DNB Group

Annual report 2018

Creating value for customers, shareholders, employees and society at large.

Contents

About this report

The annual report for 2018 is an integrated report that shows how we work to create value in the short term and the long term for our employees, our shareholders and society at large.

Our integrated reporting is based on the framework from the International Integrated Reporting Council (IIRC) and satisfies the requirements of the standards from the Global Reporting Initiative (GRI) for reporting of sustainability data. The sustainability data has been verified by an external auditor.

A new element this year is DNB's Sustainability Factbook, which you will find enclosed as an attachment at the back of the annual report. The factbook is intended to clarify the connection between our business activities and our corporate responsibility, and contains an overview of relevant key figures for all the 15 topics identified in the materiality analysis. The indicators used in the factbook are from the GRI standards where relevant, and in addition we have used our own DNB indicators.

This report is also available in a digital version, and can be downloaded as a PDF file (ir.dnb.no/press-and-reports). In the sustainability library on DNB's website you will find more information about sustainability:

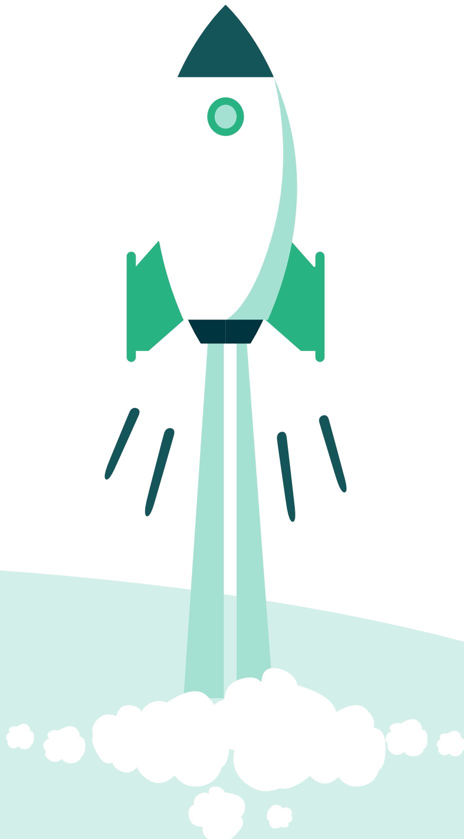
dnb.no/en/about-us/csr/sustainability-library.html

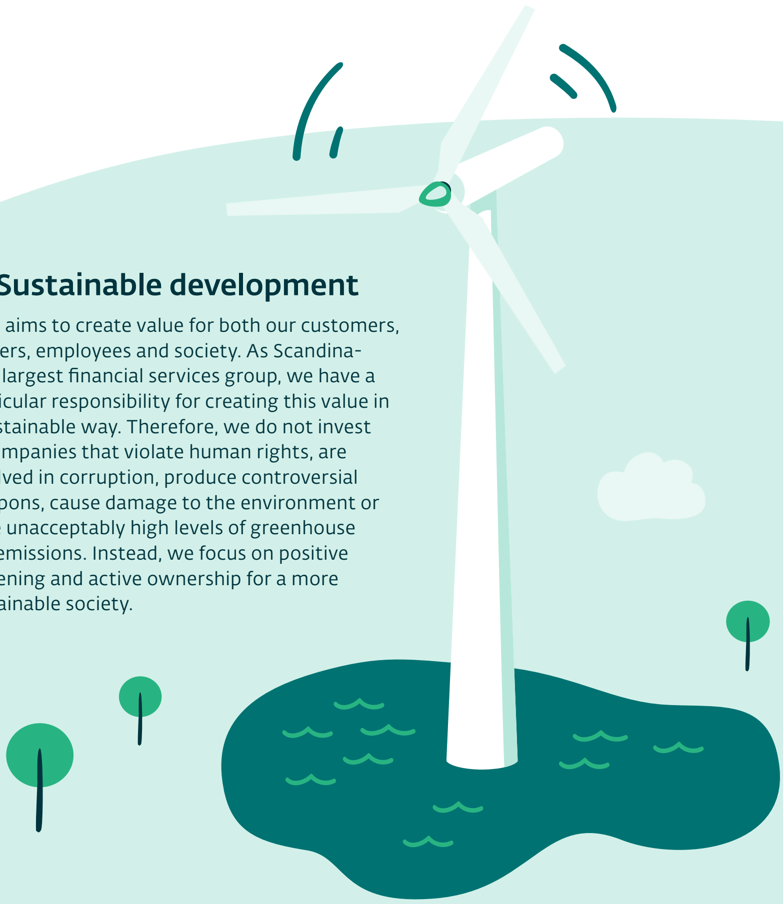
↗ Prevention of financial crime

Banks play an important role in combating social problems such as undeclared work, money laundering, corruption and other financial crime. In DNB, we are close to our customers and own a great deal of financial infrastructure. As such, we are also in a position to detect and stop suspicious transactions. DNB takes this task very seriously and has invested heavily in competence and systems. Over the last few years, the bank has reported more than 1 000 suspicious transactions a year to Økokrim (the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime).

↗ Training

The world is changing faster than ever and this requires us to constantly renew and expand our expertise. DNB is therefore working continuously to strengthen the organisation's digital and innovative capabilities, to ensure that we remain relevant for our customers, for our community and for the future. With more than two million personal customers we are in a key position to and thus also have a particular responsibility to help as many as possible master their own finances and make good financial decisions. We do this through advisory services, good systems and by offering courses to our personal and corporate customers.





→ Sustainable development

DNB aims to create value for both our customers, owners, employees and society. As Scandinavia's largest financial services group, we have a particular responsibility for creating this value in a sustainable way. Therefore, we do not invest in companies that violate human rights, are involved in corruption, produce controversial weapons, cause damage to the environment or have unacceptably high levels of greenhouse gas emissions. Instead, we focus on positive screening and active ownership for a more sustainable society.

↑ Innovation

In DNB, we have full focus on employee-driven innovation within our business operations – so-called intrapreneurship. Our innovative power lies in combining in-depth understanding of banking with smart solutions, to the benefit of our customers and society at large. This has led to the payment app Vipps, a new service for digital passport scanning and a host of other innovations. The focus on innovation has also resulted in DNB, in addition to being voted the most preferred employer for business students, already being rated among the top five most attractive employers for IT students.

→ Entrepreneurial initiatives

Value creation is also about establishing new businesses, thereby creating ripple effects for individuals and society as a whole. Therefore, DNB organises annual NXT conferences throughout the country to connect great ideas and investors. Here, the entrepreneurs can increase their skills, build networks and get good advice through lectures, corporate presentations and one-to-one meetings. In addition, DNB has a team of start-up pilots, standing by to help pioneering entrepreneurs get their businesses up and running – and thus go from dream to startup!

We are here.

So you can stay ahead.

↗ Equality and diversity

For DNB, equality and diversity means equal rights and opportunities for all, which is both ethically right and morally important. Furthermore, we are convinced that diversity promotes innovation and contributes to better decisions. As a large player in Norwegian society, we have the opportunity to influence both our customers' and suppliers' diversity and equality efforts. Therefore, this work is highly prioritised in DNB, and we have policies in place that are followed up in all parts of the organisation.

↙ A safe and secure bank

A high level of security is a prerequisite for preserving trust in the banking system. Not only should it be safe to use the mobile bank and DNB's other digital services, our customers and business partners should also feel a hundred per cent confident that personal data and customer information do not fall into the wrong hands. In DNB, we therefore spend considerable resources on systems and training to earn your trust now and in the future.

"Staying ahead of the changes"

GROUP CHIEF EXECUTIVE'S STATEMENT

DNB has embarked on a comprehensive and exciting change journey, and 2018 was yet another eventful year on our way to becoming an even more future-oriented bank. We took a number of active steps to keep the bank at the forefront of the changes we see in the world around us. We are constantly facing new regulations, new competition and increasing expectations from our customers. 2018 was the year when we combined Norwegian and world-leading financial technology in the payment app Vipps. It was the year when DNB and SpareBank 1 Gruppen joined forces in the field of insurance. It was the year when DNB took the position as Scandinavia's largest bank.

→

The financial services industry has always been subject to change and innovation. In fact, several of the greatest innovations of our time have been developed in the financial services industry, such as the ATM, the payment card and the Internet bank. Change is nothing new. However, the pace of the changes is new. I dare say that more has happened in the last five years than in the previous decade.

If we are to meet the growing competition generated by digitalisation, we have to think differently. This means investing more in IT, focusing more on skills enhancement and employee development, developing new, effective and customer-friendly solutions, as well as finding other ways of working. Our IT investments have never been higher than in 2018, and we do not expect them to be any lower in 2019. In previous years, we have spent far too much on severance packages in connection with organisational changes. In future, we will invest in skills enhancement and employee development. We do this, among other things, through our internal Data Scientist programme, in which 15 of our employees in 2018 were given the opportunity to become skilled data analysts.

One year after the launch of the new Group strategy, the pace of change has stabilised. The bank's employees have submitted more than 600 proofs that we, through our new strategy, have started using new ways of working in our quest to create the best customer experiences. The direction is set, now it is all about delivering results and experiences in line with the strategy.

One example of a new way of working is partnerships. The Norwegian financial services industry has deep and long-standing traditions of cooperation, demonstrated both through the BankID and BankAxept solutions, and more recently through the payment app Vipps. In 2018, the merger agreement between the three companies was approved by the Norwegian authorities. With more than 3.1 million users in Norway, and world-leading payment infrastructure and identification technology, the groundwork is laid for Vipps becoming a Norwegian export success story. At the end of last year, it was announced that Vipps plans to partner with the Chinese technology giant Alipay in order to expand to several European countries. The goal is that, before long, it will be possible to use Vipps in Europe, for instance to buy ice cream on the beach in Spain.

I would also like to highlight two other partnerships we have entered into in the past year. DNB's insurance company DNB Forsikring has teamed up with SpareBank 1 Gruppen's non-life insurance company to form Fremtind – a non-life insurance company that already has a strong position in the Norwegian market. Fremtind aims to become the country's leading player within non-life insurance. I am convinced that merging the knowledge and expertise held by these two companies will lead to even better services for our customers in the time to come.

We also signed an agreement with the British fintech company 11:FS in 2018, to establish the joint company 11:FS Foundry. The goal is that 11:FS Foundry, from its base in London, will build a new bank architecture from scratch. A new architecture, which in the future will make it even easier to frequently deliver new services to our customers. The cooperation with 11:FS is an exciting opportunity both for DNB and for our customers.

In 2018, we decided to reduce our ownership interest in the Baltic banking group Luminor, and together with the American Private Equity company Blackstone, we will continue to develop Luminor in the best interest of all the bank's customers.

The mobile savings application Spare led to a boost in the savings field in 2018. After a successful launch in 2017, where tens of thousands of customers downloaded the app, we had 320 000 active users by year-end 2018. The Spare app has become our most important sales channel for equity funds. This provides a great starting point for continuing our focus on savings initiatives. We aim to help our customers save money and realise their dreams, and we are looking forward to all the new products to be introduced in the course of 2019.

In addition to developing new and innovative products, it is also important to optimise and develop our core business. Our chat robot Aino can talk to 3 000 customers at the same time, and is becoming better and better with every customer who is helped, as a result of machine learning. At the same time, our internal efficiency program DigiDrift is daily leading to new simplifications of the manual processes – we have employed robots in as many as 35 processes so far, and there are more to come. This is a development that we welcome, and which we expect to accelerate in the years to come.

The year 2018 confirmed the importance of compliance. Other banks' challenges and lack of control in the Baltic States have placed anti-money laundering high on the agenda. Compliance and anti-money laundering efforts are also highly prioritised in DNB – as they have been for many years, and will be in the time ahead.

By the end of 2018, DNB had become Scandinavia's largest bank in terms of market value. This would not have been possible without the long-lasting and outstanding efforts of 10 000 DNBers, which I have the privilege of representing. But we must beware of becoming bigheaded. Our size means nothing if we are unable to create the best customer experiences.

We are also closer to the Group's overriding financial target – a return on equity above 12 per cent. For 2018, the return on equity was 11.7 per cent, compared with 10.4 per cent in 2017. We stand by our intention of reaching our target in the course of 2019.

Our strong capital level is a result of several years of systematic and targeted work. DNB has built up in excess of NOK 100 billion in common equity Tier 1 capital since 2007. This makes us well-positioned to meet future regulations, and to a greater extent allows us to focus on creating even more value for our owners, employees, customers and society at large.

Every day, DNB creates value that is channelled back to society. In fact, more than half of the money we earn goes back to the community through dividends, share repurchases and share price appreciation, in addition to the taxes and fees that we pay. A nice thought.

Players in the business community also play a role in society. As does DNB. Being Norway's largest bank involves a great deal of social responsibility. This role requires us to participate in the social debate, contribute to the restructuring of Norway and help solve the challenges, big or small, faced by the business community as well as private individuals. We are continuously working to integrate corporate responsibility in our processes. For instance by including corporate responsibility assessments in credit proposals, but also through our efforts to ensure diversity and equality. Although we are well on the way, this is important work that is far from completed.

We have chosen to endorse the United Nation's Sustainable Development Goals. The world around us is constantly changing, and this is something we need to acknowledge. We have identified goal number five on gender equality, and goal number eight on decent work and economic growth, as the areas where we have the best chance of making a difference. In 2018, the SHE Index appointed DNB as Norway's leading company in terms of gender equality. Even though this is a highly motivational appointment, there is no time for complacency. In future, we will not only work towards ensuring that both genders are well represented, we will also employ people of different ages, social backgrounds and ethnicities. Businesses that do not mirror their customers will lag behind. Diversity ensures development and is vital for all businesses.

In 2019, we will continue to deliver new and innovative services to our customers. Our employees put in a tremendous effort every single day. Whether they face competitors, regulations or other challenges. Nevertheless, the most important thing will always be the efforts we make for our customers. Both physically and on the phone. On the Internet and on the mobile. They are the ones we are here for.

We look forward to continuing our change journey.
We are here. So you can stay ahead.

Rune Bjerke

Rune Bjerke
Group chief executive

"Transparency builds trust"

CHAIR OF THE BOARD OF DIRECTORS' STATEMENT

Globalisation, new technology and expectations from customers and society require DNB to change. But even though many of our operations are continuously changing in step with our surroundings, some things remain unchanged. Stand firm. Like the fact that a particular responsibility rests with, and a set of expectations are attached to, being the largest bank in Norway – and now also in Scandinavia.

→

DNB is not only a solid bank and a major financial player, but also an important part of society. How DNB acts, has a great impact on society. Whether in the role as provider of an effective and robust financial infrastructure, or as a lender, manager of our customers' values, combatant of financial crime, adviser, investor or provider of other financial services. Not to mention in the role as employer for more than 9 000 employees and as a major purchaser of goods and services. DNB therefore plays an important role in society.

This involves a great deal of responsibility. To deliver on our purpose, and to be a company that succeeds with value creation now and in the future, it is crucial that we at the same time safeguard the interests of society.

DNB will create value for all its stakeholders. For customers, owners, employees and society at large. We must make sure that our customers know that we offer great products, services and advice. That our owners trust that the bank is able to evaluate risks and opportunities in order to create value. That our employees feel that they are part of something bigger and understand the ripple effects of DNB's activities. Our surroundings expect us to contribute positively to society and to remain a solid financial institution.

The bank's most important asset is not capital, but trust. Banks and financial institutions depend on trust to be able to operate. A bank without trust will no longer be able to deliver on its purpose. How we create value, and how we manage this trust, is therefore the very core of our corporate responsibility.

The trust of those around us gives us influential power. Being a responsible financial player is also about setting demands and expectations for our surroundings. Together we can make a positive contribution. We are conscious of the fact that capital provides an opportunity and a responsibility to influence.

DNB's various roles and functions are associated with a range of expectations and requirements. Nevertheless, we must ensure that there is consistency between our different roles and between our attitudes and actions. We cannot set higher requirements for other companies than we ourselves are able to meet, without losing people's trust. Integrity and credibility are essential for our ability to influence.

Issues related to sustainability and corporate responsibility are increasingly becoming the focus of attention. There are greater demands for reporting and transparency. And this serves society well. Because transparency builds trust, and it has been documented that there is a positive correlation between trust, sustainability and profitability. Players who are conscious of these issues, and who are also quick to adapt to the changes in their surroundings, will have a competitive advantage. Corporate responsibility is a premise for succeeding with long-term value creation and should, as such, be integrated in the company's strategy. Corporate responsibility is one of the four pillars of DNB's strategy. And a highly prioritised area in the Group.,

Beyond efforts to integrate corporate responsibility into the core business, DNB also has ambitions to strengthen our position within selected strategic areas. We have chosen to focus on helping our customers manage their own finances, ensuring that we have a robust and effective financial infrastructure and helping more startups succeed. In addition, we want to contribute to a safe digital economy and to combating widespread social problems such as undeclared work, corruption and other financial crime.

But nobody can succeed on their own. The challenges associated with ensuring a sustainable society are global. If we are to succeed in contributing to a sustainable development nationally and internationally, good business partners are essential. For example, in 2018, we joined the UN Global Compact Business Action Platform for the Ocean, where the academic world, the business community, authorities and organisations across industries and countries work together for a sustainable development of the ocean industries. In addition, we joined the Responsible Ship Recycling Initiative (RSRS), where DNB and other international banks are contributing to a more responsible practice for ship breaking.

The winners of tomorrow will be the companies that over time manage to create value for their stakeholders in a sustainable manner. DNB has very high ambitions in this area. It is a privilege to be in a position to influence. This is something DNB will capitalise on, both now and in the future.

Olaug Svarva

Olaug Svarva
Chair of the Board

CHAPTER 1

DNB in brief

Number of logins in the mobile bank per day

Financial highlights

Income statement
DNB Group

Amounts in NOK million	**2018**	**2017**	**2016**	**2015**	**2014**
Net interest income	36 822	35 422	34 110	35 358	32 487
→ Net commissions and fees	9 310	8 448	8 280	8 862	8 969
→ Net gains on financial instruments at fair value	1 342	4 548	6 513	8 683	5 317
→ Net financial and risk result, life insurance	969	1 295	664	(389)	609
→ Net insurance result, non-life insurance	622	683	648	534	491
→ Other operating income	1 302	744	1 948	959	1 490
Net other operating income, total	13 546	15 718	18 053	18 648	16 877
Total income	50 368	51 140	52 163	54 006	49 363
Operating expenses	(21 490)	(21 429)	(20 693)	(21 068)	(20 452)
Restructuring costs and non-recurring effects	(567)	(1 165)	(639)	1 157	(223)
Pre-tax operating profit before impairment	28 311	28 547	30 830	34 096	28 689
Net gains on fixed and intangible assets	529	738	(19)	45	52
Impairment of financial instruments	139	(2 428)	(7 424)	(2 270)	(1 639)
Pre-tax operating profit	28 979	26 858	23 387	31 871	27 102
Tax expense	(4 493)	(5 054)	(4 140)	(7 048)	(6 463)
Profit from operations held for sale, after taxes	(204)	(1)	4	(51)	(22)
Profit for the year	**24 282**	**21 803**	**19 251**	**24 772**	**20 617**

Balance sheet
DNB Group

Amounts in NOK million	**31 Dec. 2018**	**31 Dec. 2017**	**31 Dec. 2016**	**31 Dec. 2015**	**31 Dec. 2014**
Total assets	2 634 903	2 698 268	2 653 201	2 598 530	2 649 341
Loans to customers	1 597 758	1 545 415	1 509 078	1 542 744	1 438 839
Deposits from customers	927 092	971 137	934 897	944 428	941 534
Total equity	223 966	216 897	206 423	190 425	159 059
Average total assets	2 771 998	2 856 988	2 841 117	2 946 119	2 711 624
Total combined assets	2 950 748	3 026 065	2 930 891	2 900 714	2 936 331

Key figures and alternative performance measures

DNB Group

	2018	2017	2016	2015	2014
Return on equity, annualised (per cent)[1]	11.7	10.8	10.1	14.5	13.8
Earnings per share (NOK)	14.56	12.84	11.46	14.99	12.67
Combined weighted total average spread for lending and deposits (per cent) [1]	1.30	1.30	1.32	1.33	1.31
Average spread for ordinary lending to customers (per cent)[1]	1.94	2.07	2.04	2.17	2.33
Average spread for deposits from customers (per cent)[1]	0.29	0.17	0.21	0.01	(0.25)
Cost/income ratio (per cent)[1]	43.8	44.2	40.9	36.9	41.9
Ratio of customer deposits to net loans to customers at end of period[1]	58.0	62.8	62.0	61.2	65.4
Net loans and financial commitments in stage 2, per cent of net loans[1]	6.99				
Net loans and financial commitments in stage 3, per cent of net loans[1]	1.45	1.12	1.65	0.91	1.20
Impairment relative to average net loans to customers (per cent)[1]	0.01	(0.15)	(0.48)	(0.15)	(0.12)
Common equity Tier 1 capital ratio, transitional rules, at end of period (per cent)	16.4	16.4	16.0	14.4	12.7
Tier 1 capital ratio, transitional rules, at end of period (per cent)	17.7	17.9	17.6	15.3	13.0
Capital ratio, transitional rules, at end of period (per cent)	19.9	20.0	19.5	17.8	15.2
Leverage ratio (per cent)	7.5	7.2	7.3	6.7	n/a
Share price at end of period (NOK)	138.15	152.10	128.40	109.80	110.70
Price/book value[1]	1.06	1.23	1.10	0.98	1.13
Dividend per share (NOK)	8.25	7.10	5.70	4.50	3.80
Score from RepTrak's reputation survey in the fourth quarter (points)	72.5	66.3	64.0	70.1	67.8
Dialogues with companies where various ESG-related topics have been discussed (number)	176	176	72	27	30
Customer satisfaction index, CSI, personal customers in Norway (score)	74.7	69.5	70.2	73.9	71.1
Number of full-time positions at end of period	9 225	9 144	11 007	11 380	11 643
Female representation at management levels 1–4 (%)	38.1	37.0	33.5	31.3	30.5

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

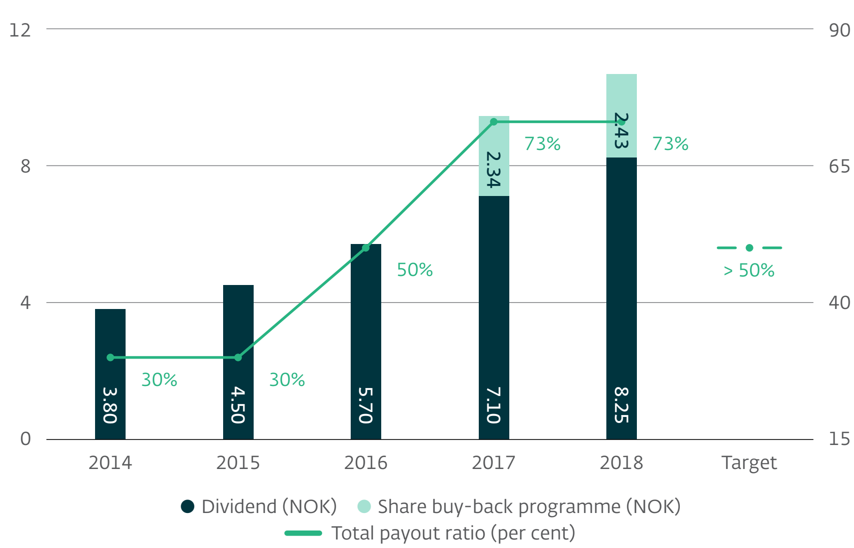
For additional key figures and definitions, please see the Fact Book on ir.dnb.no.

Global systemically important bank and indicator values

DNB Bank ASA has been defined by the EBA (European Banking Authority) as a potential global systemically important bank, as its total on and off-balance sheet exposures exceed EUR 200 billion. As a result, DNB Bank ASA delivers data to the EBA for the calculation of defined indicator values. See bis.org/bcbs/gsib/ for more information.
DNB's indicator values are available on ir.dnb.no.

The DNB Group's market capitalisation and equity
NOK billion

Share dividend and payout ratio
NOK per share *Per cent*



11.7 (10.8)
Return on equity (ROE) in per cent

16.4 (16.4)
Common equity Tier 1 capital ratio in per cent

84
SHE index score[1)]

72.5 (66.3)
Reputation score[2)]

74.7 (69.5)
Customer satisfaction score

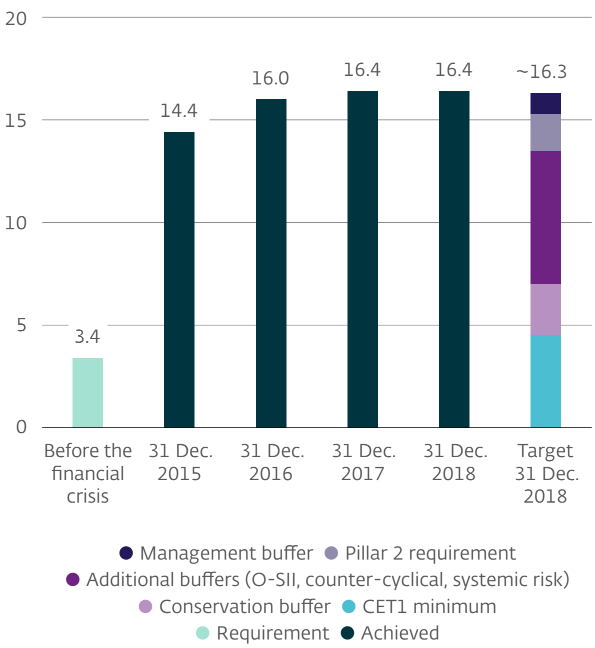
(The figures in parentheses refer to 2017)

1) Ranked number 1 among Norway's largest listed companies in 2018

2) RepTrak's reputation survey in Norway in the fourth quarter

Common equity Tier 1 capital ratio (incl. management buffer)[1)]

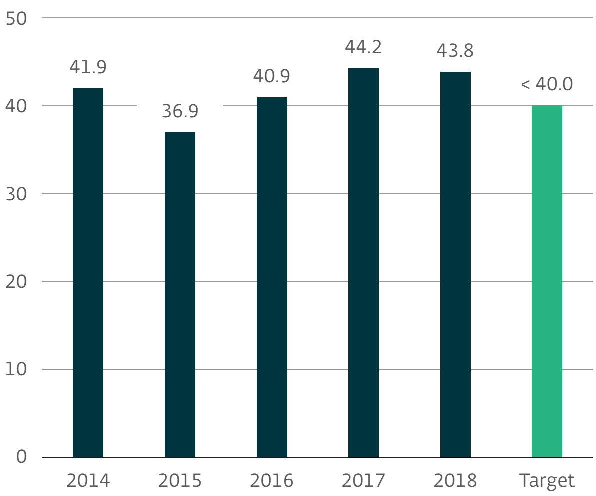
Per cent



1) According to transitional rules

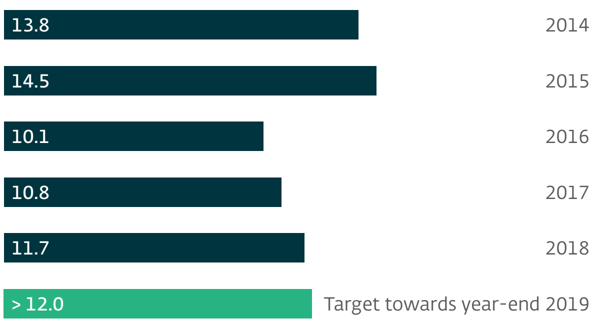
Cost/income ratio

Per cent



Return on equity (ROE)

Per cent



Female representation at management levels 1–4

Per cent

We are here

As Scandinavia's largest financial services group, we offer a complete range of financial services through mobile solutions, online banking, 24/7 customer service centres, branch offices, real estate broking and international offices.

We are Norway's leading financial services group with **2.1 million personal customers** and **221 000 corporate customers**.

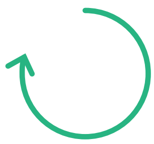
DNB carried out **269 million payment transactions** in 2018. This provides insight that DNB can transform into new value for the customers.

More than one million customers use our **mobile bank**, and in 2018, we registered on average 769 000 logins per day.

327 113 customers have downloaded the savings app Spare and saved NOK 1.6 billion in mutual funds since the beginning in 2017. At present, **25 per cent of all our new mutual fund sales take place in Spare**.

In 2018, a total of 5 061 start-up and growth companies received help and advice from **DNB's start-up pilots**.

As Norway's largest bank, we have a particular **responsibility and opportunity to contribute positively to society**. As the only Nordic bank, DNB received the highest score of A from CDP (formerly the Carbon Disclosure Project), which has evaluated 6 500 companies internationally and is particularly aimed at investors.

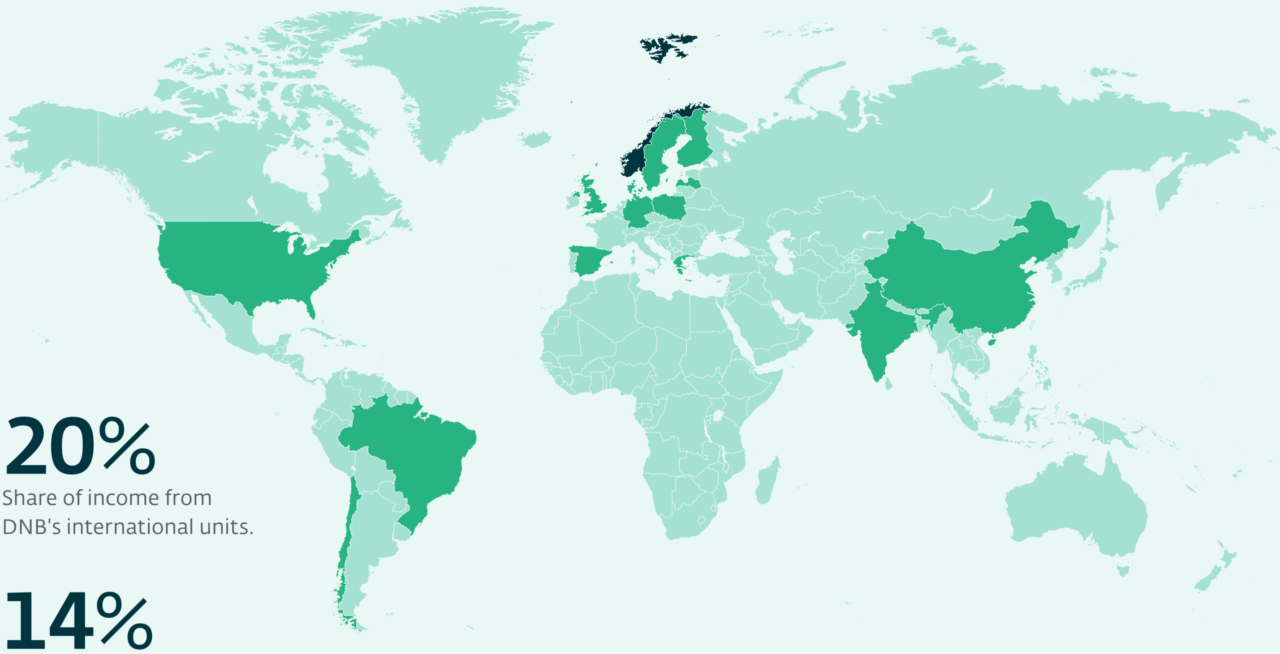


DNB offers super-fast processing of **digital mortgage applications – it only takes 2 minutes**. The share of mortgage applications received digitally has increased to above 80 per cent.

DNB Eiendom sold **23 563 residential properties** in 2018. This represents an average market share of **18.7 per cent**.

In 2018, DNB Markets participated in arranging **bond and commercial paper issues** to customers worth over NOK 400 billion.

DNB Livsforsikring had just over **1.2 million personal customers** with individual and group agreements and approximately **27 000 agreements** with companies at year-end 2018.



20%
Share of income from DNB's international units.

14%
Share of lending in DNB's international units.

24/7

DNB is open 24 hours a day, 365 days a year

The customer centres

Calls received:
Personal customers: 4 000 000
Corporate customers: 424 000

Chat conversations:
Personal customers: 1 210 000
Corporate customers: 147 000

Inquiries answered by chatbot:
Personal customers: 103 000
Corporate customers: 12 000

On Facebook, **29 000** unique messages received a response, with **463 000** responses to responses

MARKET SHARES IN NORWAY

Personal customer market as at 31 December 2018

24% Loans from financial institutions	**29%** Deposits	**27%** Home mortgages
39% Policyholders' funds[1]	**37%** Mutual fund investments	

Corporate customer market as at 31 December 2018

21% Loans from financial institutions	**36%** Deposits
19% Policyholders' funds[1,2]	**31%** Mutual fund investments

1) Figures as at 30 September 2018.
2) Includes the public sector.

Source: Statistics Norway and Finance Norway

Important events

Q1

→ At the beginning of January, DNB and **StartupLab**, Norway's leading start-up community, entered into a cooperation agreement that will enable the bank to explore commercial partnerships in several areas of operation.

→ The app **Enkel Bilhandel** (simple car purchase) was launched in mid-February. The app is for second-hand car purchases and handles the purchase contract, payment, any loan financing, insurance and re-registration.

→ DNB Markets was ranked **best brokerage house** in the Norwegian bond market by Prospera. In addition, Morningstar named DNB **best fixed-income fund house** in Norway for the fourth consecutive year, while one of DNB's funds was ranked best fixed-income fund.

→ At the end of March, Standard & Poor's upgraded its credit rating of DNB Bank from A+ stable to **A+ positive**.

Q2

→ The Norwegian Competition Authority and Finanstilsynet approved **the merger between Vipps, BankID Norge and BankAxept** thereby laying the foundation for creating even better customer experiences and strengthening our competitive position in the global market.

→ To support DNB's commitment to corporate responsibility, **Banking without Internet** was launched on 22 April, targeting the bank's non-digital customers.

→ DNB launched **Grønt Boliglån** (green home mortgages), giving more favourable terms to customers who take up loans for residential properties with an energy efficiency marking of A or B. DNB Boligkreditt issued its first green bonds.

→ DNB started cooperating with four other Nordic banks to develop a **common Know Your Customer (KYC) infrastructure**. This will ensure better customer experiences and prevent the criminal misuse of banks. The plan is to establish a joint venture with the other banks. However, the establishment of the company is subject to approval by the European Commission. The company will offer KYC services to all players in the Nordic market who need this.

→ In early June, DNB was ranked **Norway's fourth most innovative company** by the innovation magazine Innomag.

→ At the Annual General Meeting in April 2018, **Olaug Svarva** took over as chair of DNB's Board of Directors, succeeding Anne Carine Tanum, who held this position for ten years.

Q3

→ DNB and SpareBank 1 Gruppen entered into an agreement to **merge the non-life insurance operations**. The merger was approved just before end of 2018, making the new company, **Fremtind**, operative from 1 January 2019. DNB owns 35 per cent and has an option to increase its holding to 40 per cent.

→ An agreement was signed with Blackstone to **sell part of the Baltic bank Luminor**. The agreement implies that Blackstone will purchase 60.1 per cent of the Luminor Group from today's owners DNB and Nordea. DNB's ownership interest will be reduced from 43.5 per cent to 20 per cent as a consequence of the transaction. The transaction is expected to be completed during the first half of 2019, subject to regulatory approvals.

→ When **Google Assistant** was launched in Norway in the third quarter, **DNB was one of few contributors** to the voice platform. This underpins the bank's focus on digitalisation and this type of platform for customer communication.

→ DNB was ranked as the **third best bank in the world** on **environmental, social and governance (ESG) issues**. The rating was done by the company Sustainalytics, a global leader in ESG and Corporate Governance research and ratings.

→ Moody's changed their **outlook on Norwegian banks** from negative to stable when it comes to economic prospects.

Q4

→ **DNB established the company 11:FS Foundry** together with the British company 11:FS, one of the world's leading technologists. 11:FS is a highly profiled fintech player within banking and finance, and is right at the forefront of their field. Together with 11:FS, DNB will explore a whole new mind-set when it comes to technology and IT architecture, and **develop the banking solutions of tomorrow**.

→ A unique further education programme called Architect Greenhouse has been developed in collaboration with Oslo University, with an aim to **educate more IT architects**. The programme involves full-time, job-related studies over a period of three years for new DNB employees, and includes both practical and theoretical aspects.

→ **DNB Puls** was launched in the corporate market. This is an app created for managing directors or board chairpersons of small businesses, to provide improved overview and control – a **pocket-sized digital adviser and accountant for companies**.

