercised. Adjustments to the lease liability following re-measurement will also adjust the right-of-use asset. If the right-of-use asset is zero, the adjustment is recognised in the income statement.

Right-of-use assets are classified as fixed assets in the balance sheet, while the lease liabilities are classified as other liabilities. In the income statement depreciation from the right of use asset is included in the line item “Depreciation and impairment of fixed and intangible assets”. Interest cost from the lease liability is included in the line item “Interest expenses, amortised cost”. Subleased right of use assets classified as operating leases are classified and measured as investment properties in the balance sheet with changes in fair value presented in the line item “Net gains on investment properties” in the income statement.

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. 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.

18. Changes in line items in the income statement

The presentation of interest income from derivatives has been changed as of 31 December 2019. Interest expenses reported on the line “Interest expenses, amortised cost” have decreased and interest expenses reported as “Other interest expenses” have increased with an equal amount. Figures in previous periods have been restated correspondingly. The effects are shown in the table below.

	DNB Bank Group	
Amounts in NOK million	2019	2018
Interest expenses, amortised cost	4 801	4 858
Other interest expenses	(4 801)	(4 858)

Interest expenses from derivatives designated as hedging instruments are presented as “Interest expenses, amortised cost” together with effects from the hedged item, while interest expenses from other derivatives are presented as “Other interest expenses”.

Note 2 Segments

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. DNB Bank has the following operating segments: Personal customers, Small and medium-sized enterprises, Large corporates and international customers and Risk management. Risk management segment is included in Other operations. DNB’s share of the profit in associated companies (most importantly Luminor and Vipps) is included in Other operations. DNB's organisational structure, including the Group Management team, was changed on 23 September 2019. The segment reporting has not been changed as per 2019, but will be reviewed, and any changes will be applicable as of the first quarter of 2020.

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 mobile banking, digital banking, branch offices, customer centres and real estate broking. In addition, external distribution of credit cards and car financing in Sweden is included in the business area. DNB has also had external distribution through the collaboration with Norway Post, but this agreement will be phased out in mid-2020, with the transition to a solution based on the payment app Vipps.

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 mobile bank. 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

Amounts in NOK million	Personal customers		Small and medium-sized enterprises		Large corporates and international customers		Other operations		Eliminiations		DNB Bank Group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Net interest income	13 693	13 422	10 627	9 530	13 005	12 110	2 584	2 327			39 908	37 388
Net other operating income	3 766	3 920	1 724	1 541	4 762	4 511	3 384	2 227	(1 363)	(1 721)	12 272	10 478
Total income	17 459	17 342	12 351	11 071	17 767	16 621	5 967	4 554	(1 363)	(1 721)	52 181	47 866
Operating expenses	(8 087)	(7 773)	(3 427)	(3 221)	(5 681)	(5 619)	(3 289)	(3 984)	1 363	1 721	(19 120)	(18 875)
Depreciation and impairment of fixed and intangible assets	(182)	(70)	(847)	(726)	(799)	(722)	(1 328)	(854)			(3 157)	(2 371)
Total operating expenses	(8 269)	(7 842)	(4 274)	(3 946)	(6 480)	(6 340)	(4 617)	(4 838)	1 363	1 721	(22 278)	(21 246)
Pre-tax operating profit before impairment	9 190	9 499	8 077	7 125	11 287	10 280	1 350	(284)			29 903	26 620
Net gains on fixed and intangible assets	(0)	49	(0)	3	16	(0)	(48)	477			(33)	529
Impairment of financial instruments [1)]	(353)	(318)	(595)	(566)	(1 240)	1 022	(4)	(0)			(2 191)	139
Profit from repossessed operations			16	8	(124)	(263)	109	256				
Pre-tax operating profit	8 837	9 230	7 497	6 570	9 938	11 039	1 407	449			27 678	27 288
Tax expense	(2 209)	(2 308)	(1 874)	(1 642)	(2 385)	(2 539)	1 644	1 513			(4 825)	(4 976)
Profit from operations held for sale, after taxes					(0)	(10)	(49)	(194)			(49)	(204)
Profit for the year	6 628	6 923	5 623	4 927	7 553	8 490	3 002	1 769			22 805	22 109

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

Amounts in NOK billion	Personal customers		Small and medium-sized enterprises		Large corporates and international customers		Other operations		Eliminations		DNB Bank Group	
	31.12.19	31.12.18	31.12.19	31.12.18	31.12.19	31.12.18	31.12.19	31.12.18	31.12.19	31.12.18	31.12.19	31.12.18
Loans to customers [1)]	795	772	334	313	430	424	113	93	(1)	(4)	1 671	1 598
Assets held for sale						0	1	1			1	1
Other assets	16	16	6	6	84	73	1 610	1 566	(918)	(952)	798	708
Total assets	811	788	340	319	514	497	1 725	1 660	(919)	(956)	2 471	2 308
Deposits from customers [1)]	425	412	228	210	314	296	16	23	(6)	(1)	978	940
Liabilities held for sale							0	0	(0)		0	0
Other liabilities	338	331	80	79	134	139	1 624	1 566	(913)	(955)	1 263	1 159
Total liabilities	764	743	307	289	448	435	1 641	1 589	(919)	(956)	2 241	2 100
Allocated capital [2)]	47	45	33	29	66	62	83	71			230	208
Total liabilities and equity	811	788	340	319	514	497	1 725	1 660	(919)	(956)	2 471	2 308

1) *Loans to customers include accrued interest, impairment and value adjustments. Correspondingly, deposits from customers include accrued interest.*
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 2019 corresponds to a common equity Tier 1 capital ratio of 16.8 per cent compared to 16.2 per cent in 2018. Book equity is used for the banking group.*

Key figures

DNB Bank Group

Per cent	Personal customers		Small and medium-sized enterprises		Large corporates and international customers		Other operations		eliminations		DNB Bank Group	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Cost/income ratio [1)]	47.4	45.2	34.6	35.6	36.5	38.1					42.7	44.4
Ratio of deposits to loans as at 31 December [2)]	53.5	53.4	68.2	67.3	72.9	69.7					58.5	58.8
Return on allocated capital [3)]	14.2	15.4	17.7	17.6	11.6	12.8					11.1	11.5

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. Return on equity is used for the banking group.*

Note 3 Capitalisation policy and capital adequacy

The DNB Group aims to maintain a management buffer of 1.0 percentage point in addition to the total regulatory common equity Tier 1 (CET1) capital ratio, in line with the Pillar 2 Guidance from Finanstilsynet (the Financial Supervisory Authority of Norway). 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 2019, the total regulatory CET1 capital ratio requirement was 16.1 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. On 31 December 2019, Norway fully implemented the EU's capital requirements legislation CRR/CRD IV. At the same time, the so-called Basel I floor was removed.

At year-end 2019, the DNB Bank Group had a CET1 capital ratio of 18.3 per cent and a capital adequacy ratio of 24.4 per cent, compared with 17.3 per cent and 21.9 per cent, respectively, a year earlier. Risk-weighted assets came to NOK 925 billion at year-end 2019, compared with NOK 1 000 billion the year before.

DNB Bank ASA had a CET1 capital ratio of 19.3 per cent at year-end 2019, compared with 18.1 per cent a year earlier. The capital adequacy ratio was 26.3 per cent at year-end 2019, compared with 23.5 per cent a year earlier.

At year-end 2019, DNB Boligkreditt AS had a CET1 capital ratio of 24.5 per cent and a capital adequacy ratio of 27.6 per cent, compared with 24.7 and 27.7 per cent 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 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. The Norwegian leverage ratio requirement consists of a minimum requirement of 3 per cent that will apply to all credit 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 2019, the Bank Group's leverage ratio was 7.2 per cent, compared with 7.4 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 the EU capital requirements regulations for banks and investment firms (CRR/CRD IV). 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.
On 31 December 2019, Norway fully implemented the EU's capital requirements legislation CRR/CRD IV, and the so-called Basel I floor was removed. The additional capital requirements due to the transitional rules have been removed from the historical figures. The harmonised rules include the introduction of the SME discount factor.

DNB Bank ASA		Primary capital	DNB Bank Group	
31 Dec. 2018	31 Dec. 2019	*Amounts in NOK million*	31 Dec. 2019	31 Dec. 2018
176 562	187 993	Total equity	229 619	207 933
		Effect from regulatory consolidation	(198)	(234)
(15 574)	(26 048)	Additional Tier 1 capital instruments included in total equity	(26 048)	(15 574)
(465)	(510)	Net accrued interest on additional Tier 1 capital instruments	(510)	(465)
160 523	161 434	Common equity Tier 1 capital instruments	202 862	191 660
		Deductions		
(2 389)	(2 376)	Goodwill	(2 946)	(2 929)
(562)	(457)	Deferred tax assets that are not due to temporary differences	(868)	(524)
(1 040)	(1 016)	Other intangible assets	(1 626)	(1 712)
		Group contribution, payable	(25 000)	(10 758)
(1 286)	(1 633)	Expected losses exceeding actual losses, IRB portfolios	(2 502)	(1 719)
(467)	(532)	Value adjustments due to the requirements for prudent valuation (AVA)	(810)	(886)
63	57	Adjustments for unrealised losses/(gains) on debt measured at fair value	2	176
(596)	(460)	Adjustments for unrealised losses/(gains) arising from the institution's own credit risk related to derivative liabilities (DVA)	(96)	(149)
154 247	155 017	Common equity Tier 1 capital	169 016	173 159
15 574	26 048	Additional Tier 1 capital instruments	26 048	15 574
169 820	181 065	Tier 1 capital	195 064	188 733
5 693	5 774	Perpetual subordinated loan capital	5 774	5 693
25 110	24 943	Term subordinated loan capital	24 943	25 110
30 804	30 717	Tier 2 capital	30 717	30 804
200 624	211 783	Total eligible capital	225 781	219 537
852 363	804 721	Risk-weighted assets	924 869	1 000 415
68 189	64 378	Minimum capital requirement	73 990	80 033
18.1	19.3	Common equity Tier 1 capital ratio	18.3	17.3
19.9	22.5	Tier 1 capital ratio (%)	21.1	18.9
23.5	26.3	Capital ratio (%)	24.4	21.9

Note 3 Capitalisation policy and capital adequacy (continued)

The majority of the credit portfolios are reported according to the IRB approach. Exposures to central governments, institutions, equity positions and other assets are, however, reported according to the standardised approach.

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

Amounts in NOK million	Nominal exposure 31 Dec. 2019	EAD [1] 31 Dec. 2019	Average risk weights in per cent 31 Dec. 2019	Risk-weighted assets 31 Dec. 2019	Capital requirements 31 Dec. 2019	Capital requirements 31 Dec. 2018
IRB approach						
Corporate	767 327	634 770	47.0	298 570	23 886	25 426
Specialised Lending (SL)	11 107	10 562	52.3	5 529	442	455
Retail - mortgage loans	130 385	130 385	23.7	30 949	2 476	2 287
Retail - other exposures	98 656	83 466	24.8	20 663	1 653	1 727
Securitisation						
Total credit risk, IRB approach	1 007 474	859 183	41.4	355 711	28 457	29 895
Standardised approach						
Central government	314 442	357 732	0.0	36	3	9
Institutions	635 424	518 809	20.5	106 374	8 510	11 083
Corporate	117 743	91 903	81.9	75 314	6 025	7 412
Retail - mortgage loans	12 612	12 047	37.6	4 526	362	297
Retail - other exposures	121 617	42 939	74.5	31 994	2 560	2 349
Equity positions	119 274	119 274	100.0	119 245	9 540	8 898
Other assets	19 279	19 025	121.8	23 165	1 853	687
Total credit risk, standardised approach	1 340 392	1 161 730	31.0	360 654	28 852	30 734
Total credit risk	2 347 866	2 020 912	35.4	716 365	57 309	60 629
Market risk						
Position risk, debt instruments				10 333	827	920
Position risk, equity instruments				374	30	16
Currency risk				14	1	
Commodity risk				0	0	1
Credit value adjustment risk (CVA)				3 944	316	283
Total market risk				14 665	1 173	1 219
Operational risk				73 691	5 895	6 341
Total risk-weighted assets and capital requirements				804 721	64 378	68 189

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. 2019	EAD [1] 31 Dec. 2019	Average risk weights in per cent 31 Dec. 2019	Risk-weighted assets 31 Dec. 2019	Capital requirements 31 Dec. 2019	Capital requirements 31 Dec. 2018
IRB approach						
Corporate	965 259	800 350	47.7	381 718	30 537	33 716
Specialised Lending (SL)	12 219	11 675	53.8	6 281	503	526
Retail - mortgage loans	796 424	796 424	21.8	173 664	13 893	13 617
Retail - other exposures	98 656	83 466	24.8	20 663	1 653	1 727
Securitisation						
Total credit risk, IRB approach	1 872 559	1 691 915	34.4	582 327	46 586	49 587
Standardised approach						
Central government	330 557	375 095	0.0	80	6	12
Institutions	221 692	147 190	22.6	33 334	2 667	3 664
Corporate	181 664	147 058	79.2	116 497	9 320	11 824
Retail - mortgage loans	61 381	58 205	48.2	28 061	2 245	2 539
Retail - other exposures	128 473	47 692	73.7	35 149	2 812	2 958
Equity positions	10 601	10 544	90.5	9 546	764	774
Other assets	20 251	19 454	79.7	15 513	1 241	508
Total credit risk, standardised approach	954 618	805 237	29.6	238 180	19 054	22 278
Total credit risk	2 827 177	2 497 152	32.9	820 507	65 641	71 865
Market risk						
Position risk, debt instruments				10 523	842	927
Position risk, equity instruments				374	30	16
Currency risk				14	1	
Commodity risk				0	0	1
Credit value adjustment risk (CVA)				4 426	354	311
Total market risk				15 337	1 227	1 254
Operational risk				89 025	7 122	6 914
Total risk-weighted assets and capital requirements				924 869	73 990	80 033

1) EAD, exposure at default.

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 risk is the risk that the value of securing an exposure is lower than expected. Concentration risk includes risk associated with large exposures to a single customer or concentration within geographical areas, within industries or related to homogeneous customer groups.

Credit risk management and measurement is described in detail in the Risk and Capital Management (Pillar 3) report. The banking group guide-lines 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 exposure at default (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. The IRB approach is used for most of the customers in the corporate and personal customer portfolios to which the DNB Bank Group has exposure. The standardised approach is used for housing cooperatives, newly-founded businesses and exposures in Poland.

All corporate customers with 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	default	B3, Caa/C	B-, CCC/C

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

Guidelines for credit activity

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 employees may be involved in recommending and approving a low-risk exposure in the form of a home mortgage, recommendations for large/complex exposures must also 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

The annually updated risk classification of customers is a complete review of all risks identified by DNB relating to each customer. A new evaluation of all collateral provided is an integral part of the review. The decision-making and authorisation matrices shall also be used in connection with the renewal of all existing credits and thus ensure that presonnel 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, DNB must prepare an action plan to manage 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			**Forbearance as at 31 December 2019**			**DNB Bank Group**
Stage 2	Stage 3	Total	*Amounts in NOK million*	Total	Stage 3	Stage 2
17 654	10 709	28 364	Gross carrying amount and loan commitments	34 469	11 638	22 831
272	4 272	4 544	Expected credit loss	4 820	4 503	317

DNB Bank ASA			**Forbearance as at 31 December 2018**			**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, 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.

Note 4 Credit risk management (continued)

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.
In addition, derivatives are also 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 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.

Key components for the ECL measurement, summarised

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 are shown in the table below. Their impact on ECL will vary by financial instrument. Forecasts of each of the relevant risk drivers (the base economic scenario) are primarily prepared on a quarterly basis and provide the best estimate of developments in the risk drivers for the forecast period. The forecasts are based 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. When 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, multiple scenarios are incorporated when determining significant increase in credit risk and measuring ECL. DNB use the base scenario for each risk driver as a starting point when deriving CCI and PD curves as described above. Alternative scenarios are translated into alternative paths of a probability fan around the baseline. This method means that each scenario represents one percentile on a probability fan with each percentile representing a possible development in credit risk depending on the macroeconomic development.

The width of the fan for the individual segment 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.

Sensitivity

To calculate expected credit losses in stage 1 and 2, DNB uses a range of macroeconomic variables where each variable is given several alternative scenarios of probability.

Macroeconomic variables are interrelated in that, changes in a forecast in one variable will most likely affect forecasts in the other variables. Furthermore a weakening of the macro forecasts would normally imply more customers migrating from stages 1 and 2 to stages 2 and 3. Comparative sensitivity analyses for each macroeconomic variable, will therefore, in isolation, not provide relevant sensitivity information.

DNB has simulated an alternative low scenario for relevant macro forecasts. The scenario represents a possible downside compared with the base scenario. Each macroeconomic variable is given alternative weaker expectations for each period in the forecast period. The table below shows the average change in the macro variables in the alternative scenario compared with the base scenario in the forecast period, in per cent. In the simulated alternative scenario, as presented in the table below, the ECL in stages 1 and 2 would increase by approximately 14 per cent compared with the ECL in stages 1 and 2 at 31 December 2019.

The following table provides an overview of the macro forecasts that are included in the loan loss model. The table includes the average stress that is imposed on each macro variable in the alternative scenario.