→ DNB decided to prioritise law firms focusing on increasing the number of female partners. The bank therefore terminated its cooperation with one company and entered into closer cooperation with other law firms that are **working proactively to improve the gender balance in partnerships**.

→ For the fourth year running, DNB was voted **Norway's best brokerage house by Prospera**. DNB topped the rankings within the categories Domestic Equity, Research & Advisory, Execution and Corporate Access.

→ Morningstar rated **DNB Teknologi** as the world's best mutual fund among close to 48 000 mutual funds, based on the average return over a ten-year period.

→ As part of DNB's new business strategy, **DNB Venture** was established in 2017 to make investments in growth companies in the fintech industry. At the end of 2018, DNB Venture fund had made four investments in such companies in accordance with the investment mandate.

→ DNB's **reputation score** increased from 66.9 points in 2017 to 72.5 in 2018. In the same period, DNB's **customer satisfaction index** increased from 69.5 to 74.7 points.

→ After two years of climbing the rankings of the Norwegian ethical bank guide (Etisk bankguide, part of the Fair Finance Guide initiative), DNB was named "**Full Spectrum Bank of the year**" for our sustainability efforts within both governance and credit activities. Overall, the bank ended up in fourth place in the rankings.

→ As the only Nordic bank, DNB received the **highest score of A from CDP** (formerly the Carbon Disclosure Project), which this year evaluated 6 500 companies internationally and is particularly aimed at investors. Corporate governance, how the companies handle climate-related risks and opportunities, greenhouse gas emissions, reduction plans and general information about sustainability are some of the factors that are reported to CDP.

→ The European Banking Authority (EBA) launched the results of the EBA stress test for European banks. The test was very positive for DNB and revealed that the DNB Bank Group shows a **robust earning capacity and capital position**.

→ Standard & Poor's **ranked DNB number three** in the risk-adjusted capital (RAC) ranking for the top 50 rated Western European banks. In January 2019, they upgraded DNB Bank ASA's long-term credit rating from A+ to AA-, and the short-term rating from A-1 to A-1+. The outlook was changed to "stable".

The share

This is an overview of the development of the DNB share. You can find more information about the share on ir.dnb.no.

At year-end 2018, DNB was the third largest primary listed company on the Oslo Stock Exchange, and the largest financial services group in Scandinavia, with a market capitalisation of NOK 220 billion. The total return on the DNB share, including dividends, was negative 4.5 per cent in 2018. The unweighted average total return for the other Nordic financial services groups was negative 13.4 per cent. In the same period, the OSEBX[1)] index rose by 2 per cent, while the OSEFX[2)] index was negative 2.2 per cent. Over the past ten years, the DNB share has generally been priced higher than the book value (P/B ratio). At year-end, the share was traded at NOK 138.15 and 1.1 times the book vaule. The share price peaked at NOK 173.15 in September, while the lowest price of NOK 136.40 was recorded in December.

Total annual return as at 31 December 2018
Per cent

Source: Bloomberg

1) Oslo Stock Exchange Benchmark Index
2) Oslo Stock Exchange Mutual Fund Index
3) Nordic financial services groups: an unweighted average of Nordic Banks (Danske Bank, Nordea, SEB, Svenska Handelsbanken, SEB and Swedbank) in local currencies

TRADING

Trading volume in 2018 ended at 1 703 million shares, equal to 6.8 million shares per day, which is in line with the volume in 2017. The value of all traded DNB shares was NOK 265 billion. The trading in open market places, such as Oslo Børs (Oslo Stock Exchange), represented 46.9 per cent while the volumes traded by systematic internalisers increased from 1.5 per cent in 2017 to 23.6 per cent in 2018. Correspondingly, the volumes traded "off book" or in dark pools decreased to 29.5 per cent.

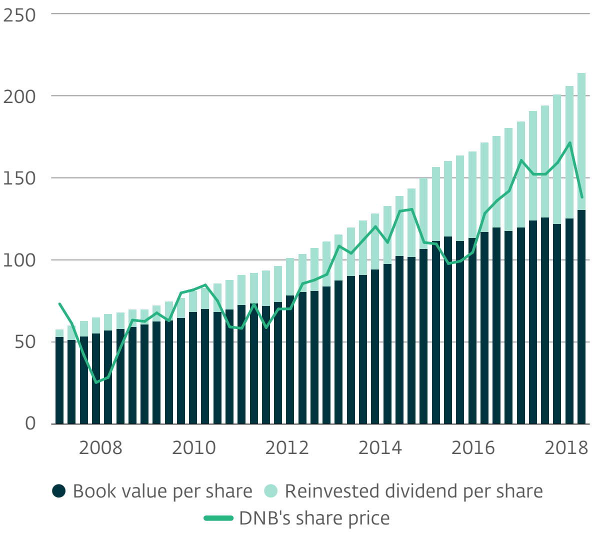
At the beginning of 2019, the DNB share was weighted on all relevant Oslo Stock Exchange indices, hereunder OSEBX, OSEAX[1], OBX[2] and OSEFX with 11.0, 9.2, 13.4 and 9.1 per cent weight, respectively.

DIVIDEND POLICY

DNB's Board of Directors has approved a dividend policy which aims to create value for shareholders, both through increases in the share price and dividend payments. Overall, this will ensure an attractive and competitive return. The Group's long-term dividend policy is to have an ordinary dividend payout ratio of more than 50 per cent and to increase nominal ordinary dividends per share each year. In addition to dividend payments, DNB has issued share buy-back programmes. For more information, please see the Directors' report.

DNB's share price and book value per share including reinvested dividend[3]

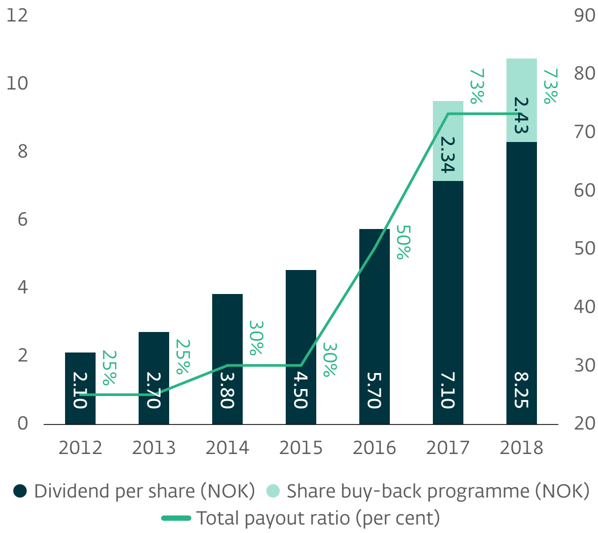
NOK



Source: DNB, Oslo Stock Exchange

Share dividends and payout ratio

NOK per share *Per cent*



1) Oslo Stock Exchange All-share Index
2) OBX Total Return Index
3) Recorded equity and the share price for the period 2008–2009 have been adjusted for the share issue in the autumn of 2009. Return on equity, which is used to calculate reinvested dividends, has not been adjusted for the share issue.

SHARE CAPITAL AND SHAREHOLDER STRUCTURE

At year-end 2018, DNB's share capital was NOK 16 044 million divided into 1 604 million shares, each with a nominal value of NOK 10. Adjusted for completed repurchases and government holdings, there were a total of 1 594 million outstanding shares.

DNB has approximately 41 500 private and institutional shareholders, of which the two largest are the Norwegian government, represented by the Ministry of Trade, Industry and Fisheries, and Sparebankstiftelsen DNB (the DNB Savings Bank Foundation). A further description of the government's ownership can be found on page 82 in the chapter Governance.

RATING

The creditworthiness of DNB Bank ASA is assessed by the rating agencies Moody's and Standard & Poor's (S&P). DNB Bank ASA had the following ratings as at 6 March 2019: Aa2 from Moody's (negative outlook) and AA- from S&P (stable outlook). Covered bonds issued by DNB Boligkreditt was rated AAA by S&P and Aaa by Moody's.

Largest shareholders

As at 31 December 2018[1]

	Number of shares in 1 000	Ownership in per cent
Norwegian government/Ministry of Trade, Industry and Fisheries[2]	545 485	34.21
Sparebankstiftelsen DNB	130 001	8.15
Folketrygdfondet	96 989	6.08
Fidelity International	30 680	1.92
The Vanguard Group	30 011	1.88
BlackRock	29 814	1.87
DWS Investment GmbH	24 788	1.55
Schroder Investment	20 452	1.28
Capital World Investors	18 601	1.17
Storebrand Kapitalforvaltning	16 483	1.03

1) The owners of shares in nominee accounts are determined on the basis of third-party analyses. See note 50 for an overview of the 20 largest shareholders.

2) In connection with DNB's share buy-back programme, the Norwegian government will, according to an agreement, redeem shares on a proportional basis so as to maintain its holding at 34 per cent. For further information on the share buy-back programme, see Directors' report.

Source: DNB, VPS, Nasdaq

Ownership according to nationality as at 31 December 2018

Per cent

Norwegian investors: 57 per cent

- Norwegian government/Ministry of Trade, Industry and Fisheries: 34.2
- Sparebankstiftelsen DNB: 8.2
- Other Norwegian: 15.0

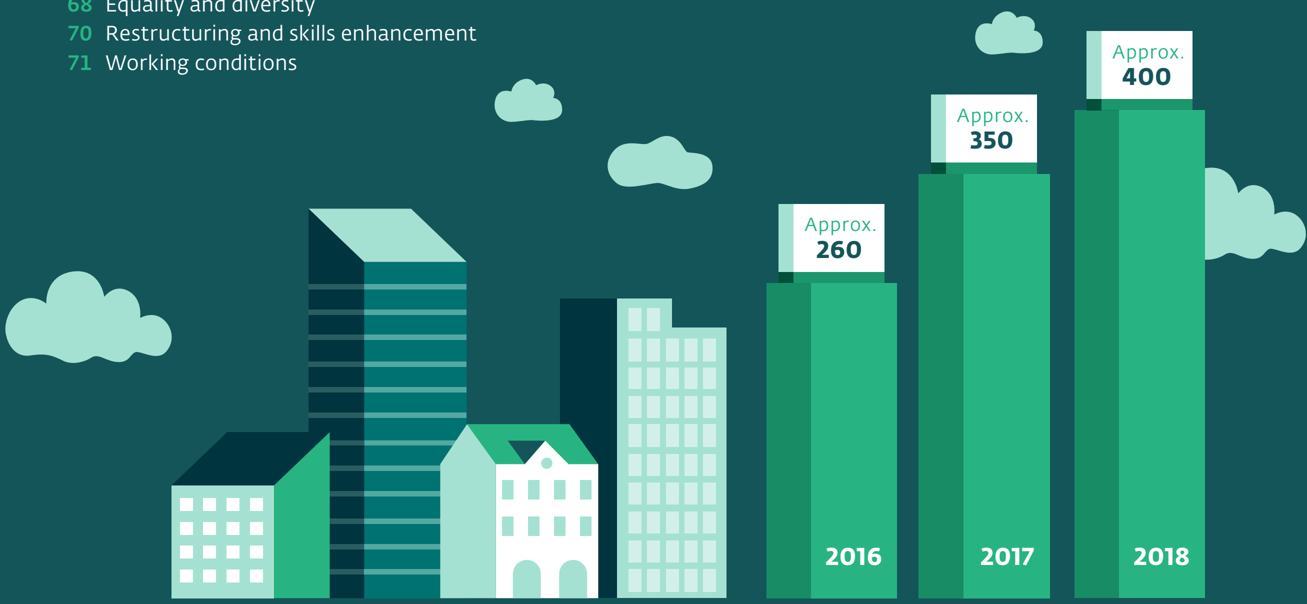
International investors: 43 per cent

- US: 19.3
- UK: 12.5
- Luxembourg: 3.6
- Other nationalities: 7.1

Source: DNB, VPS, Nasdaq

CHAPTER 2

Creating value



Arranging of bond and commercial paper issues to customers (NOK billion)

Our purpose and values

For almost 200 years, we in DNB have been here for you.

We are Norwegian and we are international. We are tradition and innovation. We are a partner in your single life, family life, daily life, business life and community life. We are here to help with the small details and the big questions. Every day we bring together people and ideas with knowledge and capital.

Our purpose is to make your everyday life easier. As Scandinavia's largest financial services group, we offer a complete range of financial services through mobile solutions, online banking, 24/7 customer service centres, branch offices, real estate broking and international offices.

Purpose

We are here.
So you can stay ahead.

This is our purpose, and the answer to why DNB is here for customers, society and employees. The purpose sets the direction for our choices and priorities. It inspires innovation and drives change.

Our values describe how we will deliver our purpose, both as an organisation and as colleagues. Our values describe what we expect from each other and what customers, our owners and society in general can expect from us.

Values

Curious

Being curious means that we seek new knowledge and learn from our experiences, so that we continuously gain new insight. We are genuinely interested in and curious about how we can make everyday life better for our customers and colleagues. We find good solutions together.

Bold

Being bold means that we challenge established truths, and make decisions even though the picture is unclear. We take responsibility for our actions, admit when we make mistakes and then learn from them. We face challenges and new competition with an unshakeable conviction that we will become even better at developing the best ideas and solutions.

Responsible

We create value in a sustainable way. We will be transparent about our operations and contribute positively to society. We listen to those who have insight into and opinions about what society expects of us. We use simple language and are predictable in our actions.

Our strategy

The strategy sets the direction for the Group's transformation in the face of macroeconomic changes, regulations and political affairs, changed customer behaviour, new technology and the competitive situation. There is little doubt that the financial services industry is changing, and we have proven that we are capable of change.

For DNB, the time ahead will be all about preserving and increasing existing revenue streams, while at the same time finding new sources of income. Our overarching goals are to create the best customer experiences and to deliver on our financial targets.

CREATE THE BEST CUSTOMER EXPERIENCES

Strong customer relationships are essential in order to retain customers and ensure continued profitability. With a gradually more open infrastructure, lower costs attached to switching banks and declining customer loyalty, it will be increasingly difficult to "own" the customer relationship. We must therefore earn it again and again through each experience we offer our customers.

DELIVERING ON FINANCIAL TARGETS

Long-term profitability is the underlying premise for everything we do. To reach these goals, we must continue to improve, develop and streamline our current operations, while actively phasing out the activities that are no longer profitable. These types of changes are essential in order to position ourselves for the future, but the traditional business activities will continue to be the main contributor to the financial results for the foreseeable future. We must acquire some of the strengths of our new competitors, and this means implementing fundamental changes and making tough decisions.

Financial ambitions

	Financial ambitions	Achieved 2018
Return on equity (ROE) (Overriding target)	> 12% (towards the end of 2019)	11.7%
Cost/income ratio (Key performance indicator)	< 40%	43.8%
Common equity Tier 1 capital ratio[1)] (Capitalisation level)	~ 16.3%	16.4%
Payout ratio (Dividend policy)	> 50%	56% 73%[2)]

1) Based on transitional rules and including a management buffer, the target was around 16.3 per cent as at 31 December 2018. The target for the end of 2019 is around 16.8 per cent including the management buffer.

2) 73 per cent includes the share buy-back programme representing 1.5 per cent of the shares.

STRATEGIC PRIORITIES

Today, DNB is a traditional bank with digital products, services and channels. We will continue to be a bank in the future. However, being a bank will entail something else in the future than it does today.

To succeed, we need to accelerate our pace of innovation while balancing scarce resources such as capital, development funds and people.

We have therefore identified four areas as essential for creating the best customer experiences:

1 **Increase innovative power**
2 **Increase the use of customer insight**
3 **Drive skills enhancement**
4 **Incorporate corporate responsibility in all processes**

We must think and act like a technology company in areas such as customer experience, innovation, automation, working methodology, new business models, third party collaboration, use of data and obtaining the right skills mix. The four priorities shall help us develop in this direction. A suitable technology platform is a fundamental premise for realising the Group's strategic priorities.

WHAT DID WE DO IN 2018?

We delivered a good result in 2018, and we are well underway with the changes that we have to implement.

At the start of 2018, we established a new Group management team. The new structure was finalised during the spring, and in the autumn, we could already see results in the form of improved internal processes, faster product development and better customer experiences. The four priority areas are constantly being filled with more content and serve as important guidelines for prioritising scarce resources.

Under the headline of **increased innovative power**, we initiated several exciting projects, with the launch of DNB Puls (described in more detail on page 54) as a prominent example. New technology and new ways of working provide gradual improvements and increasingly effective operation.

We systemised partnership in 2018. The insurance merger with SpareBank 1 Gruppen is the best example of this. In the course of the year, our Chief Data Officer (CDO) set up his organisation and started the implementation of **customer insight tools** that will make our customer service both more personalised and more relevant in the years to come. Better tools and structure will enable a faster pace of development. This will in turn be a prerequisite for creating new opportunities in which data and customer insight are the underlying values.

The changes we see in the world around us are also influencing the **skills mix** of the Group. In the course of the year, we therefore educated the first group of skilled data analysts through our internal Data Scientist programme. The participants have acquired new and relevant skills, while at the same time being familiar with the DNB culture and the organisation. We upskill all employees with simple tools and offer more in-depth training to those who need to top up their expertise. New colleagues bring new skills, and the Group currently has a far more diversified group of employees than it did only a year ago.

Corporate responsibility forms the basis for everything we do, from enhancing the skills of our own employees, to setting requirements in credit processes. We delivered more green mutual funds and investment products to the market and are experiencing strong demand for green funding – both from investors and customers.

2018 was a year of transformation. A new organisational structure, new work tools and a large number of proofs of changes that have been made across the Group. In 2019, this trend will continue, and the customers will notice increasingly better and more personalised products and services.

Our organisation

OPERATIONAL STRUCTURE

Our organisation and operational structure will ensure that we quickly and effectively adapt to changes in customer behaviour and develop products and services that meet customer needs. Customer areas are responsible for customer relationships and customer service, while product areas are responsible for product development.

CUSTOMER AREAS

Personal Banking

The Personal Banking area serves the personal customers. We are a market leader in the Norwegian personal customer market and have more than 2 million personal customers in Norway. Customers are offered a wide range of services through a modern distribution network, which comprises mobile solutions, 24/7 customer service centres and online banking, branch offices, post offices, in-store postal outlets and real estate brokers.

Corporate Banking

The Corporate Banking area serves the small and medium-sized corporate customers. We promote the development of active and well-functioning businesses in Norway. Small and medium-sized enterprises are the bedrock of the Norwegian business community and contribute to significant value creation for society.

Large Corporates and International (LCI)

LCI serves large companies and international customers. The segment includes the Group's largest Norwegian corporate customers, the public sector, all international customers, as well as financial institutions. Our ambition in the large corporate segment is to maintain our number one position in Norway, and to strengthen our leading position within selected industries internationally. The large corporate segment is characterised by strong customer relations and sound banking and industry expertise. High-quality customer service is assured through our financial strength, a broad international network, competitive services and the ability to adapt quickly to new customer needs.

PRODUCT AREAS

Markets

Markets is Norway's leading investment firm and offers our customers investment banking services, including risk management, investment and financing products in the capital markets. By working in customer teams and applying good digital solutions, the employees provide advice and develop tailor-made solutions for the various customer segments. Markets' market making and other trading support the general customer activities with products and prices.

Wealth Management & Insurance (WMI)

WMI serves high net worth individuals through its Private Banking unit. In addition, the product area is responsible for the further development of the Group's savings and life insurance products and delivers defined-contribution pension schemes to all DNB customers in cooperation with the customer areas.

New Business

New Business will create increased competitive power and growth for DNB by designing new solutions and business models for the Group and strengthening the delivery capacity of existing segments. This will be achieved through a more unified strategy and consistent management of data and customer insight, payments and payment infrastructure, open banking, the use of technology, and partnerships.

STAFF AND SUPPORT UNITS

Operational tasks and group services are carried out by the Group's support and staff units, which provide infrastructure and cost-efficient services for the business units.

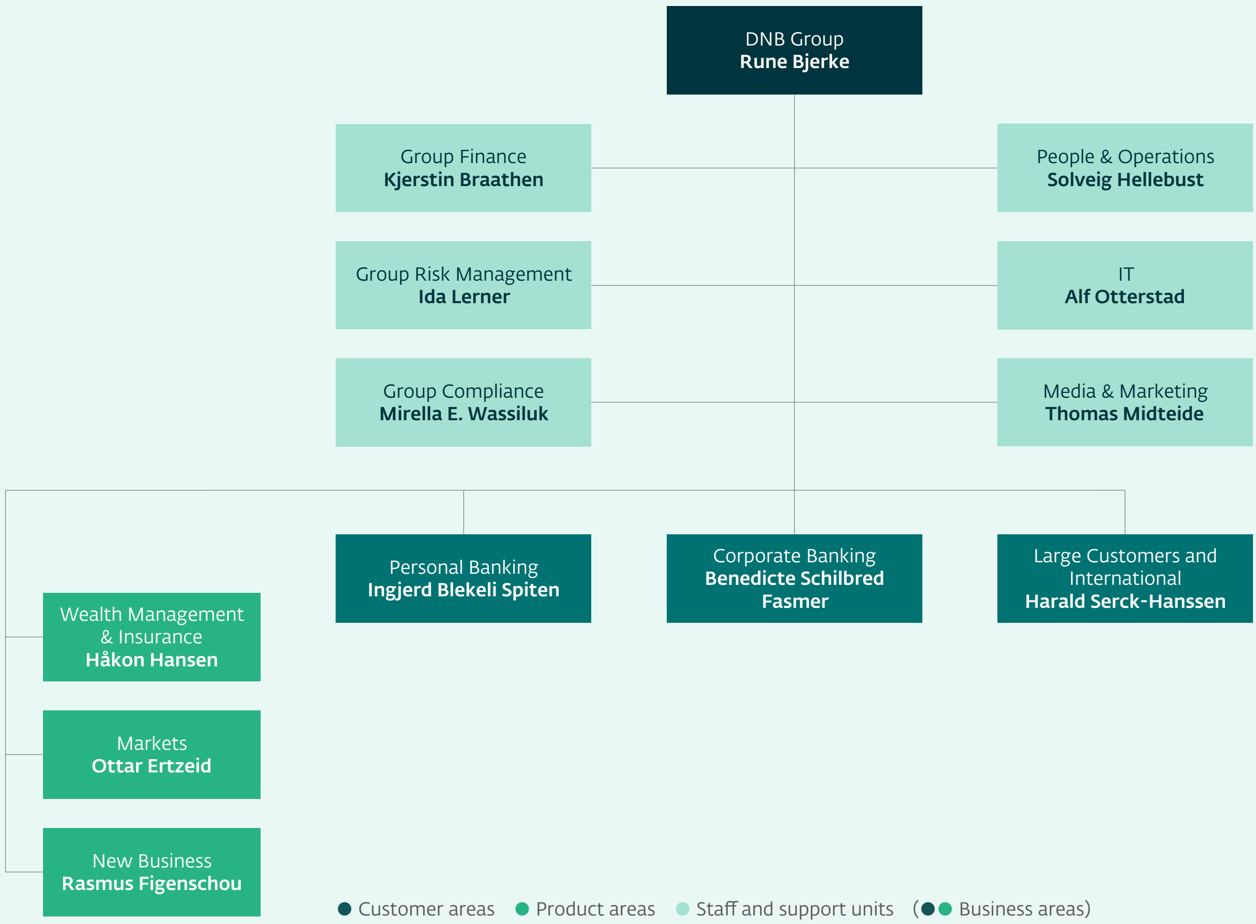
REPORTING STRUCTURE

Our financial management is adapted to the different segments. The income statements and balance sheets for the segments are presented in accordance with internal financial reporting principles, according to which revenues, costs and capital requirements are allocated to the segments based on a number of assumptions. Reported figures for the different segments thus reflect the total sales of products and services to the relevant 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 Group's resources.

The segment reporting is presented in more detail in note 2 to the annual accounts.

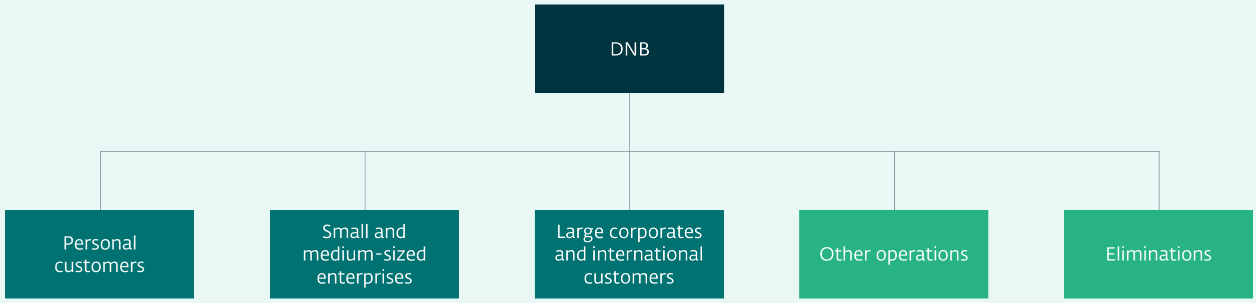
Operational structure

As at 6 March 2019



Reporting structure

As at 6 March 2019



Legal structure
For an overview of the Group's legal structure, go to dnb.no/en/about-us/about-the-group.html

Group management

As at 6 March 2019

The group management team is the group chief executive's collegiate body for management at group level in DNB. All important decisions are made in consultation with the group management team.

Rune Bjerke
(born 1960)

Group chief executive since 2007

No. of shares: 62 017[1)]

Key positions of trust: Chair of the board in Vipps, vice chair of the board in Fremtind Forsikring AS and board member in Finance Norway and Finance Norway's Service Office.
Other professional experience: Former president and CEO of Hafslund ASA and president and CEO of Scancem International. Has held a number of board positions in large companies. Served as finance commissioner of the Oslo City Council and as a political adviser in Norway's Ministry of Petroleum and Energy.
Education: Economics degree from the University of Oslo. Master's degree in public administration from Harvard University.

Kjerstin Braathen
(born 1970)

Chief financial officer since 2017

No. of shares: 28 540[1)]

Prior positions in DNB: Former group executive vice president Corporate Banking Norway. Many years' experience from the Shipping, Offshore and Logistics division (SOL) in Oslo. Joined DNB in 1999.
Key positions of trust: Chair of the board in DNB Livsforsikring AS.
Other professional experience: Previous experience from Hydro Agri International.
Education: Master in Management from Ecole Supérieure de Commerce de Nice-Sophia Antipolis.

Ottar Ertzeid
(born 1965)

Group executive vice president Markets since 2003

No. of shares: 234 059[1)]

Prior positions in DNB: Former head and deputy head of DnB Markets, and has held various positions within the FX/Treasury area. Former chief financial officer in DnB Boligkreditt and head of finance in Realkreditt. Joined DNB in 1989.
Key positions of trust: Chair of the board in the Norwegian Banks' Guarantee Fund, vice chair of the board in the Norwegian Investor Compensation Scheme, board member in Oslo Børs VPS Holding and Oslo Børs AS, etc.
Education: Graduate of BI Norwegian Business School.

Benedicte Schilbred Fasmer
(born 1965)

Group executive vice president Corporate Banking since 2016

No. of shares: 6 435[1)]

Prior positions in DNB: Former head of DNB's operations in Bergen and head of Corporate Banking in Western Norway. Joined DNB in 2015.
Key positions of trust: Board member in Vipps.
Other professional experience: Executive positions in Sparebanken Vest, Rieber & Søn, Argentum Asset Management and Citibank. Chair of the board in Oslo Børs VPS Holding ASA and Oslo Børs ASA and many years' experience from board positions in various industries.
Education: Graduate of the Norwegian School of Economics.

1) Shareholdings in DNB as at 31 December 2018. Shares held by the immediate family and companies in which the shareholder has decisive influence are also included.

Rasmus Figenschou
(born 1979)

Group executive vice president New Business since 2017

No. of shares: 7 837[1)]

Prior positions in DNB: Former head of Strategy and Corporate Development and head of division in Corporate Banking Norway for the counties of Rogaland and Agder. Experience from DNB's offices in Tallinn, Estonia, Singapore and New York. Joined DNB in 2005.
Key positions of trust: Board member in Alliance Venture Spring AS and 11:FS Foundry.
Other professional experience: Analyst at Simmons & Company International.
Education: MBA from IMD Business School in Switzerland, Bachelor of Arts in Economics from Tufts University, College of Liberal Arts, Medford, Massachusetts.

Håkon Hansen
(born 1966)

Group executive vice president Wealth Management & Insurance since 2018

No. of shares: 6 891[1)]

Prior positions in DNB: Head of Private Banking and former deputy head and head of DNB Luxembourg for ten years. Joined DNB in 1987 in what was then called Sparebanken Buskerud and later Sparebanken NOR.
Key positions of trust: Chair of the board in DNB Bank Luxembourg S.A. and DNB SICAV SIF and deputy board member in Fremtind Forsikring AS.
Education: Bachelor of Business Administration from BI Norwegian Business School. Has also completed a management programme in financial investments (Master of Management) at the same school.

Solveig Hellebust
(born 1967)

Group executive vice president People & Operations since 2017

No. of shares: 21 930[1)]

Prior positions in DNB: Group executive vice president HR. Joined DNB in 2009.
Other professional experience: Vice president of Human Resources and Communications at Pronova BioPharma ASA. Several years' experience from HR at Telenor and at BI Norwegian Business School as an associate professor in economics.
Education: PhD in international economics from the Norwegian University of Life Sciences, MSc in agricultural economics from the University of Illinois, and MSc in business and economics from BI Norwegian Business School.

Ida Lerner
(born 1975)

Group executive vice president Group Risk Management since 2017

No. of shares: 3 781[1)]

Prior positions in DNB: Head of DNB CEMEA (Central Europe, Middle East and Africa) and head of customer analysis for Northern Europe, the Middle East and Africa at DNB's London office. Joined DNB in 2007.
Other professional experience: Experience from HSBC and Nordea.
Education: Bachelor of Social Science with a Major in Economics from the University of Stockholm.

Thomas Midteide
(born 1974)

Group executive vice president Media & Marketing since 2017

No. of shares: 12 439[1)]

Prior positions in DNB: Group executive vice president Corporate Communications and Marketing, and executive vice president External Communications. Joined DNB in 2009.
Other professional experience: Head of Communications in SAS Norge, communications officer in VISA Norway and TV reporter and presenter in the Norwegian Broadcasting Corporation, NRK.
Education: Journalist degree from Oslo University College. Subsidiary subject in political science and criminology from the University of Oslo.

Alf Otterstad
(born 1965)

Group executive vice president IT since 2017

No. of shares: 384[1)]

Prior positions in DNB: Executive vice president ITOP Customer Solutions. Section manager of ITOP Relationship and Requirements Specifications under Customer Solutions. Joined DNB in 2013.
Other professional experience: Broad experience in IT, including infrastructure, development, program and project management and strategy. Also has experience from consultancy companies and consulting activities in his own companies.
Education: Graduate engineer in IT from the University of Manchester Institute of Science and Technology (UMIST), England.

Harald Serck-Hanssen
(born 1965)

Group executive vice president Large Corporates and International since 2013

No. of shares: 37 986[1)]

Prior positions in DNB: Former executive vice president and section manager in the Shipping, Offshore and Logistics division (SOL). Joined DNB in 1998.
Other professional experience: Experience from Stolt-Nielsen Shipping and Odfjell Group.
Education: BA (Hons) degree in business studies from the University of Stirling. Advanced Management Programme at INSEAD Fontainebleau.

Ingjerd Blekeli Spiten
(born 1971)

Group executive vice president Personal Banking since 2018

No. of shares: 1 714[1)]

Prior positions in DNB: Former executive vice president eBusiness and various management positions in mobile and internet banking.
Key positions of trust: Chair of the board in DNB Eiendom and board member in Fremtind Forsikring AS.
Other professional experience: SVP Global Products at Telenor, COO in Microsoft and various management positions at Ericsson. Many years' experience from board positions in various industries.
Education: Graduate of BI Norwegian Business School.

Mirella E. Wassiluk
(born 1969)

Group executive vice president Group Compliance since 2018

No. of shares: 384[1)]

Other professional experience: Director general in the Ministry of Finance. Also has experience from Bayerische Landesbank (Munich), University of Cologne and the Norwegian Central Securities Depository.
Education: Degree in economics from the University of Cologne, Germany. Master of Science in Financial and Commercial Regulation from London School of Economics and Political Science.

1) Shareholdings in DNB as at 31 December 2018. Shares held by the immediate family and companies in which the shareholder has decisive influence are also included.

Our role in society

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

VIEWING RISKS AND OPPORTUNITIES IN A LONG-TERM PERSPECTIVE

WHY IS IT IMPORTANT?

The rapid changes in global and national development trends underline how important it is for DNB to view risks and opportunities in a long-term perspective. New technology, globalisation, changing framework conditions and regulations, climate-related risks and opportunities (described in more detail on page 48) and new and changing expectations from customers are some of the things that directly affect us, and that have to be taken into account in our activities to ensure value creation over time.

To our owners it is essential that these long-term challenges – but also opportunities – are reflected in the Group's corporate governance, and this is also specified in the State Ownership Report.

To ensure that we have an active approach to risks and opportunities, risk management is integrated in the Group's governance processes, and the framework for risk appetite is included as part of our governance system. The framework represents an operationalisation of the Group's policy and guidelines for risk management, and is intended to contribute to a strong and long-term risk culture.

In addition to safeguarding a long-term perspective, the governance system shall also ensure balanced monitoring of our performance. This is done by, among other things, establishing financial, operational and strategic KPIs, in addition to health and risk indicators. In this way, targets are set which not only rate the Group's financial performance, but also the non-financial values.

DNB's incentive structure is meant to safeguard the Group's risks and opportunities. The variable remuneration scheme is performance-based without exposing the Group to unwanted risk, and also aims to counter excessive risk-taking, as well as promote healthy and effective risk management in DNB. This is ensured by the strong correlation between individual targets and the Group's governance model.

In the variable remuneration model, the total amount is based on profits achieved over the past two years. Variable remuneration cannot exceed 50 per cent of fixed salary for members of the group management team. DNB does not offer other long-term incentive schemes for its employees.

Read more about risk management and the remuneration scheme under Corporate governance on page 74 and in note 47.

WHAT DID WE DO IN 2018?

In 2018, we continued the work to ensure compliance with the corporate standard for approval of all products and services. This "Shelf Control", which was introduced in 2017, is meant to ensure that all products and services satisfy the requirements set by owners, customers and society at large. In the course of 2018, all products and services were reviewed, evaluated and approved, and some products were phased out. The purpose of this group standard is to ensure high quality in our portfolio of products and services, and thereby increase our competitiveness, improve our reputation and safeguard our corporate responsibility. Thus, the standard helps reduce risk in connection with individual commitments and services, as well as at group level.

The ability to balance risks and opportunities over time is also essential to the successful operation of the business, and this is followed up through our governance system. How we do this is described in more detail later in the annual report, where we have defined and described the 15 material topics we consider to be most vital for our ability to create value over time. We believe this is a good way to evaluate how we hedge against downside risk, while at the same time safeguarding the scope of opportunities related to responsible products and services. It also demonstrates how we are working to integrate corporate responsibility in all our processes. Moreover, it is natural that Group Audit assesses DNB's work of incorporating ESG factors in credit proposals, as the Group gains more experience in this field. See next page.

In the efforts to see risks and opportunities in a long-term perspective, we are particularly pleased with our work with the updated materiality analysis, which includes a wide range of topics, all related to the bank's core business. Linking sustainability closely with business operations also makes it easier to define specific goals and ambitions for the various topics in the course of the year.

THE WAY FORWARD

In 2019, we will continue to focus on strengthening the work related to general risk appetite in the Group's various business areas and support units.

OUR CORPORATE RESPONSIBILITY ACTIVITIES

DNB has established four pillars that form the basis for how we safeguard our corporate responsibility in our activities, be it product development, lending or cooperation.

1 **DNB generates long-term and sustainable financial value creation for its owners**
This means that we emphasise corporate responsibility in all decision-making processes.

2 **DNB contributes positively to society**
This means that we define specific goals and measures related to selected United Nations Sustainable Development Goals and work systematically to reach these goals.

3 **DNB is honest and trustworthy**
This means that our products and services are always tailored to our customers' needs. We want the best for our customers. In a world with new market entrants and major change, we aspire to be a bank that customers trust.

4 **DNB is transparent about its operations**
This means that we are open about the dilemmas we face when balancing short-term and long-term considerations. Through dialogue with our stakeholders, we will identify what society expects of us.

STAKEHOLDER DIALOGUE AND MATERIALITY ANALYSIS

DNB is in a key position to and thus also has a particular responsibility to assert a positive influence in the areas that are most closely related to the core business. To assess which topics that are strategically important for the bank's long-term value creation, seen in the context of the expectations from our various stakeholders within the different topics, DNB has developed an updated materiality analysis. This analysis is a tool that helps us define the areas where we can make the greatest difference in society and that support our long-term value creation. Moreover, our goals of creating the best customer experiences and delivering on financial targets form a foundation for the analysis.

As part of the work with the materiality analysis, and with including input from stakeholders in decision-making processes, an ongoing stakeholder dialogue is an important part of the operations. In the course of 2018, we have therefore engaged in dialogue with customers, employees, shareholders, the authorities and other relevant stakeholders in society. Through various meeting places, we have received a lot of input and gained a greater understanding of what our stakeholders expect of us, as well as the areas where it is particularly important that we deliver.

The figure below presents the results of the stakeholder dialogue and the Group's internal materiality analysis. The topics identified here are the most significant topics for DNB as a company.

DNB IN SOCIETY

With significant loan and investment portfolios, a broad customer base, a large range of financial services and products as well as several thousand dedicated employees, DNB has a broad role in society both in Norway and internationally.

We manage a substantial investment portfolio both for our customers and for the bank itself. Customers expect our investment activities to be responsible. Responsible and sustainable investments imply taking environmental, social and economic conditions into account and ensuring sound corporate governance in investment management. As an investor, DNB can assert influence through our selection of investment objects, exclusion and active ownership. To be a responsible investor is not just about what to select or exclude, but also about having a dialogue with and setting requirements for the companies.

With over two million personal customers, we want to make a contribution by offering great services to and sharing knowledge with the Norwegian people. We want to assist the personal customers through the various stages of life and generally help them to manage their own finances. Furthermore, we can assert influence through offering sustainable mutual

Materiality matrix

( ) – refers to the page where the topic is discussed

- Open and ethical business management (80)
- Pricing of products and services (52)
- Equality and diversity (68)

- Preventing financial crime and corruption (43)
- Information security and stable IT systems/ financial infrastructure (56)
- Privacy protection (58)
- Responsible lending and investment (59)
- Innovative business model and product development (55)
- View risks and opportunities in a long-term perspective (35)
- User-friendly products and services (52)

- Working conditions (71)
- Responsible purchasing (46)
- Helping startups succeed (42)
- Financial literacy (45)

- Restructuring and skills enhancement (70)

The topics that ended at the bottom and at the far left have been taken out of the matrix.
The topics that remain in the matrix are considered the most material and shall be reported in acc. with GRI.

Importance to DNB's stakeholders

Impact on DNB's long-term value creation funds and products, thus making it easier for customers to make sustainable choices.

As a lender, DNB shall contribute to a sustainable development of society. Responsible business practices with an emphasis on environmental, social and corporate factors are important in the decision about which customers to fund. Risk factors related to corporate responsibility must be analysed and emphasised on an equal footing to other risk drivers in the credit process. Requirements for both new and existing customers, as well as an ongoing dialogue about challenges and opportunities related to the companies' own corporate responsibility, are means to guide customers in the right direction. As Norway's largest bank, DNB has an important role to play in helping the Norwegian business community gain access to capital. Business loans are an important source of growth and profitability for companies, but we can also contribute beyond pure lending.

By enabling corporate customers to raise equity and debt capital, we are an important contributor to growth and value creation in Norway and the business community at large. Advisory services related to restructuring, acquisitions and mergers help promote growth and change. Through the NXT concept, we connect ideas and companies with capital at an early stage, and offer advisory services to entrepreneurs. The restructuring of Norway also requires private capital to be put to work to promote future growth and value creation. DNB has Norway's largest network of entrepreneurs and startups, as well as the country's largest network of investors. Through our role, we enable the members of these networks to meet. It is when ideas and capital meet that future value and jobs are created.

Furthermore, a good financial infrastructure is necessary for money, transactions and information to flow seamlessly between the different parties, and for customers' assets and data to be safe and secure. From a social perspective, an effective and secure infrastructure is critical for maintaining financial stability and trust in the financial system. The infrastructure must therefore constantly be further developed in line with the technological advances. Because of our size, we are an important participant in the financial community's traditional cooperation, whose objective is to ensure that the Norwegian payment infrastructure is world-class.

As a large company in a Norwegian perspective, DNB also has an important role as an employer. Our employees are critical to the success of our strategy and long-term contribution to society, and it is through their skills, motivation and actions that corporate responsibility can be integrated in all processes and decisions. In 2018, we have therefore focused a lot on enhancing the employees' skills related to corporate responsibility in general and in their individual business areas and support units.

Our ambitions

DNB has a broad role in society, and through insight from our materiality analysis, our selected sustainable development goals and the stakeholder dialogue, we have identified four topics that are closely related to our core business, and where we believe the bank can make a particularly positive contribution in the time ahead.

1

DNB is a driving force for equality and diversity
We have already implemented several measures to promote equality, which have proven to have positive results. The work related to equality and diversity continues, and we will set clear targets for our own organisation, as well as expand the targets to increasingly apply to strategically important suppliers and partners as well. DNB will contribute to the UN's Sustainable Development Goal no. 5 for gender equality by promoting equality and diversity in our own organisation and by setting requirements for our suppliers and ensuring that our products and advisory services contribute to better financial gender equality.

2

DNB provides loans and investments for sustainable growth
As a lender and investor, with considerable capital that we manage for both our customers and for the bank itself, we want to contribute to a sustainable development of society. DNB will contribute to the UN's Sustainable Development Goal no. 8 for decent work and economic growth through facilitating loans for and investments in innovation and a green shift in Norway. We are also investing in entrepreneurs, because they will be important for Norwegian value generation in the future.

3

DNB combats financial crime and contributes to a safe digital economy
Banks play an important role in combating social problems such as undeclared work, corruption and other financial crime. Both through our own products and services, and by being a major contributor to the financial infrastructure, we work systematically and targeted to combat financial crime and to contribute to a safe digital economy.

4

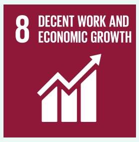
DNB helps its customers manage their own finances
With more than two million personal customers, we want to help as many as possible feel in control of their own finances, be it savings, investments or a need for financial understanding in general.

Our work with the UN's sustainable development goals

The United Nations' Sustainable Development Goals were adopted in 2015 and are a universal plan of action to end poverty, fight inequality and stop climate change by 2030. The plan consists of 17 goals that are often called the world's roadmap for sustainable development. For DNB, these have been a source of inspiration for our corporate responsibility activities, as well as a framework that we can use to talk to our corporate customers about their sustainability efforts. Read more about the reporting of selected sustainability goals in the Sustainability Factbook.

DNB supports all the 17 sustainable development goals, but we have identified two goals where we believe that we can really make a difference and contribute positively:

→ **Goal 5:** Achieve gender equality and empower all women and girls



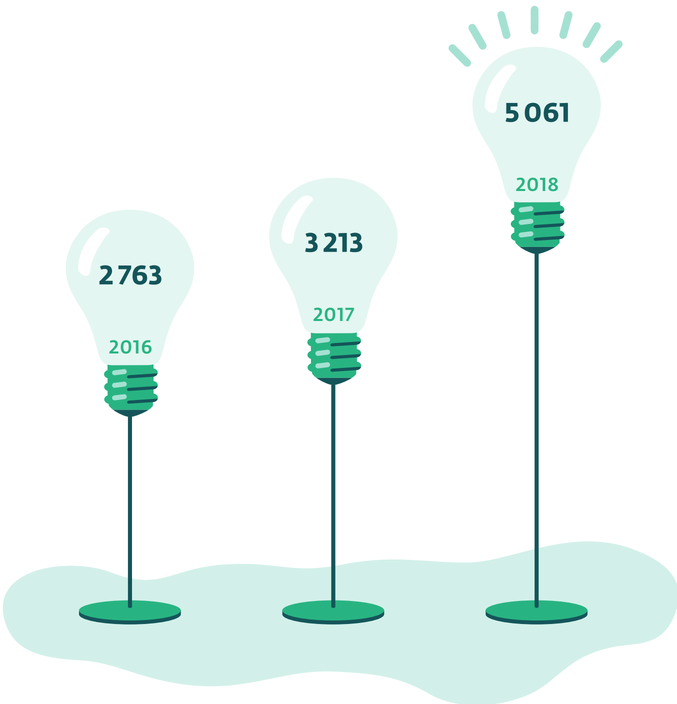
→ **Goal 8:** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

The UN's 17 Sustainable Development Goals

Interested in more information about how we work in a socially responsible way?
The Sustainability Factbook at the back of the report provides an overview of relevant key figures for all topics identified in the materiality analysis.

CREATING VALUE

Society



No. of entrepreneurs getting help to start up their own company

Helping startups succeed

WHY IS IT IMPORTANT?

Norway is completely dependent on the establishment of more companies. Based on projections in a report on future prospects from the Norwegian Ministry of Finance (Perspektivmeldingen) and with the help of the analysis provider Ny Analyse, DNB has found that in order to preserve the welfare model, more than 77 000 new companies must be established each year, on top of the established companies thriving and growing.

Being the best bank for people starting up new businesses is important to us, not only because it is profitable to be an attractive bank for new companies, but also because we consider it part of our corporate responsibility to help ensure that more businesses are established and succeed. We will make sure that companies have a greater chance of success together with DNB.

About 40 per cent of all newly established limited companies choose DNB as their bank, and both startups and the general population perceive us as "the best bank for people who want to start up a company".

The measures we implement are related to both the services and meeting places we offer, and to cooperation with other key players. Our work to help start-up companies succeed is founded on our governance principles, and is in accordance with our purpose and values. The Board of Directors and group management team follow the start-up initiatives closely and participate in the social debate about correct and important measures to implement in order to promote innovation and restructuring. Furthermore, the members of the group management are active participants in arenas and events which are relevant for entrepreneurs and for companies in a period of restructuring and growth.

WHAT DID WE DO IN 2018?

DNB NXT

DNB NXT is Norway's largest meeting place for entrepreneurs and investors. In 2018, we arranged 19 events across the country, allowing ideas, capital and expertise to meet through more than 3 000 encounters between entrepreneurs and investors. This series of events culminated with the main event at DNB's head office in Oslo, where over 1 000 people attended. The event formed part of Oslo Innovation Week, and this year's topic was "sustainable growth". We see that the development of NXT has been a good way for us to help more start-up companies with both competence building and access to capital.

NXT ACCELERATOR

In cooperation with StartupLab, we arranged NXT Accelerator for the second time. This is a three-month accelerator programme for start-up companies within technology. The goals of this programme are to speed up the development of the start-up companies and to explore the possibilities for establishing partnerships that can open up commercial opportunities both for the start-up companies and for DNB. The first two programmes have led to several formalised cooperation agreements. One of the companies from the first programme has delivered our operative chatbot solution on Facebook Messenger. We also established a formal collaboration with the crowdlending company FundingPartner, where we recently became part owner through DNB Venture. From the second programme, we have established a partnership with a company that provides automation of audit tasks, and we are still in dialogue about cooperation with two other companies that were part of this year's programme.

START-UP PILOTS

DNB has five start-up pilots who help start-up and growth companies with any questions or concerns they may have. It is not necessary to be a DNB customer to make use of this service. We receive questions about everything from company structure and taxes and fees, to strategic questions about growth, business models and validation.

The start-up pilots are also a part of a specialist environment for all DNB employees working with startups, both within innovation and development teams, and also for account officers who want to increase their expertise to be an even better adviser for their customers.

COOPERATION WITH START-UP COMMUNITIES

DNB has a number of cooperation agreements with entrepreneur and start-up communities across the country. Examples are MESH and StartupLab in Oslo, FLOW in Tromsø, DIGS in Trondheim, Innovation Dock in Stavanger and StartupLab in Bergen. As a partner, we contribute financially to our partners, but the actual cooperation is even more important as it enables us to be close to this target group in order to better understand their needs. Based on these needs, we can help the companies succeed while at the same time creating new business opportunities for DNB.

GROWTH LOANS

In March 2018, the publicly appointed Capital Access Commission published a report called "Capital in a time of change", in which they discuss Norwegian businesses' access to capital. The main conclusion was that the Norwegian capital market is well-functioning, but that it is challenging to gain access to growth capital in the range of NOK 5–20 million. Against this backdrop, DNB initiated a pilot project where NOK 200 million was earmarked for loans to innovative growth businesses, preferably within technology. In connection with this, we are testing out an advisory board for growth companies, with participants both from DNB Investment Banking and from credit providers, to give advice and help growth companies obtain optimal capitalisation of their business. The pilot period for growth loans will last until June 2019, and the main purpose is to help more growth companies get access to growth capital.

THE WAY FORWARD

In 2019, we will continue to work hard to earn the position as "the best bank for people who want to start up a company". All initiatives from the current year will be reinforced through working even more structured and with an even stronger focus on startups. In addition to the above-mentioned initiatives, we will also offer services such as the automated accounting solution DNB Regnskap and the mobile application DNB Puls, as well-timed responses to some of the specific needs of start-up companies. DNB Regnskap gives businesses a simple accounting solution that is integrated with the bank, and the DNB Puls app works as a pocket-sized, digital financial adviser for those who run small businesses. It provides an easily accessible overview of all accounts, balance forecasts and key figures compared with other industry players and competitors. Knowing to what extent these new tools are used, enables us to better evaluate whether and how they contribute to helping more start-up companies succeed.

Preventing financial crime and corruption

WHY IS IT IMPORTANT?

Financial crime, such as corruption, undeclared work and money laundering, is a serious social problem and poses a threat to both individuals and the community, while at the same time undermining a healthy business community.

The principal goal for DNB's efforts against financial crime is to contribute to a healthy and legal economy and limit the opportunities for illegal acts. Everyone should trust that DNB is working actively to fight financial crime in society in general and against our customers in particular. If we are to succeed, we need to stay ahead. We follow the development in the threat scenario closely and continuously adjust our efforts according to changes in trends and methods.

Banks represent a necessary channel that criminals have to use to launder the proceeds of illegal activity. Combating financial crime is demanding work and reducing the risk of being exploited by criminals requires a high level of expertise and significant resources on the part of banks.

We take the fight against corruption seriously and have zero tolerance for all forms of corruption. Everyone in DNB shall act in an open, transparent and accountable manner. These ambitions are clearly expressed in DNB's Code of Conduct which describes our ethical standards.

Digital crime and cases of fraud are on the increase, and this trend is expected to continue. Digitalisation and globalisation affect the development, have made it easier to commit mass fraud and cause rapid changes in the threat scenario.

Through good practices, effective training and a high level of expertise, we will ensure that we contribute to a healthy Norwegian business community based on fair competition and legitimate business activities.

WHAT DID WE DO IN 2018?

In 2018, DNB registered an increase of 9 per cent in the number of customers who were victims of digital fraud. The cases are getting more comprehensive, and in total, the value of attempted fraud increased by 42 per cent. In 2018, the total value of prevented digital fraud attempts against our customers was NOK 266 million. When taking into account all types of fraud, DNB prevented a total of NOK 725 million of the Group's and our customers' money from falling into the wrong hands. We work actively to prevent fraud by investigating cases of suspicious activity and reporting serious cases to the police. In 2018, we handled 3 300 cases, 254 of which were reported to the police. We also reported some cases of mass fraud against our customers last year.

In addition, we reported 1 496 cases of suspicious activity to EFE, the Norwegian Financial Intelligence Unit in the Norwegian National Authority for Investigation and Prosecution of Economic and Environmental Crime (Økokrim). These cases involved suspicion of money laundering, attempts at money laundering or terrorist financing.

Raising awareness and building competence are key to preventing crime. DNB contributes actively to this by giving presentations in Norway and internationally, and several of the Group's employees are sought-after speakers in this context. DNB also has an active media strategy with the objective of contributing to competence building and awareness-raising in society.

DNB's processes and procedures for the anti-money laundering work were updated in 2018, to comply with the new Norwegian Money Laundering Act. Both employees and managers have received training in the updated procedures and DNB's Board of Directors completed training in the new Money Laundering Act in the autumn of 2018.

Our efforts to combat corruption were strengthened in 2018 through the launch of a new, mandatory e-learning course on anti-corruption. All employees in Norway and internationally are required to complete this course within the first quarter of 2019. Moreover, the Group's anti-corruption framework was further developed, including an improvement of the method used to make risk assessments. The purpose of risk assessments is to identify corruption risk related to customers, employees, business partners, suppliers and other external players with whom DNB has a relevant relationship. The risk assessments must show how corruption can occur, the likelihood of such incidents and the consequences they may have, and will provide the basis for the establishment of procedures and measures. The framework helps ensure consistent management of the anti-corruption work in DNB, and is a key tool in the Group's efforts to combat corruption.

THE WAY FORWARD

DNB's anti-fraud team is one of the largest and most competent in Norway. We use modern technology to prevent crime and to renew our working methods in step with the changes in the world around us. It is important for DNB to have as much information as possible about the criminal players and how they operate, to be able to prevent crime. In the time ahead, we will continue our efforts to increase the focus on and professionalise this work further. Customers who are subject to fraud, will often not realise that they are being conned, especially the victims of love fraud. We will continue working with our IT systems, to be in an even better position to protect customers who are making payments as a result of fraud. This is important because the revenue generated by such activities is used to finance other serious crime.

Within the field of anti-corruption, we are continuously improving our risk assessments. We will carry out internal seminars and develop dilemma training that will be available to all employees.

DNB's efforts against financial crime are part of our corporate responsibility and will continue with full force in 2019. We have an interdisciplinary specialist team within financial crime. Our employees in this area have backgrounds from areas such as the police, finance, IT and regulatory authorities. We actively share our knowledge and experience with other banks, on topics such as combating fraud, money laundering, terror financing, sanctions and corruption. In addition, we use our expertise to help our customers be more vigilant so that they avoid becoming the victim of fraud. DNB is an active participant in a Nordic cooperation called the Nordic Financial CERT (NFCERT), which among other things aims to share knowledge in order to strengthen preventive efforts against digital fraud and other digital crime. NFCERT assists all its members by coordinating efforts in cases of digital attacks and by facilitating the exchange of information. We have in recent years prevented major losses for DNB and DNB's customers based on this collaboration and the sharing of information. Similarly, information from DNB helps prevent crime against customers of other banks. We strongly believe that cooperation between banks is a key instrument to prevent crime and will continue to share our expertise and knowledge in the time ahead, among other things through NFCERT and Nordic KYC Utility (Know your customer).

Efforts to prevent financial crime, secure the digital economy and protect our customers are assessed through frequent external and internal audits, in addition to reviews performed by various supervisory authorities. DNB also measures whether our customers perceive us as a trustworthy player in society. Thus, our work and the management's approach to this topic will be continuously evaluated, and we believe this to be a good way of following up this work. On the basis of feedback from partners and institutions we cooperate with, we consider our efforts to prevent financial crime and digital fraud as satisfactory, and we see that our subject matter experts are sought-after spokespersons when the topics are addressed in the media.

We work targeted every single day to protect our customers and make sure that we ourselves are not subject to fraud or misused for criminal purposes.

Financial literacy

WHY IS IT IMPORTANT?

Having a sound understanding of personal finances enables the individual to make better financial decisions and avoid ending up in financial distress. DNB wants to contribute to raising the financial literacy among the general population. This includes our personal customers, our corporate customers and the public sector. A higher level of competence will make the individual customers more aware of their financial needs, and as a result, they will demand relevant and customised financial services. This applies to a wide range of services within savings, investment, loans, funding and risk management in various financial markets (e.g. the currency, interest rate and commodity markets). An increased need for financial literacy offers a good opportunity to strengthen our market position in various customer segments and to be a responsible player in society.

WHAT DID WE DO IN 2018?

Our macro analysts, portfolio managers and other subject matter experts actively contribute to competence building through various media. DNB organises a wide range of market-relevant seminars and conferences that serve as valuable meeting places and knowledge venues for private individuals, the business community and the public sector. We arrange events in several geographical locations, covering most parts of the country.

In DNB, we engage in active and ongoing digital dialogue with our customers to raise their financial literacy.

On our analysis web pages, we offer a wide selection of market analyses within economics and securities markets, as well as webcasts produced by DNB Markets (in Norwegian only). We have also conducted a large number of training activities related to the share savings account scheme.

In the course of 2018, a total of 125 670 people established a share savings account in DNB. Measured in terms of total assets, DNB has a market share of more than 26 per cent.

In 2018, we placed great emphasis on increasing the general level of knowledge regarding long-term financial planning and savings. In the course of the year, we arranged several evening seminars on shares in cooperation with the non-profit foundation AksjeNorge, all with a high attendance rate.

In 2018, we focused especially on women and on increasing their interest in financial topics and long-term savings, as we see a significant difference in how men and women handle their personal finances. A DNB report from 2018 shows that the most typical situation is one where men save money for retirement, while women save money for holidays. Some of these differences can be explained structurally. Men still earn more than women, and more women than men work part time. Some of the differences can also be ascribed to career choices and the type of education we choose. In the autumn of 2018, DNB contributed with seed capital to "Femme Forvaltning" (femme fund management), a recently established stock exchange club for women at the Norwegian School of Economics.

As more of our personal customers have started saving money in both shares and mutual funds, the savings app Spare has also gained momentum – by the end of 2018, it had been downloaded 327 113 times. The savings app contains a quick and easy solution for checking the status of your cash balance, shares and mutual funds, and for establishing savings agreements at the desired risk level with just a few keystrokes. By providing more information about savings and investments, we raise our customers' knowledge in the area and make them interested in trying different investment options.

THE WAY FORWARD

There is a growing need in the population to save more money, both for retirement purposes and for financing important life events, such as buying a home and starting a family. We will work towards a behavioural change in society, which means that we have a more long-term view on savings and investments. We also plan to launch skills-enhancing initiatives aimed at personal and corporate customers within the area of pension savings. "A valuable lesson", an online training programme previously aimed at teaching children in primary schools about personal finances, is being further developed to include savings topics for young adults. It is scheduled to be launched in the first quarter of 2019.

We will adapt our information and training activities to the population's varying financial needs and level of professionalism, to ensure that our customers receive more relevant products and services based on their individual needs.

DNB will continue to work for increased financial equality between women and men. In light of this, we will encourage more women to start making investments or to increase their existing investments, and to take greater risks in their savings.

Responsible purchasing

In 2018, DNB purchased goods and services for approximately NOK 11 billion. Our ability to create value for our customers depends on good deliveries from and a successful cooperation with our suppliers. It is important to us that our purchases are of good quality, delivered at a competitive price and produced in a responsible manner in keeping with our requirements and expectations. We are constantly seeking to reduce risk related to corporate responsibility in our supply chain, and also want to help our suppliers improve and become more aware in this area. As service deliveries make up the main part of our purchases, topics related to working conditions are often prioritised, but we also work with matters related to the environment, ethics and the supply chain.

We have around 6 500 suppliers, 150 of which represent approximately 80 per cent of the Group's procurement costs. Important purchase categories for the bank are the development and operation of IT solutions, marketing and consulting services, as well as goods and services related to properties and office equipment. Most of our suppliers are from the Nordic countries, Western Europe or North America.

In order to ensure a fair and transparent procurement process, purchases in DNB are conducted according to both the Group's procurement principles and guidelines and a defined procurement process. Assessments and initiatives related to corporate responsibility are an integral part of these processes, both before the choice of supplier is made and during the contract period.

What DNB expects from suppliers should be specified in the tender documents and in the contracts, which also contain the DNB Code of Responsible Business Conduct for Suppliers. The code is based on prevailing regulations and the OECD Guidelines for Multinational Enterprises, the UN Global Compact, the UN's Guiding Principles on Business and Human Rights and the ILO Core Conventions. The principles set clear requirements with respect to human rights and labour standards, environmental management and ethical business conduct, as well as suppliers' responsibility vis-à-vis sub-suppliers.

DNB uses the analysis and sharing tool EcoVadis as support in the assessment of how our suppliers handle risks and opportunities related to corporate responsibility. In this work, priority is given to the largest and/or most critical suppliers or suppliers who on account of their industry, geography or history are considered to represent higher risk. At the end of the year, suppliers representing a total of 65 per cent of DNB's relevant supplier expenses had been analysed using EcoVadis, and received feedback and improvement suggestions regarding their work on corporate responsibility. The analysis results are included in the evaluation of suppliers and discussed in supplier meetings to challenge suppliers to be aware of their corporate responsibility and work for continuous improvement.

We also set requirements for and work with the suppliers on matters that are particularly relevant to the item or service provided. For example, we maintain a regular dialogue with our supplier of cleaning and canteen services about measures for a more environmentally friendly operation, and when new PCs were ordered for all employees in 2017, one of the purchasing requirements was compliance with the sustainability certification TCO Certified. Moreover, in line with our corporate strategy, we also strengthened our focus on diversity and equal opportunities in the procurement process in 2018, especially for service providers from industries where this is considered a major challenge.

In 2018, DNB carried out three on-site supplier audits to verify compliance with the DNB Code of Responsible Business Conduct for Suppliers. Such audits are carried out in collaboration with an external auditor, and the suppliers are selected based on an assessment of risk and criticality. In 2018, we audited two of our major IT partners, as well as a sub-supplier of our supplier of office clothes. We follow up on any findings after the audits, and we see that the audits make important contributions towards improvements and learning both for DNB and for the suppliers.

We have established a Supply Chain Sustainability management team in which key procurement functions are represented. The SCS management team considers which suppliers to audit based on the methodology described above, and evaluates various initiatives to ensure responsible and sustainable procurement practices. The procurement process and suggestions from the SCS management team must subsequently be approved in a SCS steering group consisting of key managers within relevant subject areas. This way, we ensure sound evaluation of the effect of various measures on our procurement practices. This practice will be continued in 2019. We find our efforts within responsible purchasing to be satisfactory, particularly when it comes to the procurement of legal services, where we have stipulated a requirement for an equality strategy from the largest law firms. This has created ripple effects in the financial services industry.

In the time ahead, this work will continue along the same lines as in 2018, with supplier audits, evaluations through EcoVadis and dialogue on priority topics, with the purpose of mitigating risk and contributing to improvements in the supply chain to the benefit of DNB, the suppliers and society at large.

Link to sustainability library:
dnb.no/en/about-us/csr/sustainability-library.html

Climate-related risks and opportunities

By endorsing the Task Force on Climate-related Financial Disclosures (TCFD) in 2017, we committed to addressing and reporting on our management of climate-related risks and opportunities. Our purpose is two-fold: to enable investors and shareholders to make more informed decisions about DNB, and to signal to our customers that we seek more information from them.

Our participation in two TCFD pilot projects in 2018 gave us the opportunity to reflect on how we understand and manage climate-related risks and opportunities. Our first substantial TCFD disclosure effort was DNB's CDP[1)] report from August 2018, for which DNB – as the only Nordic bank – received the top score A. In addition, we will publish a TCFD report in our sustainability library, see link on page 47. Below is an excerpt of DNB's TCFD-related disclosures for 2018, under the four recommended headings: Governance, Strategy, Risk management, and Metrics and targets.

1 GOVERNANCE

Corporate responsibility is one of DNB's four strategic pillars, for which the Board of Directors of DNB is ultimately responsible.

DNB's governance principles for corporate responsibility, that form the basis of our obligations, processes and measurements of corporate responsibility (including climate-related efforts), were in 2018 lifted to the top level of DNB's corporate governance hierarchy. The work is regularly endorsed by the Board, and an annual internal control reviews metrics and targets within the integration of corporate responsibility.

2 STRATEGY: SCENARIO ANALYSES

In line with the ever-more stringent regulatory requirements for climate reporting and sustainable finance, DNB has started to consider climate-related risks and opportunities at a corporate and portfolio level. One way we do this, is through the use of scenario analysis, as recommended by TCFD as a tool to identify possible outcomes of climate-related risk and opportunity factors. In 2018, DNB participated in two pilot projects under the auspices of the United Nations Environment Program UNEP FI to develop better reporting standards through the use of scenario analyses.

BANKING PILOT: SCENARIO ANALYSIS OF CREDIT PORTFOLIO

In UNEP FI's Banking Pilot, DNB participated in a working group with 15 other international banks. In collaboration with Oliver Wyman and Acclimatise, the working group developed methodologies to stress test own credit portfolios in 1.5, 2 and 4-degree scenarios. Climate scenarios were integrated by the Potsdam Institute for Climate Impact Research (PIK) and the International Institute for Applied Systems Analysis (IIASA). DNB's case study in the pilot involved scenario-testing DNB's upstream oil and gas portfolio. Phase I of UNEP FI's pilot is complete, but there is still some remaining work to develop models with sufficient accuracy. Among other things, the climate scenarios must be better adapted to financial analysis and must shed more light on consequences in the shorter term. The participants in the pilot published their work in two reports, Extending Our Horizons and Navigating a New Climate, in April and July 2018 respectively. Phase II of UNEP FI's pilot project will start in the spring of 2019.

INVESTMENT PILOT: SCENARIO ANALYSIS OF INVESTMENT PORTFOLIO

In UNEP FI's Investor Pilot, DNB Asset Management participates actively in the development of a standardised method for aggregated and repeatable reporting of the most significant climate data. The method, developed together with CarbonDelta, uses scenario analysis to provide a more forward-looking picture of climate-related risks and opportunities in companies and portfolios than provided by carbon footprint measurements. (DNB's carbon footprint is reported on page 65). This is an important consideration to make in the investment process, but it is also very complex. DNB's case study will be delivered in the spring of 2019.

In the time ahead, we will continue our work with stress tests and scenario analyses, with a broader scope both in terms of industries and scenarios. The purpose is to be able to identify and incorporate long-term climate risks in a more short-term customer commitment.

3 RISK MANAGEMENT

DNB's most material climate-related risks and opportunities arise from lending to corporate customers. Accordingly, we assess Environmental, Social and Governance (ESG) factors, which include climate-related risk, in every corporate customer case as part of DNB's credit risk management. This work has been strengthened throughout 2018. Moreover, we engage with our customers to help them become adaptable companies that succeed in the transition to a low-carbon future. DNB's green bonds and green loans are examples of incentivising financial products that encourage climate-resilient business operations (see Responsible lending and investment on page 61).

DNB's environmental management system is certified according to ISO 14001, and DNB's ESG-related risk management forms part of the annual ISO 14001 audit conducted by DNV GL.

4 METRICS AND TARGETS

DNB reports on Scope 1, Scope 2 and a portion of Scope 3[2)] greenhouse gas emissions in our annual Carbon Accounting report (see DNB's sustainability library, link on page 47). We follow the Corporate Standard from the Greenhouse Gas Protocol (GHG) and report according to both the market-based and location-based method. We also report on Scope 3 carbon emissions from employees' business trips.

To better understand climate impact, DNB is currently working on a number of initiatives to improve transparency around indirect climate exposure in several of our key sectors. For example, DNB Asset Management is working together with other Norwegian investors towards Norwegian listed companies to contribute to preferred TCFD reporting for investors. Through better company disclosure we can conduct more reliable scenario analyses at company portfolio level, and ultimately help our portfolio managers achieve better risk-adjusted returns and generate value for our mutual fund customers. Another example is DNB's participation in the UN Global Compact Business Action Platform for the Ocean, which will provide greater insight into climate-related risks and opportunities, such as concrete initiatives to reduce greenhouse gas emissions from maritime sectors.

1) CDP, formerly the Carbon Disclosure Project, is a foundation backed by investors whose purpose is to help give businesses and authorities a better overview of their own climate impact.

2) **Scope 1:** All direct emissions where the organisation has operational control. Mandatory reporting.
Scope 2: All indirect emissions associated with purchased energy, such as electricity or heating/cooling, where the organisation has operational control. Mandatory reporting.
Scope 3: Emissions that are a result of the company's different activities, but that are not controlled by the organisation, i.e. they are indirect. Voluntary reporting.

DNB's tax contribution

DNB contributes to society in a number of ways in the countries where the Group is represented. Tax is one of the areas where DNB makes a significant contribution to society, and the country-by-country report shows taxes paid in the countries in which DNB has operations (see the report in the sustainability library, link on page 47).

The overview below includes other tax-related contributions in addition to taxes paid.

In 2018, the total tax contribution amounted to NOK 11 807 million, of which NOK 7 777 million was paid to the authorities and NOK 4 030 million was tax collected on behalf of the authorities.

HOW MUCH TAX DID THE DNB GROUP PAY IN 2018?

- Income tax: 4 576
- Non-deductible VAT: 1 159
- Employer's national insurance contributions: 1 434
- Financial activities tax: 547[1)]
- Other tax: 61

Taxes paid constitute a cost for the Group and include:

Income tax
The Group pays tax on income generated in the individual countries in which it has operations based on national tax rules in the country where the respective units are resident for tax purposes. Paid income tax means actual tax paid during the year regardless of which fiscal year the tax is related to.

Non-deductible value added tax (VAT)
DNB pays VAT on purchases of goods and services. The Group is only allowed partial deductions for input VAT, which means that a large part of the VAT constitutes a cost for the Group. The amount includes all non-deductible input VAT on the purchase of goods and services.

Employer's national insurance contributions
As an employer, DNB is obliged to pay employer's national insurance contributions and other social security contributions based on the employees' salary and other remunerations.

Financial activities tax
The financial activities tax was introduced in 2017 and is an additional tax imposed on companies within the financial services sector. This tax consists of two elements: an increased income tax rate for financial institutions (2 percentage points) and an additional tax for employers in the financial services industry, based on the payroll of the companies (5 percentage points).

Other tax
This may be withholding tax on interest and dividends that DNB cannot subtract from other tax.

HOW MUCH TAX DID THE DNB GROUP COLLECT ON BEHALF OF THE AUTHORITIES IN 2018?

- Tax deduction for employees: 2 976
- VAT paid to the authorities: 472
- Other tax: 582

In addition to taxes paid by the Group itself, DNB collects the following taxes on behalf of the authorities through its operations:

Tax deductions for employees
In many countries, employers are required to withhold taxes and other social security contributions when paying salaries to employees.

VAT paid to the authorities
DNB must report and collect VAT on the purchase and sale of taxable goods and services. In addition, DNB calculates and pays VAT on purchases of goods and services from abroad. Net tax is reported and paid to the local tax authorities in the individual countries.

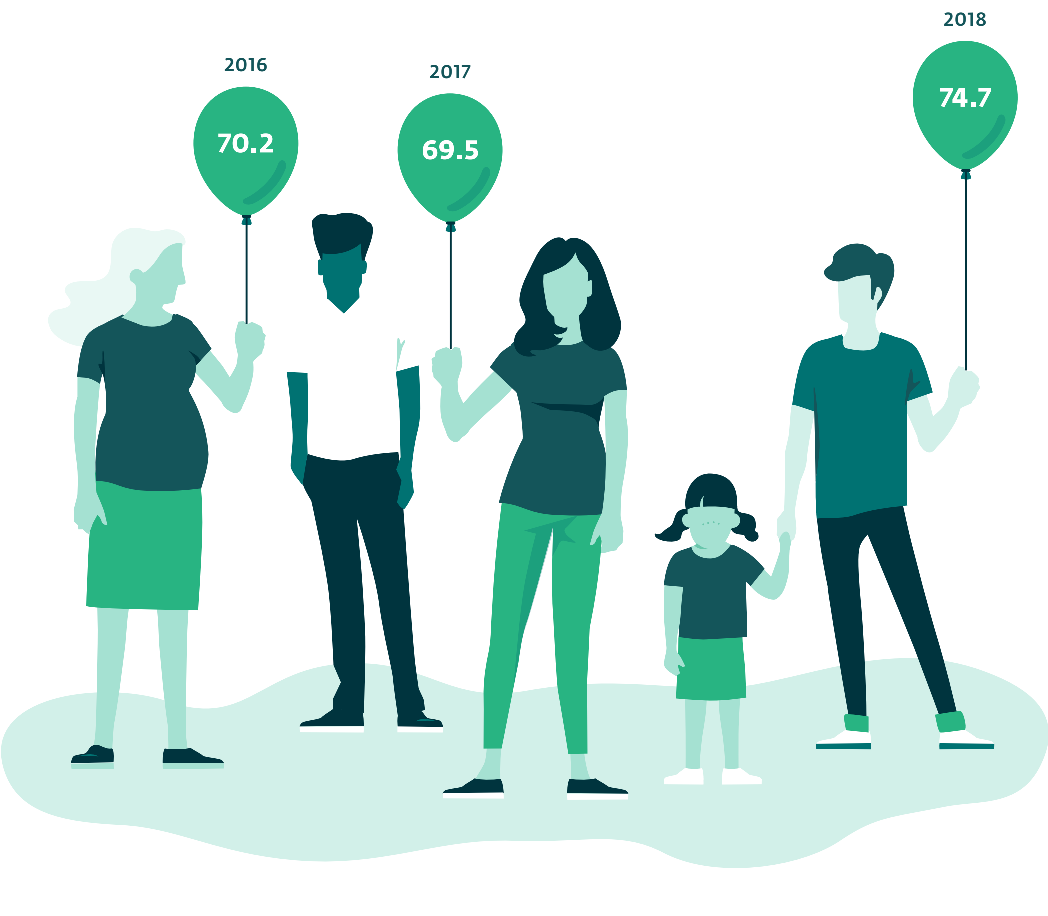
Other tax
This could be withholding tax deducted from interest and dividend payments collected on behalf of the authorities.