Note 5 Measurement of expected credit loss (continued)

Selected macro variables used in base scenario and alternativ scenario

Per cent	**DNB Bank ASA** Average change from base to alternative scenario
World GDP, year-to-year growth	(10)
Emerging countries GDP, year-to-year growth	(4)
Oil price, USD per barrel	(21)
Norwegian mainland GDP, year-to-year growth	(51)
Norwegian consumer price index, year-to-year growth	13
Norwegian house price index, year-to-year growth	(302)
Norwegian registered unemployment rate, per cent	24
NIBOR 3-month interes rate, per cent	(28)
Swedish GDP, year-to-year growth	(3)
Norwegian commercial real estate rental price, NOK/sqm	(9)
Salmon price, NOK per kg	(17)
Floater spot rate, USD per day	(10)
Utilisation rate rig	(10)
VLCC spot rate, USD per day	(19)
Capesice spot rate, USD per day	(26)
VLGC spot rate, USD per day	(30)

One of the most significant exposures in stages 1 and 2 is lending to personal customers. The lending includes mortgage lending, credit card and consumer financing. In addition to specific customer attributes, the portfolio's ECL is forecast based on the Norwegian house price Index, the Norwegian interest rate, household debt level and the unemployment rate. In the simulated alternative scenario, where all of these input parameters are reduced, the ECL in stages 1 and 2 would increase by approximately 15 per cent for the personal customer portfolio compared with the ECL measured at 31 December 2019 for the same portfolio and stages.

DNB has furthermore investigated the effect of non-linearity in the ECL for stage 1 and stage 2. If the base scenario alone is used to calculate expected credit losses, thereby excluding the fan that represents the range of alternative scenarios, the ECL at 31.12.2019 would decrease by 21 per cent.

Calculation of ECL

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

Probability of default (PD)

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.

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

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

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 customers fail to meettheir 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, interest and estimated early repayment. The proportion of undrawn commitments expected to be 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.

Sensitivitiy
DNB has performed a sensitivity analysis on threshold of the significant increase in credit risk used to measure ECL in stages 1 and 2. If a threshold of 1.5 times lifetime PD is used for determining the significant increase in credit risk, as an alternative to the 2.5 threshold, more exposures would migrate from stage 1 to stage 2 and the ECL in stage 1 and 2 would increase by 5 per cent compared with the ECL measured at 31 December 2019. If a threshold of 3.5 times lifetime PD is used instead, the ECL would decrease by 1 per cent compared with the ECL measured at 31 December 2019.

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.

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 with exposure above NOK 5 million is calculated individually per customer and without the use of modelled inputs. When a customer becomes credit impaired (stage 3) the probability of default is set to 100 per cent. 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 collateral value, weighting of at least two possible scenarios for the development in future cash flows from the collateral in a going concern scenario are incorporated. In some cases a liquidation scenario is included in the valuation of the collateral.

For credit impaired exposures below NOK 5 million a portfolio approach is used to estimate ECL.

<u>Sensitivity:</u>
If the value of collaterals on all stage 3 exposures were reduced by 10 per cent, the stage 3 ECL at year-end 2019 would increase by approximately NOK 1.6 billion.

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, assessment of significant increases in credit risk and determination of whether the criterions for default are satisfied.

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.

Sensitivities are disclosed separately above.

Note 6 Credit risk exposure and collateral

Credit risk exposure and collateral as at 31 December 2019 **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	300 288		40 014	
Due from credit institutions	394 237		84 877	59
Loans to customers	880 203	367 284	81 733	212 582
Commercial paper and bonds	231 910			
Financial derivatives	136 255		200	93 239
Other assets	11 458			
Total maximum exposure to credit risk reflected on the balance sheet	1 954 351	367 284	206 825	305 880
Guarantees	15 635	12		6 863
Unutilised credit lines and loan offers	440 838	42 817		62 497
Other commitments	77 038	4 692		12 380
Total maximum exposure to credit risk not reflected on the balance sheet	533 510	47 521		81 740
Total	2 487 861	414 805	206 825	387 621
Of which subject to expected credit loss:				
Deposits with central banks	*300 288*		*40 014*	
Due from credit institutions	*394 237*		*84 877*	*59*
Loans to customers	*871 708*	*360 110*	*81 733*	*212 544*
Commercial paper and bonds	*52 164*			
Total maximum exposure to credit risk reflected on the balance sheet	*1 618 396*	*360 110*	*206 625*	*212 603*
Guarantees	*15 635*	*12*		*6 863*
Unutilised credit lines and loan offers	*440 838*	*42 816*		*62 497*
Other commitments	*77 038*	*4 692*		*12 380*
Total maximum exposure to credit risk not reflected on the balance sheet	*533 510*	*47 520*		*81 740*
Total	*2 151 906*	*407 631*	*206 625*	*294 344*
Of which stage 3:				
Loans to customers	*13 387*	*2 915*		*7 987*
Total maximum exposure to credit risk reflected on the balance sheet	*13 387*	*2 915*		*7 987*
Guarantees	*580*			*314*
Unutilised credit lines and loan offers	*1 515*	*154*		*118*
Other commitments	*604*	*42*		*97*
Total maximum exposure to credit risk not reflected on the balance sheet	*2 698*	*196*		*528*
Total	*16 086*	*3 111*		*8 515*

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 1 388 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 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*

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 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 2019 **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	303 720		40 014	
Due from credit institutions	101 165		84 877	59
Loans to customers	1 671 350	1 018 581	82 404	255 561
Commercial paper and bonds	222 368			
Financial derivatives	125 364		200	92 675
Other assets	7 651			
Total maximum exposure to credit risk reflected on the balance sheet	2 431 617	1 018 581	207 496	348 295
Guarantees	15 638	12		6 863
Unutilised credit lines and loan offers	597 823	120 979	6	79 651
Other commitments	80 499	4 737		12 568
Total maximum exposure to credit risk not reflected on the balance sheet	693 960	125 728	6	99 083
Total	3 125 577	1 144 309	207 501	447 378
Of which subject to expected credit loss:				
Deposits with central banks	*303 720*		*40 014*	
Due from credit institutions	*101 165*		*84 877*	*59*
Loans to customers	*1 621 354*	*970 185*	*82 404*	*255 738*
Commercial paper and bonds	*58 863*			
Total maximum exposure to credit risk reflected on the balance sheet	*2 085 101*	*970 185*	*207 296*	*255 797*
Guarantees	*15 638*	*12*		*6 863*
Unutilised credit lines and loan offers	*597 823*	*120 974*	*6*	*79 651*
Other commitments	*80 499*	*4 737*		*12 568*
Total maximum exposure to credit risk not reflected on the balance sheet	*693 960*	*125 723*	*6*	*99 083*
Total	*2 779 062*	*1 095 908*	*207 302*	*354 880*
Of which stage 3:				
Loans to customers	*15 393*	*4 024*		*9 567*
Total maximum exposure to credit risk reflected on the balance sheet	*15 393*	*4 024*		*9 567*
Guarantees	*583*			*314*
Unutilised credit lines and loan offers	*1 602*	*165*		*176*
Other commitments	*614*	*42*		*99*
Total maximum exposure to credit risk not reflected on the balance sheet	*2 799*	*207*		*589*
Total	*18 192*	*4 231*		*10 156*

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 2 032 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 2019:

- *Deposits with central banks:* Deposits with Norges Bank totalled NOK 6 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 117 590 million for the DNB Bank Group and 127 930 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.

Loans as at 31 December 2019 **DNB Bank ASA**

Amounts in NOK million	Stage 1	Stage 2	Stage 3	Loans at fair value	Total
Risk grade based on probability of default					
1 - 4	595 810	1 981		6 197	603 988
5 - 7	185 944	20 534		2 132	208 611
8 - 10	19 548	35 494		153	55 195
Credit impared			21 698	13	21 711
Total	801 302	58 010	21 698	8 495	889 505

Loans as at 31 December 2018 **DNB Bank ASA**

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

Loans as at 31 December 2019 **DNB Bank Group**

Amounts in NOK million	Stage 1	Stage 2	Stage 3	Loans at fair value	Total
Risk grade based on probability of default					
1 - 4	1 171 531	3 496		38 660	1 213 687
5 - 7	322 663	40 141		10 730	373 533
8 - 10	24 823	44 653		567	70 043
Credit impared			24 297	39	24 336
Total	1 519 017	88 291	24 297	49 995	1 681 600

Loans as at 31 December 2018 **DNB Bank Group**

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

Note 7 Credit risk exposure by risk grade (continued)

Financial commitments as at 31 December 2019 — **DNB Bank ASA**

Amounts in NOK million	Stage 1	Stage 2	Stage 3	Total
Risk grade based on probability of default				
1 - 4	360 246	490		360 736
5 - 7	74 693	3 884		78 577
8 - 10	7 827	9 164		16 991
Credit impared			3 245	3 245
Total	442 766	13 537	3 245	459 547

Financial commitments as at 31 December 2018 — **DNB Bank ASA**

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

Financial commitments as at 31 December 2019 — **DNB Bank Group**

Amounts in NOK million	Stage 1	Stage 2	Stage 3	Total
Risk grade based on probability of default				
1 - 4	509 851	721		510 572
5 - 7	99 074	7 824		106 898
8 - 10	8 420	15 249		23 669
Credit impared			3 343	3 343
Total	617 345	23 794	3 343	644 482

Financial commitments as at 31 December 2018 — **DNB Bank Group**

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

	2019				2018			
Amounts in NOK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Originated and purchased	(8)	(2)		(10)	(17)	(3)		(20)
Increased expected credit loss	(342)	(1 698)	(5 879)	(7 919)	(212)	(990)	(4 978)	(6 180)
Decreased expected credit loss	332	1 771	3 804	5 907	284	2 966	2 306	5 556
Derecognition	20	81	37	137	9	4	1	14
Write-offs	0	(2)	(727)	(729)	(0)	(3)	(567)	(570)
Recoveries on loans previously written off			129	129	(0)		171	171
Total impairment	**2**	**150**	**(2 636)**	**(2 484)**	**63**	**1 974**	**(3 066)**	**(1 029)**

DNB Bank Group

	2019				2018			
Amounts in NOK million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Originated and purchased	(62)	(5)		(66)	(34)	(14)	(1)	(49)
Increased expected credit loss	(464)	(2 071)	(6 568)	(9 103)	(352)	(1 739)	(5 296)	(7 387)
Decreased expected credit loss	539	2 516	4 381	7 436	459	4 730	2 888	8 078
Derecognition	37	85	40	162	22	13	6	42
Write-offs		(2)	(755)	(757)	0	(2)	(730)	(732)
Recoveries on loans previously written off			138	137	(0)		187	187
Total impairment	**50**	**523**	**(2 765)**	**(2 191)**	**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 70 million as at 31 December 2019 for DNB Bank ASA (NOK 67 million as at 31 December 2018) and NOK 100 million as at 31 December 2019 for DNB Bank Group (NOK 95 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)
Other				
Gross carrying amount as at 31 December 2018	**717 921**	**53 094**	**23 719**	**794 734**
Transfer to stage 1	35 723	(35 212)	(510)	
Transfer to stage 2	(51 142)	53 813	(2 671)	
Transfer to stage 3	(3 333)	(3 205)	6 538	
Originated and purchased	295 161	5 005	0	300 167
Derecognition	(207 365)	(15 507)	(5 413)	(228 285)
Exchange rate movements	(870)	(55)	36	(889)
Other [1)]	15 208	76		15 284
Gross carrying amount as at 31 December 2019	**801 302**	**58 010**	**21 698**	**881 010**

1) With accounting effect from 1 January 2019, DNB Næringskreditt AS was merged with DNB Bank ASA. The merger means that DNB Bank has taken over all assets, rights and obligations belonging to DNB Næringskreditt without remuneration.

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)	
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
Other				
Gross carrying amount as at 31 December 2018	**1 449 032**	**82 255**	**27 832**	**1 559 120**
Transfer to stage 1	67 630	(66 796)	(835)	
Transfer to stage 2	(91 879)	96 543	(4 664)	
Transfer to stage 3	(3 842)	(5 350)	9 192	
Originated and purchased	470 770	4 753	0	475 523
Derecognition	(373 187)	(23 305)	(7 324)	(403 815)
Exchange rate movements	305	190	95	590
Other	188	0	0	188
Gross carrying amount as at 31 December 2019	**1 519 017**	**88 291**	**24 297**	**1 631 605**

Note 9 Development in gross carrying amount and maximum exposure (continued)

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
Derecognition	(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**
Transfer to stage 1	16 298	(16 054)	(244)	
Transfer to stage 2	(18 622)	18 865	(243)	
Transfer to stage 3	(1 148)	(691)	1 839	
Originated and purchased	345 181	11	0	345 192
Derecognition	(356 693)	(7 321)	(2 016)	(366 030)
Exchange rate movements	155	5	(12)	149
Maximum exposure as at 31 December 2019	**442 766**	**13 537**	**3 245**	**459 547**

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
Derecognition	(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**
Transfer to stage 1	20 580	(20 331)	(249)	
Transfer to stage 2	(25 073)	25 600	(528)	
Transfer to stage 3	(1 164)	(1 010)	2 175	
Originated and purchased	396 849	0	0	396 849
Derecognition	(395 478)	(10 062)	(2 198)	(407 737)
Exchange rate movements	715	135	(10)	840
Other				
Maximum exposure as at 31 December 2019	**617 345**	**23 794**	**3 343**	**644 482**

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)**
Transfer to stage 1	(219)	199	20	
Transfer to stage 2	33	(174)	141	
Transfer to stage 3	3	33	(37)	
Originated and purchased	(83)	(137)		(220)
Increased expected credit loss 1)	(201)	(959)	(5 392)	(6 552)
Decreased (reversed) expected credit loss 1)	431	781	2 884	4 096
Write-offs	0	0	1 558	1 558
Derecognition (including repayments)	23	330	19	371
Exchange rate movements	0	1	(30)	(29)
Accumulated impairment as at 31 December 2019	**(168)**	**(777)**	**(8 252)**	**(9 197)**

1) In the second quarter of 2019, DNB performed a recalibration of the IFRS 9 models used for stage 1 and stage 2 loans and financial commitments. The net effect of the recalibration is an increase in expected credit loss of approximately NOK 70 million. As the recalibration resulted in both increases and decreases on a financial instrument level, the effect is included in the flows 'increased expected credit loss' and 'decreased (reversed) expected credit loss'.

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

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	
Transfer to stage 2	79	(280)	202	
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)**
Transfer to stage 1	(351)	319	32	
Transfer to stage 2	58	(276)	218	
Transfer to stage 3	3	86	(90)	
Originated and purchased	(169)	(145)		(314)
Increased expected credit loss [1)]	(274)	(1 250)	(6 187)	(7 711)
Decreased (reversed) expected credit loss [1)]	745	1 031	3 613	5 389
Write-offs	0	0	1 840	1 840
Derecognition (including repayments)	35	422	40	497
Exchange rate movements	(1)	(6)	(49)	(55)
Accumulated impairment as at 31 December 2019	**(305)**	**(1 041)**	**(8 904)**	**(10 251)**

1) *In the second quarter of 2019, DNB performed a recalibration of the IFRS 9 models used for stage 1 and stage 2 loans and financial commitments. The net effect of the recalibration is a decrease in expected credit loss of NOK 5 million. As the recalibration resulted in both increases and decreases on a financial instrument level, the effect is included in the flows 'increased expected credit loss' and 'decreased (reversed) expected credit loss'.*

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

Financial commitments

Amounts in NOK million	Stage 1	Stage 2	Stage 3	DNB Bank ASA 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
Derecognition	0	72		72
Exchange rate movements	(1)	(2)	(0)	(3)
Other	(0)		15	15
Accumulated impairment as at 31 December 2018	**(117)**	**(436)**	**(569)**	**(1 122)**
Transfer to stage 1	(182)	147	35	
Transfer to stage 2	44	(48)	4	
Transfer to stage 3	0	5	(6)	
Originated and purchased	(121)	(14)		(136)
Increased expected credit loss [1)]	(72)	(538)	(1 179)	(1 789)
Decreased (reversed) expected credit loss [1)]	333	341	1 155	1 830
Derecognition	4	184		188
Exchange rate movements	0	(1)	(0)	(1)
Other	0	0	14	14
Accumulated impairment as at 31 December 2019	**(111)**	**(358)**	**(546)**	**(1 016)**

1) *In the second quarter of 2019, DNB performed a recalibration of the IFRS 9 models used for stage 1 and stage 2 loans and financial commitments. The net effect of the recalibration is an increase in expected credit loss of approximately NOK 70 million. As the recalibration resulted in both increases and decreases on a financial instrument level, the effect is included in the flows 'increased expected credit loss' and 'decreased (reversed) expected credit loss'.*

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

Financial commitments

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
Derecognition	2	370	2	374
Exchange rate movements	(1)	(30)	0	(31)
Other	(0)		15	15
Accumulated impairment as at 31 December 2018	**(149)**	**(1 001)**	**(569)**	**(1 719)**
Transfer to stage 1	(187)	152	35	
Transfer to stage 2	46	(50)	4	
Transfer to stage 3	0	9	(9)	
Originated and purchased	(158)	(14)		(172)
Increased expected credit loss [1)]	(83)	(653)	(1 173)	(1 909)
Decreased (reversed) expected credit loss [1)]	375	697	1 155	2 228
Derecognition	8	201	0	209
Exchange rate movements	(0)	(8)	(0)	(9)
Other	0	0	14	14
Accumulated impairment as at 31 December 2019	**(146)**	**(667)**	**(543)**	**(1 357)**

DNB Bank Group

1) *In the second quarter of 2019, DNB performed a recalibration of the IFRS 9 models used for stage 1 and stage 2 loans and financial commitments. The net effect of the recalibration is a decrease in expected credit loss of NOK 5 million. As the recalibration resulted in both increases and decreases on a financial instrument level, the effect is included in the flows 'increased expected credit loss' and 'decreased (reversed) expected credit loss'.*

Note 11 Loans and financial commitments to customers by industry segment

Loans to customers as at 31 December 2019 **DNB Bank ASA**

		Accumulated impairment				
Amounts in NOK million	Gross carrying amount	Stage 1	Stage 2	Stage 3	Loans at fair value	Total
Bank, insurance and portfolio management	94 220	(4)	(8)	(23)	5	94 190
Commercial real estate	171 150	(9)	(32)	(367)	121	170 864
Shipping	26 803	(19)	(58)	(262)		26 463
Oil, gas and offshore	47 107	(30)	(225)	(4 164)		42 689
Power and renewables	24 398	(2)	(2)	(9)		24 386
Healthcare	2 022	(0)	(0)			2 022
Public sector	10 781	(0)	(0)	(0)		10 780
Fishing, fish farming and farming	36 965	(5)	(28)	(143)	140	36 929
Retail industries	36 356	(4)	(17)	(672)	9	35 672
Manufacturing	35 501	(5)	(30)	(190)	4	35 280
Technology, media and telecom	11 053	(5)	(6)	(25)	3	11 019
Services	61 346	(13)	(31)	(653)	68	60 716
Residential property	70 892	(5)	(12)	(121)	114	70 867
Personal customers	195 313	(51)	(281)	(455)	8 007	202 533
Other corporate customers	57 105	(14)	(46)	(1 170)	25	55 900
Adjustment loans at fair value over other comprehensive income						(106)
Total [1)]	**881 010**	**(168)**	**(777)**	**(8 252)**	**8 495**	**880 203**

1) Of which NOK 56 049 million in repo trading volumes.

Loans to customers as at 31 December 2018 **DNB Bank ASA**

		Accumulated impairment				
Amounts in NOK million	Gross carrying amount	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
Retail industries	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)
Total [1)]	**794 734**	**(154)**	**(850)**	**(7 416)**	**7 509**	**793 702**

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

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

Loans to customers as at 31 December 2019 **DNB Bank Group**

		Accumulated impairment				
Amounts in NOK million	Gross carrying amount	Stage 1	Stage 2	Stage 3	Loans at fair value	Total
Bank, insurance and portfolio management	122 024	(8)	(8)	(23)	5	121 991
Commercial real estate	173 751	(10)	(37)	(384)	144	173 464
Shipping	47 076	(47)	(94)	(285)		46 651
Oil, gas and offshore	64 934	(44)	(376)	(4 384)		60 131
Power and renewables	31 254	(8)	(3)	(46)		31 197
Healthcare	20 989	(7)	(3)			20 979
Public sector	13 952	(7)	(0)	(0)		13 945
Fishing, fish farming and farming	41 198	(6)	(29)	(143)	161	41 182
Retail industries	40 551	(10)	(34)	(457)	58	40 108
Manufacturing	42 216	(21)	(35)	(204)	19	41 976
Technology, media and telecom	24 540	(21)	(6)	(25)	25	24 513
Services	72 108	(24)	(38)	(847)	191	71 390
Residential property	89 719	(6)	(13)	(121)	362	89 941
Personal customers	781 089	(72)	(307)	(641)	48 962	829 030
Other corporate customers	66 203	(17)	(58)	(1 345)	69	64 852
Total 1)	**1 631 605**	**(305)**	**(1 041)**	**(8 904)**	**49 995**	**1 671 350**

1) Of which NOK 56 049 million in repo trading volumes.

Loans to customers as at 31 December 2018 **DNB Bank Group**

		Accumulated impairment				
Amounts in NOK million	Gross carrying amount	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
Retail industries	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
Total 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 as at 31 December 2019

DNB Bank ASA

Amounts in NOK million	Maximum exposure	Accumulated impairment Stage 1	Stage 2	Stage 3	Total
Bank, insurance and portfolio management	19 341	(4)	(1)	(0)	19 336
Commercial real estate	26 505	(2)	(1)	(4)	26 498
Shipping	6 638	(10)	(30)		6 598
Oil, gas and offshore	31 259	(44)	(168)	(268)	30 780
Power and renewables	25 617	(2)	(18)		25 597
Healthcare	895	(0)	(0)		895
Public sector	7 226		(0)		7 226
Fishing, fish farming and farming	16 971	(2)	(0)	(6)	16 962
Retail industries	26 263	(3)	(13)	(39)	26 208
Manufacturing	37 307	(6)	(28)	(2)	37 270
Technology, media and telecom	8 461	(3)	(3)		8 454
Services	22 588	(9)	(16)	(21)	22 541
Residential property	33 352	(2)	(1)	(3)	33 345
Personal customers	162 818	(14)	(65)	(0)	162 739
Other corporate customers	34 307	(9)	(12)	(202)	34 084
Total	**459 547**	**(111)**	**(358)**	**(546)**	**458 532**

Financial commitments as at 31 December 2018

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
Retail industries	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
Total	**480 237**	**(117)**	**(436)**	**(569)**	**479 115**

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

Financial commitments as at 31 December 2019 **DNB Bank Group**

Amounts in NOK million	Maximum exposure	Accumulated impairment Stage 1	Stage 2	Stage 3	Total
Bank, insurance and portfolio management	26 189	(5)	(1)	(0)	26 183
Commercial real estate	26 052	(2)	(1)	(4)	26 045
Shipping	10 409	(11)	(30)		10 368
Oil, gas and offshore	57 026	(48)	(463)	(268)	56 247
Power and renewables	28 403	(5)	(19)		28 378
Healthcare	29 100	(8)	(0)		29 091
Public sector	11 086	(0)	(0)		11 085
Fishing, fish farming and farming	17 835	(2)	(0)	(6)	17 826
Retail industries	30 429	(5)	(17)	(35)	30 373
Manufacturing	50 321	(11)	(32)	(2)	50 276
Technology, media and telecom	16 138	(10)	(3)		16 125
Services	25 494	(11)	(16)	(21)	25 445
Residential property	33 412	(2)	(1)	(3)	33 405
Personal customers	241 498	(14)	(67)	(0)	241 416
Other corporate customers	41 089	(10)	(17)	(203)	40 859
Total	**644 482**	**(146)**	**(667)**	**(543)**	**643 124**

Financial commitments as at 31 December 2018 **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
Retail industries	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
Total	**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 2019 was NOK 5.8 billion, compared with NOK 7.3 billion in 2018. The change in economic capital is largely due to the reduced investment in Luminor Holding.

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 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 2019						
NOK	10	447	489	596	98	465
USD	1	118	81	100	9	72
EUR	4	50	5	20	87	109
GBP	3	4	10	2	0	11
SEK	40	7	24	10	3	36
Other currencies	8	23	27	5	2	55
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

1) The figures do not include the operations in DNB Poland 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. 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. 2018	31 Dec. 2019	*Amounts in NOK million*	31 Dec. 2019	31 Dec. 2018
1 935	1 174	USD	1 174	1 936
4	(623)	EUR	(620)	4
(11)	(40)	GBP	(40)	(11)
39	(73)	SEK	(73)	39
(23)	13	DKK	14	(23)
27	5	CHF	5	27
6	(31)	JPY	(31)	7
216	227	Other	227	216
2 195	653	Total foreign currencies	657	2 196

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 2019			31 December 2018		
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	1 475 226	331	321	1 058 532	154	175
Swaps	3 507 756	52 537	62 523	2 981 561	56 452	64 380
OTC options	102 492	560	553	77 254	630	608
Total interest rate contracts	5 085 475	53 428	63 397	4 117 347	57 237	65 163
Foreign exchange contracts						
Forward contracts	56 568	7 069	6 592	28 533	7 896	6 347
Swaps	1 634 769	27 710	46 441	1 157 016	32 371	41 657
OTC options	21 288	1 291	983	26 236	1 387	1 046
Total foreign exchange contracts	1 712 625	36 070	54 016	1 211 785	41 654	49 050
Equity-related contracts						
Forward contracts	4 896	2 379	1 032	3 315	2 281	938
Other	3 276	333	476	1 990	587	317
Total OTC derivatives	8 172	2 712	1 508	5 306	2 868	1 256
Futures	949	0	1	1 974		
Other	5 041	82	82	3 783	183	80
Total exchange-traded contracts	5 990	82	83	5 757	183	80
Total equity-related contracts	14 161	2 794	1 591	11 063	3 052	1 336
Commodity-related contracts						
Swaps and options	66 666	3 573	2 970	65 055	2 291	2 062
Total commodity related contracts	66 666	3 573	2 970	65 055	2 291	2 062
Total financial derivatives trading	6 878 926	95 865	121 973	5 405 250	104 234	117 611
Derivatives held for hedge accounting						
Fair value hedges of interest rate risk						
Interest rate swaps	221 430	6 560	1 406	136 304	7 225	1 093
Total financial derivatives hedge accounting	221 430	6 560	1 406	136 304	7 225	1 093
Collateral pledged/received on financial derivatives						
Total cash collateral pledged/received		33 830	44 970		26 847	43 979
Total financial derivatives	**7 100 356**	**136 255**	**168 349**	**5 541 554**	**138 306**	**162 683**

Note 15 Financial derivatives and hedge accounting (continued)

DNB Bank Group

Amounts in NOK million	31 December 2019 Total nominal values	Positive market value	Negative market value	31 December 2018 Total nominal values	Positive market value	Negative market value
Derivatives held for trading						
Interest rate contracts						
Forward rate agreements	1 475 226	331	321	1 058 532	154	175
Swaps	2 745 961	30 840	40 683	2 194 450	37 882	19 907
OTC options	102 568	560	552	77 245	630	608
Total interest rate contracts	4 323 755	31 731	41 556	3 330 227	38 666	20 690
Foreign exchange contracts						
Forward contracts	60 122	7 054	6 597	29 570	7 945	6 356
Swaps	1 269 246	17 434	15 877	762 636	21 781	32 484
OTC options	21 527	1 290	982	26 235	1 387	1 046
Total foreign exchange contracts	1 350 895	25 778	23 457	818 441	31 114	39 886
Equity-related contracts						
Forward contracts	4 896	2 379	1 032	3 315	2 281	938
Other	3 293	372	476	1 990	597	318
Total OTC derivatives	8 188	2 751	1 508	5 306	2 878	1 256
Futures	949	0	1	1 974		
Other	5 041	82	82	3 783	288	80
Total exchange-traded contracts	5 990	82	83	5 757	288	80
Total equity-related contracts	14 178	2 833	1 591	11 063	3 166	1 337
Commodity-related contracts						
Swaps and options	66 679	3 573	2 970	65 055	2 292	2 062
Total commodity related contracts	66 679	3 573	2 970	65 055	2 292	2 062
Total financial derivatives trading	5 755 507	63 914	69 574	4 224 786	75 237	63 974
Derivatives held for hedge accounting						
Fair value hedges of interest rate risk						
Interest rate swaps	566 753	28 121	1 390	487 763	23 927	2 371
Total financial derivatives hedge accounting	566 753	28 121	1 390	487 763	23 927	2 371
Collateral pledged/received on financial derivatives						
Total cash collateral pledged/received		33 329	44 906		26 194	43 659
Total financial derivatives	**6 322 260**	**125 364**	**115 871**	**4 712 549**	**125 358**	**110 005**

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 counterparty 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 2019, there was a NOK 270 million increase in value (positive effect on profits), compared with a NOK 1 358 million decrease in value in 2018.

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.

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

Fair value hedges of interest rate risk as at 31 December 2019 **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				
Investments in bonds	Commercial paper and bonds	46 666	(20)	(20)
Issued bonds	Debt securities issued	166 746	3 468	1 501
Subordinated debt	Debt securities issued	19 405	162	(202)
Hedging instrument				
Interest rate swaps	Financial derivatives			(1 136)

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
Hedging instrument				
Interest rate swaps	Financial derivatives			(1 794)

Fair value hedges of interest rate risk as at 31 December 2019 **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				
Investments in bonds	Commercial paper and bonds	46 666	(20)	(20)
Issued bonds	Debt securities issued	533 843	22 358	(4 554)
Subordinated debt	Debt securities issued	19 405	162	(202)
Hedging instrument				
Interest rate swaps	Financial derivatives			4 925

Fair value hedges of interest rate risk as at 31 December 2018 **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
Hedging instrument				
Interest rate swaps	Financial derivatives			(2 088)

The accumulated amount of fair value hedge adjustments remaining in the balance sheet at year-end 2019 for hedged items that have ceased to be adjusted for hedging gains and losses was NOK 31 million as at end-December 2019.

Note 15 Financial derivatives and hedge accounting (continued)

Residual maturity of interest rate swaps held as hedging instruments at 31 December 2019 **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, nominal amounts					
Investments in bonds				40 765	5 975
Hedges of issued bonds	4 643	247	22 605	125 071	4 665
Hedges of subordinated debt			945	16 516	

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, nominal amounts					
Hedges of issued bonds	7 135	50	50	97 141	14 693
Hedges of subordinated debt				17 536	

Residual maturity of interest rate swaps held as hedging instruments at 31 December 2019 **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, nominal amounts					
Investments in bonds				40 765	5 975
Hedges of issued bonds	4 890	286	51 925	332 597	112 856
Hedges of subordinated debt			945	16 516	

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, nominal amounts					
Hedges of issued bonds	7 254	99	30 689	299 618	132 567
Hedges of subordinated debt				17 536	

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 73 605 million at 31 December 2019. 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 hedge ratio is 1:1. 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 58.5 per cent at end-December 2019, down from 58.8 per cent a year earlier.

2019 was an active year for DNB in the short-term funding market, and there was generally a high level of interest in the bank's securities with both long and short maturities. While USD was the main short-term funding currency for DNB, the European market was influenced by low interest rates in continental Europe, and due to Brexit in the UK, some instability was registered here. On the other hand, with high activity in the long-term funding market towards the end of 2019, the bank used this increased flexibility to reduce outstanding volumes somewhat in the short-term market during the fourth quarter of 2019.

In the long-term funding market, there was some instability at the end of 2018, which continued into the first quarter of 2019. Spread levels peaked in mid-January before starting to narrow again. From mid-January to the summer, the spreads narrowed significantly, but remained more or less stable in the second half of the year. Despite volatile markets, the funding activity was high as usual in the first quarter, with large volumes issued. In March, the US 10-year Treasury yield fell below the 3-month Treasury bill, and 10-year German bonds fell below 0 per cent, which indicated the market's fear of an upcoming recession. The ongoing trade war between the US and China, in addition to concerns about Brexit, added to this sense of uncertainty. In October, the European Central Bank (ECB) restarted their asset purchase programme, which had been on hold since the beginning of 2019. DNB was very active in the senior and covered bonds market in the first half of the year. In the fourth quarter, the bank re-assumed this activity with some sizeable issues of senior bonds. In the course of the year, there was also an increasing number of issues of so-called senior non-preferred bonds in the market, due to the upcoming minimum requirement for own funds and eligible liabilities (MREL). Overall, DNB had good access to long-term funding markets at attractive spreads during the year.

The nominal value of long-term debt securities issued by the banking group was NOK 655 billion at the end of December 2019, compared with NOK 606 billion a year earlier. The average remaining term to maturity for these long-term debt securities was 3.7 years at the end of December, compared with 4.1 years a year earlier.

The short-term liquidity requirement, the Liquidity Coverage Ratio (LCR), remained stable at above 100 per cent throughout the year and stood at 138 per cent at the end of December 2019.