1) Consists of extra income tax amounting to NOK 166 million and additional employer's national insurance contributions of NOK 381 million.

CREATING VALUE

Customers

→



Customer satisfaction (score)

Creating the best customer experiences

WHY IS IT IMPORTANT?

Creating the best customer experiences is both about providing user-friendly products and services and about being open about the pricing of what we offer.

Delivering good customer experiences is a prerequisite for our existence as a bank. In order to help our customers stay ahead, we also have to understand their needs. This means, among other things, offering simple and relevant solutions, being available and delivering transparent and competitive terms and conditions and good customer service. By building trust and offering good customer experiences, we will earn the customer relationship.

Our governing principles for corporate responsibility are normative for all product and service development. Our governing principles for ethics, the Code of Conduct, shall also contribute to increasing awareness of and compliance with the high ethical standards which our employees are required to observe. A fundamental principle is open, clear and truthful communication which safeguards customer interests in connection with sales and advisory services. Both the principles for corporate responsibility and the Code of Conduct have been approved by DNB's Board of Directors. Read more about this in the chapter on corporate governance on page 74, onwards.

WHAT DID WE DO IN 2018?

CUSTOMER SATISFACTION

Customer satisfaction among personal customers showed strong progress throughout the year and increased from 70.4 points at the end of 2017 to 75.3 points in the fourth quarter of 2018, which is over the target of 75 points. The customers find that we have good customer service (mentioned by 37 per cent), and other feedback is short response times, good availability, a high level of competence and useful products. At the same time, we see that the customers that are less happy, often state price related to increased interest rates as one of the reasons. They also find that DNB is "not very proactive" when it comes to lowering the interest rate. Nevertheless, we believe that DNB has competitive prices, and that the difference between banks is generally very small. It will therefore be important in the time ahead to improve our efforts to highlight the bank's terms and conditions as well as offered products, so that the customers get the best and most accurate picture of DNB's prices.

SHELF CONTROL

In the course of 2018, all products and services were reviewed, evaluated and approved, and some products were phased out. This process is called "shelf control", and it is rooted in our group standard for the approval of products and services as part of the risk management framework. The purpose of the standard is to ensure high quality in our portfolio of products and services, and thereby increase our competitiveness, strengthen our reputation and safeguard our corporate responsibility. The group standard and procedures for compliance shall support effective product development and approval, and contribute to innovation and change capacity.

PRODUCTS AND SERVICES

New mobile bank

The new mobile bank will be our customers' most important digital banking tool. To create the best possible mobile bank, we have focused on the customer throughout the entire journey. Quantitative user surveys and thorough testing have formed the basis for all the choices we have made.

Customers were involved even before the first beta version, and they have given us specific feedback on both functionality and design. Based on their input, we launched an early prototype where several thousand DNB employees were given the opportunity to test the skeleton of what is now the mobile bank, and help shape what would later be released to the entire Norwegian population. In the course of the autumn and winter, we invited an additional few thousand customers to participate in the open beta testing.

Just two weeks after the launch in January 2019, more than half a million customers had started using the new mobile bank. This is nevertheless just the beginning, and we will continue to enrich the mobile bank with new functionality to simplify and improve the everyday banking life of all bank customers in Norway.

Online home mortgage application

When customers apply for a home mortgage online, DNB uses consent-based collection of data from the digital government dialogue portal Altinn. This is very quick and easy for the customer and safe and secure for the bank. Consent-based collection of salary data is a more secure way of retrieving documentation, it makes the data harder to forge and is in line with the data protection legislation. The customers need only give their consent by using their BankID.

Banking without Internet

In 2018, we updated our information booklet on how to use the bank without an Internet connection ('Banking without Internet'), aimed at our non-digital personal customers. The booklet contains information about all the possibilities available to non-digital DNB customers and the products and services we offer them, to enable them to manage their own personal finances. We want our customers to feel that we are their personal bank, and that we are doing what we can to meet their needs. Banking without Internet includes services such as staffed telephone services, bank statements by post, AvtaleGiro (direct debit), BrevGiro (giro sent by regular post) and TeleGiro (payments via telephone), information about authorised users, BankID, etc.

FIGURES FROM THE FINANCIAL SERVICES COMPLAINTS BOARD

The Norwegian Financial Services Complaints Board handles disputes concerning private individuals' contractual relationship with banks, finance companies, mortgage institutions or mutual fund management companies. The number of cases dealt with in the Complaints Board is an indication of DNB's ability to deliver products and services that meet customer expectations.

In 2018, the secretariat of the Norwegian Financial Services Complaints Board registered a total of 4 674 new cases related to banking and insurance, of which DNB was involved in 325. Of our 325 cases, only 70 cases were considered by the Board, out of which 60 went in our favour and 10 in favour of the customer. The number of cases in the Complaints Board is as expected, in light of the number of personal customers in DNB, and in comparison with previous years and with other financial services groups. The results of the cases are also as expected and show that DNB has few cases which end in disfavour of the bank. This is considered a positive outcome.

THE WAY FORWARD

The vast majority of Norwegian bank customers are digital and see no need for contact with a human customer adviser when performing everyday banking tasks. But in situations with large financial consequences, the customers have made it clear that they prefer to discuss their options with and get advice from a human being. Customers still expect a bank to act as a bank. This means that we always have to deliver on customer expectations and needs, be it digital products and services or more traditional advisory services, where desirable.

In our mobile bank, we will in the time ahead offer ever-more innovative and unique solutions for our customers, and the services we offer must be at least as good as those offered by the new third party providers, to retain the customers.

We have a long list of functionality and services that we plan to make available in the mobile bank. We will therefore prioritise development in order to cover the most important customer needs as quickly as possible. Continuous further development, fast delivery rate and the ability to quickly readjust will be critical success criteria.

A selection of other new products and services

DNB Puls

The corporate app DNB Puls was launched in November 2018 and is a financial management tool for small businesses. It provides a complete overview of the company's finances and serves as a pocket-sized digital adviser and accountant for companies.

SMEdig

SMEdig is a digital initiative for customers in the corporate segment, and so far, the solution includes application for term loans and lines of credit. The plan is to expand the solution to cover more credit products and a wider range of customers. The goal of SMEdig is to improve the customer experience, simplify the everyday working life of account managers and ensure higher-quality decision support and advisory services.

Enkel Bilhandel

DNB launched the app Enkel Bilhandel (simple car purchase) in mid-February 2018. This is an app for second-hand car purchases and handles the purchase contract, payment, any loan financing, insurance and re-registration.

Spare

The savings app Spare was launched in 2017 and is a one-stop shop for all your savings activities. The customer's savings account is shown directly in the app, along with everything from pension savings to shares. The customer can also add savings goals and purchase mutual funds, and get a complete overview at all times. By the end of 2018, the app had been downloaded 327 113 times.

Credit Manager

Credit Manager is a new digital tool for large corporate customers, where they initially will get an overview of all the company's credit facilities and can easily apply for a new credit or extend existing credit lines. The solution is being further developed to include more functionality and more services for the large customers segment.

Aino

Aino is a chat robot (chatbot) that responds to simple customer inquiries in the Internet bank. If it cannot answer the inquiry, the chatbot will refer the customer to a customer adviser. From the launch in June till the end of 2018, Aino replied to over 238 000 inquiries.

Markets

DNB's self-service solutions within the field of currency and equity trading and securities services have been further developed. This also includes the mobile solutions. Within risk management products, we have improved our digital solutions in order to integrate the bank's systems with our customers' risk management systems. This applies in particular within transaction confirmation, updated/valuated customer portfolios and safeguarding of our customers' needs for statutory reporting to the authorities.

Markets' analysis products within equities, macro and credit are now compiled in one analysis portal for professional investors. In 2018, there was a significant increase in the number of webcasts with analyses and advice within a broad spectre of capital markets topics.

Furthermore, within securities and derivatives, DNB facilitated increased transparency with regard to pricing, and our customers now receive information about the bank's estimated earnings on agreed transactions.

Innovative business model and product development

WHY IS IT IMPORTANT?

Based on experiences with other digital services, our customers expect banking services that simplify and streamline their everyday life. Combined with rapid technological advances, changes in regulations and new competitors, this presents both new challenges and new opportunities.

Our goal is to create the best customer experiences while delivering on our financial targets and meeting regulatory requirements.

To create profitable growth in the period ahead, we need to improve our existing operations and at the same time create new revenue streams from services that we are not currently offering. Our innovative power lies in combining in-depth understanding of banking with smart solutions, and not least having a strong implementation capacity. This assumes that we make clear priorities and use our resources effectively.

WHAT DID WE DO IN 2018?

DNB has taken a number of active steps in the area of innovative product development, and there is a strong and positive commitment to innovation within the organisation. The common focus on innovative power created by our new strategy has certainly had a significant effect in this regard.

At the beginning of 2018, we established New Business as a separate business area. New Business is responsible for four group-wide priority areas in DNB: data and customer insight, payments and payment infrastructure, Open Banking, and application of new technologies and strategic partnerships.

The business area helps streamline and accelerate the development of new sources of income and competitive strength within existing customer segments, while at the same time identifying and realising new business opportunities.

To meet the competition from technology companies, DNB has developed a method of prioritising projects that should be carried out with an agile approach, which is a common way of managing projects in technology companies, where ideas are continuously developed and tested. An important effect of this is that we can test ideas faster and in that way avoid the costs of developing solutions which for various reasons do not work.

HIGH SCORE ON INNOVATION

DNB is operating in a highly competitive market when it comes to innovation, where both existing banks and new players are continuously looking for opportunities to create added value for customers. In this type of market, it is a sign of strength that brand surveys show that DNB stands out positively with regard to the values innovative and modern. Our customers find that we are often among the first to launch new solutions.

PARTNERSHIPS

We cooperate with StartupLab, Norway's largest and best technology incubator, in a number of areas. One example is the leading fintech accelerator in Norway, DNB NXT Accelerator. We also partner with Digital Norway to share learning about the digitisation of Norway, and with the Norwegian University of Science and Technology on matters such as artificial intelligence (AI), in collaboration with major market players, including Telenor, Equinor and SINTEF.

New ways of cooperating has led to venture investments in companies such as Payr, Spiir and FundingPartner, and in 2018, DNB developed an accounting solution for corporate customers in cooperation with Lucalabs. We also combined investment with partnership through the collaboration with 11:FS, one of the world's leading companies within financial technology, by establishing the company 11:FS Foundry. The company offers a completely new approach to the digitisation of banking services: a flexible core architecture that makes it possible for providers of financial services to leave old systems and obsolete infrastructure behind. The first task in this partnership will be to consider whether we can optimise DNB's value chain for unsecured credit.

DIGITAL HOUSE

When we launch products in the market, which is demanding improvements at an ever-increasing speed, it is also essential to make the most of the existing competence and established working methods of dedicated teams.

On the basis of this, one of the three buildings of our head office in Oslo was established as a "Digital House" in 2018, where we co-located IT teams and business areas for all development projects. Particularly in major development projects such as the new mobile bank for personal customers and the corporate app DNB Puls, we have learned that using teams with expertise from both the business areas and IT from start to delivery, results in faster clarifications and accelerated progress. The same is true for projects with a high degree of technical complexity. One example is the development of our new chatbot Aino, where we applied both machine learning and artificial intelligence. Chat is the fastest growing channel in DNB's customer service centre, receiving more than 1.5 million inquiries a year, and Aino has ensured continued personalised customer experiences combined with a seamless transition to a human adviser for the more complex inquiries. Aino has been well received by our customers and has more than halved the chat traffic to the service centre since the launch.

THE WAY FORWARD

Based on our positive experiences with interdisciplinary teams this past year, we will further increase and improve the cooperation between the various business areas and support units in the bank throughout 2019.

We are facing a fundamental shift in the way banks are operating. One area where this is clearly evident is Open Banking, which is all about banks opening up their infrastructure via secure and user-friendly interfaces, allowing third-party developers to create new services and user experiences for the customers. In 2019, Open Banking will really gain ground in Europe, largely as a consequence of the introduction of the PSD2 Directive, which will also affect Norway. This is a priority area for DNB, and we will keep up the good work of creating value for DNB and our customers in close interaction with third parties.

Information security and stable IT systems

WHY IS IT IMPORTANT?

As Norway's largest bank and a major settlement bank, DNB is an important player in Norwegian society, which requires offering user-friendly, stable and secure solutions – for our customers and society at large. A well-functioning banking system is a fundamental requirement for being able to carry out payments in shops, pay bills and make transfers between accounts in all banks and countries.

DNB operates and manages a range of IT systems and handles large amounts of data of both a personal and commercial nature. New digital services, new technology and a complex threat scenario require both that we have in place substantial technical security measures, and that we have employees with sound knowledge of how digital services and data are managed in a safe manner. This is essential to maintain our customers' trust and thereby our competitive strength. Stable and secure IT systems are also a basic prerequisite for being able to increase our innovative power in the years to come.

WHAT DID WE DO IN 2018?

In the course of the past year, we reviewed the organisation of the IT and security functions and adapted them to today's banking activities.

A number of measures were implemented, both process-related and technical, which helped improve operational stability in 2018. Among the measures implemented were the establishment of a proactive monitoring system for DNB's critical systems and enhanced high-availability solutions for multiple services. In addition, DNB's external network lines were moved to a new data centre in the county of Akershus in 2018, after the mainframe computer was moved to the same location in 2017. Moreover, the underlying infrastructure for the handling of credit cards was upgraded and improved, and the mainframe for disaster recovery was upgraded and its capacity increased.

DNB has reaped the results of this work in the form of improved operational stability. In 2015, incidents occurred on 110 days of the year, which caused periods of unavailability or long response times for customer services, for instance in the Internet bank. In 2016, this number was reduced to 74, while there were 38 and 27 such days in 2017 and 2018, respectively. This is an improvement of 75 per cent since 2015, and of 29 per cent in the last year.

The Group is following a three-year action plan for information security and is continuously working to develop and reinforce security solutions. We have made significant investments and implemented a number of improvements in the area of security. Key elements include having multiple levels of robust security measures, continuously enhancing and upgrading IT solutions, strengthening security competence among employees and further developing national and international cooperation. Moreover, we are focusing on increased automation and continuous monitoring of the level of security. In 2018, DNB reinforced the protection of the IT infrastructure, improved user and access management, strengthened the defence against digital fraud and introduced more comprehensive training in IT security for IT professionals. The ongoing communication efforts and the general training in information security for all Group employees were continued. The National Security Month campaign was carried out once again in 2018 and received a great deal of attention and support internally in DNB.

If a serious IT incident were to strike DNB, it is crucial that it is dealt with effectively, so that we are able to quickly resume normal operation. To strengthen this ability, the Group's crisis management organisation was in 2018 adapted to suit today's organisation and business operations, and the new crisis management team underwent extensive training and carried out several drills.

Every day, DNB experiences cyberattacks where criminals attempt to enter our IT systems, gain access to data and carry out digital fraud. The attacks are becoming increasingly sophisticated, and we note that the attackers are willing to spend a significant amount of time and resources to achieve their goals. The Group handled around 6 500 IT security incidents in 2018, an increase of 10 per cent from 2017. None of these incidents had serious consequences.

In the same period, we registered an increase of 9 per cent in the number of customers who were victims of digital fraud. In 2018, the total value of prevented fraud attempts against our customers was NOK 266 million. In DNB, we help our customers with tips on how to avoid falling victim to financial crime and provide frequent advice and information on how to safely use services such as online banking, payment cards and mobile banking.

THE WAY FORWARD

Stable and secure IT solutions are fundamental prerequisites for financial operations. To ensure that the measures we implement actually contribute to enhanced security and stability for our IT services, they must be based on sound risk and vulnerability assessments. DNB has therefore strengthened the risk management efforts in IT and will in 2019 to an even greater degree integrate this into the general IT management. This way, we reinforce the connection between IT risk and the risk scenario in DNB's business areas. At the same time, we will continually develop our security solutions and further strengthen our defence against cyberattacks and digital fraud.

The ongoing efforts to improve operational stability will also continue. The main improvement activities are gathered in a separate programme that has a risk-based approach to the prioritisation of the measures. Implementing stabilisation measures within parts of the payment portfolio will be a prioritised task in 2019. In addition, we will make use of artificial intelligence and machine learning in the established monitoring system. This will enable us to predict incidents and prevent them from occurring.

In the time ahead, the information security management system will be further developed, among other things by increasing the involvement of the business areas and support units in the security work. The risk-based approach will be improved to ensure more holistic security efforts, supplier management will be strengthened and crisis management will be further developed.

To build competence in and maintain a high level of awareness with regards to security, we will continue the communication and training in the area. The threat intelligence efforts will be further developed in order to provide a good foundation for risk assessments and strategic decisions for the Group.

We will maintain our security efforts to ensure that DNB remains a safe and secure financial institution for customers and society at large.

Privacy protection

WHY IS IT IMPORTANT?

We live in an increasingly digitised world. Digitalisation provides new business opportunities if the available data is used in a sound and legal manner. On the one hand, digitalisation may pose a threat to the individual's privacy protection, as the possibilities for abusing personal data are constantly increasing. On the other hand, digitalisation can represent an advantage for the individual, as services and products can be customised according to every person's wishes and needs. The value of data is therefore increasing in the digital world. Information in the form of personal data is given a particularly strong protection through the new EU legislation.

Through the EU's General Data Protection Regulation (GDPR), new privacy protection legislation was introduced in the countries of the EU and in Norway in May and July 2018, respectively. The new Norwegian Personal Data Act[1] and the EU's General Data Protection Regulation[2] affect how we handle information about our customers and employees. The new legislation imposes several duties on those who are responsible for the processing of personal data, while at the same time giving the individual more rights.

Transparency and informational self-determination are key concepts in the new legislation, and also help build trust. The digital world is dependent on information, and trust is a key word in this context. DNB's governance document specifically states that DNB aspires to be a bank that customers trust. This implies that DNB's processing of personal data must be transparent, meaning that we are open about what we do, how we do it and why we do it. Our customers' trust in us to not misuse the personal data they have entrusted us with, is absolutely essential for us to succeed.

WHAT DID WE DO IN 2018?

Over several years, DNB has worked diligently with the implementation of the new personal data protection legislation. Good processes and procedures have been drawn up to ensure compliance, and these have been documented in our governing documents. A main focus in DNB's privacy protection efforts has been to ensure that all individual rights are upheld. To this end, procedures and processes have been drawn up to ensure each individual's right to information, access, data portability[3], correction, deletion and limitation of processing.

In May 2018, we published our new privacy statement on our website. The statement ensures that information about DNB's processing of personal data is easily accessible at all times. The privacy statement includes information about our customers' rights, enabling them to exercise these rights and check how DNB manages the information that they have entrusted to us. The privacy statement is intended to contribute to transparency, and document that DNB has complete overview and control of the processing of personal data.

In 2018, DNB established a process that safeguards the customers' right of access to the information we have about them. We find that far more customers are making use of their right of access than in the past. In the period from June to December 2018, we registered 826 requests for access, while we in previous years have received only about 20 to 30 requests a

1) Act of 15 June 2018 no. 38 relating to the processing of personal data in force on 20 July 2018.
2) Regulation (EU) 2016/679 (General Data Protection Regulation).
3) "Data portability" is the right to receive and transfer data in a commonly used machine-readable format.

year. In all of 2018, only two formal complaints were received about the access process in DNB, which indicates that DNB safeguards the right of access in a good way.

DNB also established new procedures and processes for the management and reporting of personal data security breaches in 2018. We have a low threshold for reporting such breaches to the Norwegian Data Protection Authority. It is our experience that breaches of the personal data security are now uncovered and reported faster than in previous years. In 2018, DNB did not receive any orders or non-compliance penalties from the Norwegian Data Protection Authority related to breaches of the personal data security. This can be ascribed to the fact that the breaches DNB reported were not considered significant, as well as fast handling of non-conformities with effective measures to prevent recurrence.

We established a new governance structure for data in 2018, which also includes personal data. A Group Privacy Office was established under Group Compliance, and a group privacy officer was appointed for key DNB companies in Norway and the EU. Governing documents were also prepared, in the form of DNB's privacy protection standard and global privacy protection framework. These are based on the basic principles of the General Data Protection Regulation. To raise the organisation's general level of competence with respect to personal data protection, a number of mandatory e-learning courses for all the Group's employees were launched in 2018. On top of that, several teams in DNB were given classroom training on the topic. Several expert teams were also established, tasked with keeping a particular focus on compliance with the personal data protection legislation.

THE WAY FORWARD

Privacy protection is regarded as a key topic by the Group's management teams and boards and will be a high priority in the years to come. We will continue to build on the thorough work performed and documented by DNB's privacy protection programme.

Key points in DNB's work in this area is the establishment of an organisation (Group Privacy Office) responsible for coordinating the compliance function for privacy protection both nationally and internationally. The Group Privacy Office will be extended to include more employees in 2019, to ensure effective monitoring, control and reporting on DNB's compliance with the personal data protection legislation.

DNB's goal is to ensure that privacy protection is well incorporated in all parts of DNB's operations, systems, services and products. Our privacy protection culture shall be embedded in the walls of DNB. A responsible and trustworthy privacy protection policy is an absolute prerequisite for DNB to reach its financial targets.

Responsible lending and investment

Responsible lending to corporate customers

WHY IS IT IMPORTANT?

The DNB Group's resources shall be used to meet customer needs without coming into conflict with the bank's and our customers' responsibility to contribute to a sustainable development of society. We integrate corporate responsibility in our operations because it is morally and ethically right. It is also sound risk management. DNB's long-term profitability is dependent on our customers also integrating corporate responsibility in their strategic choices. If this does not happen, our future earnings will be exposed to an excessively high risk.

As a lender, DNB has influential power. By requiring our customers to be accountable, we can both contribute positively to society and reduce our customers' and our own risks.

Corporate responsibility has always been important in DNB's credit activities. In 2018, corporate responsibility assessments were nevertheless given an even more central position in our credit decisions. Environmental, social and governance (ESG) factors are essential elements in credit decisions for all our corporate customers.

ESG-related aspects have formed an important part of the many thousands of customer dialogues we have carried out in 2018. We see great commitment among and receive many positive responses from our customers on these topics. Together, our customers and DNB contribute to raising awareness of and establishing measures for risks and opportunities related to corporate responsibility and sustainability.

WHAT DID WE DO IN 2018?

DNB's strategy was clearly evident in all responsible lending activities in 2018. The corporate customer strategy is operationalised in 15 sector-specific business strategies within credit, all of which were updated in 2018. For the first time, a separate chapter on sector-specific corporate responsibility was included in all the strategies. Many of the sector-specific chapters on corporate responsibility are described in more detail in DNB's ESG sector guidance notes. In 2018, a new sector guidance note on plastic packaging was prepared and adopted. This comes in addition to the five existing notes which have been prepared on energy, arms and defence, seafood, metals and mining, and forestry. All of DNB's sector guidance notes are available in the sustainability library on dnb.no (see link on page 64) along with other guidelines. We have started the work of updating the existing sector guidance notes and developing new ones, and expect the work to be completed within the first half of 2019.

Both the credit manual and the group standard for corporate responsibility in credit activities were updated in 2018, which included the incorporation of ESG factors. The credit manual was reviewed in several credit seminars in 2018, and the credit officers are instrumental in the ESG integration. All credit employees have upgraded their skills in responsible lending through DNB's training platform Motimate. The course is mandatory for all employees who work with corporate customer credit and for relevant employees in Group Risk Management (GRM).

The reporting and follow-up of ESG in the credit process were also further developed in 2018. In all credit proposals with a value of more than NOK 50 million, risk levels associated with the loan are registered. Eventually, the goal is to be able to report on the main ESG risk types as well. We will continue to work on reporting solutions in 2019.

The procurement process for ESG information systems, which was initiated in 2017, was completed in the winter of 2018. At present, DNB has access to three external sources for ESG analyses: Sustainalytics, MSCI ESG manager and Reprisk. The information systems contain data on companies' and industries' ESG risk exposure and are tools we use when carrying out risk assessments of customers and industries in our credit activities. They are also used as a starting point for dialogue and involvement with customers. We have developed and implemented extensive training programmes in these tools.

In 2018, we also rolled out the Corporate Responsibility Ambassador role (CR ambassadors). CR ambassadors were appointed in all divisions within the corporate customer segments. All industries and regions, both in Norway and internationally, have a dedicated ambassador. The CR ambassadors are “local change agents” with insight into the relevant legislation and tools, and are vital to the effective roll-out and implementation of the corporate responsibility strategy in the corporate credit process. The ambassadors have been responsible for local training initiatives and awareness campaigns and have been available instructors in the use of the ESG information sources.

In addition, we conducted more than 50 workshops within the corporate customer segments, where dilemmas, controversial topics and sector-specific aspects were discussed. More than 500 employees participated in these workshops in 2018. The CR ambassadors have been central contributors to this work.

In the autumn of 2018, we arranged a series of mini-seminars, which we called “sustainability talks”. Customers from various sectors, who have worked systematically and effectively with sustainability, were invited to share their experiences. Our purpose was to raise the level of competence among our employees. The events were open to all employees, and excerpts from the customers' presentations are included in the sector-specific ESG training that has been made available to all employees.

A framework for sustainable products was introduced in the autumn of 2018. It is based on the internationally recognised Green Loan Principles and describes sustainable causes that will qualify for green products in DNB. So far, one green loan product has been developed, and we granted one loan under this framework in 2018. The framework will be further developed in 2019 to include more products and areas of DNB.

In 2018, we granted our first loan where part of the margin is determined based on the customer's attainment of specific ESG-related goals. If the goals are reached within the agreed time (confirmed by an independent third party), the customer will pay a reduced interest rate. If the goals are not reached, the customer will pay a higher interest rate. Through such loan agreements we give the customer financial incentives to develop in a sustainable direction.

In 2018, one project within oil and gas in Chile was processed in accordance with the Equator Principles. The Equator Principles is a global framework used by banks to assess and manage risks related to environmental and social aspects of project finance and project-related corporate loans. Read more in DNB's sustainability library (see link on page 64).

THE WAY FORWARD

DNB will continue to develop the processes to integrate ESG risk in credit assessments. We will further develop the chapter on corporate responsibility in our credit manual, and are among other things planning to draw up more sector-specific checklists to help determine ESG risk levels. We will also continue our efforts to facilitate the registration and storage of the ESG risk level of customers and transactions. Existing e-learning courses on corporate responsibility will be updated, and new courses will be developed. The sustainable product framework that was developed in 2018 will be expanded to include more products and areas. Customer dialogue and initiatives related to corporate responsibility will continue on a larger scale from 2019 onwards. In DNB, we see many opportunities for sustainable growth, and we want to be a sparring partner for our customers as well as a consultant for new business opportunities. The corporate responsibility division provides advice in credit activities with regard to the efforts to incorporate ESG factors in the processes, and offers an objective perspective on the use of available tools and the management's approach to the subject. We believe that this is an effective way of ensuring that good efforts are made to integrate ESG factors in all the Group's business operations.

We are pleased with the way corporate responsibility was integrated in the lending activities in the course of 2018. This has laid a good foundation for further work with corporate responsibility, and has created positive ripple effects in the organisation. In the time ahead, DNB will continue the initiated processes and introduce new initiatives in line with DNB's strategic work in this area.

GREEN BONDS

We are actively seeking areas where we can contribute to sustainable financial growth, both in Norway and through our international operations. To meet the ambitious goals set out by the Paris Agreement, we need to see more capital moving into sustainable investments globally. The sustainable bonds market, including green and social bonds, is an important piece of that puzzle. Through our extensive network of customers and other stakeholders, we aim to be a leading bank in the Norwegian market for sustainable bonds. We do this by helping our customers finance their sustainable projects and activities with sustainable bonds, but also by issuing own bonds to finance our sustainable lending activities. We are currently the largest Norwegian issuer of green bonds, with an outstanding volume of EUR 1.6 billion, which have been used to finance projects within renewable energy as well as for mortgages earmarked for energy efficient housing.

Environmental, social and governance (ESG) factors are becoming increasingly important for investors when evaluating investment opportunities, and they are seeking a higher level of transparency than before. By issuing sustainable bonds, issuers provide additional information about the environmental benefits of their business operations, thereby offering investors more transparency than is the case with regular bonds.

Responsible lending to personal customers

WHY IS IT IMPORTANT?

A sustainable society also means financial stability for the individual. We are therefore committed to promoting sustainable personal finances and ensuring that people make sound financial decisions.

Who we offer loans is first and foremost dependent on the individual loan customer's ability to live with the costs associated with the loan commitment and on the collateral provided for the loan.

Through good individual credit assessments, we take our role in society seriously. The advisory services we offer are just as important as the underlying assessment.

WHAT DID WE DO IN 2018?

The Norwegian Home Mortgage Regulations set certain limitations for the banks' permission to offer loans secured by property. Nevertheless, the Regulations give the banks the possibility of deviating from the regulatory requirements for a certain percentage of loans, the so-called flexibility quota, equivalent to up to 10 per cent of the lending volume every quarter. For loans secured by property in Oslo, the quota is 8 per cent.

As a result of the flexibility quota, banks have to be more selective, and in 2018, we therefore decided to prioritise young customers who are first-time home buyers. The fact that we are prioritising young customers does not mean we cannot use discretion and help customers in other circumstances of life, such as relationship breakups.

In cases where we use this flexibility, it is crucial not to inflict a debt burden on the customer that may later lead to payment problems.

There is growing demand among consumers for green and more environmentally friendly products and services. Greenhouse gas emissions from Norwegian households mainly stem from heating, and as Norway's largest bank, we want to contribute to reducing these emissions. In 2018, we therefore launched Grønt boliglån (green home mortgages). This home mortgage is granted to customers for housing that has an energy efficiency marking of A or B.

Throughout 2018, we worked to implement our new strategy for unsecured credit, where we will offer credit cards and consumer loans in a responsible manner. For instance, we have been restrictive with the promotion of this type of products, we no longer use agents, and we have reduced the number of cards and updated their terms and conditions. With regard to consumer loans, a stable and sound credit policy over time has resulted in a corresponding stable and healthy development in defaulted loans. DNB also has a responsible collection strategy where we focus on helping our customers manage their own finances. Throughout the year, we have proactively reached out to customers with payment problems to help them establish fixed repayments. This helps give them a better overview of their financial situation.

DNB's main principles in the follow-up of customers with payment problems are ensuring effective communication and a good customer experience, safeguarding the customer's overall commitment and focusing on a voluntary and customised solution at an early stage.

DNB cooperates with debt collection agencies that follow up customers in accordance with our strategy and in line with sound debt-collection practices.

THE WAY FORWARD

In 2019, we will continue to prioritise helping first-time home buyers enter the housing market through the flexibility set out in the Home Mortgage Regulations.

We will continue our efforts to keep the default frequency at a low level and will continue working on a responsible strategy for unsecured credit. We will be proactive and offer more people customised advice and reminders to limit the risk of the customers ending up with payment problems. Through our cooperation with 11:FS (read more on page 55), we also seek to improve our services within unsecured credit and offer the end user even better possibilities and customer experiences.

Responsible investment

WHY IS IT IMPORTANT?

Responsible and sustainable investment implies safeguarding the environment, social conditions and sound corporate governance in investment management. DNB manages large sums of money on behalf of its customers, through DNB Livsforsikring, management of mutual funds and active portfolios, and the Group's equity investments. The main purpose is to achieve long-term returns with an acceptable level of risk, contribute to sustainable development and avoid contributing to the violation of fundamental rights.

We have a responsible investment standard for our investment operations to ensure that the Group does not contribute to the infringement of human and labour rights, corruption, unacceptable greenhouse gas emissions, serious environmental harm or other acts which can be perceived to be irresponsible. It shall also ensure that assessments of risks and opportunities related to ESG (Environmental, Social and Governance) factors are integrated in all investment management. DNB's corporate standard for responsible investment and a list of exclusions and company dialogues can be found in the sustainability library (link on page 64).

Our work with responsible investment is based on internationally recognised principles such as the UN Global Compact, the OECD Guidelines for Multinational Enterprises and the United Nation's Guiding Principles on Business and Human Rights. The measures used are mainly positive screening, active exercise of ownership rights through dialogue and voting, integration of ESG-related risks and opportunities in the management, standard setting and exclusions.

All investment management in DNB is subject to requirements for accountability and sustainability. A dedicated sustainability team works closely both internally with investment management, and externally with the companies. Their assessments are supported by three external consulting firms that monitor companies in the investment universe, prepare sustainability analyses and engage in dialogue with companies in cooperation with and on behalf of DNB and the Group's customers. The goal is to influence the companies in a sustainable direction and contribute to value creation, both in order to uncover risks and opportunities and to raise specific ESG issues.

WHAT DID WE DO IN 2018?

In 2018, we devoted special attention to the topics corruption, requirements for sub-suppliers in emerging markets, methane gas emissions, tax and deforestation, as well as land use, in addition to the long-term focus areas human rights, climate change and water. After having prepared forecast documents on human rights, serious environmental harm and voting in 2017, we prepared forecast documents on climate, anti-corruption and responsible tax practice in 2018. These documents form an important part of our standard-setting work and are used as a basis for setting requirements for and starting a dialogue with companies on these topics.

As an active owner, we aim to influence companies in a positive direction through reactive and proactive dialogue and through casting votes. In 2018, the sustainability team had 85 meetings with 65 companies to discuss a range of different topics, including various ESG topics. In addition, we had 68 meetings with 55 companies through the consulting company GES Investment Services concerning seemingly reprehensible incidents or suspected breaches of international standards or conventions. The dialogues are structured processes with clear targets for the desired outcome. In addition, milestone attainment is measured. An example of a target could be that the company should implement good anti-corruption systems or protect indigenous rights. Moreover, we voted at 139 annual general meetings in Norway and 31 internationally. At 3 of these general meetings, we voted on shareholder proposals for climate measures and at the general meetings of 34 Norwegian and 8 international companies, we voted against the company's recommendation. We have an ongoing dialogue with the companies' Boards of Directors, management and election committees to help ensure that cases presented at the general meetings are in accordance with sound corporate governance. Strong expertise and diversity in the composition of Boards of Directors are important in the voting process.

Climate change involves both risks and opportunities for companies and portfolios that we manage on behalf of our customers, and can have a significant financial effect. The forecast document on climate is an important starting point for systematic exercise of active ownership through voting and dialogue with companies. Nevertheless, exclusions are still necessary. At year-end 2018, 77 companies were excluded due to criteria related to thermal coal or oil sands, as well as acts or omissions that at company level lead to emissions of greenhouse gases on an unacceptable scale. See a complete overview in the sustainability library (see link on page 64).

We will continue to measure companies' carbon footprints. Carbon footprint, also called carbon intensity, is the measure of a company's greenhouse gas emissions relative to the company's turnover. The carbon footprint of our equity portfolios is described on page 65. This is one of several indicators of companies' climate risk and impact. However, this indicator has limited value, as the measurement is retrospective and does not account for companies that are undergoing change or that contribute to solutions to reduce greenhouse gas

emissions. In line with the ever-more stringent regulatory requirements for climate reporting and sustainable finance operations, we have therefore started working on mapping and measuring climate-related risks and opportunities at corporate and portfolio level. One way we do this, is through the use of scenario analysis, recommended by the Task Force on Climate-Related Financial Disclosures (TCFD) as a tool to identify possible outcomes for climate-related risk and opportunity factors on corporate and portfolio level (read more on page 48). This gives a more forward-looking picture of the company's climate-related risks and opportunities than carbon footprints, which is important to take into account in the investment process. Since this analysis is very complex, we are contributing to the development of a standardised method and tool in cooperation with other leading international investors through the UNEP FI TCFD Investor Pilot Project.