Note 16 Liquidity risk (continued)

Residual maturity as at 31 December 2019 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	297 547		3 699				301 246
Due from credit institutions	275 300	93 824	15 579	7 630	1 904		394 237
Loans to customers	237 012	77 277	89 943	247 386	231 265	(947)	881 935
Commercial paper and bonds	2 721	2 292	27 502	178 283	20 768		231 565
Shareholdings						123 372	123 372
Other assets		908		11			920
Total	812 580	174 301	136 723	433 310	253 937	122 425	1 933 275
Liabilities							
Due to credit institutions	190 869	47 080	18 000	21 240			277 188
Deposits from customers	956 661						956 661
Debt securities issued	57 708	95 771	89 102	164 849	5 694		413 124
Other liabilities etc.	446	3 200	87				3 733
Subordinated loan capital		214		24 943	5 774		30 931
Total	1 205 684	146 265	107 189	211 032	11 468		1 681 637
Financial derivatives							
Financial derivatives, gross settlement							
Incoming cash flows	428 918	354 214	230 649	723 251	312 019		2 049 050
Outgoing cash flows	433 533	356 998	230 846	728 128	310 351		2 059 856
Financial derivatives, net settlement	340	1 421	(931)	636	(371)		1 095
Total financial derivatives	(4 275)	(1 363)	(1 128)	(4 241)	1 297		(9 710)

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)

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. 2019	31 Dec. 2018
Unutilised credit lines etc. under 1 year	330 000	336 180
Unutilised credit lines etc. over 1 year	177 612	145 246

Note 16 Liquidity risk (continued)

Residual maturity as at 31 December 2019 [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	301 047		3 699				304 746
Due from credit institutions	60 105	35 926	5 064	70			101 165
Loans to customers	261 535	89 564	102 156	325 393	895 515	(1 333)	1 672 830
Commercial paper and bonds	2 965	2 292	19 732	172 081	24 860		221 930
Shareholdings						15 966	15 966
Other assets		1 180		11			1 191
Total	625 652	128 962	130 651	497 555	920 375	14 633	2 317 828
Liabilities							
Due to credit institutions	151 900	37 361	12 493	424			202 177
Deposits from customers	977 536						977 536
Debt securities issued	58 053	104 615	130 318	438 372	117 524		848 882
Other liabilities etc.	446	3 407	87				3 940
Subordinated loan capital		214		24 943	5 774		30 931
Total	1 187 935	145 597	142 898	463 739	123 298		2 063 466
Financial derivatives							
Financial derivatives, gross settlement							
Incoming cash flows	425 264	343 543	189 935	488 924	197 005		1 644 671
Outgoing cash flows	430 419	347 475	194 243	501 265	200 637		1 674 039
Financial derivatives, net settlement	986	2 447	2 724	15 811	10 965		32 934
Total financial derivatives	(4 169)	(1 485)	(1 583)	3 470	7 333		3 566

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

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. 2019	31 Dec. 2018
Unutilised credit lines etc. under 1 year	412 366	413 414
Unutilised credit lines etc. over 1 year	186 407	197 894

Note 17 Net interest income

DNB Bank ASA

Amounts in NOK million	2019 Measured at FVTPL	2019 Measured at FVOCI	2019 Measured at amortised cost [1]	2019 Total	2018 Measured at FVTPL	2018 Measured at FVOCI	2018 Measured at at amortised cost [1]	2018 Total
Interest on amounts due from credit institutions			7 473	7 473	(0)		7 346	7 346
Interest on loans to customers	233	3 377	27 751	31 362	205	2 799	23 081	26 085
Interest on commercial paper and bonds	3 959	478	0	4 437	4 251		0	4 251
Front-end fees etc.	1	2	336	339	1	4	259	264
Other interest income	57		4 673	4 730	(402)		4 848	4 445
Total interest income	**4 251**	**3 857**	**40 233**	**48 341**	**4 055**	**2 803**	**35 533**	**42 391**
Interest on amounts due to credit institutions	(2)		(5 494)	(5 496)			(5 021)	(5 021)
Interest on deposits from customers	(312)		(9 212)	(9 524)	(264)		(7 510)	(7 774)
Interest on debt securities issued	(330)		(7 316)	(7 647)	(252)		(4 965)	(5 217)
Interest on subordinated loan capital	(75)		(289)	(365)	(76)		(403)	(479)
Guarantee fund levy			(925)	(925)			(512)	(512)
Other interest expenses [3]	6 358		(562)	5 796	4 426		(615)	3 811
Total interest expenses	**5 638**		**(23 799)**	**(18 161)**	**3 835**		**(19 026)**	**(15 192)**
Net interest income	**9 889**	**3 857**	**16 434**	**30 180**	**7 890**	**2 803**	**16 506**	**27 199**

DNB Bank Group

Amounts in NOK million	2019 Measured at FVTPL	2019 Measured at FVOCI	2019 Measured at amortised cost [1]	2019 Total	2018 Measured at FVTPL	2018 Measured at FVOCI	2018 Measured at at amortised cost [1]	2018 Total
Interest on amounts due from credit institutions			3 467	3 467	(0)		3 934	3 934
Interest on loans to customers	1 383		53 172	54 554	1 309		45 610	46 919
Interest on commercial paper and bonds	3 673	478	97	4 249	4 097		90	4 187
Front-end fees etc.	5		341	346	5		279	284
Other interest income	57		3 517	3 575	(402)		3 349	2 946
Total interest income	**5 118**	**478**	**60 595**	**66 190**	**5 009**		**53 261**	**58 270**
Interest on amounts due to credit institutions	(2)		(4 278)	(4 280)			(3 981)	(3 981)
Interest on deposits from customers	(312)		(9 685)	(9 997)	(264)		(7 932)	(8 196)
Interest on debt securities issued [2]	(2 024)		(8 147)	(10 171)	(1 718)		(5 691)	(7 409)
Interest on subordinated loan capital	(75)		(293)	(368)	(76)		(408)	(484)
Guarantee fund levy			(1 106)	(1 106)			(564)	(564)
Other interest expenses [2] [3]	(72)		(287)	(360)	12		(260)	(248)
Total interest expenses	**(2 486)**		**(23 796)**	**(26 282)**	**(2 046)**		**(18 836)**	**(20 882)**
Net interest income	**2 631**	**478**	**36 799**	**39 908**	**2 963**		**34 425**	**37 388**

1) *Includes hedged items.*
2) *The presentation of interest income from derivatives has been changed as of 31 December 2019. Figures in previous periods have been restated correspondingly. For more information see Note 1 Accounting principles.*
3) *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	
	2019	2018	2019	2018
Assets				
Due from credit institutions	0.99	0.93	757 325	788 964
Loans to customers	3.69	3.45	850 701	756 274
Commercial paper and bonds	1.97	1.86	225 731	228 987
Liabilities				
Due to credit institutions	1.68	1.41	327 601	355 769
Deposits from customers	0.99	0.80	957 642	970 311
Debt securities issued	1.85	1.58	413 697	329 951

	DNB Bank Group			
	Average interest rate in per cent 1)		Average volume in NOK million	
	2019	2018	2019	2018
Assets				
Due from credit institutions	0.73	0.83	473 387	472 203
Loans to customers	3.31	3.03	1 648 904	1 550 097
Commercial paper and bonds	1.94	1.84	218 943	226 998
Liabilities				
Due to credit institutions	1.76	1.49	243 040	266 981
Deposits from customers	1.02	0.83	981 203	991 102
Debt securities issued 2)	1.14	0.95	893 702	779 439

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.*
2) *The presentation of interest income from derivatives has been changed as of 31 December 2019. Figures in previous periods have been restated correspondingly. For more information see Note 1 Accounting principles.*

Note 19 Net commission and fee income

DNB Bank ASA			DNB Bank Group	
2018	2019	*Amounts in NOK million*	2019	2018
3 651	3 372	Money transfer and interbank transactions	3 377	3 658
835	856	Guarantee commissions	895	888
426	172	Asset management services	176	429
377	389	Custodial services	399	391
742	475	Securities broking	499	779
654	1 196	Corporate finance	1 352	851
485	446	Credit broking	467	576
436	534	Sales of insurance products	534	436
		Real estate broking	1 203	1 143
857	903	Other commissions and fees	856	834
8 463	**8 343**	**Total commission and fee income**	**9 758**	**9 983**
(1 786)	(1 577)	Money transfer and interbank transactions	(1 577)	(1 786)
(75)	(65)	Guarantee commissions	(75)	(78)
(14)	(40)	Asset management services	(40)	(14)
(205)	(197)	Custodial services	(197)	(207)
(153)	(119)	Securities broking	(118)	(152)
(253)	(219)	Corporate finance	(219)	(253)
(217)	(188)	Sale of insurance products	(188)	(217)
(722)	(763)	Other commissions and fees	(727)	(671)
(3 424)	**(3 168)**	**Total commission and fee expenses**	**(3 141)**	**(3 378)**
5 039	**5 175**	**Net commission and fee income**	**6 618**	**6 605**

Note 20 Net gains on financial instruments at fair value

DNB Bank ASA			DNB Bank Group	
2018	2019	*Amounts in NOK million*	2019	2018
5 016	1 771	Foreign exchange and financial derivatives	2 029	2 746
(393)	1 015	Commercial paper and bonds	1 022	(388)
145	252	Shareholdings	271	114
		Other financial assets		0
23	22	Financial liabilities	22	23
4 791	3 061	Net gains on financial instruments, mandatorily at FVTPL	3 344	2 495
(78)	(18)	Loans at fair value [1)]	(192)	(386)
(1 135)	(642)	Commercial paper and bonds [2)]	(636)	(1 138)
(32)		Shareholdings		26
211	171	Financial liabilities [3)]	514	611
(1 001)	(489)	Net gains on financial instruments, designated as at FVTPL	(314)	(913)
(1 794)	(1 136)	Financial derivatives, hedging	4 925	(2 088)
0	0	Financial assets, hedged items		(1)
1 669	1 299	Financial liabilities, hedged items	(4 756)	1 850
(125)	143	Net gains on hedged items [4) 5)]	149	(239)
884		Financial guarantees		909
(6)	(27)	Dividends	(6)	8
3 659	**2 688**	**Net gains on financial instruments at FVTPL**	**3 173**	**1 351**

1) *The change in fair value due to credit risk amounted to a NOK 22 million gain during the year and a NOK 82 million loss cumulatively for DNB Bank Group and a NOK 3 million gain during the year and a NOK 17 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 273 million gain during the year and a NOK 329 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	
2018	2019	*Amounts in NOK million*	2019	2018
(6 535)	(6 901)	Salaries *)	(8 175)	(7 759)
(1 248)	(1 310)	Employer's national insurance contributions	(1 458)	(1 389)
(1 103)	(1 390)	Pension expenses	(1 515)	(1 206)
(86)	(69)	Restructuring expenses	(70)	(127)
(657)	(690)	Other personnel expenses	(772)	(736)
(9 629)	**(10 360)**	**Total salaries and other personnel expenses**	**(11 989)**	**(11 216)**
(5 437)	*(5 820)*	**) Of which: Ordinary salaries*	*(6 575)*	*(6 146)*
(804)	*(796)*	*Performance-based pay*	*(1 311)*	*(1 314)*

DNB Bank ASA		**Number of employees/full-time positions**	DNB Bank Group	
2018	2019		2019	2018
7 523	7 562	Number of employees as at 31 December	8 927	9 001
1 015	1 031	- of which number of employees abroad	1 350	1 382
7 245	7 361	Number of employees calculated on a full-time basis as at 31 December	8 617	8 597
994	1 017	- of which number of employees calculated on a full-time basis abroad	1 327	1 360
7 443	7 499	Average number of employees	8 890	8 961
7 163	7 296	Average number of employees calculated on a full-time basis	8 569	8 550

Note 22 Other expenses

DNB Bank ASA			DNB Bank Group	
2018	2019	*Amounts in NOK million*	2019	2018
(527)	(455)	Fees	(521)	(593)
(3 684)	(3 707)	IT expenses [1)]	(3 806)	(3 735)
(145)	(133)	Postage and telecommunications	(149)	(162)
(30)	(21)	Office supplies	(29)	(40)
(531)	(572)	Marketing and public relations	(805)	(741)
(200)	(205)	Travel expenses	(251)	(249)
(179)	(171)	Reimbursement to Norway Post for transactions executed	(171)	(179)
(53)	(52)	Training expenses	(59)	(64)
(1 087)	(427)	Operating expenses on properties and premises [2)]	(479)	(1 184)
(60)	(60)	Operating expenses on machinery, vehicles and office equipment	(69)	(71)
(451)	(671)	Other operating expenses	(793)	(641)
(6 947)	**(6 477)**	**Total other expenses**	**(7 131)**	**(7 658)**

1) *Systems development fees totalled NOK 1 546 million for DNB Bank ASA and NOK 1 548 million for the DNB Bank Group in 2019, compared with NOK 1 370 million and NOK 1 370 million, respectively, in 2018.*
2) *Costs relating to leased premises were NOK 985 million and NOK 1 061 million respectively for DNB Bank ASA and the DNB Bank Group in 2019, compared with NOK 937 million and NOK 987 million in 2018.*

Note 23 Depreciation and impairment of fixed and intangible assets

DNB Bank ASA			DNB Bank Group	
2018	2019	*Amounts in NOK million*	2019	2018
(1 513)	(1 681)	Depreciation of machinery, vehicles and office equipment	(1 690)	(1 523)
	(641)	Depreciation of right of use assets	(708)	
(459)	(534)	Other depreciation of tangible and intangible assets	(552)	(474)
(134)	(33)	Impairment of capitalised systems development	(33)	(140)
(325)	(314)	Other impairment of fixed and intangible assets	(174)	(234)
(2 431)	**(3 203)**	**Total depreciation and impairment of fixed and intangible assets**	**(3 157)**	**(2 371)**

See note 36 Intangible assets and note 37 Fixed assets.

Note 24 Pensions

Description of the pension schemes

The DNB Group has defined-contribution pensions for all employees in Norway, with the exception of around 270 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 equivalent to 0 to 7.1 times the National Insurance basic amount, G: 7 per cent
- Salary equivalent to 7.1 to 12 times G: 15 per cent
- The Group has no defined-contribution pension scheme for salaries exceeding 12G (apart from the closed scheme for employees from before 2008).

Employees who were enrolled in the former defined-benefit 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 early retirement pension (AFP) scheme for the private sector. In addition, the Group has an agreement on contractual early retirement pension according to public sector rules for employees who are members of the Norwegian Public Service Pension Fund.

The private early retirement pension scheme will be funded through an annual premium established as a percentage of salaries between 1 and 7.1G.

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

Subsidiaries and branch offices outside Norway have separate schemes for their employees, mainly in the form of defined-contribution pension schemes. Pension expenses for employees outside Norway represented NOK 173 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 2019.

Pension expenses	**DNB Bank ASA**	
Amounts in NOK million	2019	2018
Net present value of pension entitlements	(553)	(285)
Interest expenses on pension commitments	(78)	(109)
Calculated return on pension funds	40	43
Curtailment	(30)	(47)
Administrative expenses	(1)	(2)
Total defined benefit pension schemes	(622)	(400)
Contractual pensions, new scheme	(96)	(89)
Risk coverage premium	(49)	(49)
Defined contribution pension schemes	(623)	(565)
Net pension expenses	(1 390)	(1 103)

Pension expenses	**DNB Bank Group**	
Amounts in NOK million	2019	2018
Net present value of pension entitlements	(579)	(446)
Interest expenses on pension commitments	(79)	(110)
Calculated return on pension funds	40	43
Curtailment	(30)	98
Administrative expenses	(1)	(1)
Total defined benefit pension schemes	(650)	(417)
Contractual pensions, new scheme	(107)	(100)
Risk coverage premium	(49)	(52)
Defined contribution pension schemes	(708)	(637)
Net pension expenses	(1 515)	(1 206)

DNB Bank ASA		**Pension commitments**	**DNB Bank Group**	
2018	2019	*Amounts in NOK million*	2019	2018
5 526	5 551	Opening balance	5 663	5 642
	(553)	Correction for previous according to actuarial calculation [1)]	(553)	
285	553	Accumulated pension entitlements	579	446
109	78	Interest expenses	79	110
108	102	Actuarial losses/(gains), net	97	102
(5)	(64)	Changes in the pension schemes	(64)	(5)
(1)	73	Curtailment	73	(146)
(288)	(280)	Pension payments	(287)	(291)
(184)	68	Exchange rate differences	72	(195)
5 551	5 528	Closing balance	5 659	5 663

		Pension funds		
2018	2019	*Amounts in NOK million*	2019	2018
2 620	2 440	Opening balance	2 464	2 647
	(441)	Correction for previous according to actuarial calculation [1)]	(442)	
43	40	Expected return	40	43
19	(13)	Actuarial gains/(losses), net	(19)	17
(48)	(43)	Curtailments	(43)	(48)
134	96	Premium paid	96	135
(126)	(93)	Pension payments	(93)	(128)
(2)	(1)	Administrative expenses	(1)	(1)
(200)	89	Exchange rate differences	88	(201)
2 440	2 074	Closing balance	2 091	2 464
3 111	3 454	Net defined benefit obligation	3 568	3 198

1) *The correction is made due to a scheme that is no longer recognised in the balance sheet.*

Note 24 Pensions (continued)

Sensitivity analyses for pension calculations

The following estimates are based on facts and conditions prevailing on 31 December 2019, 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	13-16	15-17	20-25	20-22	10-12	8-12	2	2
Net pension expenses for the period	10-20	20-22	22-25	20-22	10-12	8-12	2	2

Note 25 Taxes

DNB Bank ASA		**Tax expense on pre-tax operating profit**	DNB Bank Group	
2018	2019	*Amounts in NOK million*	2019	2018
(1 022)	(7 671)	Current taxes	(9 281)	(2 268)
3 250		Tax effect of group contribution		
(5 788)	3 550	Changes in deferred taxes	4 456	(2 708)
(3 560)	**(4 121)**	**Tax expense**	**(4 825)**	**(4 976)**

		Reconciliation of tax expense against nominal tax rate		
		Amounts in NOK million		
22 927	30 883	Pre-tax operating profit	27 678	27 288
(5 273)	(6 794)	Estimated tax expense at nominal tax rate 22 per cent (23 per cent in 2018)	(6 089)	(6 276)
(286)	(489)	Tax effect of financial tax in Norway	(502)	(312)
	3	Tax effect of different tax rates in other countries	59	(19)
1 104	1 140	Tax effect of debt interest distribution with international branches	1 140	1 104
676	1 859	Tax effect of tax-exempt income from shareholdings [1)]	52	224
216	343	Tax effect of other tax-exempt income and non-deductible expenses	348	194
		Tax effect of tax losses carried forward not recognised in the balance sheet [2)]		(5)
	(6)	Tax effect of changed tax rate for deferred taxes recognised in the balance sheet	(54)	
3	(177)	Excess tax provision previous year	221	114
(3 560)	**(4 121)**	**Tax expense**	**(4 825)**	**(4 976)**
16%	13%	Effective tax rate	17%	18%

		Income tax on other comprehensive income		
		Amounts in NOK million		
13	(20)	Items that will not be reclassified to the income statement	(84)	(15)
		Hedges of net investments	(194)	265
13	**(20)**	**Total income tax on other comprehensive income**	**(278)**	**250**

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 (22 per cent).

Tax effect of debt interest distribution with international branch offices

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.

DNB has been notified of changes in the tax assessment provisions for the years 2015–2017, related to the calculation of debt interest deduction. The changes considered by the tax authorities in the notification amount to approximately NOK 3.6 billion in increased taxable income for the period in question. DNB disagrees with the tax authorities' interpretation of the regulations, and has submitted a reply that counters all points in the notification. Against this background, allocations have not been made for the claim in the notification at the end of 2019.

Note 25 Taxes (continued)

Expectations regarding the effective tax rate

The nominal tax rate in Norway was 22 per cent in 2019. Business operations outside Norway are subject to local tax rates in their country of operation, and nominal tax rates range from 12 to 25 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 22 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.

DNB Bank ASA		**Deferred tax assets/(deferred taxes)**	DNB Bank Group	
2018	2019	*Amounts in NOK million*	2019	2018
		The year's changes in deferred tax assets/(deferred taxes)		
8 341	2 574	Deferred tax assets/(deferred taxes) as at 1 January	(2 488)	(90)
16		Implementation of IFRS 9		347
(5 788)	3 550	Changes recorded against profits	4 456	(2 708)
13	(5)	Changes recorded against comprehensive income	(71)	(15)
(8)	(2)	Currency translation differences on deferred taxes	1	(22)
2 574	6 117	Deferred tax assets/(deferred taxes) as at 31 December	1 898	(2 488)

Deferred tax assets and deferred taxes in the balance sheet relates to the following temporary differences	Deferred tax assets		Deferred taxes	DNB Bank ASA
Amounts in NOK million	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Fixed assets and intangible assets	(947)	(813)	87	88
Commercial paper and bonds	(748)	(1 532)		
Debt securities issued	900	1 030		
Financial derivatives	5 795	2 800		
Net pension liabilities	858	781		
Net other tax-deductable temporary differences	(110)	(164)	1	2
Tax losses and tax credits carried forward	457	562		
Total deferred tax assets	6 205	2 664	88	90

Deferred tax assets and deferred taxes in the balance sheet relates to the following temporary differences	Deferred tax assets		Deferred taxes	DNB Bank Group
Amounts in NOK million	31 Dec. 2019	31 Dec. 2018	31 Dec. 2019	31 Dec. 2018
Fixed assets and intangible assets	(1 022)	2	13	905
Commercial paper and bonds	(748)		34	1 568
Debt securities issued	5 863			(4 557)
Financial derivatives	(3 946)	10		6 499
Net pension liabilities	884	30		(770)
Net other tax-deductable temporary differences	59	417	13	301
Tax losses and tax credits carried forward	868	524		(475)
Total deferred tax assets	1 958	983	60	3 471

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.

Due to large exchange rate fluctuations in 2019 and 2018, 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.

Note 25 Taxes (continued)

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

Amounts in NOK million	31 December 2019			31 December 2018		
Tax losses carried forward	Total tax losses carried forward	Of which as for tax assets	Recognised tax asset	Total tax carried	Of which as for tax assets	Recognised tax asset
Singapore	305	305	52	510	510	87
Total of tax losses and tax assets	305	305	52	510	510	87
Tax credits carried forward [1)]			405			475
Total of deferred tax assets from tax losses and tax credits carried forward			**457**			**562**

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

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

Amounts in NOK million	31 December 2019			31 December 2018		
Tax losses carried forward	Total tax losses carried forward	Of which as for tax assets	Recognised tax asset	Total tax carried	Of which as for tax assets	Recognised tax asset
Norway	189			677		
Singapore	305	305	52	510	510	87
Denmark	1 868	1 868	411	1 986	1 986	437
Total of tax losses and tax assets	2 362	2 173	463	3 173	2 496	524
Tax credits carried forward [1)]			405			475
Total of deferred tax assets from tax losses and tax credits carried forward			**868**			**999**

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 2019 **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					301 246	301 246
Due from credit institutions					394 237	394 237
Loans to customers			8 495	127 055	744 653	880 203
Commercial paper and bonds	70 882		108 865	52 013	151	231 910
Shareholdings	5 151	857				6 008
Financial derivatives	129 695	6 560				136 255
Investments accounted for by the equity method					2 575	2 575
Investments in subsidiaries					113 810	113 810
Other assets					10 247	10 247
Total financial assets	205 728	7 417	117 360	179 068	1 566 918	2 076 490
Due to credit institutions			0		277 188	277 188
Deposits from customers			19 535		937 120	956 655
Financial derivatives	166 943	1 406				168 349
Debt securities issued [4)]	63		7 657		408 845	416 565
Other liabilities	10 883				32 815	43 698
Subordinated loan capital			176		30 919	31 095
Total financial liabilities [5)]	177 889	1 406	27 369		1 686 887	1 893 551

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) The measurement category for debt securities issued in Norwegian kroner with floating rates has been changed from FVTPL to amortised cost as of 31 December 2019. Comparative information has not been restated.
5) Contractual obligations of financial liabilities designated as at fair value totalled NOK 27 397 million.

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 accounted for by the equity method					9 541	9 541
Investments in subsidiaries					100 670	100 670
Other assets					20 880	20 880
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				22 389	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) Includes hedged liabilities.
4) Contractual obligations of financial liabilities designated as at fair value totalled NOK 23 926 million.

Note 26 Classification of financial instruments (continued)

As at 31 December 2019 **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					304 746	304 746
Due from credit institutions					101 165	101 165
Loans to customers		11	49 985	(0)	1 621 354	1 671 350
Commercial paper and bonds	68 416		95 089	52 013	6 850	222 368
Shareholdings	5 151	2 328				7 479
Financial derivatives	97 243	28 121				125 364
Other assets					6 236	6 236
Total financial assets	170 810	30 460	145 074	52 013	2 040 351	2 438 707
Due to credit institutions			0		202 177	202 177
Deposits from customers			19 535		957 996	977 530
Financial derivatives	114 480	1 390				115 871
Debt securities issued [4)]	63		21 694		849 875	871 632
Other liabilities	10 883				7 492	18 375
Subordinated loan capital			176		30 919	31 095
Total financial liabilities [5)]	125 426	1 390	41 405		2 048 458	2 216 680

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) *The measurement category for debt securities issued in Norwegian kroner with floating rates has been changed from FVTPL to amortised cost as of 31 December 2019. Comparative information has not been restated.*
5) *Contractual obligations of financial liabilities designated as at fair value totalled NOK 41 015 million.*

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	(0)	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					6 509	6 509
Total financial assets	220 141	26 070	188 419	(0)	1 844 941	2 279 571
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) *Includes hedged liabilities.*
4) *Contractual obligations of financial liabilities designated as at fair value totalled NOK 95 052 million.*

Note 27 Fair value of financial instruments at amortised cost

DNB Bank ASA

Amounts in NOK million	31 December 2019 Carrying amount	31 December 2019 Fair value	31 December 2018 Carrying amount	31 December 2018 Fair value
Cash and deposits with central banks	301 246	301 246	154 595	154 595
Due from credit institutions	394 237	394 345	428 648	428 697
Loans to customers	744 653	749 234	671 292	675 446
Commercial paper and bonds	151	151		
Total financial assets	1 440 287	1 444 976	1 254 535	1 258 738
Due to credit institutions	277 188	277 188	277 437	277 437
Deposits from customers	937 120	937 120	901 578	901 578
Debt securities issued [1)]	408 845	409 888	328 073	330 167
Subordinated loan capital	30 919	30 941	28 599	27 384
Total financial liabilities	1 654 072	1 655 138	1 535 686	1 536 566

DNB Bank Group

Amounts in NOK million	31 December 2019 Carrying amount	31 December 2019 Fair value	31 December 2018 Carrying amount	31 December 2018 Fair value
Cash and deposits with central banks	304 746	304 746	155 592	155 592
Due from credit institutions	101 165	101 165	128 415	128 415
Loans to customers	1 621 354	1 626 124	1 549 223	1 553 049
Commercial paper and bonds	6 850	6 640	5 201	5 231
Total financial assets	2 034 115	2 038 675	1 838 431	1 842 288
Due to credit institutions	202 177	202 168	187 307	187 299
Deposits from customers	957 996	955 550	925 407	925 548
Debt securities issued [1)]	849 875	853 449	724 394	729 357
Subordinated loan capital	30 919	30 941	28 599	27 384
Total financial liabilities	2 040 966	2 042 109	1 865 707	1 869 588

DNB Bank ASA

Amounts in NOK million	Valuation based on quoted prices in an active market Level 1 [2)]	Valuation based on observable market data Level 2 [2)]	Valuation based on inputs other than observable market data Level 3 [2)]	Total
Assets as at 31 December 2019				
Cash and deposits with central banks		301 246		301 246
Due from credit institutions		389 026	5 318	394 345
Loans to customers			749 234	749 234
Commercial paper and bonds			151	151
Liabilities as at 31 December 2019				
Due to credit institutions		277 188		277 188
Deposits from customers		937 120		937 120
Debt securities issued [1)]		409 888		409 888
Subordinated loan capital		16 279	14 662	30 941

DNB Bank Group

Amounts in NOK million	Valuation based on quoted prices in an active market Level 1 [2)]	Valuation based on observable market data Level 2 [2)]	Valuation based on inputs other than observable market data Level 3 [2)]	Total
Assets as at 31 December 2019				
Cash and deposits with central banks		304 746		304 746
Due from credit institutions		101 165		101 165
Loans to customers		722 352	903 772	1 626 124
Commercial paper and bonds			6 640	6 640
Liabilities as at 31 December 2019				
Due to credit institutions		202 168		202 168
Deposits from customers		955 550		955 550
Debt securities issued [1)]		817 927	35 522	853 449
Subordinated loan capital		16 279	14 662	30 941

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 [2)]	Valuation based on observable market data Level 2 [2)]	Valuation based on inputs other than observable market data Level 3 [2)]	Total
Assets as at 31 December 2018				
Cash and deposits with central banks		154 595		154 595
Due from credit institutions		423 354	5 343	428 697
Loans to customers			675 446	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		2 929	24 455	27 384

				DNB Bank Group
Amounts in NOK million	Valuation based on quoted prices in an active market Level 1 [2)]	Valuation based on observable market data Level 2 [2)]	Valuation based on inputs other than observable market data Level 3 [2)]	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		2 929	24 455	27 384

1) *The measurement category for debt securities issued in Norwegian kroner with floating rates has been changed from FVTPL to amortised cost as of 31 December 2019. Comparative information has not been restated.*
2) *See note 28 Financial instruments at fair value for a definition of the levels.*

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 and the divisions in large corporates and international customers. 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 2019 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 2019				
Loans to customers		127 055	8 495	135 550
Commercial paper and bonds	22 432	208 972	356	231 759
Shareholdings	5 116	259	633	6 008
Financial derivatives	244	134 143	1 868	136 255
Liabilities as at 31 December 2019				
Deposits from customers		19 535		19 535
Debt securities issued [1)]		7 720		7 720
Subordinated loan capital [1)]		176		176
Financial derivatives	261	166 553	1 536	168 349
Other financial liabilities [2)]	10 883			10 883
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 [2)]	3 157			3 157

1) The measurement category for debt securities issued in Norwegian kroner with floating rates has been changed from FVTPL to amortised cost as of 31 December 2019. Comparative information has not been restated.

2) 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 2019				
Loans to customers			49 995	49 995
Commercial paper and bonds	22 432	192 730	356	215 518
Shareholdings	6 414	270	795	7 479
Financial derivatives	244	123 252	1 868	125 364
Liabilities as at 31 December 2019				
Deposits from customers		19 535		19 535
Debt securities issued [1)]		21 757		21 757
Subordinated loan capital [1)]		176		176
Financial derivatives	261	114 074	1 536	115 871
Other financial liabilities [2)]	10 883			10 883
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 [2)]	3 157			3 157

1) *The measurement category for debt securities issued in Norwegian kroner with floating rates has been changed from FVTPL to amortised cost as of 31 December 2019. Comparative information has not been restated.*
2) *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. Transfers between levels in the fair value hierarchy are reflected as taking place at the end of each quarter. 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.

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 2019 or 2018.

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 1 Januar 2018	**6 259**	**328**	**527**	**2 069**	**1 749**
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**
Net gains recognised in the income statement	(17)	(156)	62	(535)	(215)
Additions/purchases	2 188	419	112	1 152	849
Sales	(28)	(280)	(125)		
Settled	(1 157)			(774)	(753)
Transferred from level 1 or level 2		129			
Transferred to level 1 or level 2		(135)			
Other		60		(11)	1
Carrying amount as at 31 December 2019	**8 495**	**356**	**633**	**1 868**	**1 536**

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 1 Januar 2018	**46 605**	**328**	**621**	**2 069**	**1 749**
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**
Net gains recognised in the income statement	(188)	(156)	62	(535)	(215)
Additions/purchases	9 696	419	128	1 152	849
Sales		(280)	(136)		
Settled	(8 306)			(774)	(753)
Transferred from level 1 or level 2		129			
Transferred to level 1 or level 2		(135)			
Other		60	(0)	(11)	1
Carrying amount as at 31 December 2019	**49 995**	**356**	**795**	**1 868**	**1 536**

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 49 985 million at year-end 2019.

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.

Breakdown of fair value, level 3

DNB Bank ASA

	31 December 2019			31 December 2018		
Amounts in NOK million	Loans to customers	Commercial paper and bonds	Share-holdings	Loans to customers	Commercial paper and bonds	Share-holdings
Principal amount/purchase price	8 540	386	558	7 537	362	536
Fair value adjustment [1)]	(58)	(31)	76	(40)	(44)	47
Accrued interest	13			12		
Carrying amount	8 495	356	633	7 509	319	583

Breakdown of fair value, level 3

DNB Bank Group

	31 December 2019			31 December 2018		
Amounts in NOK million	Loans to customers	Commercial paper and bonds	Share-holdings	Loans to customers	Commercial paper and bonds	Share-holdings
Principal amount/purchase price	49 832	386	647	48 443	362	628
Fair value adjustment [1)]	92	(31)	147	280	(44)	113
Accrued interest	71			70		
Carrying amount	49 995	356	795	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.

Breakdown of shareholdings, level 3

DNB Bank ASA

Amounts in NOK million	Unquoted equities	Private Equity (PE) funds	Other	Total
Carrying amount as at 31 December 2019	475	149	9	633
Carrying amount as at 31 December 2018	390	183	11	583

Breakdown of shareholdings, level 3

DNB Bank Group

Amounts in NOK million	Unquoted equities	Private Equity (PE) funds	Other	Total
Carrying amount as at 31 December 2019	636	149	9	795
Carrying amount as at 31 December 2018	548	183	11	741

Note 28 Financial instruments at fair value (continued)

Sensitivity analysis, level 3 **DNB Bank ASA**

	31 December 2019		31 December 2018	
Amounts in NOK million	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
Loans to customers	8 495	(31)	7 509	(28)
Commercial paper and bonds	356	(1)	319	(4)
Shareholdings	633		583	
Financial derivatives, net	333		382	

Sensitivity analysis, level 3 **DNB Bank Group**

	31 December 2019		31 December 2018	
Amounts in NOK million	Carrying amount	Effect of reasonably possible alternative assumptions	Carrying amount	Effect of reasonably possible alternative assumptions
Loans to customers	49 995	(146)	48 794	(147)
Commercial paper and bonds	356	(1)	319	(4)
Shareholdings	795		741	
Financial derivatives, net	333		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 2019						
Cash and deposits with central banks [2]	40 014		40 014		40 014	
Due from credit institutions [2]	84 877		84 877		84 877	
Loans to customers [2]	81 733		81 733		81 733	
Financial derivatives [3]	136 255		136 255	14 439	78 999	42 816
Liabilities as at 31 December 2019						
Due to credit institutions [2]	94 601		94 601		94 601	
Deposits from customers [2]	9 844		9 844		9 844	
Financial derivatives [3]	168 349		168 349	14 439	81 213	72 697
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

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 2019						
Cash and deposits with central banks [2]	40 014		40 014		40 014	
Due from credit institutions [2]	84 877		84 877		84 877	
Loans to customers [2]	81 733		81 733		81 733	
Financial derivatives [3]	125 364		125 364	14 439	78 435	32 490
Liabilities as at 31 December 2019						
Due to credit institutions [2]	89 387		89 387		89 387	
Deposits from customers [2]	9 844		9 844		9 844	
Financial derivatives [3]	115 871		115 871	14 439	78 264	23 168

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

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

DNB Bank ASA			DNB Bank Group	
31 Dec. 2018	31 Dec. 2019	*Amounts in NOK million*	31 Dec. 2019	31 Dec. 2018
6 580	**6 008**	**Total shareholdings**	**7 479**	**7 955**