After having launched the low-carbon mutual fund DNB Global Lavkarbon in 2017, we have in 2018 further developed the mutual funds DNB Grønt Norden (DNB Green Nordics) and DNB Barnefond (DNB Children's mutual fund). They now exclude companies with high levels of greenhouse gas emissions.

THE WAY FORWARD

Our efforts to safeguard the environment, social conditions and good corporate governance and being transparent about our work will continue in 2019.

Priorities for 2019 will be to continue the active exercise of ownership through voting and dialogue, with increased focus on proactivity and investor collaboration, as well as to intensify the efforts to integrate significant risks and opportunities related to sustainability into all investment decisions in a systematic manner. Climate-related risks and opportunities will be essential in this work.

The Responsible Investment Committee is consulted in the efforts to ensure responsible investment in DNB Asset Management. We believe this is a good way to ensure ongoing monitoring and evaluation of the work being done within the field of responsible investment.

We are pleased with the way corporate responsibility forms a systematic and integral part of DNB's investment activities. Corporate responsibility efforts have to an increasing degree been highlighted both internally in DNB and towards our customers, creating positive ripple effects. Our efforts to safeguard the environment, social conditions and good corporate governance will continue in 2019.

We will also continue to further develop mutual funds, in the fixed-income markets as well, that invest in companies that excel in terms of sustainability.

See a complete list of excluded companies and read more about responsible and sustainable investments and company dialogue in the sustainability library (link below).

Link to sustainability library:
dnb.no/en/about-us/csr/sustainability-library.html

Measuring the carbon footprint of equity funds

In 2016, as part of the efforts to reduce exposure to companies with high climate risk, DNB started to measure the carbon footprint of all equity funds. The carbon footprint, also called the carbon intensity, is the measure of a company's greenhouse gas emissions relative to the company's turnover, and is one of several factors that give an indication of the company's climate risk and impact. After identifying the carbon risk in the portfolios, there are several ways of reducing this risk.

DNB uses information from MSCI ESG Research about companies' greenhouse gas emissions. The companies' carbon footprint is weighted by the respective holding in the portfolios. The same is done for the index. In the calculation, any cash in the portfolios is distributed proportionately between the other companies. Emission data are either data reported by companies or estimates prepared by MSCI ESG Research. For companies without emission data, the average figure for companies in the portfolio with emission data has been used in the calculation. DNB reports CO_2 equivalents, as defined by the Greenhouse Gas Protocol. Scope 1 covers direct emissions where the organisation has operational control, and scope 2 covers indirect emissions associated with purchased energy. Indirect emissions associated with purchased goods and services that fall under scope 3 are not included, as there are not sufficient reported data from the companies. So-called "avoided" emissions, which give an indication of how the company's products or services contribute to reduced emissions, are not included either, as there are not yet good enough data in this area. The method for reporting greenhouse gas emissions is under development and may be subject to change.

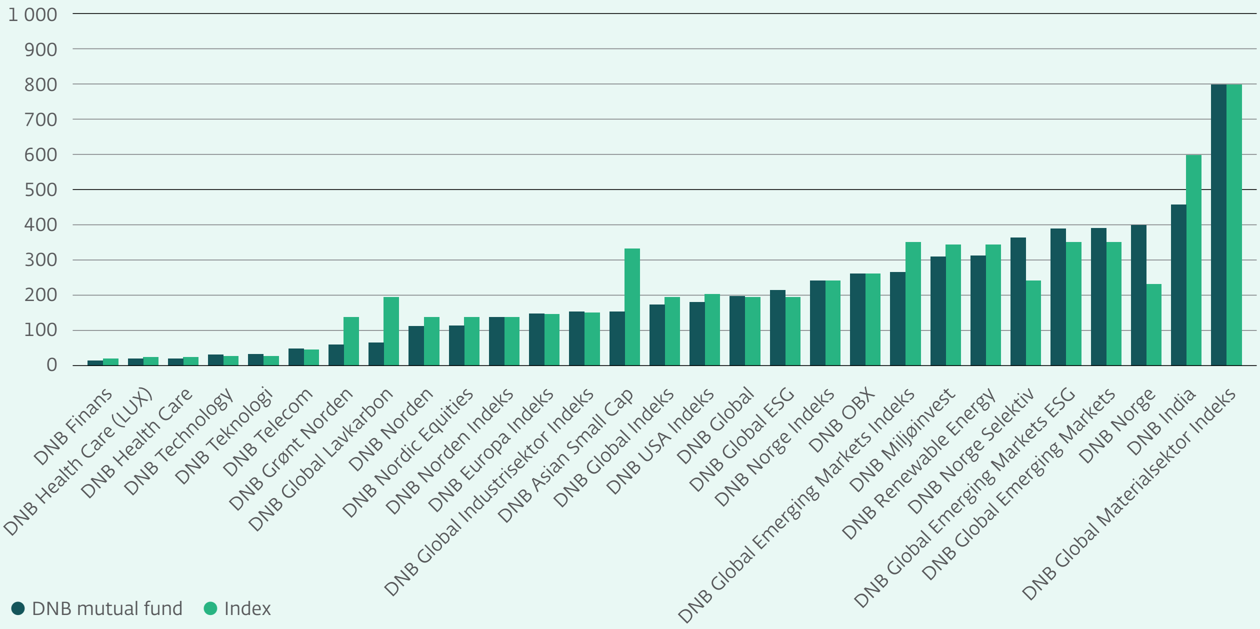
The graph shows 29 equity funds and their respective indices where more than 75 per cent of the holdings have reported or estimated data on greenhouse gas emissions. These funds represent about 96 per cent of the total market value of all of DNB's equity funds. The graph is a snapshot of the portfolio as at 31 December 2018.

There is great uncertainty associated with data on greenhouse gas emissions. This is due to both regional variations in the practice for reporting, which lead to differences in geography and size, but also to the fact that estimated data are used for companies which do not report data. Despite of this, we still believe that it is important to include emissions data in the analysis of companies' climate risk and impact, as one of several factors.

In the efforts to increase the quality and coverage of reported emissions, we support the Task Force on Climate-Related Financial Disclosures (TCFD) and CDP (Carbon Disclosure Project).

Greenhouse gas emissions in DNB's mutual funds relative to reference indices

Tonnes of CO_2 equivalent for every USD 1 million of revenue



Responsible ship recycling

Since we decided to endorse the Responsible Ship Recycling Standards in 2017, we have actively helped draw attention to the challenges related to ship breaking and to change in a positive direction. Our customers have already been challenged on both policies and practices, and we have raised the issue in various areas and industry conferences. Of all new shipping loans in 2018, 85 per cent included clauses with special requirements for minimum standards when scrapping ships, as defined in the Hong Kong Convention of 2009 or in EU regulations. We have an ambition to increase the proportion of new loans with such clauses.

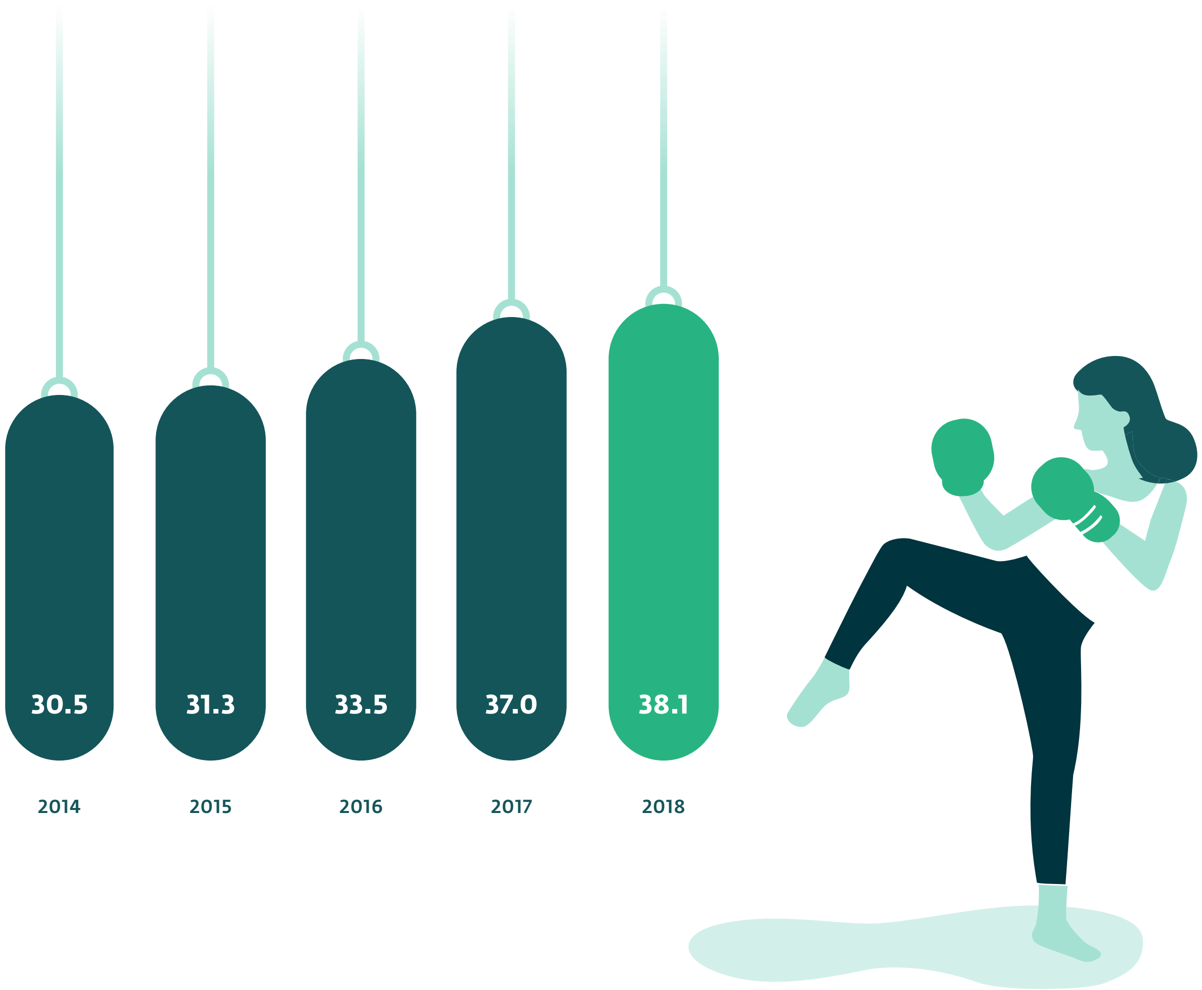
However, the topic is complex, with challenges related to capacity and cost of responsible ship breaking. On the upside, the EU is regularly expanding its list of approved shipyards that meet the EU standards, and large sums of money are being invested in the upgrade of shipyards in countries outside the EU, including India. We also see that increased attention from civil society, investors, banks, etc. is contributing to more companies developing their own guidelines for the recycling of their ships.

There are large differences between shipyards with respect to facilities and work procedures. The best shipyards have undergone a great deal of positive upgrades with regard to environmental and working conditions, such as increased use of fixed installations and cranes, solid concrete floors, improved systems for the treatment of hazardous waste, more effective personal protective equipment, better emergency preparedness and better living arrangements. Nevertheless, there is still a long way to go compared with European requirements and standards. DNB wants to contribute to increased demand for responsible recycling capacity and, in the short term, to direct as many ships as possible away from the worst yards.

CREATING VALUE

People

→



Percentage of women at management levels 1–4

Equality and diversity

WHY IS IT IMPORTANT?

For us, equality and diversity means equal rights and opportunities for all. This means creating a diverse and inclusive working environment where everyone is valued for their differences and recognised for their talent, and where everyone can be themselves.

Differences in gender, age, cultural background, experience, physical capacity and religious beliefs give us multiple perspectives and make us better equipped to solve challenges, increase our innovative power and create the best customer experiences. Diversity promotes innovation and contributes to better decisions. Diversity pays off and is also ethically important. This is why it is a high priority in DNB.

Equality and diversity are followed up in all parts of the company, and our regulations ensure diversity and equal treatment in all recruitment and selection processes. Discrimination is not accepted.

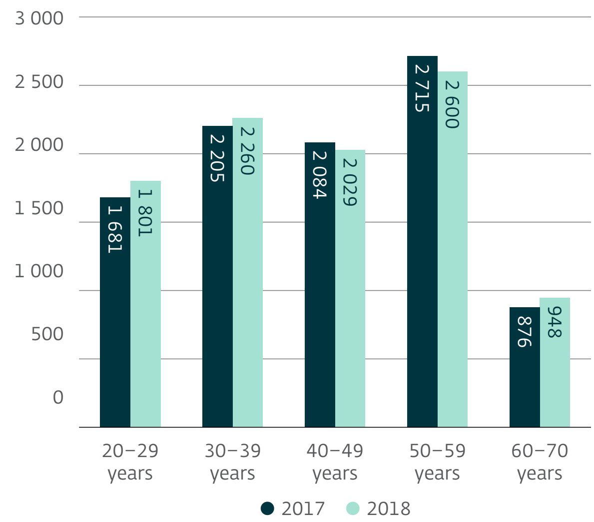
WHAT DID WE DO IN 2018?

DNB has set a female representation target at the top four management levels of minimum 40 per cent. At the end of 2018, the percentage of women in management positions was 38.1 per cent, a rise from 37 per cent in 2017.

DNB has set several targets to ensure gender equality in management and sufficient access to female management talents, such as minimum 50 per cent female representation in internal management development and talent programmes, and minimum 40 per cent women candidates on lists for succession planning. We have also established internal mentor and network schemes for management talents of both sexes. In recruitment processes for management positions, the best qualified male and female candidates must be identified before the final choice is made. A balanced gender ratio should be one of the job assignment criteria in restructuring processes. When changing the composition of management teams, particular emphasis should be placed on achieving a better gender balance.

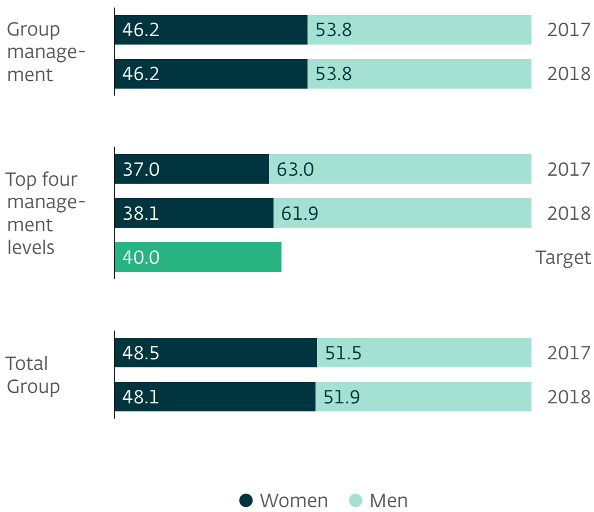
Employees according to age

Number of employees



Gender distribution

Per cent



In 2018, DNB topped the SHE Index, an index that measures how well the largest Norwegian companies are doing when it comes to gender balance.

There is a zero-tolerance approach to discrimination on the basis of, for example, gender, ethnicity, sexual orientation or functional ability, and DNB shall ensure good working conditions in all countries where the Group has operations. As part of our efforts to create awareness around unconscious discrimination and gender stereotypes, we have partnered with ShesGotThis, a company that works with these topics in businesses and society at large.

DNB is committed to equal pay, regardless of gender, for the same work and performance. The Group will continue to differentiate pay based on performance, but works continuously to identify and close wage gaps that may be due to gender or other diversity aspects.

As in previous years, DNB set aside an equal pay pool of NOK 14 million in the 2018 wage settlement in the Norwegian part of the Group to equalise imbalances that cannot be explained by anything other than gender aspects. We see that the equal pay pool has had a positive effect. In cooperation with the trade unions, it was decided that anyone returning from at least five months' parental leave will automatically receive a pay increment.

In the autumn of 2018, we introduced a gender-neutral parental leave scheme for our employees, with minimum 20 weeks of paid parental leave regardless of where in the world they are working. The scheme was implemented on 1 January 2019. One of the goals of the scheme is to contribute to gender equality by giving fathers and mothers an equal opportunity to paid leave.

The need for employees with a technology background is increasing, but it is challenging to achieve a good gender balance in this area. Women are under-represented among those we recruit with a technology background. We have therefore worked to bring forward good female role models and to place various technology topics on the agenda at both internal and external arenas where women are in the target group. In 2018, DNB also entered into a partnership with ODA (the Nordic region's largest network for women in tech), to highlight DNB as a technology company and focus on increasing the number of women in tech. In the spring of 2018, group chief executive Rune Bjerke received the ODA Award Man for his commitment to and focus on diversity in technology.

DNB has great diversity in the Group's international operations, and concrete measures have been initiated to increase diversity in the Group's Norwegian operations. In recruitment initiatives targeting students, we emphasise gender and ethnic background. DNB is also working actively to attract employees from a broad selection of educational institutions and disciplines.

As a large player in Norwegian society, we have the opportunity to influence both our customers' and suppliers' diversity and equality efforts. When entering into agreements with new suppliers, we take the proportion of women and men at management level into account as one of the criteria for our choices. We challenge our suppliers of legal services on the percentage of female partners, and will make similar demands for suppliers in other industries, especially those with below-average gender balance. Another example of how we are working with our suppliers on diversity is our cooperation agreement with the IT consulting company Unicus, a company that only employs people with Asperger syndrome.

We also see that there are great opportunities for contributing to increased gender equality through the work with our customers. In connection with the International Women's Day on 8 March last year, we put the spotlight on financial equality. In the wake of this, we have implemented several measures. We have among other things arranged customer seminars with the topic women, shares and savings, we have focused on female entrepreneurs, and we have made adjustments to our own systems and products to make them gender neutral. DNB has also entered into cooperation with the Norwegian Women's Public Health Association to spread information about women and finance locally in Norway.

THE WAY FORWARD

DNB is well under way when it comes to equality and diversity, but we have not yet reached our goal, and we plan to step up our work in this area.

In the autumn of 2018, we had a seminar for over 200 employees, with the intention of increasing the understanding of diversity, and involving the organisation in a discussion on what diversity and inclusion will mean for us in the time ahead. An important part of the diversity and equality efforts in 2019 will be to identify specific ambitions and goals and to implement measures at various levels. We will implement targeted measures to ensure that our management systems, our recruitment and development processes and our culture safeguard equality and diversity. With regard to our principal target of 40 per cent women at management levels 1–4, we have not quite reached our goal of gender equality in the bank. Strategic and targeted work in recent years has yielded results, but there are still some differences between the various areas of the bank. In 2019, we will have a particular focus on gender balance, and implement more specific measures to increase diversity.

Restructuring and skills enhancement

WHY IS IT IMPORTANT?

Our ability to attract, retain and develop the skills that the bank will need in the future, is one of our most important competitive advantages. This is why DNB chooses to invest in skills enhancement, talent development and building a learning culture.

We aim to succeed in learning and sharing across our organisation. We will ensure that all employees get the opportunity to develop relevant skills and expertise, but it is up to each individual to seize opportunities and be curious. We must all take active steps to make us relevant for what tomorrow brings.

WHAT DID WE DO IN 2018?

Skills enhancement is one of the four drivers in the strategy that was launched in the autumn of 2017. We invest in our employees and offer all employees the opportunity to develop their skills through both internal and external training activities. We offer training within the employee's existing role, we facilitate knowledge sharing in physical arenas and we offer comprehensive education programmes that qualify for new roles within critical areas of expertise. This way, we build a learning culture where knowledge sharing and learning is a natural part of everyday life.

In 2018, we launched Motimate, a digital learning platform for our employees. So far, 91 per cent of the employees have started using the solution. In addition, everyone was given access to courses on LinkedIn Learning, a course database with several thousand courses. The need for new skills is increasing, and we therefore carried out a four-month reskill programme, where 14 employees studied full time in order to assume new roles as Data Scientists. In addition to courses, we also arranged a number of seminars, podcasts and lectures, which were also streamed internally, as well as theme weeks linked to key topics such as emerging technologies and corporate responsibility.

Corporate responsibility is an important area for DNB, and we must ensure that all employees have adequate and relevant insight into the topic. In the course of 2018, a total of 84 per cent of employees completed relevant e-learning courses about this. We also prioritised efforts to integrate corporate responsibility into our corporate credit and loan activities in 2018, and we developed a number of training programmes on the topic (see separate chapter about responsible lending and investment on page 59). The work will be continued in 2019, and the plan is to expand the offering of training programmes to include both new topics and employees in other business areas.

We facilitate mobility within the Group. The employees are given help and support in their efforts to increase their capacity for change and enhance their skills to further develop their career. We help employees become aware of their own skills and opportunities and enable them to apply for relevant vacant positions in and outside DNB. The employees are offered guidance and coaching in connection with the choices they need to make, and we facilitate internal and external periods of secondment so that they can acquire new skills. In the course of 2018, a total of 174 employees visited our internal job centre to find a new career path.

DNB's leadership policy is essential for succeeding with skills enhancement. A key element is managerial behaviour that unleashes the potential of the organisation and creates a supportive atmosphere in which employees feel comfortable taking initiative and assuming responsibility. Interaction and learning across business areas is encouraged, among other things by promoting increased internal mobility. We are working to strengthen the psychological safety in groups and teams, to make sure that good ideas are not blocked by the fear of failure. The Growth Mindset philosophy[1)] is used as a basis for further developing the desired learning culture. We

1) Having a Growth Mindset means believing in the ability to develop and facing complex issues with commitment rather than "switching off" when things get difficult. Growth Mindset means seeing opportunities for growth in everything you do.

have developed various programmes intended to promote leadership skills that support the principle of letting go and trusting the employees by giving them increased scope of action. DNB changed HR systems in 2018, and the number of performance dialogues has therefore not been registered.

DNB is an attractive employer. In a survey among students in 2018, we were ranked number 1 by business students, number 5 by IT students and number 16 by law students. In a corresponding survey among professionals, we were also ranked high, with a 3rd place within business, 6th within IT, 7th within law and 44th within engineering. For the engineering group, we climbed 11 places from the year before. It is important for us to be an attractive employer, for IT and engineering specialists as well, and we are particularly pleased that we are becoming increasingly attractive for such candidates.

THE WAY FORWARD

In 2019, DNB will continue to work with competence, culture and leadership, concepts which are firmly ingrained in the strategy. It will be neither possible nor desirable to cover the extensive need for changes in the Group's skills mix through recruitment alone. This is why we will continue to invest in systematic skills enhancement and facilitate increased mobility.

We will continue our efforts to develop competence within critical areas such as data analysis, IT project management and security. We will make it even easier for the employees to keep up-to-date through the development of our learning platforms and our offered course programme. We will work towards ensuring that more people start using the learning platform Motimate, and follow up the completion rate of the mandatory courses. Motimate gives us the opportunity to continuously evaluate the various courses that are included in the programme, both in terms of content and to ensure that the employees complete the mandatory and optional courses. The courses in Motimate have a strong correlation with DNB's strategy, and consequently, they give us good insight into how well the strategy is incorporated in the employees' skills enhancement. We will also facilitate increased mobility through periods of secondment on a larger scale. The goal is to build a learning culture in the organisation, to focus on customer needs and to motivate all employees to be curious, bold and responsible.

To succeed with the strategy, DNB is dependent on managers who stand united and take a particular responsibility for ensuring that the priorities are in line with the new direction, and it will be necessary to change how the manager role is performed. The Group needs managers who give their employees more flexibility and latitude, and who help make sure that decisions are made at the appropriate level. We aspire to cultivate a learning culture within the Group, and key organisational tools will be developed in order to further support the new direction. In 2019, this will among other things include a new process for employee follow-up and management development, thereby strengthening the let-go management principle.

Working conditions

WHY IS IT IMPORTANT?

DNB's employees are the Group's most important asset. We are dependent on committed and motivated employees to reach our business targets and to succeed in fully implementing the Group's strategy. In order for us to perform better, encourage more good initiatives and promote development, we need individuals and teams that work well together.

By working together across units and making use of new working methods, we will create good customer experiences.

WHAT DID WE DO IN 2018?

At the end of 2018, we carried out the first of a series of employee surveys to measure interaction, learning, change and inclusion. The survey will be carried out each quarter and will be used as a basis for working with activities and measures to promote organisational development. The results from the first survey were quite good all round, and in the time ahead we will focus particularly on activities related to learning and inclusion.

DNB aims to be an employer that works actively to facilitate a safe and positive working environment. Learning, interaction and psychological safety are examples of elements in the new strategy that will contribute to this goal. We also seek to encourage our employees to be physically active and to take care of their own health.

Prevention and structured follow-up of absence due to illness are essential parts of the HSE work. In order to reduce sickness absence it is essential to have a close dialogue with the employees about work adaptation. This will increase work presence and ensure a good process for returning to full-time employment. In 2018, we had several employees with special expertise, equivalent to 3.5 full-time positions, working to ensure a structured process for the follow-up of long-term sickness absence. The team covers all of DNB's employees in Norway and was in dialogue with nearly 500 employees on long-term sick leave and their managers to assess capacity for work and the possibility of returning to work sooner. Over the last few years, we have seen a positive downward trend in the long-term sickness absence rate.

In 2018, the sickness absence rate for DNB in Norway was 4.5 per cent, unchanged from the year before. For DNB's international offices, the number was 1.9 per cent. We are working systematically and thoroughly with sickness absence measures and working environment initiatives in all relevant areas.

In 2018, we also directed special attention to employees on work capacity assessment allowance. The goal is faster clarification of capacity for work in order to consider the possibilities for returning to work. The use of facilitation plans in combination with hourly pay provides a basis for a more precise assessment of work capacity.

THE WAY FORWARD

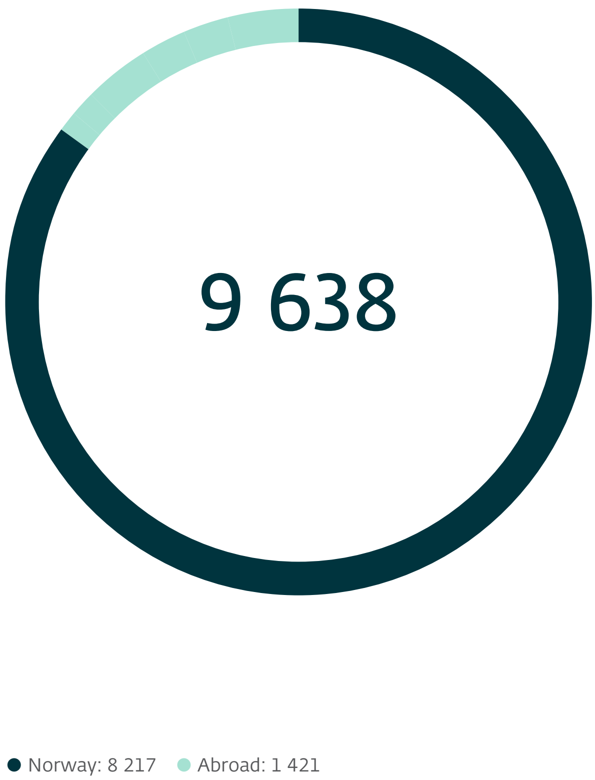
Key organisational tools will be developed to support the new direction to a greater extent. In 2019, this will among other things include a new process for employee follow-up and management development.

DNB has good procedures in place for preventing sickness absence and for ensuring a quick return to work for employees on sick leave, where possible. We will focus on continuing existing measures, as well as conveying knowledge about roles, responsibilities and culture related to sickness absence. One of the things we want to achieve is that employees on sick leave as a main rule are more actively involved in the workplace, for instance through participation in department meetings even if they are on 100 per cent sick leave. Mandatory online HSE training for managers will be launched in early 2019, and will include prevention and follow-up of sickness absence.

Separate training for the members of the working environment committees in DNB will also be implemented.

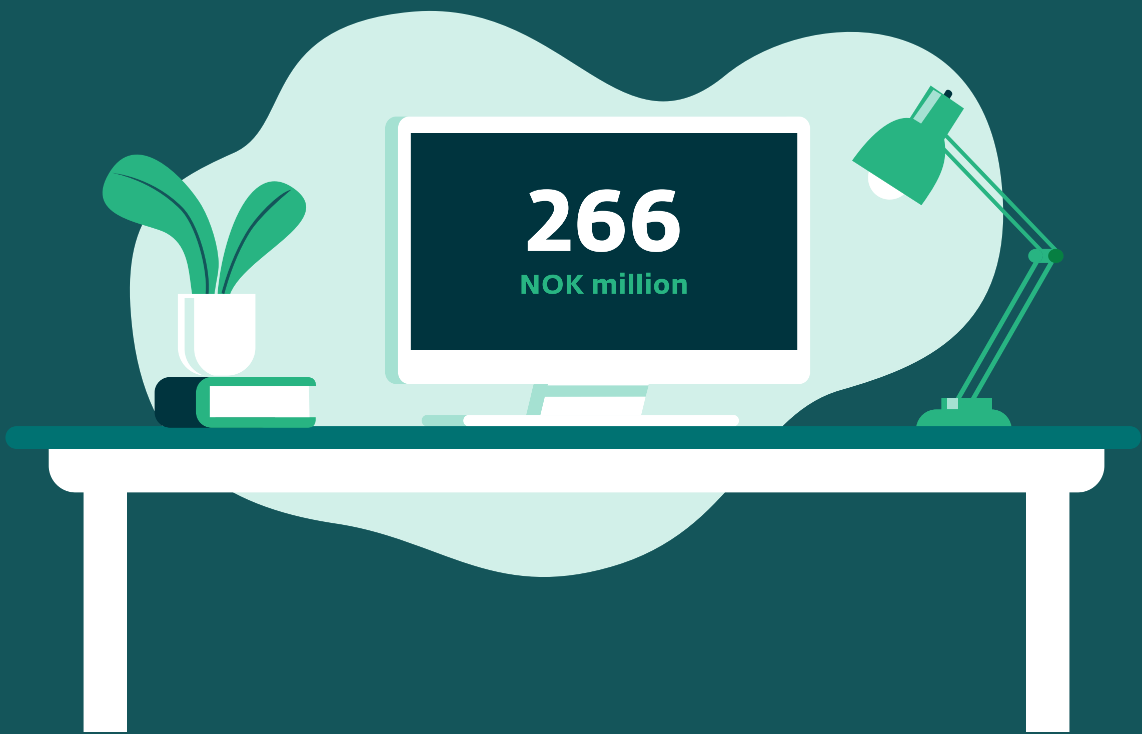
DNB's long-term goal for absence due to illness is a rate below 4 per cent, and we will work targeted to reach this ambition.

Employees in Norway and abroad
Number of employees



CHAPTER 3

Governance



Total value of prevented digital fraud against our customers in 2018

Corporate governance

Corporate governance in DNB is about how the Board of Directors and group management govern and manage the company to preserve and develop the company's values in an optimal manner. Sound corporate governance and good leadership is a prerequisite for ensuring sustainable operations. The governance of DNB shall ensure that DNB's business operations are conducted in a responsible and profitable manner, in the best interests of customers, shareholders, employees and other stakeholders.

DNB's management and Board of Directors annually review the principles for corporate governance and how they are implemented in the Group. DNB hereby gives an account of the Group's corporate governance principles and practice pursuant to the Financial Institutions Act with appurtenant regulations, as well as section 3-3b of the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance.

The chapter is divided into three parts:

A

Describes the main priorities of the Board of Directors in 2018

B

Accounts for DNB's compliance with section 3-3b second paragraph of the Norwegian accounting act. DNB does not deviate from the requirements in any way.

C

Accounts for how DNB follows up the Norwegian Code of Practice for Corporate Governance. DNB complies with the Code of Practice.

A minor deviation is accounted for in section 14.

A Main priorities of the Board of Directors in 2018

In 2018, the Board took a number of active steps that were in line with the most important strategic priorities, such as approving the merger of the insurance operations in DNB and SpareBank 1 Gruppen and the establishment of a new insurance company. The Board further decided to reduce DNB's ownership interest in Luminor Group AB, the company operating the banking activities in the Baltic States. Incorporating corporate responsibility in decision-making processes and strengthening the security and compliance functions were also among the Board's top priorities. These topics are further discussed several places in this report.

No cases of significant control failure were identified in 2018, and in the Board's view, DNB has appropriate systems, procedures and measures in place to ensure sound corporate governance and internal control.

Sections 9 and 10 of part C provide a more detailed and comprehensive overview of the Board's work, risk management and internal control.

There are no significant changes in the Board's follow-up of corporate governance compared with previous years.

INCORPORATING CORPORATE RESPONSIBILITY IN DECISION-MAKING PROCESSES

The Board continued working with the implementation of the strategy, elaborating and adapting its priorities to the different units of the Group, and defining the measures needed to implement these. A comprehensive training programme was one of the initiatives implemented to ensure the integration of corporate responsibility in the decision-making processes of the key customer teams in the corporate and large customer units.

STRENGTHENING THE SECURITY FUNCTION

The Board adopted an action plan for information security, and the area was strengthened as a result of a complex threat scenario in society in general, combined with new digital services and technologies.

In order to make a clearer distinction between the function that sets the overall requirements for the security work and the operational part, the functions were divided into two organisational units in 2017.

Implemented measures included reinforced protection of the IT infrastructure, improved user and access management, stronger defence against digital fraud and more comprehensive training in IT security for IT professionals. The ongoing communication efforts and the general training in information security for all Group employees were continued, and the campaign called National Security Month was carried out once again in 2018.

In 2019, DNB will to an even higher degree integrate risk management in the IT governance and strengthen the connection between IT risk and the total risk scenario in DNB's business areas. The work of enhancing security solutions and strengthening the defence against cyberattacks and digital fraud will also be continued.

INCREASED FOCUS ON COMPLIANCE

The Board had a particular focus on the status of compliance in the Group, including compliance with the money laundering legislation and the introduction of the EU's General Data Protection Regulation (GDPR). A group privacy officer role was established for key DNB companies in Norway and in the EU. DNB also introduced processes to safeguard the customers' right to information and for handling and reporting violations of the privacy protection regulations. In 2018, DNB established a Group Privacy Office, which also includes a group privacy officer. The function will be responsible for coordinating efforts to ensure compliance with privacy protection legislation both nationally and internationally. The efforts to strengthen privacy protection will still be highly prioritised in the time ahead.

The compliance function was established as a separate support unit reporting to the group chief executive in 2017, and the unit was further strengthened in 2018. The function is part of DNB's second line of defence and reports directly to the Board of Directors. Read more about DNB's lines of defence in Part C, sections 1 and 10.

B

Section 3-3b second paragraph of the Norwegian Accounting Act (statement on corporate governance)

The description accounts for DNB's compliance with section 3-3b second paragraph of the Norwegian Accounting Act. The numbers refer to the second paragraph's numerical order.

①–③

Specification of the recommendations complied with by DNB, information on where the recommendations are available and reasons for any non-conformance with the recommendations

The DNB Group's corporate governance structure is based on Norwegian legislation. DNB complies with the Norwegian Code of Practice for Corporate Governance dated 17 October 2018 issued by the Norwegian Corporate Governance Board, NUES. The Code of Practice is available on nues.no. Any deviations from the Code of Practice are accounted for under the description of DNB's compliance with the Code of Practice.

④

A description of the main elements in the Group's internal control and risk management systems linked to the financial reporting process

See section 10 under part C The Norwegian Code of Practice for Corporate Governance.

⑤

Articles of Association that completely or partially extend or depart from provisions stipulated in Chapter 5 of the Public Limited Companies Act

DNB ASA's Articles of Association do not deviate from Chapter 5 of the Public Limited Companies Act, which governs general meetings.

⑥

The composition of governing bodies and a description of the main elements in prevailing instructions and guidelines for the work of these bodies and any committees

See sections 6, 7, 8 and 9 under part C The Norwegian Code of Practice for Corporate Governance.

⑦

Articles of Association that regulate the appointment and replacement of members of the Board of Directors

See section 8 under part C The Norwegian Code of Practice for Corporate Governance.

⑧

Articles of Association and authorisations that allow the board to decide that the enterprise is to repurchase or issue the enterprise's own shares or equity certificates

See section 3 under part C The Norwegian Code of Practice for Corporate Governance.

C

The Norwegian Code of Practice for Corporate Governance

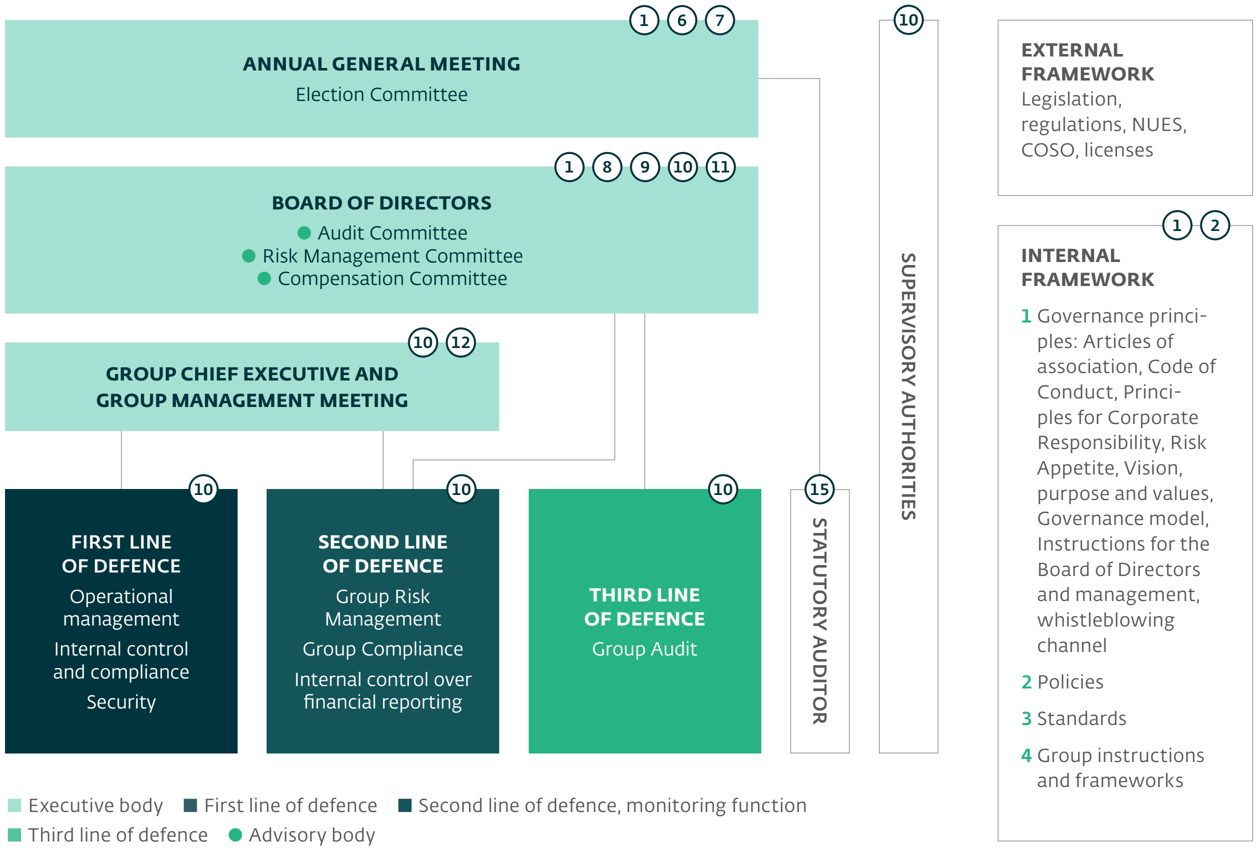
The description accounts for DNB's compliance with the 15 sections in the Code of Practice.

SECTION 1

IMPLEMENTATION OF AND REPORTING ON CORPORATE GOVERNANCE

There are no significant deviations between the Code of Practice and the way it is complied with in DNB. One deviation in section 14 has been accounted for below.

Governing bodies in the DNB Group
As at 31 December 2018



The figure illustrates the governing bodies of the DNB Group and the framework that sets out external and internal requirements as well as the principles for our business operations. The numbering refers to the relevant sections in the Code of Practice.

Governing bodies in DNB ASA

As at 31 December 2018

	No. of shares as at 31 Dec. 2018[1]	No. of shares as at 31 Dec. 2017[1]
BOARD OF DIRECTORS		
Members		
Olaug Svarva, Oslo (chair)	7 000	0
Tore Olaf Rimmereid, Oslo (vice chair)	10 611	10 611
Karl-Christian Agerup, Oslo	6 400	6 400
Carl A. Løvvik, Bergen[2]	1 458	1 295
Vigdis Mathisen, Asker[2]	817	654
Jaan Ivar Semlitsch, Stabekk	12 300	12 300
Berit Svendsen, Oslo	0	0
Deputies for the employee representatives		
Jorunn Løvaas, Kristiansund[2]	0	0
Stian Samuelsen, Svelvik[2]	578	480
ELECTION COMMITTEE		
Camilla Grieg, Bergen (chair)	0	0
Ingebret Hisdal, Oslo	0	0
Karl Moursund, Oslo	1 100	900
Mette Wikborg, Oslo	0	0
RISK MANAGEMENT COMMITTEE		
Jaan Ivar Semlitsch, Stabekk (chair)	12 300	12 300
Tore Olaf Rimmereid, Oslo	10 611	10 611
Berit Svendsen, Oslo	0	0
AUDIT COMMITTEE		
Tore Olaf Rimmereid, Oslo (chair)	10 611	10 611
Jaan Ivar Semlitsch, Stabekk	12 300	12 300
Berit Svendsen, Oslo	0	0
COMPENSATION COMMITTEE		
Olaug Svarva, Oslo (chair)	7 000	0
Karl-Christian Agerup, Oslo	6 400	6 400
Vigdis Mathisen, Asker	817	654

	No. of shares as at 31 Dec. 2018[1]	No. of shares as at 31 Dec. 2017[1]
GROUP MANAGEMENT		
Group chief executive Rune Bjerke	62 017	57 387
Chief financial officer Kjerstin Braathen	28 540	25 486
Group executive vice president Personal Banking Ingjerd Blekeli Spiten	1 714	500
Group executive vice president Corporate Banking Benedicte Schilbred Fasmer	6 435	4 054
Group executive vice president Large Corporates and International Harald Serck-Hanssen	37 986	34 960
Group executive vice president Wealth Management & Insurance Håkon Hansen	6 891	5 147
Group executive vice president Markets Ottar Ertzeid	234 059	227 316
Group executive vice president New Business Rasmus Figenschou	7 837	6 207
Group executive vice president People & Operations Solveig Hellebust	21 930	19 731
Group executive vice president Group Risk Management Ida Lerner	3 781	0
Group executive vice president IT Alf Otterstad	384	0
Group executive vice president Group Compliance Mirella E. Wassiluk	384	0
Group executive vice president Media & Marketing Thomas Midteide	12 439	10 168
GROUP AUDIT		
Tor Steenfeldt-Foss	0	0
STATUTORY AUDITOR		
Ernst & Young AS (EY)	0	0

1) Shareholdings in DNB ASA, shares held by the immediate family and companies in which the shareholder has decisive influence are also included. Cf. section 7-26 of the Act relating to annual accounts, etc.

2) Not independent.

DNB has a four-level hierarchy for governing documents.

Level 1: Governance principles
Level 2: Policies
Level 3: Standards
Level 4: Instructions and frameworks

LEVEL 1: GOVERNANCE PRINCIPLES

The governance principles represent the highest governance level in the Group. In these principles, the Board of Directors provides the main framework for all governance of operations. They can be defined by legal requirements or include areas that are of special importance to the Group, and they define the desired culture, behaviour and distribution of responsibility at group level.

DNB's governance principles include:

- purpose and values, see further description in chapter 2
- governance model and division of responsibilities, see further description in chapter 2
- instructions for the Board of Directors, available at dnb.no/en/about-us/about-dnb/board-of-directors.html
- Code of Conduct, further described below
- corporate responsibility principles, see further description in section 2
- risk appetite principles, see further description in section 10
- the company's Articles of Association, available at ir.dnb.no/about-dnb/corporate-governance/articles-association

Principles for open and ethical business management

The trust of our customers, owners and the market in general is essential for DNB to maintain sustainable operations over time. To earn this trust, it is important to maintain a high ethical standard in all operations, so that DNB as a financial services group is perceived as open, transparent, clear in its communication and with a high level of integrity.

The Group's Code of Conduct describes what is expected of all elected officers, managers, employees, consultants and others who represent DNB. Non-compliance with the ethical principles may have consequences for the employment relationship. The Group's ethical guidelines are described in the Code of Conduct (available at dnb.no/en/about-us/corporate-social-responsibility.html), which is divided into four chapters:

1. The introduction describes the principal expectations and scope.
2. "Our workplace" describes how DNB should be as a company. Representatives of DNB shall treat others with respect and be open, honest and unambiguous in their communication. It is emphasised that speaking up and reporting reprehensible conduct is both important and the right thing to do.
3. "Business conduct" describes how representatives of DNB shall act in a business context. DNB's customer service shall be characterised by a high level of integrity, accessibility and transparency, as well as compliance with laws and regulations.
4. "Personal behaviour" describes how representatives of DNB shall act as individuals. DNB has zero tolerance for all forms of corruption and misuse of inside information. Should any conflicts of interest arise, representatives of DNB shall be open about them and solve them in an appropriate manner.

In 2018, the implementation of the Code of Conduct was high on the agenda, and a new mandatory training programme was launched for all employees and temporary personnel. At the end of the year, the completion rate for this programme was more than 80 per cent. Our goal was 95 per cent.

In addition to the new mandatory training, more than 60 awareness lectures and dilemma training sessions were conducted across the Group, under the auspices of the Group's ethics function. Three dilemma training courses were also developed, dealing with key topics such as harassment, conflict of interest and whistleblowing. These were carried out in different management teams and other teams across the organisation. In addition, openness and psychological safety have been key topics at several Group events and workshops in the course of 2018. All these efforts help support a culture and an ethical standard that is also reflected in how DNB acts towards its customers and the market.

Ethics in process improvement and product development are two other topics that were prioritised in 2018. The principles of the Code of Conduct form the basis for all the products and services that DNB offers, and are incorporated in all business and work processes. DNB's product development process includes performing an ethical assessment of all products and services before they are placed on the market.

We will continue our efforts to maintain a high ethical standard in DNB. Efforts to incorporate ethical principles in all business processes, products and services will also continue in 2019. The same applies to ethics training, awareness-raising and dilemma training to reach our goals in this area. RepTrak's surveys among our stakeholders concerning how they perceive our degree of openness about our operations give us a good indication of how we are succeeding with this work. We have seen a very positive development over the last few years, both in terms of our own development and our score compared with that of our main competitors, and we will continue our efforts to use both reporting and other communication channels to be open about risks, opportunities, challenges and new priority areas.

Transparency and taxes

One area in which transparency is becoming increasingly important, is taxes. The principles that form the basis for all communication regarding DNB's income taxes and tax reporting is openness, transparency and consistency, and this is in line with the guidelines in the Code of Conduct. In the course of 2018, DNB prepared a tax report called "DNB Tax footprint", which describes our tax contribution and general approach to tax. The annual country-by-country reporting is an important tool for achieving greater tax transparency vis-à-vis the tax authorities in the countries where DNB has operations. DNB's contribution to taxes and fees is described in more detail on page 50. Read more in "DNB Tax footprint" in the sustainability library, dnb.no/en/about-us/csr/sustainability-library.html.

Whistleblowing

The Group's Code of Conduct states that employees without delay shall report reprehensible conduct to their immediate superior, his or her superior or the relevant specialist unit. If this is does not lead anywhere, employees can submit a notification through DNB's whistleblowing channel. The internal whistleblowing channel was upgraded in 2018 through establishing a new online tool which includes functionality for anonymous whistleblowing. The whistleblowing framework was updated, and employees were given the opportunity to submit notifications to an external adviser. The group chief audit executive is normally the main recipient of notifications, and the whistleblowing channel is also available for temporary employees. In connection with whistleblowing cases, the person making the notification shall have access to personal support and guidance from an independent party.

In the past, about 20 notifications were received each year from employees in the DNB Group. After the establishment of the new whistleblowing channel at the beginning of September 2018, the number of notifications almost doubled, and this contributed to a total of 30 notifications in 2018.

LEVEL 2: POLICIES

The Board has adopted policies for the DNB Group to support corporate governance in eight key areas:

1 compliance
2 financial governance and reporting
3 human resources
4 communication
5 supplier management
6 operational excellence
7 risk management in DNB
8 security

The policy for communication sets the framework for the guidelines for shareholder relations

The communication shall be open, truthful and unambiguous, and reflect a high ethical standard. DNB's target groups shall receive equal treatment through complete, timely and understandable communication. All information about the Group's financial position and development shall be given to all stakeholders at the same time. Information practices shall continually be further developed based on what is perceived to be best practice. See also section 13.

LEVEL 3: STANDARDS

All the documents at level three are linked to one or more policies, and the responsibility for ensuring that these are based on the overarching governance documents adopted by the Board, is delegated to the group executive vice presidents. This way, the Board and the group chief executive can make sure that all important processes in the Group are covered through underlying documents and "ground rules". This helps create consistent corporate governance. In 2018, all the Group standards were subject to a comprehensive review, and several simplification and updates were implemented. After the review, all the new Group standards were approved by the Board.

LEVEL 4: INSTRUCTIONS AND FRAMEWORKS

The lowest level in the hierarchy of governing documents comprises instructions and frameworks. The credit manual and the accounting manual are examples of documents at this level.

Implementation of the governing documents

DNB offers a comprehensive selection of online training material for use on PCs and mobiles, including courses, dilemma training sessions and quizzes, and this is an important tool to implement the governing documents across the organisation. The course completion rate is followed up by the managers.

Group managers on levels 2 and 3, the group executive vice presidents and executive vice presidents, report the results of the implementation of the governing documents in their individual units. A summary of the results is reported to the Board of Directors, and any measures are followed up.

Deviations from the Code of Practice: None

SECTION 2

BUSINESS

The object of DNB is to engage in banking, insurance and financing and any related activities within the scope of Norwegian legislation in force at any time. The complete Articles of Association of DNB ASA can be found on the Group's website, dnb.no/en/agm. The directors' report describes the Group's targets and strategies, and the market is kept updated through investor presentations in connection with quarterly financial reporting, capital markets days and presentations on special subjects.

The Group's governing bodies and lines of defence are illustrated in section 1 above. The Board's work is described in section 9.

CORPORATE RESPONSIBILITY

Working with corporate responsibility represents sustainability in practice. By connecting capital, labour and expertise, DNB contributes to increased value creation. Corporate responsibility is also about how DNB creates value, both for shareholders and for other stakeholders (employees, customers and society at large). Corporate responsibility is an integral part of corporate governance and shall be taken into account in decision-making processes.

DNB has the following approach to corporate responsibility:

1 **DNB generates long-term and sustainable financial value creation for its owners.** This means that we emphasise corporate responsibility in all decision-making processes.
2 **DNB contributes positively to society.** This means that we define specific goals and measures related to selected United Nations Sustainable Development Goals and work systematically to reach these goals.
3 **DNB is honest and trustworthy.** This means that our products and services are always tailored to customer needs. We want the best for our customers. In a world with new market entrants and major changes, we aspire to be a bank that customers trust.

4 **DNB is transparent about its operations.** This means that we are open about the dilemmas we face when balancing short-term and long-term considerations. Through dialogue with our stakeholders, we will identify what society expects of us.

In 2018, the Board carried out a new assessment of the materiality of topics related to long-term value creation for DNB and DNB's stakeholders. The Board's provisions in this area form the basis for how the integration of corporate responsibility will be implemented in the organisation.

Read more about DNB's role in society on page 34.

Deviations from the Code of Practice: None

SECTION 3

EQUITY AND DIVIDENDS

The Board of Directors continually reviews the capital situation in light of the company's targets, strategies and intended risk profile. See the Group's report on risk and capital management (Pillar 3) for a further description of the rules on capital adequacy, the principles applied by DNB to estimate capital requirements, as well as a further specification of the Group's capital adequacy ratio. The report is available on the Group's website, ir.dnb.no.

The EU capital requirements directive CRD IV introduces requirements for both equity, long-term funding and liquidity reserves. For more information on the new regulatory framework, see Director's report.

The Board of Directors considers the Group to be well capitalised in relation to current regulatory requirements. DNB is continuing its adaptations to the new liquidity and capital requirements which have already been introduced or are expected to be introduced over the next few years.

DIVIDENDS

DNB's primary objective is to create long-term value for shareholders, partly through a positive share price development and partly through a predictable dividend policy. The Group's long-term dividend policy is to have a payout ratio of more than 50 per cent of profits, which will be a combination of a cash dividend and a share buy-back programme.

REPURCHASE OF SHARES

To ensure flexibility in the Group's capital management, the Board of Directors has on previous occasions asked the annual general meeting for an authorisation to repurchase own shares. An agreement has previously been signed with the Norwegian government, represented by the Ministry of Trade, Industry and Fisheries, for the redemption of a proportional share of government holdings to ensure that the government's percentage ownership remains unchanged. In order to ensure an optimal level of capital in the company, on 24 April 2018, the general meeting authorised the Board of Directors to acquire own shares for a total face value of up to NOK 641 746 755, corresponding to 4 per cent of the company's share capital. The authorisation was used. For more information about the repurchases, see Director's report.

INCREASES IN SHARE CAPITAL

At the present time, no authorisation had been granted to the Board of Directors for an increase in the share capital of DNB ASA.

Deviations from the Code of Practice: None

SECTION 4

EQUAL TREATMENT OF SHAREHOLDERS AND TRANSACTIONS WITH CLOSE ASSOCIATES

DNB ASA has one class of shares. In the Articles of Association and in the work carried out by the Board of Directors and group management, the strong protection of minority shareholders is emphasised in the form of equal treatment, requirements for majority votes and the obligation to disclose transactions with close associates. All shares carry equal voting rights. In connection with increases in share capital, existing shareholders will be given pre-emptive rights, unless such rights are derogated from due to special circumstances. In such case, the reasons for such a derogation will be specified. In cases when the Board of Directors asks the Annual General Meeting for an authorisation to repurchase own shares, shares will be purchased through the stock market at market price.

LARGEST SHAREHOLDER

The Norwegian government, represented by the Ministry of Trade, Industry and Fisheries, is DNB ASA's largest shareholder, owning 34 per cent of the shares. According to the State Ownership Report (Report to the Storting (White Paper) no. 27 2013–2014 Diverse and value-generating ownership), the purpose of the government's ownership in DNB ASA is to retain a large and highly competent financial services group headquartered in Norway. The company is to be run on commercial terms, with an aim to generate a competitive return. The government points out that a holding that gives negative control contributes to this end. The government will thus maintain its holding in DNB ASA and has come to the conclusion that the holding will not be reduced below 34 per cent.

The shares held by the Ministry are managed by the Department of Ownership, subject to special management guidelines which among other things stipulate that the Norwegian government cannot have representatives on the boards of directors of financial institutions, but that the government, through participation in election committees, must ensure that the governing bodies include representatives from all shareholder groups. The guidelines require that the Ministry act in a manner conducive to equal treatment of DNB's shareholders.

TRANSACTIONS WITH CLOSE ASSOCIATES

Conflicts of interest and the impartiality of board members are described in more detail under section 9 below. With respect to the Group's other employees and elected officers, the Group's code of ethics lays down detailed rules regulating transactions with close associates. As a general rule, an employee or elected officer will be considered disqualified if circumstances exist that may lead others to believe that he or she promotes interests other than those of the DNB Group. Employees must be aware of potential conflicts of interest if they combine positions of trust with other roles in the Group.

Where a transaction is not immaterial for either the DNB Group or the close associate involved, unless it is a matter for consideration by the general meeting according to stipulations in the Public Limited Companies Act, the Board of Directors will ensure that a valuation is made by an independent third party. This also applies to any transactions between companies in the DNB Group where minority shareholders are involved. Not immaterial transactions with close associates are described in a separate note to the annual accounts.

Deviations from the Code of Practice: None

SECTION 5

SHARES AND NEGOTIABILITY

The shares in DNB ASA are listed on Oslo Børs (Oslo Stock Exchange) and are freely negotiable. The Articles of Association include no form of restriction on negotiability.

Deviations from the Code of Practice: None

SECTION 6

GENERAL MEETING

The general meeting exercises the highest authority in DNB and represents the company's shareholders. According to the Articles of Association, the annual general meeting shall be held before the end of April each year. The notice and the registration form will be sent to shareholders and be published on the Group's website no later than 21 days prior to the date of the general meeting. The procedure for voting and for proposing resolutions is described in the notice of the general meeting.

The general meeting elects shareholder representatives on the Board of Directors and members of the Election Committee. The general meeting also selects the statutory auditor.

The minutes from the general meetings are available on dnb.no/en/agm.

Deviations from the Code of Practice: None

SECTION 7

ELECTION COMMITTEE

In accordance with DNB ASA's Articles of Association, the general meeting has established an Election Committee consisting of four members. The Election Committee submits justified recommendations to the general meeting for the election of members to the Board of Directors and the Election Committee. The general meeting has laid down instructions for how the Election Committee should carry out its duties. The members of the Election Committee shall be shareholders or representatives for shareholders and shall, as far as possible, represent all shareholders. No member of the Board of Directors or representative of the group management is a member of the Election Committee.

According to the instructions for the Election Committee, there should be rotation among the committee members. The Election Committee held 11 meetings in the course of 2018. The Committee proposed candidates for election to the Board of Directors and the Election Committee. The Election Committee also prepared matters for consideration in 2019.

Information about the Election Committee and closing dates for proposing candidates can be found on dnb.no/en/agm.

Deviations from the Code of Practice: None

SECTION 8

BOARD OF DIRECTORS, COMPOSITION AND INDEPENDENCE

The governance and management of the company will be undertaken by the Board of Directors and the general meeting.

The Board of Directors of DNB ASA ("the Board") has up to seven members, up to five of whom are elected by the shareholders and two are representatives for the employees. No member of the group management team is a member of the Board. When electing members to the Board, the need for both continuity and independence should be met, while ensuring a balanced board composition.

To strengthen the board members' representation and competencies across the boards, joint board meetings are held for the Boards of Directors of DNB ASA and DNB Bank ASA.

No one may be a member or chair of the Board of Directors for a consecutive period of more than 12 years. A new 12-year period will start if an ordinary board member is elected chair of the board or vice versa. No one may hold a position as an ordinary board member and/or chair of the board for a total period exceeding 20 years. Members are elected for terms of up to two years. As at 31 December 2018, the Board had seven members, of whom five were elected by the shareholders and two were representatives for the employees. Three of the members were women, of whom two were elected by the shareholders and one represented the employees.

The curricula vitae of the individual board members and board meeting attendance in 2018 are found in the presentation of the board members of DNB ASA and DNB Bank ASA from page 92 onwards. The Board will consider the independence of its members, and their conclusion is presented in the listing of governing bodies. When new board members are nominated, their suitability is assessed, including their independence. The assessment is followed up on an annual basis by requesting a written confirmation from the board members. The Group has initiated processes to continually monitor which other assignments are held by the board members. See also the description under section 9, Transactions with close associates. The presentation of the Board lists any assignments for the Group and any significant appointments or assignments in other companies and organisations held by the members of the Board.

Board members are encouraged to hold shares in the company. The presentation of governing bodies specifies the number of DNB shares held by members of governing bodies and their close associates as at 31 December 2018.

Deviations from the Code of Practice: None

SECTION 9

THE WORK OF THE BOARD OF DIRECTORS

The Board of Directors has approved instructions governing its work and administrative procedures, including matters to be considered by the Board, the group chief executive's tasks and obligations towards the Board and rules on convening and conducting meetings. Instructions for the Board of Directors are available at dnb.no/en/about-us/about-dnb/board-of-directors.html. The Board of Directors draws up an annual plan for its activities, covering duties stipulated in laws, regulations, resolutions passed by the authorities, the Articles of Association and decisions made by the general meeting. The Board of Directors also issues instructions for the group chief executive.

The Board evaluates its own work and work methods annually, and the evaluation forms the basis for adjustments and measures. In addition, the Board's competencies, overall and those of each board member, are evaluated.

In 2018, the Board identified measures to enhance the competencies of its members. Among the measures were a one-day seminar to discuss strategic topics and regular lectures from external speakers.

THE DUTIES OF THE BOARD OF DIRECTORS

Part A of this chapter explains the most important matters the Board worked with in 2018. See the overview of matters considered by the Board of Directors below.

In the strategy processes, the Board of Directors considers whether goals and guidelines are unambiguous, adequate, well-operationalised and easily comprehensible for all employees. All key guidelines are available to the employees through DNB's intranet or by other means.

CONFLICTS OF INTEREST AND PARTIALITY

The Board of Directors has the ultimate responsibility for the management of DNB. Through the group chief executive, the Board shall ensure a sound organisation of business activities. The Board determines principal goals, strategic choices and financial plans for the Group. The Board is continually updated on DNB's financial position and development by approving quarterly and annual reports and through a monthly review of the Group's financial position and development. Furthermore, the Board shall ensure that operations are subject to adequate control and that the Group's capital position is satisfactory relative to the risk and scale of operations. The Board of Directors' responsibilities and implementation and monitoring of risk management and internal control are described in section 10 below. The Board also presents a statement to the general meeting proposing guidelines for remunerations to senior executives. See section 12 below.

Instructions for the Board of Directors of DNB ASA state that a board member cannot participate in deliberations or decisions on issues where he or she personally or his or her close associates would be seen as having a direct or indirect personal or financial interest in the matter. The same principle is embodied in the Group's code of ethics. It is the duty of each board member to ensure that he or she is without prejudice in deliberations of specific matters. The Board of Directors must approve agreements between the company and a board member or the group chief executive. The Board must also approve agreements between the company and third parties where a board member or the group chief executive can be perceived to have a significant interest in the matter.

Board members must inform the Board of Directors if they have a direct, significant interest in an agreement entered into by the company or another company in the DNB Group. The same applies if such agreement is signed by a company outside the DNB Group in which the board member has an ownership interest, serves on the board or has a senior management position. A notification should be sent to the board chairman, with a copy to the Group Secretariat.

Board members, or companies with which they are associated, should not take on special assignments for companies in the DNB Group other than their board membership. If this occurs, however, the entire Board of Directors must be informed. Remuneration for such assignments is subject to approval by the Board of Directors.

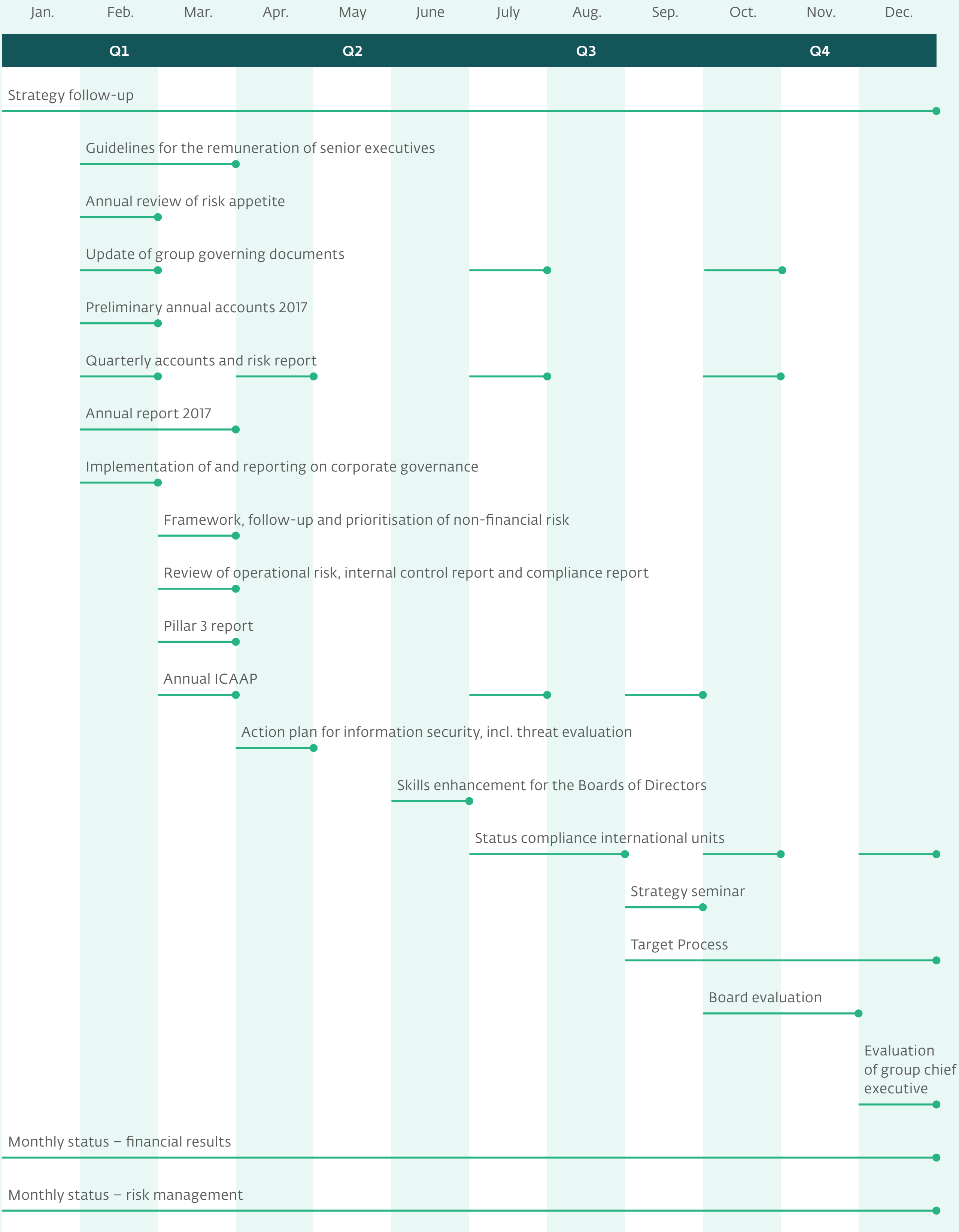
The Board of Directors held a total of 11 board meetings in 2018. The number of meetings attended by the various board members is shown in the presentation of the board members on page 92, onwards.

AUDIT COMMITTEE AND RISK MANAGEMENT COMMITTEE

In 2018, the Audit Committee and the Risk Management Committee consisted of three of the independent board members in addition to one observer.

The committees are working committees for the Board of Directors, preparing matters and acting in an advisory capacity. Members are elected for a term of up to two years among the external members of the Board of Directors, and the chairman is appointed for a term of one year at a time. The committee

The work of the Board of Directors
2018



members must have the overall competence required to fulfil their duties based on the organisation and operations of the Group. At least one of the members of the Audit Committee must have accounting and/or auditing expertise. In the Risk Management Committee, at least one member must have experience from identifying, assessing and managing risk exposures in large, complex companies. The members of the committees are included in the presentation of the Group's governing bodies. The objectives, responsibilities and functions of the committees are in compliance with international rules and standards and are described in group standard procedures. The committees normally have eight meetings each year. See the Pillar 3 report for a further description of the committees' duties under Financial reports and presentations on ir.dnb.no.

COMPENSATION COMMITTEE

The Board of Directors of DNB ASA has a Compensation Committee consisting of three members of the company's Board of Directors. The committee normally meets six to seven times a year. One of the members is a board member elected by the employees.

- The committee puts forth a recommendation for the Board of Directors' guidelines for remuneration to senior executives in accordance with section 6-16a of the Public Limited Companies Act.
- The committee draws up proposals and issues recommendations to the Board of Directors regarding the remuneration awarded to the group chief executive and acts in an advisory capacity to the group chief executive with respect to the remuneration and other important personnel-related matters concerning members of the group management team and any others reporting to the group chief executive.
- The committee considers measures to achieve diversity among senior executives and ensure equal pay for women and men.

Deviations from the Code of Practice: None

SECTION 10

RISK MANAGEMENT AND INTERNAL CONTROL

Sound corporate governance is a prerequisite for creating long-term value for DNB's shareholders, and for ensuring sustainable business over time.

DNB's main risk management goal is to ensure a good balance between risk and long-term returns. DNB distinguishes between risk which is taken actively, where returns should be maximised (credit risk), and risk that generates no return and should be kept at an acceptably low level (operational risk).

DNB seeks to avoid being associated with activities that may harm the Group's reputation.

Corporate governance provides a framework for business operations, and will help DNB implement the Group's strategy and reach its business targets.

Corporate governance enables interaction between processes and structures used for governance and control in the Group. These set requirements for the conduct of the Board of Directors, management and employees. Everyone in DNB must all act in line with these requirements.

IT TOOLS TO SUPPORT THE OPERATIONALISATION OF AND COMPLIANCE WITH EXTERNAL REQUIREMENTS AND INTERNAL GUIDELINES

The Group continued its efforts to implement a GRC system (Governance, Risk, Compliance) in 2018. This tool is meant to support the implementation of operational risk management, compliance and internal control over financial reporting. The Group implemented a new incident database in 2017, and in 2018 the tool was introduced for reporting violations of the personal data protection legislation. The work of implementing modules for operational risk management and internal control started in 2018 and will also be highly prioritised in 2019. The project for the implementation of the GRC tool is managed by Group Risk Management in cooperation with Group Finance and relevant business areas and support units.

RISK APPETITE FRAMEWORKS

The risk appetite framework forms part of the strategic management of the Group and consists of limits and assessment principles for the types of risks that are of importance to DNB. The risk appetite framework defines the acceptable risk level against which the group's strategy and financial targets are to be assessed. It is thus an important tool to help ensure consistent risk management and the operationalisation thereof.

The Group's risk appetite framework contains a set of explicit statements for risk types and dimensions that are considered to be of particular importance to DNB. Each statement specifies evaluation principles that define acceptable risk levels.

Risk types and dimensions that are covered by the framework:

- profitability and earnings
- capital adequacy
- credit risk
- market risk
- liquidity risk
- operational risk
- reputational risk

The framework should serve as a point of reference for evaluating the organisation's strategic and financial plans.

Each statement and the related limits have a designated owner who is responsible for establishing follow-up routines, and for monitoring changes in the utilisation of limits.

The current risk appetite status is reported along with periodic financial reporting to the group management and the Board of Directors.

All risk appetite statements are to be implemented throughout the organisation, through more specific risk tolerance levels for each risk type. This process is owned by the person responsible for each statement, and may include both qualitative and quantitative elements. Operationalisation through the governance system is important to ensure that the risk appetite framework functions as an effective governance tool.

RECOVERY PLAN

DNB has a hierarchy of contingency measures reflected in a recovery plan. The recovery plan is meant to ensure that the Group can resume operations after a serious emergency situation without involving or getting support from the authorities. The recovery plan is prepared as an integrated part of the Group's risk and capital management framework and will be activated if pre-defined recovery indicators are breached. Recovery indicator breaches will trigger a thorough evaluation of the situation and an assessment of relevant actions. If the bank's recovery is not feasible, it will be subject to liquidation. The authorities will then be responsible for developing a plan for this phase.

Because the risk appetite framework functions as an early warning system, there are a number of overlaps between the indicators in the risk appetite framework and the recovery plan.

INTERNAL CONTROL FRAMEWORK

DNB's internal control consists of three main components: governance, risk management & compliance and business & operations. This model is based on the European Banking Authorities Guidelines on Internal Governance and the framework from the Committee of Sponsoring Organizations of the Treadway Commission, COSO.

The purpose of DNB's system for internal control is to ensure:

1 efficient operations
2 responsible business operations
3 sufficient identification and measurement of risk, and risk-mitigating measures
4 reliable financial and non-financial information reported both internally and externally
5 responsible administrative and accounting procedures
6 compliance with laws, regulations, supervisory requirements and the institution's internal guidelines, processes, rules and decisions

COSO is a global framework that outlines the recommended components of internal control, including a defined control environment, risk assessment, control activities, information and communication, as well as monitoring activities.

The responsibility for risk management and internal control is divided between three lines of defence:

- **The first line of defence** includes all of the Group's operative functions. It is the operative managers' responsibility to establish, manage and follow up internal control within their own area of responsibility, including processes and activities to reach defined goals relating to operational efficiency, reliable financial reporting, risk management and compliance with laws and regulations. The employees are responsible for carrying out the established internal control through their daily work tasks. The Board of Directors considered the organisation of data governance in 2018, and the area was significantly strengthened.
- **The second line of defence** consists of independent control functions which monitor and follow up the internal control carried out by the management and employees in the Group's operative functions. In DNB, second line of defence functions are organised mainly under Group Risk Management and Group Compliance.
- **The third line of defence** is Group Audit, which uses a risk-based approach to review and evaluate the Group's governance and internal control processes. Group Audit is independent of the Group's executive management and reports to the Board of Directors of DNB ASA.