Note 31 Transferred assets or assets with other restrictions

DNB Bank ASA		Transferred assets still recognised in the balance sheet	DNB Bank Group	
31 Dec. 2018	31 Dec. 2019	*Amounts in NOK million*	31 Dec. 2019	31 Dec. 2018
		Repurchase agreements		
5 096	6 265	Commercial paper and bonds	6 377	1 588
		Derivatives		
30 575	22 115	Commercial paper and bonds	17 438	3 592
		Securities lending		
311	138	Shares	138	311
35 982	28 518	Total repurchase agreements and securities lending	23 954	5 490

DNB Bank ASA		Liabilities associated with the assets	DNB Bank Group	
31 Dec. 2018	31 Dec. 2019	*Amounts in NOK million*	31 Dec. 2019	31 Dec. 2018
		Repurchase agreements		
4 233	6 261	Due to credit institutions	6 373	727
860		Deposits from customers		860
30 575	22 115	**Derivatives**	17 438	3 592
326	145	**Securities lending**	145	326
35 994	28 521	Total liabilities	23 957	5 505

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	DNB Boligkreditt AS	
Amounts in NOK million	31 Dec. 2019	31 Dec. 2018
Pool of eligible loans	632 580	623 859
Market value of eligible derivatives	41 595	39 482
Total collateralised assets	674 176	663 342
Debt securities issued, carrying value	471 715	478 548
Less valuation changes attributable to changes in credit risk on debt carried at fair value	(78)	(358)
Debt securities issued, valued according to regulation [1)]	471 637	478 189
Collateralisation (per cent)	142.9	138.7

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. 2018	31 Dec. 2019	*Amounts in NOK million*	31 Dec. 2019	31 Dec. 2018
		Reverse repurchase agreements		
159 302	185 623	Commercial paper and bonds	185 623	159 302
		Securities borrowing		
54 807	23 886	Shares	23 886	54 807
214 109	209 509	Total securities received	209 509	214 109
		Of which securities received and subsequently sold or repledged:		
39 263	*81 698*	*Commercial paper and bonds*	*75 901*	*25 272*
16 140	*16 286*	*Shares*	*16 286*	*16 140*

Note 33 Investment properties

Amounts included in the income statement	DNB Bank Group	
Amounts in NOK million	2019	2018
Rental income from investment properties	20	74
Direct expenses (including repairs and maintenance) related to investment properties generating rental income	(17)	(46)
Direct expenses (including repairs and maintenance) related to investment properties not generating rental income		(0)
Total	3	28

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 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**
Additions, purchases of new properties	177
Additions, capitalised investments	0
Additions, acquired companies	0
Net gains	(5)
Disposals	(60)
Exchange rate movements	(8)
Carrying amount as at 31 December 2019	**741**

Contractual commitments related to the acquisition or construction of investment properties, not capitalised as at 31 December 2018 0

Note 34 Investments accounted for by the equity method

Income statement

DNB Bank Group

Amounts in NOK million	Luminor 2019	Luminor 2018	Vipps 2019	Vipps 2018	Eksportfinans 2019	Eksportfinans 2018	Other 2019	Other 2018	Total 2019	Total 2018
Income [1)]	3 908	3 749	743	555	229	185				
Profits after tax [1)]	513	1 228	(249)	(199)	106	71				
Share of profits after tax	102	533	(112)	(88)	42	29				
Deprecation and impairment of value adjustments after tax [2)]			(126)	(134)						
Other adjustments [2)]	146	(33)	59	(7)						
The Group's share of profits after tax	248	501	(178)	(230)	42	29	190	15	302	314

Balance sheets

DNB Bank Group

Amounts in NOK million	Luminor 31.12.19	Luminor 31.12.18	Vipps 31.12.19	Vipps 31.12.18	Eksportfinans 31.12.19	Eksportfinans 31.12.18	Other 31.12.19	Other 31.12.18	Total 31.12.19	Total 31.12.18
Financial instruments [1)]	134 048	150 705	104	57	13 618	17 814				
Goodwill and intangible assets [1)]	81	74	2 291	2 312	8	0				
Other assets [1)]	1 441	1 399	315	187	956	1 411				
Debt [1)]	119 427	134 290	204	308	8 116	12 804				
Equity [1)]	16 143	17 888	2 506	2 248	6 466	6 422				
The Group's share of equity	3 221	7 769	1 125	996	2 587	2 569				
Goodwill [2)]										
Value adjustments after tax [2)]			102	217						
Eliminations [2)]		(88)	(294)	(305)						
Carrying amount	3 221	7 680	932	907	2 587	2 569	727	651	7 467	11 807

DNB Bank Group

Amounts in NOK million	Head office	Industry	Ownership share (%) 31 Dec. 2019	Ownership share (%) 31 Dec. 2018	Carrying amount 31 Dec. 2019	Carrying amount 31 Dec. 2018
Luminor Holding AS	Tallinn	Financial services	20	43	3 221	7 680
Vipps AS	Oslo	Payment services	45	44	932	907
Eksportfinans AS	Oslo	Financial services	40	40	2 587	2 569
Other associated companies					727	651
Total					**7 467**	**11 807**

DNB Bank ASA

Amounts in NOK million	Head office	Industry	Ownership share (%) 31 Dec. 2019	Ownership share (%) 31 Dec. 2018	Carrying amount 31 Dec. 2019	Carrying amount 31 Dec. 2018
Luminor Holding AS	Tallinn	Financial services	20	43		7 150
Vipps AS	Oslo	Payment services	45	44	1 733	1 529
Eksportfinans AS	Oslo	Financial services	40	40	719	719
Other associated companies					123	143
Total					**2 575**	**9 541**

1) Values in the accounts of associated companies. Preliminary and unaudited accounts have been used.
2) Include deferred tax positions and value adjustments not reflected in the company's balance sheet.

Transactions 2019

On 30 September, DNB completed the sale of part of its ownership interest in the Baltic banking group Luminor to a consortium led by private equity funds managed by Blackstone. After the transaction, DNB holds a 20 per cent stake in the Luminor Group through the wholly owned subsidiary DNB Baltic Invest AB.

Transactions 2018

At the end of April 2018, the Norwegian Competition Authority approved the merger between Vipps, BankID Norge and BankAxept. Finanstilsynet gave its approval at the beginning of June 2018.

Note 35 Investments in subsidiaries as at 31 December 2019

Amounts in 1 000 *Values in NOK unless otherwise indicated*		Share capital	Number of shares	Ownership share in per cent	**DNB Bank ASA** Carrying amount
Foreign subsidiaries					
DNB Invest Denmark	DKK	877 579	877 578 841	100	10 771 846
DNB Baltic Invest	EUR	5 000	1 000	100	7 109 621
DNB Bank Polska	PLN	1 257 200	1 257 200 000	100	1 773 564
DNB Asia [1)]	USD	788 226	150 000 000	100	6 771 427
DNB Asia [1)]	SGD	20 000	20 000 000	100	100 768
DNB Auto Finance	EUR	100	60	60	73 999
DNB Capital [2)]				100	21 089 040
DNB Luxembourg	EUR	70 000	70 000	100	690 662
DNB Markets Inc.	USD	1	1 000	100	3 220
DNB Sweden	SEK	100 000	100 000 000	100	13 697 224
DNB (UK) Limited	GBP	1 154 200	1 154 200 000	100	13 397 677
Domestic subsidiaries					
Aksje- og Eiendomsinvest		100	100 000	100	15 483
Bryggetorget Holding		2 500	2 500	100	28 230
DNB Boligkreditt		5 257 000	52 570 000	100	37 634 000
DNB Eiendom		10 003	100 033	100	168 241
DNB Eiendomsutvikling		91 200	91 200 000	100	253 931
DNB Gjenstandsadministrasjon		3 000	30	100	3 000
DNB Invest Holding		1 000	200 000	100	22 000
DNB Næringsmegling		1 000	10 000	100	24 000
DNB Polish Properties		1 200	1 200	100	10 113
DNB Ventures		100	1 000	100	96 420
Godfjorden		1 000	10 000	100	23 128
IOS Tubular Management		900	750	100	42 200
Kongsberg Industrieiendom		100	1 000	100	10 000
Total investments in subsidiaries					**113 809 794**

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 2019 increased the value of investments in subsidiaries by NOK 459 million, which was offset by a corresponding reduction in the value of hedging contracts, adjusted for tax effects. In 2018, there was an increase in the value of investments in subsidiaries by NOK 1 060 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 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**
Cost as at 1 January 2019	2 856	2 640	701	6 197
Additions		310		310
Disposals			(0)	(0)
Exchange rate movements	(13)	(0)	(6)	(20)
Cost as at 31 December 2019	2 843	2 949	695	6 486
Total depreciation and impairment as at 1 January 2019	(467)	(1 637)	(664)	(2 768)
Depreciation		(302)	(30)	(333)
Disposals			0	0
Exchange rate movements		0	6	7
Total depreciation and impairment as at 31 December 2019	(467)	(1 938)	(689)	(3 094)
Carrying amount as at 31 December 2019	**2 376**	**1 010**	**6**	**3 392**

Note 36 Intangible assets (continued)

Amounts in NOK million	Goodwill	Capitalised systems development	Other intangible assets	Total
				DNB Bank Group
Cost as at 1 January 2018	3 949	3 801	964	8 714
Additions	5	441	20	466
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**
Cost as at 1 January 2019	3 929	4 037	994	8 960
Additions		317	49	365
Disposals	(2)	(16)	6	(13)
Exchange rate movements	(14)	(0)	(6)	(20)
Cost as at 31 December 2019	3 913	4 337	1 043	9 293
Total depreciation and impairment as at 1 January 2019	(1 362)	(2 966)	(891)	(5 218)
Depreciation		(316)	(46)	(361)
Impairment			(0)	(0)
Disposals		9	16	25
Exchange rate movements		0	6	6
Total depreciation and impairment as at 31 December 2019	(1 362)	(3 272)	(915)	(5 549)
Carrying amount as at 31 December 2019	**2 551**	**1 065**	**128**	**3 744**

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 2.0 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)

Goodwill per unit as at 31 December 2019

DNB Bank ASA Recorded (NOK million)	DNB Bank ASA Required rate of return (per cent)		DNB Bank Group Required rate of return (per cent)	DNB Bank Group Recorded (NOK million)
982	11.4	Personal customers	11.4	982
483	11.4	Small and medium sized enterprises	11.4	483
753	11.5	DNB Finans - car financing	11.5	753
158	11.5	Other	11.5	334
2 376		**Total goodwill**		**2 551**

Goodwill per unit as at 31 December 2018

DNB Bank ASA Recorded (NOK million)	DNB Bank ASA Required rate of return (per cent)		DNB Bank Group Required rate of return (per cent)	DNB Bank Group 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**

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	Right of use assets	Total
Accumulated cost as at 31 Dec. 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 Dec. 2018	162	3 467	9 769	18		13 416
Total depreciation and impairment as at 31 Dec. 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 Dec. 2018	(56)	(2 255)	(2 688)	(5)		(5 003)
Carrying amount as at 31 Dec. 2018	106	1 212	7 082	13		8 413
Accumulated cost as at 31 Dec. 2018/1 Jan. 2019	162	3 467	9 769	18	5 019	18 435
Additions		586	3 495	6	355	4 442
Disposals	(3)	(256)	(1 912)	(0)	(101)	(2 273)
Reorganisations		38			36	74
Exchange rate movements	5	0	(69)	(0)	(19)	(83)
Cost as at 31 Dec. 2019	163	3 835	11 284	24	5 290	20 596
Total depreciation and impairment as at 31 Dec. 2018	(56)	(2 255)	(2 688)	(5)		(5 003)
Disposals		255	1 241		15	1 511
Depreciation [1)]	(9)	(367)	(1 500)	(2)	(657)	(2 535)
Reorganisations		(18)			(11)	(29)
Impairment			(1)			(1)
Exchange rate movements	(2)	(0)	21	0	(1)	18
Total depreciation and impairment as at 31 Dec. 2019	(67)	(2 385)	(2 927)	(7)	(654)	(6 039)
Carrying amount as at 31 Dec. 2019	96	1 450	8 357	17	4 636	14 557

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	Right of use assets	Total
Accumulated cost as at 31 Dec. 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 Dec. 2018	162	3 620	9 769	56		13 607
Total depreciation and impairment as at 31 Dec. 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 Dec. 2018	(56)	(2 356)	(2 688)	(38)		(5 138)
Carrying amount as at 31 Dec. 2018	106	1 263	7 082	18		8 470
Accumulated cost as at 31 Dec. 2018/1 Jan. 2019	162	3 620	9 769	56	5 261	18 868
Additions		597	3 495	6	520	4 618
Disposals	(3)	(271)	(1 912)	(3)	(101)	(2 290)
Exchange rate movements	5	1	(69)	(0)	(24)	(88)
Cost as at 31 Dec. 2019	164	3 946	11 284	59	5 656	21 108
Total depreciation and impairment as at 31 Dec. 2018	(56)	(2 356)	(2 688)	(38)		(5 138)
Disposals		268	1 241	2	15	1 526
Depreciation 1)	(9)	(379)	(1 500)	(4)	(730)	(2 622)
Impairment			(1)		(9)	(10)
Exchange rate movements	(2)	(0)	21	0	(1)	18
Total depreciation and impairment as at 31 Dec. 2019	(67)	(2 468)	(2 927)	(39)	(725)	(6 226)
Carrying amount as at 31 Dec. 2019	97	1 477	8 357	20	4 931	14 882

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 Finans offers operational and financial leasing contracts, fleet management and loans to corporate customers, public sector entities and consumer in Norway, Sweden, Denmark and Finland. The business is conducted through vendor partnerships and direct sales, in close cooperation with the client advisers in DNB Bank where possible. Focus is on financing standard assets where there is an existing and functioning second hand market. The largest asset class in the portfolio is passenger cars and LCVs. Other large asset classes are buses, trucks and trailers and construction equipment and machinery.

Financial leases (as lessor)

DNB Bank ASA			DNB Bank Group	
31 Dec. 2018	31 Dec. 2019	*Amounts in NOK million*	31 Dec. 2019	31 Dec. 2018
		Gross investment in the lease		
13 630	9 733	Due within 1 year	10 117	13 685
34 359	42 263	Due in 1-5 years	42 909	34 995
3 828	10 892	Due in more than 5 years	10 749	3 829
51 817	62 889	Total gross investment in the lease	63 776	52 510
		Present value of minimum lease payments		
13 207	9 430	Due within 1 year	9 803	13 261
27 659	34 021	Due in 1-5 years	33 986	27 738
2 538	7 238	Due in more than 5 years	7 127	2 538
43 404	50 689	Total present value of lease payments	50 916	43 537
8 413	12 200	Unearned financial income	12 860	8 972
78	87	Unguaranteed residual values accruing to the lessor	87	78
2 279	2 539	Accumulated loan-loss provisions	2 542	2 279
60	68	Variable lease payments recognised as income during the period	68	61

Operational leases (as lessor)

DNB Bank ASA			DNB Bank Group	
31 Dec. 2018	31 Dec. 2019	*Amounts in NOK million*	31 Dec. 2019	31 Dec. 2018
		Future minimum lease payments under non-cancellable leases		
887	1 049	Due within 1 year	1 074	887
3 093	5 335	Due in 1-5 years	5 336	3 093
37	62	Due in more than 5 years	62	37
4 017	6 446	Total future minimum lease payments under non-cancellable leases	6 471	4 017

Leases (as lessee)

DNB Bank ASA			DNB Bank Group	
31 Dec. 2018	31 Dec. 2019	*Amounts in NOK million*	31 Dec. 2019	31 Dec. 2018
		Minimum future lease payments under non-cancellable leases		
77	118	Due within 1 year	119	90
542	648	Due in 1-5 years	686	613
4 841	4 781	Due in more than 5 years	4 781	4 841
5 460	5 547	Total minimum future lease payments under non-cancellable leases	5 586	5 544
298	265	Total minimum future sublease payments expected to be received under non-cancellable subleases	112	284

DNB Bank ASA		DNB Bank Group
Sum of lease liability	*Amounts in NOK million*	Sum of lease liability
5 267	Lease liabilities as at 1 January 2019	5 349
115	Interest expense	115
518	Additions	519
(849)	Payments	(874)
10	Other	(19)
5 060	Lease liabilities as at 31 December 2019	5 090

DNB Bank ASA has applied the low value threshold for assets with total value of approximately NOK 90 million as at 31 December 2019. The total value as at 1 January 2019 was approximately NOK 40 million.

Note 39 Other assets

DNB Bank ASA 31 Dec. 2018	31 Dec. 2019	Amounts in NOK million	DNB Bank Group 31 Dec. 2019	31 Dec. 2018
412	438	Accrued expenses and prepaid revenues	452	478
1 000	1 816	Amounts outstanding on documentary credits and other payment services	1 816	1 000
2 320	1 710	Unsettled contract notes	1 710	2 320
18 195	7 932	Other amounts outstanding 1)	4 125	3 952
21 928	**11 897**	**Total other assets 2)**	**8 103**	**7 750**

1) DNB Bank ASA had outstanding group contributions totaling NOK 4 912 million as at 31 December 2019.
2) Other assets are generally of a short-term nature.