The Group's report on capital requirements and risk management, the Pillar 3 report, includes a description of risk management and internal control in DNB, capital management and calculation, as well as an assessment and follow-up of various risk categories. Furthermore, the report gives an account of DNB's adaptations to and fulfilment of the capital requirements legislation. The report is available on the Group's website ir.dnb.no.

INTERNAL AUDIT

ORGANISATION AND RESPONSIBILITIES

Independent and effective audits will help ensure satisfactory risk management and internal control, as well as reliable risk and financial reporting. Group Audit receives its mandate from the Board of Directors of DNB ASA, which also approves the department's annual plans and budgets.

Group Audit's responsibilities can broadly be divided in two:

- On behalf of the Board of Directors of DNB ASA, the group chief executive and the Boards of Directors of major subsidiaries verify that adequate and effective risk management and internal control are in place
- Assess whether risk identification, established management processes and control measures effectively contribute to strengthening the Group's ability to reach its targets

IMPLEMENTATION AND MONITORING

Group Audit carries out audits of units in the DNB Group. An audit plan is prepared, which is discussed with group management, reviewed by the Audit Committee and approved by the Board of Directors. Group Audit's risk assessments form the basis for determining which units should be given priority in the auditing process. After the audits have been completed, audit reports are prepared, which include the results of the audit, a description of any identified weaknesses or deficiencies and proposed measures, specifying responsible persons and deadlines for implementation of the measures. The audit reports are sent to the heads of the relevant audited units. An audit summary, reviewing all of the units in the DNB Group, is presented to the Boards of Directors of DNB ASA and DNB Bank ASA once every six months. The Boards of Directors also receive a monthly summary of the audit reports for all units in the Group.

Information about the statutory auditor can be found in section 15 below.

SUPERVISORY AUTHORITIES

The operations of the DNB Group are supervised by Finanstilsynet (the Financial Supervisory Authority of Norway), international supervisory authorities, the Norwegian Data Protection Authority, Norges Bank and others. The Board of Directors aims to have an open and constructive dialogue with all the supervisory authorities.

Finanstilsynet reviews annual and interim reports and the Group's Internal Capital Adequacy Assessment Process, ICAAP. Finanstilsynet reviews the Group's recovery plan.

THE BOARD OF DIRECTORS' REPORTING OF THE KEY COMPONENTS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

Financial reporting in the Group shall be in compliance with relevant laws and regulations and internal guidelines for operations. DNB aims to have low operational risk, and the group standard for internal control over financial reporting sets explicit requirements for processes and procedures to ensure high-quality reporting.

MORE ABOUT THE STANDARD FOR INTERNAL CONTROL OVER FINANCIAL REPORTING

DNB's financial reporting shall ensure long-term value creation for shareholders.

Ongoing risk assessments are made of processes that entail a risk of errors in financial reporting. The assessments include an end-to-end process mapping that clarifies roles and responsibilities in the entire financial value chain. Key controls are established to ensure internal control of all aspects that imply a risk of serious errors. These controls are subject to special documentation requirements. Risk-mitigating measures are established for all processes that continue to involve high or medium risk after the key controls have been implemented.

The results of the internal control over financial reporting are reported to Group Financial Reporting each quarter and followed up on an ongoing basis. The group management team and the Audit Committee receive annual updates.

BOARDS OF DIRECTORS

ORGANISATION AND RESPONSIBILITIES

The Board of Directors of DNB ASA, represented by the Audit Committee, reviews the financial reporting process and ensures that the Group's internal control, including the internal audit and risk management systems, functions effectively. In addition, the committee shall ensure that the Group has independent and effective external audit procedures. The Board of Directors has prepared guidelines to ensure reliable, relevant, timely and uniform reporting to shareholders and other capital market participants. The guidelines also cover internal needs. Together, these are called guidelines for financial reporting. The guidelines set quality assurance requirements for the financial reporting process applying to all units in the Group, including requirements to avoid any manipulation of the accounts.

IMPLEMENTATION AND MONITORING

The Audit Committee reviews quarterly financial reporting for the DNB Group. The Committee makes a thorough review of discretionary assessments and estimates in addition to any changes in accounting practice.

The Committee monitors the Group's internal control systems and the internal audit, making sure that they function effectively, and considers changes in systems and procedures which are presented to the Board of Directors for approval.

In connection with its review, the Committee has discussions with management, Group Audit and the statutory auditor. The statutory auditor provides a report to the Committee on the main features of the audit carried out in the previous accounting year, including a special review of any material weaknesses identified in internal control relating to the financial reporting process.

The Committee considers group management's annual self-assessment of the level of and effectiveness of the internal control over financial reporting.

At least once each quarter, the Committee has separate meetings with the statutory auditors on behalf of the Board of Directors without any representatives from management present. In addition, the Committee has meetings with the group chief audit executive at least once a year without any representatives from the management present.

The Audit Committee considers the quarterly accounts and the proposed annual accounts for DNB ASA and the DNB Group. After the quarterly accounts and proposed annual accounts for the respective companies have been reviewed by the executive management and the Audit Committee, they are considered by the Boards of Directors of DNB ASA and DNB Bank ASA. The annual accounts are approved by the general meeting.

The Audit Committee also considers the proposed statutory and consolidated accounts of DNB Bank ASA and DNB Livsforsikring AS and the statutory accounts of DNB Boligkreditt AS. The Board of Directors of DNB Livsforsikring AS considers the quarterly accounts and the proposed annual accounts. The annual accounts are approved by the respective companies' general meetings.

GROUP CHIEF EXECUTIVE AND EXECUTIVE BODIES

ORGANISATION AND RESPONSIBILITIES

Group Finance is headed by the chief financial officer, CFO, and is organised outside the business areas. The CFO appoints the heads of the Group Financial Reporting and Financial Management divisions.

The Group Financial Reporting division prepares, processes, consolidates, quality assures and reports financial information at group level. The division will implement reporting tools and processes that are harmonised with prevailing requirements for the Group's financial reporting.

The Group Financial Management division sets the premises and requirements for the Group's financial management model and tax (including value-added tax). The division sets the premises for the requirements to be met by accounting systems and other relevant systems for financial reporting.

The heads of reporting units are responsible for ongoing financial monitoring and reporting. All these units have management teams and accounting units adapted to their organisation and operations. Managers must ensure that adequate and effective internal control is implemented in accordance with established requirements, and are responsible for complying with these requirements.

IMPLEMENTATION AND MONITORING

Reporting units

The heads of the business areas and staff and support units are responsible for implementing adequate and effective internal control in accordance with established requirements, as well as for ensuring compliance with these requirements. The units will assess internal control of financial reporting each quarter and report the results of their assessment to the head of the Group Financial Management division. Every year, a comprehensive evaluation is made of compliance with external and internal regulations concerning internal control over financial reporting. The results, along with planned improvement measures, are reported to the head of the Group Financial Management division.

Group Finance

Group Finance prepares financial reports for the DNB Group and ensures that such reporting is in line with prevailing legislation, accounting standards, current accounting principles and guidelines from the Board of Directors. The head of the Group Financial Reporting division prepares guidelines which explain the requirements to be fulfilled by the local units. Processes and a number of control measures have been prepared to ensure that the financial reporting is of high quality. The measures include rules concerning authorisations, the division of responsibilities, reconciliation, change management, IT controls and management reviews.

Group management team

The group chief executive and the chief financial officer will continually consider the financial results and target attainment of the business areas as well as critical aspects and events which will affect their future performance and optimal resource utilisation. A review covering, inter alia, these subjects will be made in cooperation with the individual business areas at least on a quarterly basis. If required, the risks associated with financial reporting, both in the short and the long term, are assessed at the meetings. The group chief executive, the chief financial officer, managers in the relevant unit and relevant experts participate in the meetings, which are chaired by the group chief executive. The chief financial officer reviews such matters with the support units in separate meetings. The group management team will review monthly financial reporting and risk appetite, including trends in profit and loss and balance sheet items, the current status relative to statutory enactments, results for legal units and analyses of and comments to the financial performance of business areas and support units.

Process for internal control over financial reporting in the DNB Group

INTERNAL CONTROL OVER FINANCIAL REPORTING

ORGANISATION AND RESPONSIBILITIES

The Financial Management division functions as the second line of defence for internal control over financial reporting and has a direct reporting line to the Audit Committee. The unit sets requirements for the design of and monitors internal control over financial reporting in the Group.

IMPLEMENTATION AND MONITORING

On behalf of the chief financial officer, the unit for internal control over financial reporting identifies, assesses and monitors the risk of errors in the Group's financial reporting in cooperation with the heads of the reporting units.

A process has been established for self-assessments of the level of and effectiveness of the internal control over financial reporting. The units' quarterly assessment of internal control over financial reporting is discussed with the head of Group Financial Reporting in special meetings when and as required, and a summary is presented to the chief financial officer, group management, the Audit Committee and the Board of Directors of DNB ASA if required in connection with their review of the Group's quarterly and annual accounts.

AUDIT

ORGANISATION AND RESPONSIBILITIES

See description of the internal audit above.

IMPLEMENTATION AND MONITORING

The annual accounts of all the companies in the DNB Group are audited by the statutory auditors, who, within the limits stipulated in international standards on auditing and quality control, ISA, cooperate with Group Audit.

As part of the audit, Group Audit assesses the established internal control over financial reporting in selected processes. Every year, the statutory auditor prepares a report which summarises the results of the financial audit. The report accounts for any weaknesses and deficiencies in the internal control over financial reporting. The report is sent to those who are responsible for financial reporting in the audited units and companies for comment before being considered by the Audit Committee and the Board of Directors of DNB ASA. The results of the audit of financial reporting are described in Group Audit's semi-annual report to the Boards of Directors of DNB ASA and DNB Bank ASA and the Audit Committee.

Deviations from the Code of Practice: None

SECTION 11

REMUNERATION OF THE BOARD OF DIRECTORS

Remuneration paid to members of the Board of Directors, which is proposed by the Election Committee and approved by the general meeting, is not performance-based or linked to options in DNB ASA. The Board of Directors must approve any remuneration from the company to members of the Board of Directors other than ordinary remuneration for their service on the Board of Directors, the Audit Committee, the Risk Management Committee and the Compensation Committee. Note 47 to the annual accounts for the DNB Group shows remunerations to senior executives and elected officers in DNB ASA.

Deviations from the Code of Practice: None

SECTION 12

REMUNERATION OF SENIOR EXECUTIVES

GUIDELINES FOR EXECUTIVE PAY

DNB's guidelines for determining remunerations to the group chief executive and other members of the group management team should, at all times, support prevailing strategy and values, while contributing to the attainment of the Group's targets. The total remuneration to the group chief executive and other senior executives consists of basic salary (main element), benefits in kind, variable salary, pension and insurance schemes. When determining the variable remuneration of the group chief executive and other senior executives for 2018, strong emphasis was once again placed on Group measurement parameters for financial key figures, customer satisfaction and corporate reputation.

DNB's variable remuneration scheme is in accordance with the regulations on remuneration schemes in financial institutions, investment firms and management companies for mutual funds. The Group has identified senior executives, risk takers and independent control functions, referred to as other senior executives below.

GROUP CHIEF EXECUTIVE

The total remuneration to the group chief executive is determined on the basis of a total evaluation of performance, in addition to comparisons with remuneration levels for corresponding positions in the market. The remuneration should be competitive, but not market-leading.

The variable remuneration of the group chief executive is performance-based and determined on the basis of the Group's return on equity, Tier 1 capital ratio and cost/income ratio, in addition to developments in customer satisfaction, DNB's reputation and internal measurement parameters related to corporate culture and innovation. The variable remuneration of the group chief executive cannot exceed 50 per cent of fixed salary. Payment of minimum 50 per cent of variable remuneration is deferred and conditional in the form of DNB shares. The remuneration paid in the form of shares is divided into three, subject to minimum holding periods (deferred and conditional), with one-third payable each year over a period of three years.

OTHER SENIOR EXECUTIVES

The total remuneration to other senior executives is determined based on the same framework as the remuneration to the group chief executive. The total remuneration should ensure that DNB attracts and retains senior executives with the desired skills and experience. The level of variable remuneration in DNB is considered to be moderate relative to prevailing levels in international financial institutions and other large Norwegian groups of companies.

Variable remuneration is awarded to individual employees within limits allocated to each unit and an overall assessment of the individual's attainment of predetermined financial and non-financial targets.

The variable remuneration scheme is performance-based without exposing the Group to unwanted risk. This is ensured by the strong correlation between individual targets and the Group's governance model. Payment of minimum 50 per cent of variable remuneration is deferred and conditional in the form of DNB shares. The remuneration paid in the form of shares is divided into three, subject to minimum holding periods (deferred and conditional), with one-third payable each year over a period of three years. Variable remuneration cannot exceed 50 per cent of fixed salary for senior executives.

THE BOARD OF DIRECTORS' STATEMENT CONCERNING EXECUTIVE REMUNERATIONS

The Board of Directors presents a statement to the general meeting proposing guidelines for remunerations to senior executives. The statement and information about remunerations paid to the individual members of the group management team can be found in note 47 to the annual accounts for the DNB Group.

OTHER ASPECTS

No employees in the DNB Group have any outstanding subscription rights etc. See also the description of the Board of Directors' Compensation Committee in section 9 above.

Deviations from the Code of Practice: None

SECTION 13

INFORMATION AND COMMUNICATION

The Group presents the Norwegian and international markets with extensive analytical information in connection with the quarterly reporting of financial information and presentations on particular topics. Parallel to this, the same information is made available to all interested parties on the websites of Oslo Børs (Oslo Stock Exchange) and the Group.

Guidelines have been drawn up for the reporting of financial information to shareholders, investors and analysts. The guidelines also cover the Group's contact with shareholders other than through general meetings. The guidelines are based on openness and take into account the requirement for equal treatment of all participants in the market. They can be found on the Group's website ir.dnb.no/about-dnb.

An overview of the dates for major events such as the annual general meeting, the publication of interim reports, public presentations and dividend payments is published on the Group's website.

All DNB employees have access to the guidelines for financial reporting, including requirements for the internal control over financial reporting. Group Finance holds regular meetings with units in the Group to give information about and increase the understanding of the requirements for internal control over financial reporting.

Deviations from the Code of Practice: None

SECTION 14

CORPORATE TAKE-OVERS

The Board of Directors of DNB ASA will handle any take-over bids in compliance with the principle of equal treatment of shareholders. Parallel to this, the Board will help ensure that shareholders are given as complete information as possible in all situations that will affect shareholder interests. Cf. section 4, which gives an account of the Norwegian government's intention to retain its 34 per cent holding in DNB ASA, as required by the Norwegian parliament.

Deviations from the Code of Practice: The Board of Directors has chosen not to determine explicit guiding principles on how to act in the event of a take-over bid. The background for this exception is that the Norwegian government owns 34 per cent of the shares in DNB ASA, thus such principles are not very relevant. The Board of Directors otherwise endorses the wording in this section of the Code.

SECTION 15

STATUTORY AUDITOR

DNB's statutory auditor is EY. The statutory auditor annually submits a plan for the audit to the Audit Committee. Guidelines have been drawn up for the use of statutory auditors, including restrictions on what additional services can be undertaken, approval of fees and guidelines to invite tenders for external audit services. The audit partner responsible for carrying out the audit can hold this responsibility for maximum seven years, and tenders will normally be invited every seventh year.

The Audit Committee submits a recommendation regarding the choice of statutory auditor to the Board of Directors, which submits a recommendation to the general meeting. At least once each quarter, the Committee has separate meetings with the statutory auditors on behalf of the Board of Directors without any representatives from management present.

The Committee submits a recommendation regarding the statutory auditor's remuneration to the Board of Directors, which presents the remuneration proposal to the Annual General Meeting for approval.

The statutory auditor must provide a report to the Audit Committee on the main features of the audit carried out in the previous accounting year, including particular mention of any material weaknesses identified in internal control relating to the financial reporting process. The auditor must also provide the committee with:

- an annual written confirmation of the auditor's independence
- information on services other than statutory audit provided to the company during the course of the financial year
- information on any threats to the auditor's independence, and documentary evidence of the measures implemented to combat such threats.

The Audit Committee evaluates the work performed by the statutory auditor on an annual basis.

Deviations from the Code of Practice: None

Board of Directors of DNB ASA

As at 6 March 2019

The Board of Directors of DNB ASA is the Group's supreme governing body. Through the group chief executive, the Board shall ensure a sound organisation of business activities. The Board has three sub-committees: the Risk Management Committee, the Audit Committee and the Compensation Committee.

Olaug Svarva
(born 1957)

Role in the Board: Chair of the board in DNB since 2018. Chair of the Compensation Committee.

No. of board meetings: 8/8
No. of shares: 7 000[1)]

Background: MBA and B.Sc. from the University of Denver, authorised portfolio manager from the Norwegian School of Economics and graduate from Trondheim Economic University College. CEO of Folketrygdfondet (manager of the Government Pension Fund Norway) from 2006 to 2018. Former managing director of SpareBank 1 Aktiv Forvaltning and head of investment management at SpareBank 1 Livsforsikring. Has worked as a financial analyst in Carnegie and DNB.
Other key positions of trust: Board member in Investinor AS. Former board member in the Employers' Association Spekter, Oslo Børs (Oslo Stock Exchange) and the Norwegian Institute of Directors. Has also been a member of the Election Committees in Equinor, Telenor, Veidekke, Storebrand and Yara, and has experience from the Corporate Assemblies of Equinor, Telenor and Orkla.

Tore Olaf Rimmereid
(born 1962)

Role in the Board: Vice chair of the board in DNB since 2012 (board member since 2009). Chair of the Audit Committee and member of the Risk Management Committee.

No. of board meetings: 11/11
No. of shares: 10 611[1)]

Background: Master's degree in business administration, and authorised financial analyst from the Norwegian School of Economics. Deputy CEO and SVP of Hafslund E-CO AS. Former President and CEO of E-CO Energi, head of the Finance and Administration Department in the Norwegian Broadcasting Corporation, NRK, and group executive vice president, Financial Reporting and Finance, in SpareBank 1 Gruppen. Experience from Kreditkassen.
Other key positions of trust: Chair of the board in Hafslund AS and Hafslund Nett AS. Former chair of the board in Oslo Lysverker, Energy Norway, Opplandskraft DA, Oppland Energi AS and Vinstra Kraftselskap. Former political adviser for the Conservative Party's parliamentary group.

Karl-Christian Agerup
(born 1962)

Role in the Board: Board member in DNB since April 2017. Member of the Compensation Committee.

No. of board meetings: 11/11
No. of shares: 6 400[1)]

Background: Graduate of the Copenhagen Business School, and Master of Science in Management from the Massachusetts Institute of Technology. Managing director of Oslotech AS. Former founder and partner of Northzone Ventures, founder and managing director of Hugin ASA, and background as a project manager in McKinsey & Company.

Other key positions of trust: Chair of the board in StartupLab AS and Oslo ShareLab AS. Board member in the Norwegian Board of Technology. Former board member in several companies, including Schibsted, Aftenposten, Norfund, Zalaris ASA, Admincontrol AS and Nevion Europe AS. Personal deputy for the chair of the board of the Tinius Foundation.

Carl A. Løvvik
(born 1952)

Role in the Board: Board employee representative in DNB since 2011.

No. of board meetings: 11/11
No. of shares: 1 458[1)]

Background: Chief employee representative in DNB. Employed as an insurance agent in 1988 and has worked within marketing in DNB Livsforsikring and as a manager at DNB Livsforsikring's Customer Service Centre.

Vigdis Mathisen
(born 1958)

Role in the Board: Board employee representative in DNB since 2012. Member of the Compensation Committee.

No. of board meetings: 10/11
No. of shares: 817[1)]

Background: Business graduate from and several courses in management at BI Norwegian Business School. Employed in DNB since 1983 and elected chief employee representative for the Group in the Finance Sector Union DNB in 2012.

Other key positions of trust: Five years of previous experience from the boards in Den norske Bank and DNB Holding. Board member in the Confederation of Vocational Unions (YS) and member of the Executive Committee of the Finance Sector Union of Norway.

Jaan Ivar Semlitsch
(born 1971)

Role in the Board: Board member in DNB since June 2014. Chair of the Risk Management Committee and member of the Audit Committee.

No. of board meetings: 11/11
No. of shares: 12 300[1)]

Background: Graduate of the Norwegian School of Economics. President and CEO of Dixons Carphone International and Elkjøp Nordic AS. Former Chief Operating Officer of Statoil Retail Europe and CEO of Rema Industrier AS. Former Associate Partner at McKinsey & Company.

Other key positions of trust: Chair of the board in Elkjøp Norge AS. Former chair of the board in Statoil Norge AS and Lefdal Elektromarked AS. Former and current chair of the board or board member in several Norwegian companies.

Berit Svendsen
(born 1963)

Role in the Board: Board member in DNB since 2012 (former board member in DNB Bank 2010–2012). Member of the Audit Committee and the Risk Management Committee.

No. of board meetings: 11/11
No. of shares: 0[1)]

Background: Graduate engineer with a Master of Technology Management degree from the Norwegian University of Science and Technology (NTNU). Head of Vipps International. Former executive vice president in Telenor and Telenor Scandinavia, CEO of Telenor Norway, chief technology officer in Telenor, head of Telenor's fixed network business in Norway, and CEO of Conax.

Other key positions of trust: Former board chairman in Data Respons and board member in SAS, EMGS and Ekornes, as well as a member of the European Commission Advisory Group on ICT matters.

1) Shareholdings in DNB as at 31 December 2018. Shares held by the immediate family and companies in which the shareholder has decisive influence are also included.

Board of Directors of DNB Bank ASA

As at 6 March 2019

DNB Bank ASA is by far the largest company in the DNB group, and quite frequently, the same cases are processed by both the Board of Directors of DNB Bank ASA and the Board of Directors of DNB ASA. For this reason, joint meetings are held for the two Boards. Joint board meetings facilitate an effective organisation and implementation of the Boards' work. Finanstilsynet (the Financial Supervisory Authority of Norway) has approved that Olaug Svarva is the chair of the board in both DNB ASA and DNB Bank ASA, and that Rune Bjerke is the managing director of both companies. Some cases are processed by only one of the Boards. For instance, the Board of DNB Bank ASA processes credit proposals in separate meetings.

Olaug Svarva

(born 1957)

Role in the Board: Chair of the board of DNB Bank since 2018.

Background: MBA and B.Sc. from the University of Denver, authorised portfolio manager from the Norwegian School of Economics and graduate from Trondheim Economic University College. CEO of Folketrygdfondet (manager of the Government Pension Fund Norway) from 2006 to 2018. Former managing director of SpareBank 1 Aktiv Forvaltning and head of investment management at SpareBank 1 Livsforsikring. Has worked as a financial analyst in Carnegie and DNB.

Other key positions of trust: Board member in Investinor AS. Former board member in the Employers' Association Spekter, Oslo Børs (Oslo Stock Exchange) and the Norwegian Institute of Directors. Has also been a member of the Election Committees in Equinor, Telenor, Veidekke, Storebrand and Yara, and has experience from the Corporate Assemblies of Equinor, Telenor and Orkla.

No. of board meetings: 8/8

Gro Bakstad

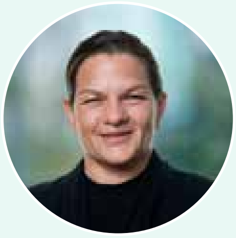
(born 1966)

Role in the Board: Vice chair of the board in DNB Bank since 2017 and observer in the Audit Committee and Risk Management Committee of DNB ASA.

Background: Business graduate and state-authorised public accountant from the Norwegian School of Economics with broad experience within economics, finance and strategy work. Executive Vice President for the Mail Division at Posten Norge AS since 2012. Former Chief Financial Officer of Posten Norge AS, financial adviser at Procorp and Chief Financial Officer of Ocean Rig.

Other key positions of trust: Board member in Veidekke ASA. Former board member in Farstad Shipping ASA and the Employers' Association Spekter.

No. of board meetings: 11/11



Lillian Hattrem

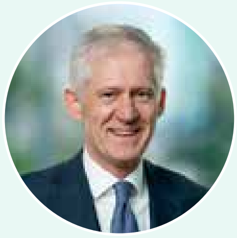
(born 1972)

Role in the Board: Board employee representative in DNB Bank since 2016.

Background: Various courses in economics, accounting and project management from BI Norwegian Business School. Employed in DNB in 1999, became board member in the Finance Sector Union DNB in 2007 and is currently vice chair of the Finance Sector Union DNB.

Other key positions of trust: Former employee representative in the supervisory board in DNB ASA and in the special Election Committee for the Board of DNB Bank ASA.

No. of board meetings: 11/11



Kim Wahl

(born 1960)

Role in the Board: Board member in DNB Bank since June 2011.

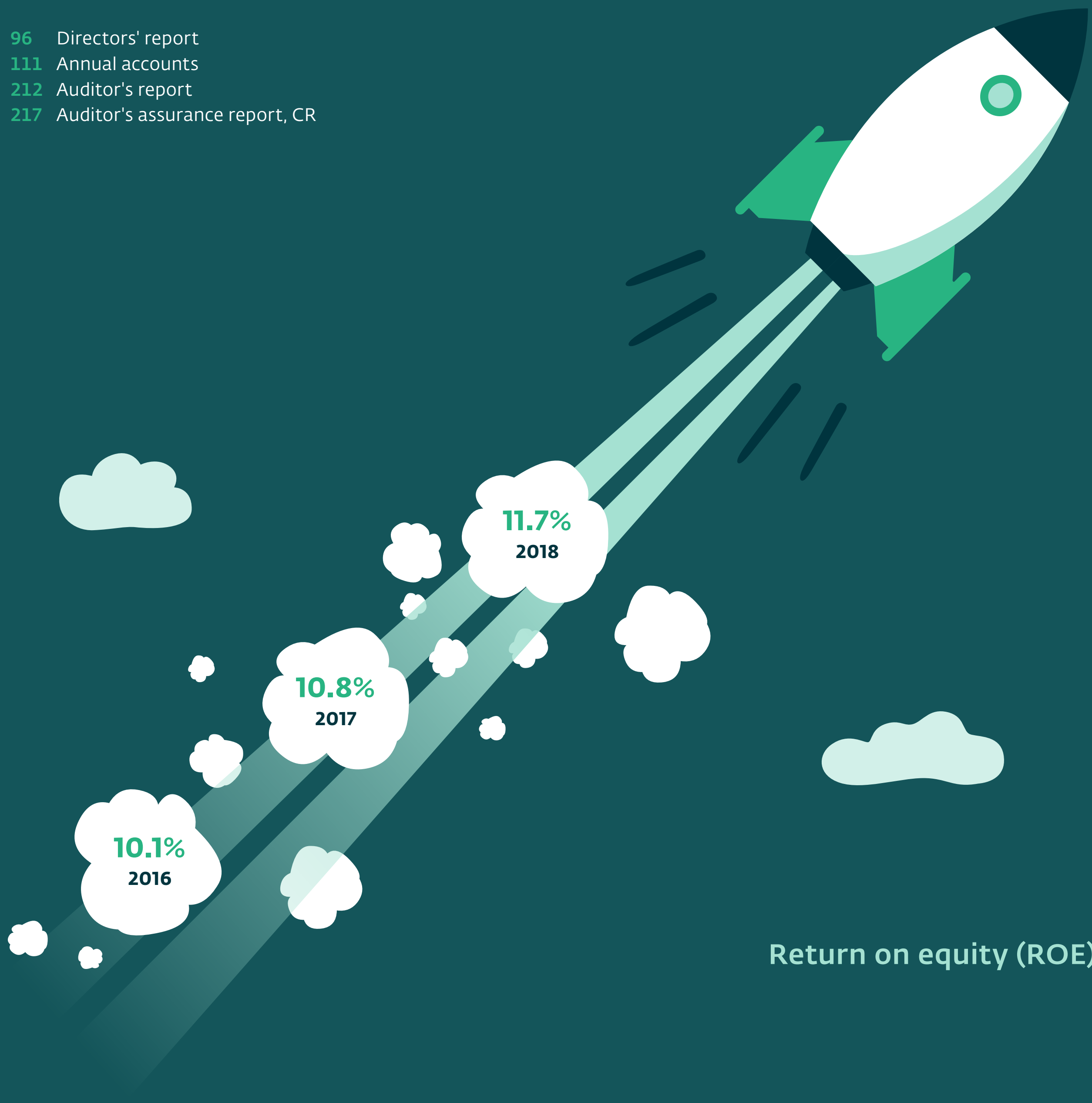
Background: MBA from Harvard University. Chair of the board and owner of the private investment company Strømstangen AS. Co-founder of the European Private Equity firm IK Investment Partners, where he was partner and vice chair for 20 years. Also has experience from the US investment bank Goldman Sachs in London and New York.

Other key positions of trust: Chair of the board and co-founder of the Voxtra Foundation, established in 2008 focusing on foreign aid and local investments in East Africa. Board member in UPM Kymmene Corporation and former board member in Intermediate Capital Group plc and the Kavli Trust. Has previously held a number of board positions in various industries.

No. of board meetings: 11/11

CHAPTER 4

Directors' report and annual accounts



Return on equity (ROE)

Directors' report

Operations in 2018

DNB recorded profits of NOK 24 282 million in 2018, up NOK 2 479 million or 11.4 per cent compared with 2017. The increase in profits was driven by higher net interest income, lower impairment of financial instruments and a gain of NOK 464 million following the merger of BankID, BankAxept and Vipps.

Earnings per share were NOK 14.56, up 13.4 per cent from NOK 12.84 in 2017.

The common equity Tier 1 capital ratio was 16.4 per cent at end-December, unchanged from a year earlier.

The leverage ratio for the Group was 7.5 per cent, up from 7.2 at end-December 2017.

Return on equity was 11.7 per cent, compared with 10.8 per cent in 2017.

Net interest income increased by NOK 1 400 million from 2017. Reclassification effects related to IFRS 9 offset most of the loss of revenues as a result of the sale of the Baltic operations. Effects from amortisation of fees and higher volumes contributed positively with NOK 424 million and 318 million, respectively. There were rising volumes in the personal customers and small and medium-sized enterprises segments, and a planned reduction in volumes to large corporates and international customers.

Net other operating income was NOK 13 546 million, down NOK 2 172 million compared with 2017. Net gains on other financial instruments at fair value contributed negatively with NOK 3 857 million, due to volatility in the fixed-income markets and effects from reclassifications under IFRS 9. Basis swaps contributed negatively with NOK 687 million. Net commissions and fees grew by NOK 862 million, mainly due to reclassifications under IFRS 9.

Operating expenses were down NOK 536 million compared with 2017. The reduction was mainly due to the fact that operating expenses relating to the Baltics were included in the accounts up to October 2017, as well as impairment of goodwill of NOK 502 million related to the external distribution of credit cards under the Cresco brand in 2017. Corrected for these factors, IT expenses increased in 2018, mainly due to higher digitalisation activity.

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

The Board of Directors has proposed a dividend for 2018 of NOK 8.25 per share, which is an increase of 16 per cent from 2017 and corresponds to 56 per cent of profits. Including the share buy-back programme of 1.5 per cent, the total payout ratio is 73 per cent. When considering the dividend proposal, the Board of Directors took the regulatory capital adequacy requirements into account. The payout ratio is in accordance with the Group's ambition to increase dividend payments.

The Board would like to thank all employees for a job well done in 2018.

Read more about important events in 2018 in chapter 1.

Share buy-back programme

The annual general meeting (AGM) held in April 2018 authorised DNB ASA to repurchase up to 3.5 per cent of the company's share capital, calculated after the completion of the reduction in capital in connection with the share buy-back programme authorised by the AGM in 2017. The authorisation is valid up to the AGM in 2019. Initially, DNB has applied and received approval for a 2 per cent repurchase limit from Finanstilsynet (the Financial Supervisory Authority of Norway), but may at any time apply to Finanstilsynet for the remaining 1.5 per cent. Furthermore, DNB ASA has signed an agreement with the Norwegian government, represented by the Ministry of Trade, Industry and Fisheries, to ensure that the government maintains its 34 per cent ownership interest in DNB ASA after the completion of the buy-back programme.

The first buy-back programme under this authorisation includes up to 1.5 per cent of the shares, and by the end of December, DNB had repurchased shares representing a total of 0.62 per cent of outstanding shares. In addition, a proportion of the Norwegian government's holding, equivalent to 0.32 per cent of outstanding shares, will be redeemed after the AGM in 2019, resulting in repurchases of 0.95 per cent in total.

DNB ASA will seek approval from the AGM in 2019 to delete the repurchased shares and to redeem a proportional number of shares owned by the Norwegian government. The shares owned by the Norwegian government will be redeemed against a payment corresponding to the average volume-weighted price of the shares repurchased by DNB ASA in the open market as part of the buy-back programme, in addition to an interest compensation and an agreed adjustment for dividends paid on the redeemed shares during the buy-back period (if any). Once this transaction has been completed, a statement to Oslo Børs (Oslo Stock Exchange) will be published, specifying the updated number of shares.

Strategy and targets

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

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

Net interest income

Amounts in NOK million

	2018	2017
Lending spread, customer segments	28 152	29 467
Deposit spread, customer segments	2 742	1 635
Amortisation effects and fees	3 200	2 776
Operational leasing	1 525	1 555
Baltics		822
Other net interest income	1 202	(833)
Net interest income	36 822	35 422

Net interest income increased by NOK 1 400 million from 2017. Reclassification effects related to IFRS 9 offset most of the loss of revenues from the sale of the Baltic operations. Effects from amortisation of fees and higher volumes contributed positively with NOK 424 million and 318 million, respectively. In the comments below, volumes and spreads have been adjusted for the effects of the Baltic operations in 2017.

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

Net other operating income

Amounts in NOK million

	2018	2017
Net commissions and fees	9 310	8 448
Basis swaps	(1 358)	(672)
Exchange rate effects additional Tier 1 capital	721	(616)
Net gains on other financial instruments	1 979	5 836
Net financial and risk result, life insurance	969	1 295
Net insurance result, non-life insurance	622	683
Other operating income	1 302	744
Net other operating income	13 546	15 718

Net other operating income was down NOK 2 172 million from 2017. Net gains on other financial instruments at fair value contributed negatively with NOK 3 857 million, due to volatility in the fixed-income markets and effects from reclassifications under IFRS 9. Basis swaps contributed negatively with NOK 687 million. There was a strong increase in exchange rate effects on additional Tier 1 capital. Net commissions and fees grew by NOK 862 million, partly due to reclassifications under IFRS 9. Other operating income rose by NOK 557 million mainly due to a positive contribution from Luminor.

Operating expenses
Amounts in NOK million

	2018	2017
Salaries and other personnel expenses	(11 864)	(12 184)
Other expenses	(7 789)	(7 878)
Depreciation and impairment of fixed and intangible assets	(2 404)	(2 531)
Operating expenses	(22 057)	(22 593)

Total operating expenses were down NOK 536 million, or 2.4 per cent from 2017. This was mainly due to the fact that operating expenses relating to the Baltics were included in the accounts up to October 2017, in addition to increased costs due to impairment of goodwill of NOK 502 million related to the external distribution of credit cards under the Cresco brand in 2017. Corrected for the Baltic operations, operating expenses increased by NOK 162 million mainly due to a higher level of IT activity.

The cost/income ratio was 43.8 per cent in 2018.

Impairment of financial instruments
Amounts in NOK million

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

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

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

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

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

The net impairment losses of NOK 744 million within other industry segments primarily reflected negative credit development on individually assessed customers within the industry segments trade and services. In general, relevant macro drivers developed in line with the forecasts at the start of the year for most industries. Net stage 3 loans and financial guarantees and unutilised credit lines amounted to NOK 23.2 billion at end-December 2018.

TAX

The DNB Group's tax expense for the full year 2018 was NOK 4 493 million, representing 16 per cent of pre-tax operating profits. The tax rate was lower than the anticipated rate of 20 per cent, mainly due to transitional effects from new tax rules for DNB Livsforsikring and capital gains on shares under the Norwegian tax exemption method.

Funding, liquidity and balance sheet

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

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

The nominal value of long-term debt securities issued by the Group was NOK 604 billion at end-December 2018, compared with NOK 596 billion a year earlier. The average remaining term to maturity for these debt securities was 4.1 years at end-December 2018, up from 4.0 at end-December 2017.