Note 40 Deposits from customers by industry segment

DNB Bank ASA 31 Dec. 2018	31 Dec. 2019	Amounts in NOK million	DNB Bank Group 31 Dec. 2019	31 Dec. 2018
32 154	41 737	Bank, insurance and portfolio management	41 803	32 299
44 340	47 021	Commercial real estate	46 874	44 065
39 015	32 025	Shipping	32 787	39 484
60 185	51 131	Oil, gas and offshore	51 364	60 185
10 931	12 281	Power and renewables	13 318	11 632
7 423	9 919	Healthcare	9 927	7 432
49 358	52 467	Public sector	53 134	50 046
13 535	13 786	Fishing, fish farming and farming	13 787	13 551
27 148	27 739	Retail industries	32 592	28 954
48 105	47 241	Manufacturing	47 969	50 484
12 380	17 356	Technology, media and telecom	18 555	14 386
88 613	93 056	Services	94 356	88 957
15 675	17 443	Residential property	17 215	15 419
364 662	373 550	Personal customers	380 217	372 024
102 736	119 903	Other corporate customers	123 631	111 168
916 258	**956 655**	**Deposits from customers**	**977 530**	**940 087**

Note 41 Debt securities issued

Changes in debt securities issued

DNB Bank ASA

Amounts in NOK million	Balance sheet 31 Dec. 2019	Issued 2019	Matured/ redeemed 2019	Echange rate movements 2019	Other adjustments 2019	Balance sheet 31 Dec. 2018
Commercial paper issued, nominal amount	188 120	977 397	(885 921)	(78 087)		174 732
Bond debt, nominal amount [1) 3)]	222 550	91 027	(23 208)	674		154 057
Adjustments	5 895				(633)	6 528
Total debt securities issued	**416 565**	**1 068 424**	**(909 130)**	**(77 413)**	**(633)**	**335 317**

Maturity of debt securities issued measured at amortised cost as at 31 December 2019 [1) 2) 3)]

DNB Bank ASA

Amounts in NOK million	NOK	Foreign currency	Total
2020		188 054	188 054
Total commercial paper issued, nominal amount		188 054	188 054
2020	93	51 415	51 508
2021		35 264	35 264
2022	5 463	51 451	56 914
2023	2 800	49 848	52 649
2024		12 915	12 915
2025		444	444
2026 and later		5 240	5 240
Total bond debt, nominal amount	8 357	206 577	214 934

Maturity of debt securities issued measured at fair value as at 31 December 2019 [1) 3)]

DNB Bank ASA

Amounts in NOK million	NOK	Foreign currency	Total
2020	66		66
Total commercial paper issued, nominal amount	66		66
2020	498		498
2021	3 444		3 444
2022	594		594
2023	2 944		2 944
2024	125		125
2025	2		2
2026 and later	9		9
Total bond debt, nominal amount	7 616		7 616
Total debt securities issued, nominal amount	7 682		7 682
Adjustments	71	5 824	5 895
Debt securities issued	16 110	400 455	416 565

1) Minus own bonds.
2) Includes hedged items.
3) The measurement category for debt securities issued in Norwegian kroner with floating rates has been changed from FVTPL to amortised cost as of 31 December 2019. Comparative information has not been restated.

Note 41 Debt securities issued (continued)

Changes in debt securities issued

DNB Bank Group

Amounts in NOK million	Balance sheet 31 Dec. 2019	Issued 2019	Matured/ redeemed 2019	Echange rate movements 2019	Other adjustments 2019	Balance sheet 31 Dec. 2018
Commercial paper issued, nominal amount	188 120	977 397	(885 921)	(78 087)		174 732
Bond debt, nominal amount 1)3)	655 455	119 704	(69 194)	(1 008)		605 952
Adjustments	28 057				4 945	23 112
Total debt securities issued	**871 632**	**1 097 101**	**(955 115)**	**(79 095)**	**4 945**	**803 796**

Maturity of debt securities issued measured at amortised cost as at 31 December 2019 1) 2) 3)

DNB Bank Group

Amounts in NOK million	NOK	Foreign currency	Total
2020		188 054	188 054
Total commercial paper issued, nominal amount		188 054	188 054
2020	11 324	87 736	99 060
2021	18 222	86 214	104 435
2022	24 072	120 321	144 394
2023	2 800	116 725	119 525
2024	5 683	47 040	52 723
2025		24 382	24 382
2026 and later	120	89 789	89 909
Total bond debt, nominal amount	62 221	572 208	634 428

Maturity of debt securities issued measured at fair value as at 31 December 2019 1) 3)

DNB Bank Group

Amounts in NOK million	NOK	Foreign currency	Total
2020	66		66
Total commercial paper issued, nominal amount	66		66
2020	498		498
2021	6 097		6 097
2022	6 094		6 094
2023	3 201		3 201
2024	1 125		1 125
2025	1 502		1 502
2026 and later	2 509		2 509
Total bond debt, nominal amount	21 027		21 027
Total debt securities issued, nominal amount	21 092		21 092
Adjustments	853	27 204	28 057
Debt securities issued	84 167	787 466	871 632

1) *Minus own bonds. Nominal amount of outstanding covered bonds in DNB Boligkreditt totalled NOK 449.0 billion as at 31 December 2019. The cover pool market value represented NOK 632.6 billion.*
2) *Includes hedged items.*
3) *The measurement category for debt securities issued in Norwegian kroner with floating rates has been changed from FVTPL to amortised cost as of 31 December 2019. Comparative information has not been restated.*

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. 2019	Issued 2019	Matured/ redeemed 2019	Exchange rate movements 2019	Other adjustments 2019	Balance sheet 31 Dec. 2018
Term subordinated loan capital, nominal amount	24 943	8 998	(8 998)	(167)		25 110
Perpetual subordinated loan capital, nominal amount	5 774			81		5 693
Perpetual subordinated loan capital securities, nominal amount						
Adjustments	378				100	278
Total subordinated loan capital and perpetual subordinated loan capital securities	**31 095**	**8 998**	**(8 998)**	**(86)**	**100**	**31 082**

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	945
2015	SEK	3 000	3-month STIBOR + 1.40%	2025	2020	2 834
2016	JPY	10 000	1.00% p.a.	2026	2021	809
2017	JPY	11 500	1.04% p.a.	2027	2022	931
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	708
2017	SEK	1 000	1.98% p.a.	2027	2022	945
2017	EUR	650	1.25% p.a.	2027	2022	6 413
2018	JPY	25 000	0.75% p.a.	2028	2023	2 024
2018	NOK	900	3-month NIBOR + 1.10%	2028	2023	900
2018	SEK	700	3-month STIBOR + 1.06%	2028	2023	661
2018	SEK	300	1.61% p.a.	2028	2023	283
2018	EUR	600	1.13% p.a.	2028	2023	5 920
Total, nominal amount						24 943
Perpetual subordinated loan capital						
1985	USD	215	3-month LIBOR + 0.25%			1 889
1986	USD	200	6-month LIBOR + 0.13%			1 757
1986	USD	150	6-month LIBOR + 0.15%			1 318
1999	JPY	10 000	4.51% p.a.		2029	809
Total, nominal amount						5 774

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. 2018	31 Dec. 2019	*Amounts in NOK million*	31 Dec. 2019	31 Dec. 2018
645	446	Short-term funding	446	645
3 157	10 883	Short positions trading	10 883	3 157
3 770	3 200	Accrued expenses and prepaid revenues	3 407	4 051
2 211	1 391	Documentary credits, cheques and other payment services	1 391	2 211
1 771	1 379	Unsettled contract notes	1 379	1 771
10 758	25 841	Group contribution/dividends	(0)	0
720	1 233	Accounts payable	1 363	984
278	257	General employee bonus	257	278
	5 060	Lease liabilities	5 090	
2 237	2 526	Other liabilities	2 913	2 806
25 546	**52 215**	**Total other liabilities** [1]	**27 129**	**15 903**

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 2019 and 31 December 2018 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 2 208 million at 31 December 2019 and NOK 1 956 million at 31 December 2018.

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. 2019	Issued 2019	Interest paid 2019	Interest accrued 2019	Exchange rate movements 2019	Balance sheet 31 Dec. 2018
Additional Tier 1 capital, nominal amount	26 048	10 474				15 574
Adjustments	681		(1 052)	1 123	(10)	620
Additional Tier 1 capital	**26 729**	**10 474**	**(1 052)**	**1 123**	**(10)**	**16 194**

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
2019	NOK	2 700	3-month NIBOR + 3.50 %	2 700
2019	USD	850	4.875 % p.a.	7 774
Total, nominal amount				26 048

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:

A. Standards for the coming accounting year

Financial institutions are required to publish information about the main principles for determining remuneration, criteria for the stipulation of any variable remuneration and quantitative information on remuneration to senior executives. The information in the Board of Directors statement on the stipulation of salaries and other remuneration to senior executives below, represents such information, as stipulated in the Financial Institutions Regulations.

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 pensions) and employee benefits (personnel insurance and other employee benefits). The Group standard shall ensure that the Group's remuneration schemes comply with regulatory requirements and the government's guidelines on executive pay.

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 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 is based on an overall performance assessment in relation to the results achieved within defined target areas for the Group, unit and individual ('what we deliver'), as well as behaviour and target attainment related to the Group's purpose, values, Code of Conduct, compliance and leadership principles ('how we deliver'). Furthermore, it should counteract excessive risk-taking and promote sound and efficient 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.

The Group standard shall ensure that the use of variable remuneration complies with the regulatory provisions that apply to the Group's various areas of operation and geographical locations. Special rules have been adopted for variable remuneration to senior executives, employees with responsibilities which are of great importance to the company's risk exposure ('risk takers'), and employees in independent control functions.

DNB's variable remuneration scheme applies globally, though non-Norwegian branch offices and subsidiaries will also be required to comply with local legislation. In cases where Norwegian regulations deviate from local legislation, the Group will seek advice from the relevant authorities and international experts to ensure that the practice is in compliance with both Norwegian and local regulations.

Remunerations to the Group Chief Executive Officer (CEO) 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 remunerations shall inspire conduct that builds the desired corporate culture with regard 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.

The Board emphasises the government's guidelines on executive pay when designing and determining remuneration schemes for the Group. Any deviations from these guidelines must be justified in accordance with the guidelines' 'comply-or-explain' principle.

<u>Remuneration structure</u>

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 allocated. 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.

<u>Variable remuneration</u>

The Board of Directors will determine overall criteria, principles and framework for variable remuneration. 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. 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.

For 2020, the Board of Directors has decided that target attainment related to the Group's financial ambitions for return on equity and cost/income ratio should have a weighting of 60 per cent when determining variable remuneration. In addition to the financial targets, strategy-related qualitative and quantitative targets have been established. The degree of achievement of these targets is determined based on an overall assessment and has a weighting of 40 per cent. Conditions such as compliance and ethical behaviour are also included in the overall assessment. 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 allocating the variable remuneration for 2020. 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 2020.

The variable remuneration for 2020 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.

Note 45 Remunerations etc. (continued)

The Board of Directors will determine a maximum limit for total variable remuneration in the Group, excluding DNB Markets, DNB Eiendom and investment managers in DNB Asset Management. The limit is determined based on the attainment of Group targets over the past two years, combined with a general assessment of other important parameters and the Group's financial capacity. This 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, separate 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. Similarly, 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 risk takers

DNB has prepared and implemented special rules for identified risk takers, employees responsible for independent control functions and senior executives, hereinafter referred to as risk takers. The special rules supplement the general Group standard for remuneration and have been formulated in compliance with the Financial Services Regulations and the related circular from Finanstilsynet (the Financial Supervisory Authority of Norway).

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 in this area.

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.

For risk takers, 50 per cent of the earned variable remuneration after tax is deferred and conditional and paid in the form of DNB shares. The remuneration paid in the form of shares is subject to a minimum holding period and is released in stages over three years. The deferred and conditional payments will be in compliance with the stipulations in the Financial Services Regulation. During the period in which the right to the shares/instruments is conditional, a subsequent risk adjustment shall be made, including adjustments related to compliance. If the assessment shows that the original risk adjustment was incorrect, the risk taker's right to conditionally allocated shares may be wholly or partly repealed. The same applies if the allocation was found to be based on incorrect grounds or insufficient information.

Shares with a minimum holding period have a lower market value than freely negotiable shares. In order to compensate for this disadvantage, additional shares are granted corresponding to the difference in the estimated market value of freely negotiable shares and shares with the applicable holding period. The calculation is performed according to recognised methodology for such pricing and in line with Norwegian tax assessment practice.

Pensions, etc.

Pension schemes and any agreements on termination payments etc. should be considered relative to other remuneration and should ensure competitive terms.

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

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

Termination payment agreements and pension schemes must comply with the government's guidelines on executive pay. As a main rule, the Group will honour existing agreements.

Remuneration to senior executives

The Group Chief Executive Officer's remuneration is determined by the Board of Directors. The Group Chief Executive Officer determines the remuneration to senior executives in agreement with the Board.

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. The remuneration should promote the Group's competitiveness in the relevant labour market without making the Group a market leader in terms of salaries, and also promote the Group's profitability, as well as the desired income and cost development. The total remuneration should take into account DNB's reputation and ensure that DNB attracts and retains senior executives with the desired skills and experience. Taking all this into account, the Board emphasises moderation in the determination of the remuneration to senior executives.

The fixed salary and supplementary pay related to the position are subject to an annual evaluation and 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 remuneration cannot exceed 50 per cent of fixed salary.

Note 45 Remunerations etc. (continued)

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.

A conditional agreement has been entered into with some members of the Group Management team that an additional 30 per cent of ordinary fixed salary is to be paid in shares. This amount is set aside throughout the year, and the net amount after tax is used to purchase shares in DNB ASA after the end of the year, with a minimum holding period for as long as the person is part of the Group Management team. After leaving this position, the shares are released in stages over a period of three years. This scheme is subject to the Annual General Meeting's approval. Should the Annual General Meeting not approve the scheme, entitlements from the scheme will be paid as a lump sum, and the 30 per cent supplement will be replaced by an increase in the ordinary fixed salary.

B. Statement on the senior executive salary policy in the previous accounting year

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

Total remuneration of the Group Chief Executive Officer (CEO)

The CEO's total remuneration consists of fixed salary (main element), benefits in kind, variable remuneration and pension and insurance schemes. The total remuneration is determined on the basis of an overall assessment of performance where the main element of the variable part of the remuneration is based on the Group's financial targets. In addition to the financial targets, strategic goals have been established for 2019 where, among other things, developments in the organisation's competence, innovative power and corporate responsibility have been assessed. In the Board of Directors' overall assessment of the CEO's variable remuneration, emphasis is also placed on compliance with external and internal regulations, ethical guidelines and leadership principles. The total remuneration to the CEO should be competitive, but not market-leading. DNB's reputation must also be taken into account.

In connection with the appointment of Kjerstin R. Braathen as new CEO, the Board of Directors made a thorough assessment of the CEO's total remuneration. The Board considered factors such as the complexity of the position as CEO of DNB, as well as Braathen's characteristics and competence, compared with similar positions in the Norwegian business community and other Nordic financial institutions. The Board decided on a total remuneration on the same level as the former CEO, Rune Bjerke. The Board considers this to be a competitive level, also in comparison with other large Norwegian companies with state ownership. The Board considers that a continuation of the former CEO's total remuneration level is in accordance with the principle in the government guidelines that the remuneration to senior executives should not have an adverse effect on the company or the company's reputation.

Braathen's pension rights give significantly lower annual accruals compared with Rune Bjerke's pension rights. A higher fixed salary has therefore been agreed with the new CEO, as well as a conditional agreement on fixed salary in the form of shares. The various remuneration elements are described below.

The CEO's fixed salary

Upon taking over as CEO, the CEO's fixed salary was set at NOK 7 665 000. The fixed salary is subject to annual evaluation and is determined based on, among other things, salary levels in the labour market in general and in the financial industry in particular, and on remuneration levels for comparable positions.

A conditional agreement has also been entered into with the CEO, that a supplement of 30 per cent of the fixed salary is to be paid in the form of shares. The agreement is conditional because it requires approval by the Annual General Meeting. The amount is set aside throughout the year, and the net amount after tax is to be used to purchase shares in DNB ASA, with a minimum holding period for as long as the CEO holds the position. Upon leaving this position, the shares are released in stages over a period of three years. Should the General Meeting not approve the scheme, entitlements from the scheme will be paid as a lump sum, and the 30 per cent supplement will be replaced by an increase in the CEO's ordinary fixed salary. Consequently, the CEO's total remuneration is not affected by parts of the fixed salary being paid in the form of shares.

The CEO's variable remuneration

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

The CEO's benefits in kind

In addition to variable remuneration, the CEO can be granted benefits in kind such as company cars, newspapers/periodicals and phones/communication devices. The granting of benefits in kind must be related to the CEO's function in the Group or be in line with market practice, and should not be significant in relation to the CEO's fixed salary.

The CEO's pension scheme

The CEO is a member of the defined-contribution pension scheme pursuant to the Occupational Pension Act, with a pensionable income equivalent to 12 times the National Insurance basic amount (G), on a par with all other employees in Norway.

The CEO also has a defined-contribution direct pension agreement. This agreement was continued from a previous position with equal annual earnings in NOK as before becoming CEO. The annual contribution will be adjusted in line with ordinary changes in pensionable income. After the age of 67, no further contribution will be accrued in the defined-contribution direct pension agreement.

Note 45 Remunerations etc. (continued)

In connection with the appointment, the Board considered the CEO's individual pension agreement, also in relation to the government's guidelines on executive pay. The government's guidelines state that senior executives' pension terms must be in line with other employees' terms in the company, and that the pensionable income should not exceed 12 times the National Insurance basic amount, which is the maximum limit in Norwegian tax-favoured group pension schemes. The 2015 document 'The Government's Ownership Policy', specifies an expectation that companies in internal recruitment processes for leading positions renegotiate existing agreements, in order to bring the remuneration up to compliance with the government's guidelines.

When the CEO's employment contract was negotiated in June 2019, the Board of Directors decided to continue the individual pension agreement. In addition to the negotiation situation, the Board emphasised that the rights attached to the CEO's individual accumulation of pension entitlements were originally established in 2003. The Board also emphasised that the long term of the agreement has formed the basis of the CEO's financial planning and allocations over several years, and that a cancellation of the agreement would have had unreasonable effects.

Against this background, the Board considered that there were special circumstances that provided a basis for departing from the government's guidelines with regard to pensions.

<u>The CEO's term of notice and termination payment rights</u>
The CEO has a term of notice of six months. In the event of a termination of the employment initiated by the employer, the CEO is entitled to a termination payment equivalent to six months' fixed salary at the end of the term of notice. If the CEO enters another employment relationship, the termination payment shall be reduced. According to the government's guidelines on executive pay, the termination payment shall be reduced by a proportionate amount based on the annual income in the new employment relationship. To provide an extra incentive to find other employment during the termination pay period, thereby reducing DNB's cost of the agreement, the Board of Directors chose a wording in the termination payment clause stating that the CEO's termination payment will be reduced by an amount equivalent to up to half of the income earned during the termination payment period. Supplementary benefits are retained for a period of three months.

<u>Other conditional agreements on fixed salary in the form of shares</u>
A conditional agreement has been entered into with two Group Executive Vice Presidents, that a supplement of 30 per cent of ordinary fixed salary is to be paid in shares. This amount is set aside throughout the year, and the net amount after tax is used to purchase shares in DNB ASA after the end of the year, with a minimum holding period for as long as the person is part of the Group Management team. After leaving these positions, the shares will be released in stages over a period of three years. This scheme is subject to the Annual General Meeting's approval. Should the Annual General Meeting not approve the scheme, entitlements from the scheme will be paid as a lump sum and the 30 per cent supplement will be replaced by an increase in the ordinary fixed salary. Consequently, the Group Executive Vice Presidents' total remuneration is not affected by parts of the fixed salary being paid in the form of shares.

<u>Changes in the Group Management team</u>
On 31 August 2019, Rune Bjerke resigned as CEO, but he will maintain his employment in DNB with other duties until June 2020. Bjerke's resignation agreement is within the financial framework agreed when he was appointed CEO in 2006 with effect from 1 January 2007. Kjerstin R. Braathen took over as CEO from 1 September 2019. At the same time, Ottar Ertzeid replaced Kjerstin R. Braathen as Chief Financial Officer (CFO), and Alexander Opstad was appointed acting Group Executive Vice President of DNB Markets.

The new Group structure from 23 September 2019 led to changes in the composition of the Group Management team. Maria Ervik Løvold, Alexander Opstad and Kari Bech-Moen became new permanent members of the Group Management team. Alf Otterstad left the Group Management team, but maintains his employment in DNB with other duties. Benedicte S. Fasmer and Solveig Hellebust left their positions, with agreements giving them the right to termination payment over a period of six months from the expiry of the term of notice. Other Group Executive Vice Presidents remained members of the Group Management team, some with altered responsibilities. Their terms have been adapted to their new responsibilities.

C. Binding guidelines 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 CEO, senior executives and other risk takers is invested in shares in DNB ASA, with a minimum holding period of one year for one-third, two years for one-third and three years for one-third of the shares.

A share programme will be established in 2020, in which members of Group Management can be included. The programme is approved by the Annual General Meeting by adopting these binding guidelines.

The purpose of the share programme is to strengthen the common interest of the company's management and shareholders, by increasing the shareholding of the Group Management. Participation in the share programme should not in itself cause an increase in the participants' total remuneration, but serve as an alternative to fixed salary in the form of cash. The size of the share programme will be an addition of up to 30 per cent of fixed salary in the form of cash, which will be determined when the participant is included in the programme. The amount is set aside throughout the year, and the net amount after tax is used to purchase shares in DNB ASA after the end of the year. DNB ASA carries out the share purchase on behalf of the employees by using net amount after tax to buy shares at market price immediately following the presentation of the DNB Group's results for the accrual year. The allocation of shares within the programme will not be based on performance-based criteria, and allocated shares are therefore regarded as fixed salary. Participants cannot dispose of the shares as long as they are part of the Group Management team (minimum holding period). Upon leaving the Group Management team, the shares are released over a period of three years, with one-third each year.

The Board of Directors has considered the scheme of fixed salary in the form of shares, also in relation to the government's guidelines on executive pay. These guidelines assume that the allocation of shares through a share programme must be based on performance-based criteria. In accordance with the guidelines, the government can accept a share programme with a limit of up to 30 per cent of fixed salary, in addition to a variable salary of up to 50 per cent of fixed salary.

Note 45 Remunerations etc. (continued)

Like the government guidelines, the special legislation for financial institutions limits variable remuneration to up to 50 per cent of fixed salary. The legislation for financial institutions does not, however, allow extending the limit for share programmes with performance-based criteria. Extending the limit for share programmes as part of fixed salary, without performance-based criteria, will be in compliance with the legislation applicable to financial institutions.

Against this background, the Board of Directors has considered whether a portion of the fixed salary for members of the Group Management should be paid in the form of shares instead of cash, and whether there is a basis for deviating from the requirement for performance-based criteria that follow from the government guidelines. The Board has emphasised that strengthening the common interest of the shareholders and the company's management is both positive and desired. The Board has also emphasised that the special legislation for financial institutions puts DNB in a different position than other companies with state ownership.

Following an overall assessment, the Board has concluded that the restrictions resulting from the special legislation applicable to financial institutions provide a basis for departing from the government guidelines.

Other shares, subscription rights, options and other kinds of remuneration only linked to shares or the development of the share price in the company or in other companies within the same Group, are not allocated to the CEO or senior executives. The CEO 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.

D. Statement on the effects on the company and the shareholders of remuneration in the form of shares, subscription rights, options, etc.

An amount corresponding to 50 per cent of the gross variable remuneration earned by the CEO, senior executives and other risk takers in 2019 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. The same will apply to the introduction of a fixed salary supplement in the form of shares, as described in section C.

Terms for the chair of the Board of Directors

In 2019, Olaug Svarva received a remuneration of NOK 587 thousand as Chair of the Board of Directors of DNB ASA, and a remuneration of NOK 472 thousand as Chair of the Board of Directors of DNB Bank ASA.

Terms for the Group Chief Executive Officer (CEO)

Kjerstin R. Braathen took over as CEO on 1 September 2019, with a fixed annual salary of NOK 7 665 thousand. In addition, Braathen receives a fixed salary supplement of 30 percent which is paid out in shares in 2020 with a minimum holding period as long as she is a member of the Group Management. The Board of Directors in DNB ASA set the CEO's variable remuneration for 2019 to NOK 2 230 thousand. Variable remuneration will be paid in 2020 of which 50 per cent is deferred and conditional and paid in the form of DNB shares. The share part is divided into three with a holding period of up to three years. Benefits in kind were estimated at NOK 213 thousand. Costs of NOK 774 thousand in connection with the CEO's pension scheme were recognised for the 2019 accounting year. The costs are divided between DNB ASA and DNB Bank ASA.

Former CEO Rune Bjerke received an ordinary remuneration of NOK 6 285 thousand in 2019, compared with NOK 6 173 thousand in 2018.

Subscription rights programme for employees

There was no subscription rights programme for employees in the DNB Bank Group at year-end 2019.

Note 45 Remunerations etc. (continued)

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

Remunerations etc. in 2019 **DNB Bank Group**

Amounts in NOK 1 000	Fixed annual salary as at 31 Dec. 2019 1)	Remunera-tion paid in 2019 2)	Paid salaries in 2019 3)	Variable remunera-tion earned in 2019 4)	Fixed salary supple-ment in 2019 5)	Benefits in kind and other benefits in 2019	Total remunera-tion in 2019	Loans as at 31 Dec. 2019 6)	Accrued pension expenses in 2019 7)
Board of Directors of DNB Bank ASA									
Olaug Svarva (Chair)		1 060				22	1 081		
Kim Wahl (Vice Chair from 30.04.19)		367					367	17	
Gro Bakstad (Vice Chair until 30.04.19)		515				1	516	24	
Lillian Hattrem	708	367	717	24		38	1 146	4 090	135
Jens Petter Olsen (from 30.04.19)		467					467	2 986	
Group Management									
Kjerstin R. Braathen, CEO	7 665		5 586	2 254	767	213	8 820	19	774
Rune Bjerke, CEO (until 01.09.19)	6 070		6 285	2 124		284	8 693	9 597	4 268
Ottar Ertzeid, CFO	6 200		8 763	3 499	620	249	13 131	28	831
Kari Bech-Moen, group EVP (from 23.09.19)	2 300		1 558	424		145	2 127	9 625	123
Benedicte S. Fasmer, group EVP (until 23.09.19)	3 530		3 624	1 524		545	5 693	6 243	123
Rasmus Aage Figenschou, group EVP	3 150		3 222	1 324		223	4 769	13 351	123
Håkon Hansen, group EVP	3 425		3 347	1 454		264	5 064	8 288	263
Solveig Hellebust, group EVP (until 23.09.19)	3 325		3 443	1 399		241	5 083	20	409
Ida Lerner, group EVP 8)	4 076		4 076	24		1 996	6 096		
Maria Ervik Løvold, group EVP (from 23.09.19)	3 200		2 344	824		192	3 360	9 188	211
Thomas Midteide, group EVP	3 170		3 268	1 324		246	4 838	2 022	276
Alexander Opstad, group EVP (from 01.09.19)	6 000		5 911	4 024	485	163	10 583	17 721	175
Alf Otterstad, group EVP (until 23.09.19)	3 200		3 325	1 124		234	4 683	2 397	123
Harald Serck-Hanssen, group EVP	4 700		4 638	1 904		261	6 803	3 571	1 304
Ingjerd Blekeli Spiten, group EVP	3 530		3 595	1 524		256	5 375	7 210	123
Mirella E. Wassiluk, group EVP	3 625		3 525	24		248	3 797	3 726	123
Loans to other employees								18 212 218	

1) *Fixed annual salary as 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 2019, the following amounts are related to their board positions in DNB Bank ASA:*
   Olaug Svarva: NOK 472 332
   Gro Bakstad: NOK 154 667
   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 in 2019, excluding holiday pay. The amount includes the Group bonus, which is paid according to defined allocation criteria to all permanent employees as at 31 December 2019. For senior executives who have changed positions during 2019, the basis for the variable remuneration is calculated pro rata for the old and the new position.*
5) *An agreement has been entered into with some members of the Group Management team concerning a fixed salary supplement, which will be allocated for share purchases (see description earlier in note 45).*
6) *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.*
7) *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.*
8) *Ida Lerner is on international assignment from Sweden to Norway. 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 2018 **DNB Bank Group**

Amounts in NOK 1 000	Fixed annual salary as at 31 Dec. 2018 [1]	Remunera-tion paid 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 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 R. 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. Wassiluk, group EVP (from 02.04.18)	3 600		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 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)

DNB Bank ASA		Remuneration to the statutory auditor	DNB Bank Group	
2018	2019	*Amounts in NOK 1 000, excluding VAT*	2019	2018
(13 335)	(13 990)	Statutory audit [1]	(23 463)	(23 911)
(1 664)	(3 153)	Other certification services	(4 068)	(2 464)
(4 477)	(6 219)	Tax-related advice [2]	(6 545)	(5 483)
(2 346)	(1 602)	Other services	(1 602)	(2 346)
(21 822)	**(24 963)**	**Total remuneration to the statutory auditor**	**(35 677)**	**(34 204)**

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, Industry and fisheries, 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	
	Group management and Board of Directors		Related companies	
Amounts in NOK million	2019	2018	2019	2018
Loans as at 1 January	78	56	21 976	22 315
New loans/repayments during the year	(15)	26	(254)	(339)
Changes in related parties	21	(3)	(21 026)	
Loans as at 31 December	**85**	**78**	**696**	**21 976**
Interest income	**2**	**1**	**8**	**34**
Deposits as at 1 January	144	245	1 116	1 434
Deposits/withdrawals during the year	(91)	96	30	(415)
Changes in related parties	8	(197)	312	97
Deposits as at 31 December	**61**	**144**	**1 458**	**1 116**
Interest expenses	**(0)**	**(0)**	**(13)**	**(6)**
Guarantees [1]	**-**	**-**	**1 462**	**2 480**

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 2018 and 2019. 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.

Note 46 Information on related parties (continued)

DNB Bank ASA		Transactions with other DNB Group companies [1]	DNB Bank Group	
2018	2019	*Amounts in NOK million*	2019	2018
321 860	321 289	Loans as at 31 December	29 688	27 435
29 425	16 301	Other receiveables as at 31 December [2]	267	805
105 661	90 526	Deposits as at 31 December	8 407	13 597
64 595	78 672	Other liabilities as at 31 December [2]	276	69
6 370	6 796	Interest income	864	653
(3 213)	(3 170)	Interest expenses	(102)	(45)
6 665	15 192	Net other operating income [3]	1 314	1 922
(86)	(360)	Operating expenses	(286)	(105)

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 2018 and 2019 were mainly financial derivative contracts with DNB Boligkreditt as counterparty and group contributions.
3) DNB Bank ASA recognised NOK 12 461 million and NOK 3 293 million in group contributions from subsidiaries in 2019 and 2018, respectively.

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 2019, portfolios of NOK 1.5 billion (NOK 3.5 billion in 2018) 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 2019 totalled NOK 0.7 billion (NOK 0.7 billion in 2018).

At end-December 2019 the bank had invested NOK 16.2 billion (NOK 9.7 billion in 2018) 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 5.2 billion at end-December 2019 (NOK 15.1 billion in 2018).

Boligkreditt has a long-term overdraft facility in DNB Bank ASA with a limit of NOK 170 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 2019, DNB Livsforsikring’s holding of listed DNB Boligkreditt bonds was valued at NOK 1.5 billion (NOK 1.9 billion in 2018).

Luminor Group AB

DNB’s ownership interest in Luminor Group AB at year-end 2019 was approximately 20 per cent. At year-end 2018, the ownership interest was approximately 44 per cent. At end-December 2019, DNB Bank ASA did not provide any funding to Luminor Group AB, whereas in 2018, the funding totalled NOK 21.0 billion.

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.

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 2019 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, 4 March 2020
The Board of Directors of DNB Bank ASA

Olaug Svarva
(Chair of the Board)

Kim Wahl
(Vice Chair of the Board)

Lillian Hattrem

Jens Petter Olsen

Kjerstin R. Braathen
(Group Chief Executive Officer, CEO)

Ottar Ertzeid
(Group Chief Financial Officer, CFO)

Statsautoriserte revisorer
Ernst & Young AS

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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 2019, 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 2019, 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 2019, 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 2019 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 2019. 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

Loans to customers represent NOK 1 671 350 million (68 % per cent) of total assets for the Group as at 31 December 2019. Financial commitments amount to 643 124 million as at 31 December 2019. Total expected credit losses on loans to customers and financial commitments amount to NOK 11 606 million, of which NOK 2 159 million is based on model calculations (stages 1 and 2) and NOK 9 447 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 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 on 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 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 53 014 million and liabilities of NOK 1 536 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.

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

Other information

Other information consists of the information included in the Company's annual report other than the financial statements and our auditor's report thereon. The Board of Directors and 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:

Building a better working world

- 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, 4 March 2020
ERNST & YOUNG AS

Anders Gøbel
State Authorised Public Accountant (Norway)

Governing bodies in DNB Bank ASA

As at 31 December 2019

Board of Directors

Members
Olaug Svarva, Oslo (chair)
Kim Wahl, Bærum (vice chair)
Lillian Hattrem, Ski [1)]
Jens Petter Olsen, Asker

Deputy for the employee representatives
Sigmund Hollerud, Oslo [1)]

Observer
Eli Solhaug, Oslo [1)]

Election Committee

Camilla Grieg, Bergen (chair)
Jan Tore Føsund, Oslo
Ingebret Hisdal, Oslo
André Støylen, Oslo

Group management

Group Chief Executive Officer (CEO)
Kjerstin R. Braathen

Group Chief Financial Officer (CFO)
Ottar Ertzeid

Group Executive Vice President Personal Banking
Ingjerd Blekeli Spiten

Group Executive Vice President Corporate Banking
Harald Serck-Hanssen

Group Executive Vice President Wealth Management
Håkon Hansen

Group Executive Vice President Markets
Alexander Opstad

Group Executive Vice President Payments & Innovation
Rasmus Figenschou

Group Executive Vice President People
Kari Bech-Moen

Group Executive Vice President Group Risk Management
Ida Lerner

Group Executive Vice President Technology & Services
Maria Ervik Løvold

Group Executive Vice President Group Compliance
Mirella E. Wassiluk

Group Executive Vice President Communications
Thomas Midteide

Group audit

Tor Steenfeldt-Foss

Statutory auditor

Ernst & Young AS (EY)

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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So you can stay ahead.

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