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

Total combined assets in the DNB Group were NOK 2 951 billion at year-end 2018, down from NOK 3 026 billion a year earlier. Total assets in the Group's balance sheet were NOK 2 635 billion at the end of 2018 and NOK 2 698 billion a year earlier. Of this, total assets in DNB Livsforsikring amounted to NOK 316 billion and NOK 317 billion, respectively.

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

Corporate governance

The management of DNB is based, inter alia, on the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance. Read more about the Group's corporate governance principles and practice in chapter 3 Governance.

Capital

The DNB Group's Basel III common equity Tier 1 (CET1) capital ratio, calculated according to transitional rules, was 16.4 per cent at the end of 2018, which was at the same level as a year earlier. The CET1 capital ratio according to Basel III was 17.2 per cent at year-end 2018.

The CET1 capital increased by NOK 5.5 billion from a year earlier to NOK 176.8 billion at year-end 2018. Retained earnings contributed to the increase, while the share buy-back programme announced in the second quarter of 2018, reduced the CET1 capital by around NOK 4 billion.

The risk-weighted assets increased by NOK 35.3 billion from year-end 2017 to NOK 1 077.9 billion. The increase was mainly due to underlying growth in the segments in combination with exchange rate effects as the Norwegian krone depreciated against both the euro and the US dollar.

The non-risk based leverage ratio was 7.5 per cent at end-December, up from 7.2 in the year-earlier period. The ratio increased from year-end 2017 due to higher CET1 capital in combination with a reduction in the total exposure.

CAPITAL REQUIREMENTS

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

Capital and risk

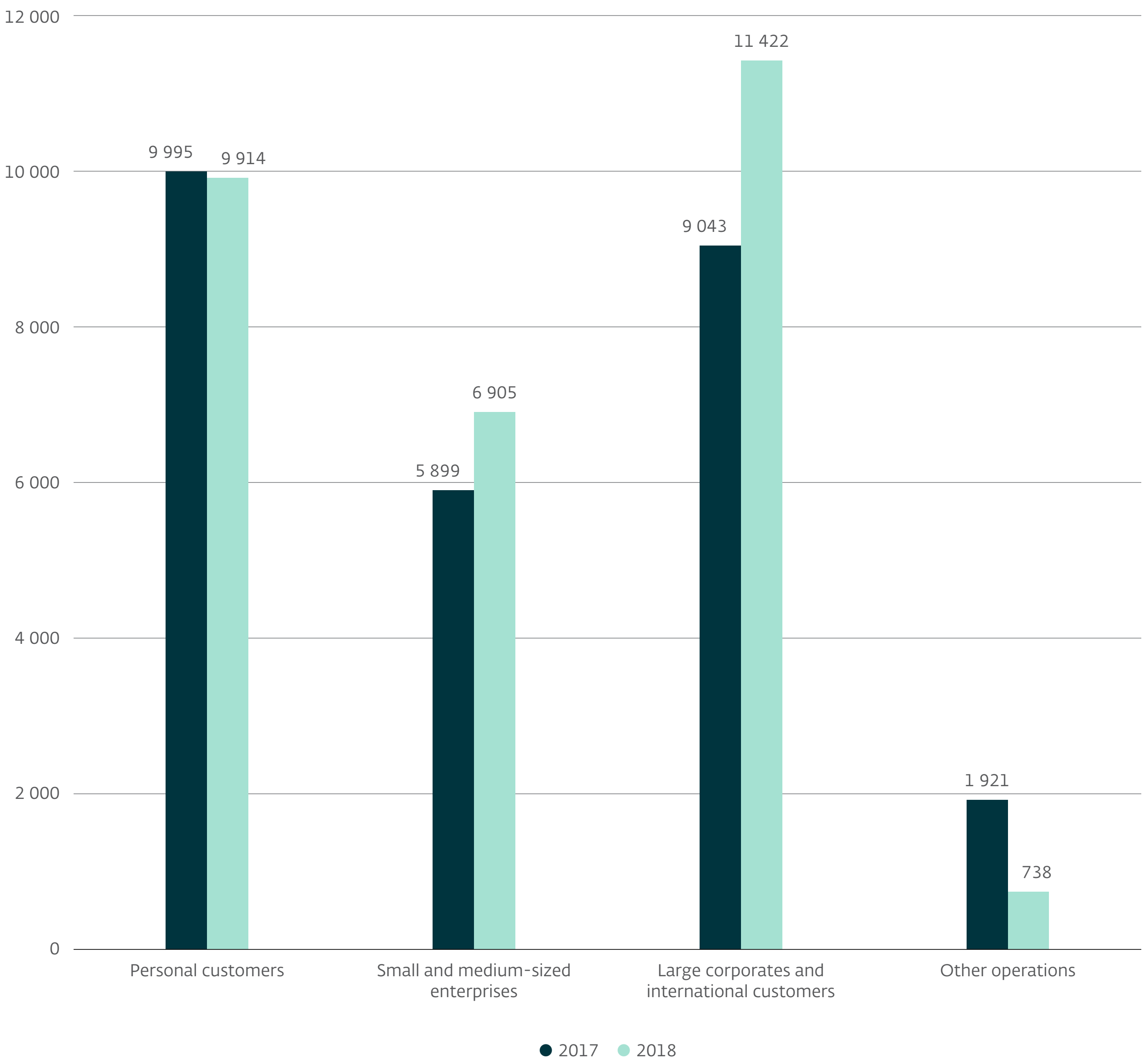
	2018	2017
Transitional rules:		
CET1 capital ratio, per cent	16.4	16.4
Tier 1 capital ratio, per cent	17.7	17.9
Capital ratio, per cent	19.9	20.0
Risk-weighted assets, NOK billion	1 078	1 043
CET1 capital ratio, Basel III, per cent	17.2	16.7
Leverage ratio, per cent	7.5	7.2

As the DNB Group consists of both credit and insurance companies, the DNB Group has to satisfy a cross-sectoral calculation test to demonstrate that it complies with the sectoral requirements: the capital adequacy requirement in accordance with CRD IV and the Solvency II requirement. At end-December 2018, DNB complied with these requirements by a good margin, with excess capital of NOK 14.3 billion. Read more about the Group's risk aspects on page 86 in the chapter on Corporate governance and about capitalisation in the Group's Pillar 3 report at ir.dnb.no.

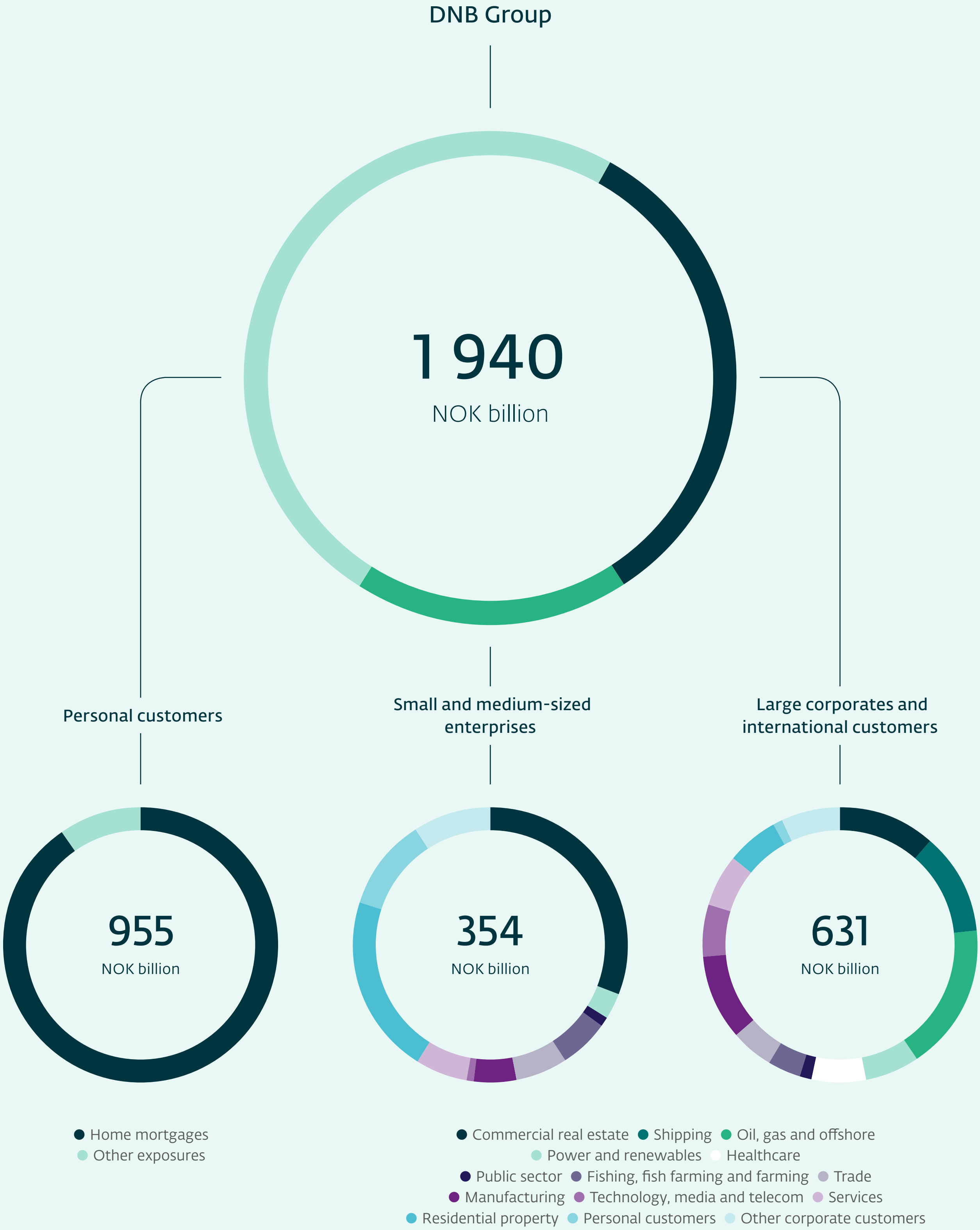
Segments

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

Pre-tax operating profit
NOK million



Total exposure at default
Portfolio composition[1)]



1) Portfolio composition in terms of exposure at default (EAD)

PERSONAL CUSTOMERS

This segment includes the Group's more than 2 million personal customers in Norway. Personal customers delivered sound results in 2018, with a pre-tax operating profit before impairment of NOK 10 183 million and a return on allocated capital of 15.8 per cent. The cost/income ratio remained stable at 45 per cent, which is on a level with 2017.

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

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

Expenses increased by NOK 107 million or 1.3 per cent from 2017. Costs related to IT and real estate broking showed a slight increase, but the rise was partly counteracted by reduced restructuring costs, lower costs relating to premises and reduced impairment losses for goodwill.

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

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

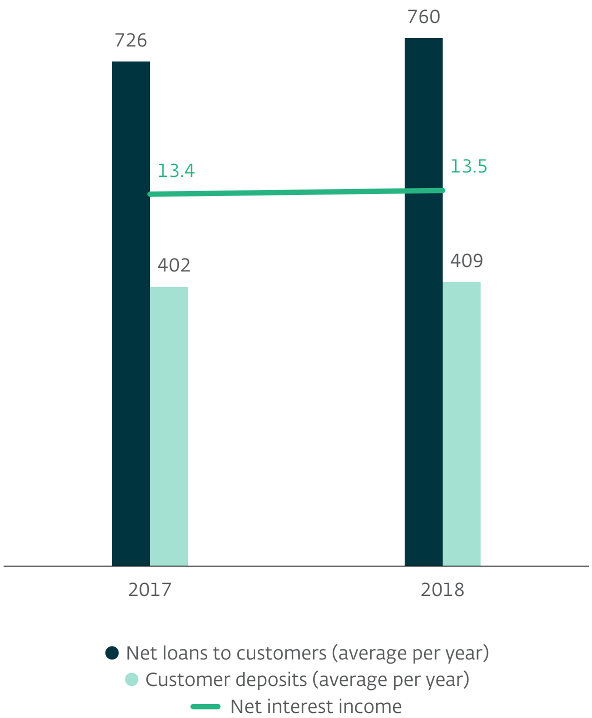
The market share of credit to households stood at 24.0 per cent at end-December 2018, which represented a decline from 24.7 per cent at the end of 2017. The market share of total household savings was 30.8 per cent. DNB Eiendom had an average market share of 18.7 per cent in 2018, down from 19.7 per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

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

Income statement
NOK million

	2018	2017
Net interest income	13 452	13 367
Net other operating income	5 117	5 113
Total income	18 569	18 480
Operating expenses	(8 386)	(8 279)
Pre-tax operating profit before impairment	10 183	10 201
Net gains on fixed and intangible assets	49	(0)
Impairment of financial instruments	(318)	(207)
Pre-tax operating profit	9 914	9 995
Profit for the year	7 435	7 496
Average balance sheet items in NOK billion		
Net loans to customers	760.0	725.6
Deposits from customers	408.9	402.2
Key figures in per cent		
Return on allocated capital	15.8	18.9

Developments in loans, deposits and net interest income
NOK billion



SMALL AND MEDIUM-SIZED ENTERPRISES

This segment includes sales of products and advisory services to the Group's small and medium-sized corporate customers in Norway. Strong growth in net interest income combined with a reduced cost level contributed to a solid pre-tax operating profit before impairment in 2018. Impairments were up from the previous year, but remained at a satisfactorily low level. Combined, this resulted in an improvement in the pre-tax operating profit of as much as 17.1 per cent from 2017. The segment delivered a total return on allocated capital of 18.2 per cent in 2018, compared with 16.9 per cent in 2017.

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

Net other operating income showed an increase of 2.7 per cent from 2017. Increased sales of pension products and higher income from payment services contributed to the increased income. Income from currency and interest rate hedging products as well as capital market activities was on the same level as in the previous year.

Operating costs decreased by 3.5 per cent from 2017. A reduction in restructuring expenses was the main reason for the decrease in costs from the previous year.

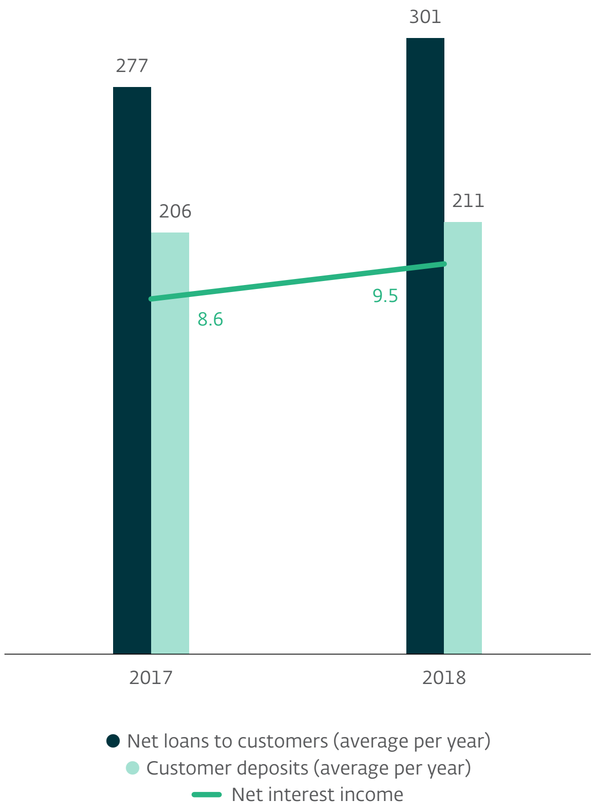
Net impairment losses on financial instruments were NOK 566 million in 2018. This constituted 0.19 per cent of average loans. The impairment losses in 2018 primarily stemmed from a few exposures. The quality of the loan portfolio is considered to be satisfactory. Developments are closely monitored, and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

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

Income statement
NOK million

	2018	2017
Net interest income	9 530	8 578
Net other operating income	2 157	2 101
Total income	11 688	10 678
Operating expenses	(4 228)	(4 380)
Pre-tax operating profit before impairment	7 459	6 298
Net gains on fixed and intangible assets	3	(1)
Impairment of financial instruments	(566)	(413)
Profit from repossessed operations	8	14
Pre-tax operating profit	6 905	5 899
Profit for the year	5 179	4 424
Average balance sheet items in NOK billion		
Net loans to customers	301.0	276.8
Deposits from customers	211.4	205.6
Key figures in per cent		
Return on allocated capital	18.2	16.9

Developments in loans, deposits and net interest income
NOK billion



LARGE CORPORATES AND INTERNATIONAL CUSTOMERS

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

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

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

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

Net other operating income adjusted for the Baltics increased by 2.4 per cent from the previous year. A strong focus on using the entire product range and a shift towards reducing final hold on DNB's books helped raise income from arranging debt capital issues. Based on adjusted figures, total operating expenses showed an increase of 1.4 per cent from 2017.

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

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

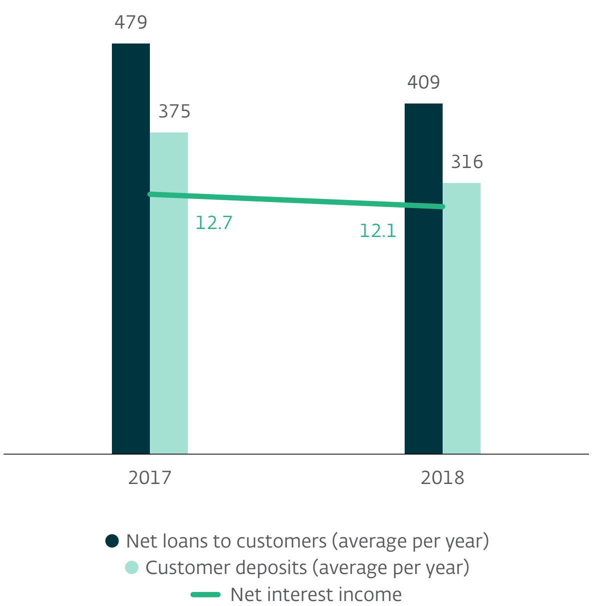
Income statement

NOK million

	2018	2017
Net interest income	12 111	12 683
Net other operating income	5 442	5 730
Total income	17 553	18 413
Operating expenses	(6 890)	(7 572)
Pre-tax operating profit before impairment	10 663	10 842
Net gains on fixed and intangible assets	(0)	20
Impairment of financial instruments	1 022	(1 800)
Profit from repossessed operations	(263)	(19)
Pre-tax operating profit	11 422	9 043
Profit for the year	8 785	6 511
Average balance sheet items in NOK billion		
Net loans to customers	409.0	478.8
Deposits from customers	315.9	375.2
Key figures in per cent		
Return on allocated capital	13.2	8.0

Developments in loans, deposits and net interest income

NOK billion



OTHER OPERATIONS

The segment comprises the business activities in the risk management operations in Markets and traditional pension products in DNB Livsforsikring, in addition to several group items not allocated to the segments. Pre-tax operating profit was NOK 738 million in 2018.

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

For traditional pension products with a guaranteed return, net other operating income was NOK 1 393 million in 2018, down NOK 327 million from the year before, reflecting a decline in profits both in the corporate portfolio and in the common portfolio. DNB Livsforsikring had a solvency margin of 184 per cent according to the transitional rules, while the margin calculated without the transitional rules was 152 per cent as at 31 December 2018.

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

In the presentation of the segments, a normalised tax rate is applied to each segment, while the tax rate applied to the other operations segment is the difference between the Group's tax expense and the calculated tax in the segments. The Group's taxes were lower than expected for the year 2018, which resulted in a higher taxable income for other operations compared with the year before.

Income statement
NOK million

	2018	2017
Net interest income	1 729	794
Net other operating income	3 783	6 288
Total income	5 511	7 082
Operating expenses	(5 506)	(5 877)
Pre-tax operating profit before impairment	5	1 205
Net gain on fixed and intangible assets	477	719
Impairment of financial instruments	(0)	(8)
Profit from repossessed operations	256	4
Pre-tax operating profit	738	1 921
Tax expenses	2 339	1 451
Profit from operations held for sale, after taxes	(194)	(1)
Profit of the year	2 883	3 372

Average balance sheet items in NOK billion		
Net loans to customers	111.0	78.2
Deposits from customers	61.7	71.2

Corporate responsibility

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

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

This integrated annual report fully reflects how DNB works for, and safeguards, its corporate responsibility.

Employees and competence

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

Read more about the priorities that are considered to be essential to ensuring the right competencies, and about working conditions, equality and diversity, in the chapter People on page 67, with a more detailed description in note 22 Salaries and other personnel expenses in the annual accounts.

New regulatory framework

INCORPORATION OF CRD IV AND CRR INTO THE EEA AGREEMENT

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

INCREASED COUNTER-CYCLICAL CAPITAL BUFFER REQUIREMENT

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

In the course of 2019, certain Norwegian provisions that are not in line with the EU legislation will cease to apply in connection with the implementation of the CRR/CRD IV in Norwegian law. The expected removal of the Basel I transitional floor will give a reduction in risk-weighted assets (Basel III). This reduction is expected to absorb the increased capital requirement for the CET1 ratio related to the counter-cyclical buffer, and the nominal capital base is expected to be stable.

NEW PERSONAL DATA ACT

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

NEW ANTI-MONEY LAUNDERING LEGISLATION

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

GOVERNMENT PROPOSAL FOR AN ADJUSTMENT OF THE FINANCIAL ACTIVITIES TAX

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

MINIMUM REQUIREMENT FOR OWN FUNDS AND ELIGIBLE LIABILITIES

The Norwegian Parliament (Stortinget) has adopted the Act related to the Norwegian Banks' Guarantee Fund and the Act related to amendments to the Financial Institutions Act, etc. The adopted acts implement the EU's Bank Recovery and Resolution Directive (BRRD) and Deposit Guarantee Scheme Directive (DGSD) in Norwegian law and came into force on 1 January 2019. The

BRRD has already been incorporated into the EEA Agreement, and efforts are now being made to incorporate the DGSD.

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

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

DEPOSIT GUARANTEE LEVEL

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

SECURITISATION IN NORWAY

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

THE HOME MORTGAGE PROVISIONS ARE CONTINUED

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

INTRODUCTION OF PSD2 INTO NORWEGIAN LAW

The EU's revised Payment Services Directive, PSD2, entered into force in the EU in 2018. The implementation into Norwegian law is under way in the form of a bill and updated regulations. Some of these provisions will enter into force in Norway on 1 April 2019, while the date of entry into force of certain provisions relating to private law is yet to be determined. In dialogue with the authorities, DNB is working actively to explore the possibilities for new services within so-called Open Banking, i.e. data exchange with third parties, among other things to clarify the implications of GDPR and electronic ID (the eIDAS Regulation) for such services.

NEW RULES ON MARKETS IN FINANCIAL INSTRUMENTS

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

NEW TAX RULES FOR INSURANCE AND PENSION COMPANIES IN 2018

By adopting the Act of 20 December 2018, the Norwegian Parliament (Stortinget) laid down new tax rules with appurtenant transitional rules for life insurance and pension companies, with effect from 2018. The new rules involve taxation of income and costs related to assets in the common portfolio and the investment choice portfolio. The transition to new rules is regulated in the transitional provisions, where tax value and commitments as at 31 December 2018 shall be determined in line with the accounting rules. Changes in tax value are taxable or deductible in the 2018 fiscal year.

Based on our evaluation and understanding of the new tax rules with appurtenant transitional rules, the transition will result in a tax income of NOK 880 million for 2018. DNB will consider recognising further tax income in the time ahead. In December, the Norwegian Directorate of Taxes gave a statement of principles of their understanding of the transitional rule that may be conceived as divergent from DNB's view.

EXPANSION OF THE INTEREST LIMITATION RULE

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

WITHHOLDING TAX ON INTEREST PAID OUT OF NORWAY

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

DAC 6

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

Macroeconomic developments

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

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

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

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

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

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

Future prospects

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

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

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

The increase in the counter-cyclical buffer requirement from 2019 will raise the CET1 capital ratio requirement to 16.8 per cent including a management buffer of around 1 per cent. The expected removal of the Basel I transitional floor will give a reduction in risk-weighted assets (Basel III). This reduction is expected to absorb the increased capital requirement for the CET1 ratio, and the nominal capital base is expected to be stable. The CET1 capital ratio achieved at end 2018 was 16.4 per cent (transitional rules) and according to Basel III, 17.2 per cent.

The tax rate is expected to be 20 per cent in 2019 and 2020.

DNB's dividend policy remains unchanged, with a payout ratio of more than 50 per cent and an increase in the nominal dividend per share each year. In addition to dividend payments, DNB will use repurchases of own shares as a flexible tool to allocate excess capital to its owners.

Dividends and allocation of profits

DNB's Board of Directors has approved a dividend policy which aims to provide an attractive and competitive return for shareholders through a combination of increases in the share price and dividend payments. DNB is well capitalised and fulfills the statutory requirements in addition to having an adequate buffer.

When considering the dividend proposal for 2018, the Board of Directors has taken into account the capital adequacy requirements and the Group's ambition to have a dividend payout ratio of more than 50 per cent. The Board of Directors has thus proposed a dividend for 2018 of NOK 8.25 per share. The proposed dividend gives a dividend yield of 6.0 per cent based on a share price of NOK 138.15 as at 31 December 2018 and implies that DNB ASA will distribute a total of NOK 13 105 million in dividends for 2018. The payout ratio represents 56 per cent of profits. Including the completion of the buy-back programme of 1.5 per cent, the total payout ratio is 73 per cent. A dividend of NOK 7.10 per share was paid for 2017.

In connection with the satisfactory attainment of the Group's financial targets, the Board of Directors has decided to make allocations of NOK 278 million to the Group's employees.

ALLOCATIONS

Profits for 2018 in DNB ASA came to NOK 13 327 million, compared with NOK 18 419 million in 2017. The profits for 2018 can mainly be attributed to the transfer of group contributions and dividends from subsidiaries.

Allocations
NOK million

	2018	2017
Profit for the year	13 327	18 419
Proposed dividend per share (NOK)	8.25	7.10
Share dividend	13 105	11 392
Transfers to other equity	222	7 027
Total allocations	13 327	18 419

In view of the DNB Group's capital adequacy ratio of 19.9 per cent and common equity Tier 1 capital ratio of 16.4 per cent at year-end 2018, the Board of Directors is of the opinion that, following the proposed allocations, DNB ASA will have adequate financial strength and flexibility to provide sufficient support to operations in subsidiaries and meet the Group's expansion requirements and changes in external parameters.

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

Olaug Svarva
(chair of the board)

Tore Olaf Rimmereid
(vice chair of the board)

Karl-Christian Agerup

Carl A. Løvvik

Vigdis Mathisen

Jaan Ivar Semlitsch

Berit Svendsen

Rune Bjerke
(group chief executive)

Contents – annual accounts

DNB Group

DNB ASA

DNB Group

Income statement

			DNB Group
Amounts in NOK million	Note	2018	2017
Interest income, amortised cost	18	52 621	47 318
Other interest income	18	5 039	6 547
Interest expenses, amortised cost	18	(23 650)	(15 472)
Other interest expenses	18	2 812	(2 970)
Net interest income	18	**36 822**	**35 422**
Commission and fee income	20	13 235	12 279
Commission and fee expenses	20	(3 925)	(3 831)
Net gains on financial instruments at fair value	21	1 342	4 548
Net financial result, life insurance	1	574	804
Net risk result, life insurance		395	491
Net insurance result, non-life insurance	1	622	683
Profit from investments accounted for by the equity method	36	314	(112)
Net gains on investment properties	35	62	143
Other income		926	713
Net other operating income		**13 546**	**15 718**
Total income		**50 368**	**51 140**
Salaries and other personnel expenses	22	(11 864)	(12 184)
Other expenses	23	(7 789)	(7 878)
Depreciation and impairment of fixed and intangible assets	24	(2 404)	(2 531)
Total operating expenses		**(22 057)**	**(22 593)**
Pre-tax operating profit before impairment		**28 311**	**28 547**
Net gains on fixed and intangible assets		529	738
Impairment of financial instruments	9, 10	139	(2 428)
Pre-tax operating profit		**28 979**	**26 858**
Tax expense	1, 26	(4 493)	(5 054)
Profit from operations held for sale, after taxes		(204)	(1)
Profit for the year		**24 282**	**21 803**
Portion attributable to shareholders		23 323	20 865
Portion attributable to additional Tier 1 capital holders		959	938
Profit for the year		**24 282**	**21 803**
Earnings/diluted earnings per share (NOK)	49	14.56	12.84
Profit for the year as a percentage of total assets		0.88	0.76

Comprehensive income statement

		DNB Group
Amounts in NOK million	2018	2017
Profit for the year	**24 282**	**21 803**
Actuarial gains and losses	(117)	(93)
Property revaluation	(21)	(35)
Items allocated to customers (life insurance)	21	35
Financial liabilities designated at FVTPL, changes in credit risk	221	
Tax	(18)	(10)
Items that will not be reclassified to the income statement	86	(104)
Currency translation of foreign operations	1 309	1 190
Currency translation reserve reclassified to the income statement	(2)	(1 306)
Hedging of net investment	(1 060)	(687)
Hedging reserve reclassified to the income statement	1	1 224
Investments according to the equity method		160
Tax	265	172
Tax reclassified to the income statement		(338)
Items that may subsequently be reclassified to the income statement	512	414
Other comprehensive income for the year	**599**	**311**
Comprehensive income for the year	**24 881**	**22 113**

Balance sheet

			DNB Group
Amounts in NOK million	Note	31 Dec. 2018	31 Dec. 2017
Assets			
Cash and deposits with central banks	27, 28, 29	155 592	151 595
Due from credit institutions	9, 10, 27, 28, 29, 30	130 146	239 328
Loans to customers	9, 10, 27, 28, 29, 30	1 597 758	1 545 415
Commercial paper and bonds	27, 28, 29, 33	409 328	422 606
Shareholdings	27, 29, 31, 33	39 802	28 220
Financial assets, customers bearing the risk	27, 29, 34	77 241	75 206
Financial derivatives	15, 27, 29, 30	124 755	132 349
Investment properties	35	16 715	16 306
Investments accounted for by the equity method	36	16 362	15 609
Intangible assets	37	5 455	5 600
Deferred tax assets	26	996	769
Fixed assets	38	9 240	8 704
Assets held for sale	39	5 044	
Other assets	41	46 469	56 559
Total assets		**2 634 903**	**2 698 268**
Liabilities and equity			
Due to credit institutions	27, 28, 29, 30	188 063	224 107
Deposits from customers	27, 28, 29, 30, 42	927 092	971 137
Financial derivatives	15, 27, 29, 30	110 116	110 262
Debt securities issued	27, 28, 29, 43	801 918	780 247
Insurance liabilities, customers bearing the risk	17, 34	77 241	75 206
Liabilities to life insurance policyholders	17	204 280	208 500
Non-life insurance liabilities	17		2 043
Payable taxes	26	2 461	4 599
Deferred taxes	26	4 216	2 574
Other liabilities	27, 45	55 424	68 078
Liabilities held for sale	39	3 037	
Provisions		2 536	1 812
Pension commitments	25	3 472	3 267
Subordinated loan capital	27, 28, 29, 44	31 082	29 538
Total liabilities		**2 410 937**	**2 481 371**
Share capital		15 944	16 180
Share premium		22 609	22 609
Additional Tier 1 Capital		16 194	16 159
Other equity		169 220	161 948
Total equity	46	**223 966**	**216 897**
Total liabilities and equity		**2 634 903**	**2 698 268**

Due to changes in principles, some comparative figures have been restated. See note 1 Accounting principles.

Statement of changes in equity

DNB Group

Amounts in NOK million	Share capital	Share premium	Additional Tier 1 capital	Net translation reserve	Liability credit reserve	Other equity	Total equity
Balance sheet as at 31 December 2016	**16 286**	**22 609**	**15 952**	**4 297**		**147 279**	**206 423**
Profit for the year			938			20 865	21 803
Actuarial gains and losses						(93)	(93)
Currency translation of foreign operations				(117)			(117)
Hedging of net investment				537			537
Investments according to the equity method						160	160
Tax on other comprehensive income				(166)		(10)	(177)
Comprehensive income for the year			938	254		20 922	22 113
Repurched under share buy-back programme			(724)				(724)
Interest payments additional Tier 1 capital			(7)			7	
Currency movements taken to income	(108)					(1 552)	(1 659)
Dividends paid for 2016 (NOK 5.70 per share)						(9 284)	(9 284)
Net purchase of treasury shares	2					26	28
Balance sheet as at 31 December 2017	**16 180**	**22 609**	**16 159**	**4 550**		**157 398**	**216 897**
Implementation IFRS 9					(342)	(1 437)	(1 779)
Balance sheet as at 1 January 2018	**16 180**	**22 609**	**16 159**	**4 550**	**(342)**	**155 961**	**215 118**
Profit for the year			959			23 323	24 282
Actuarial gains and losses						(117)	(117)
Financial liabilities designated at FVTPL, changes in credit risk					221		221
Currency translation of foreign operations				1 307			1 307
Hedging of net investment				(1 060)			(1 060)
Tax on other comprehensive income				265	(55)	37	247
Comprehensive income for the year			959	512	166	23 244	24 881
Compensation for natural damage and other changes in reserves, non-life insurance							
Interest payments additional Tier 1 capital			(892)				(892)
Currency movements taken to income							
Repurchased under share buy-back programme	(237)					(3 451)	(3 688)
Dividends paid for 2017 (NOK 7.10 per share)						(11 450)	(11 450)
Balance sheet as at 31 December 2018	**15 944**	**22 609**	**16 194**	**5 063**	**(176)**	**164 333**	**223 966**

Cash flow statement

	DNB Group	
Amounts in NOK million	2018	2017
Operating activities		
Net payments on loans to customers	(52 811)	(33 528)
Interest received from customers	62 596	47 196
Net receipts/payments on deposits from customers	(52 122)	36 283
Interest paid to customers	(17 319)	(4 382)
Net receipts/payments on loans to credit institutions	71 943	(39 774)
Interest received from credit institutions	4 082	2 450
Interest paid to credit institutions	(3 783)	(2 430)
Net receipts/payments on the sale of financial assets for investment or trading	38 095	(19 697)
Interest received on bonds and commercial paper	3 861	4 449
Net receipts on commissions and fees	9 118	8 627
Payments to operations	(21 279)	(20 023)
Taxes paid	(4 785)	(10 771)
Receipts on premiums	14 902	14 875
Net receipts/payments on premium reserve transfers	(405)	1 666
Payments of insurance settlements	(15 525)	(15 183)
Other receipts/payments	(5 545)	5 586
Net cash flow from operating activities	**31 024**	**(24 657)**
Investment activities		
Net payments on the acquisition of fixed assets	(2 283)	(2 305)
Net receipts on investment properties	19	382
Net investment in long-term shares	(292)	(86)
Dividends received on long-term investments in shares	13	7
Net cash flow from investment activities	**(2 543)**	**(2 001)**
Funding activities		
Receipts on issued bonds and commercial paper (see note 43)	1 115 987	1 849 030
Payments on redeemed bonds and commercial paper (see note 43)	(1 109 463)	(1 856 373)
Interest payment on issued bonds and commercial paper	(14 193)	(13 853)
Receipts on the raising of subordinated loan capital (see note 44)	9 419	10 106
Redemptions of subordinated loan capital (see note 44)	(8 542)	(10 544)
Interest payments on subordinated loan capital	(579)	(784)
Interest payments on additional Tier 1 capital	(892)	(724)
Repurchased shares	(3 688)	(1 659)
Dividend payments	(11 450)	(9 284)
Net cash flow from funding activities	**(23 401)**	**(34 085)**
Effects of exchange rate changes on cash and cash equivalents	**97**	**3 827**
Net cash flow	**5 176**	**(56 916)**
Cash as at 1 January	154 122	214 807
Amount of cash in subsidiaries which control is lost		(3 768)
Net receipts/payments of cash	5 176	(56 916)
Cash as at 31 December *)	159 298	154 122
**) Of which: Cash and deposits with central banks*	*155 592*	*151 595*
Deposits with credit institutions with no agreed period of notice 1)	*3 706*	*2 527*

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

NOTE 1 Accounting principles

1. Corporate information

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

The DNB Group offers banking services, securities and investment services, real estate broking services, insurance and asset management services in the Norwegian and international retail and corporate markets.

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

2. Basis for preparation

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

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

3. Changes in accounting principles

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

IFRS 9 Financial Instruments

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

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

The accounting principles for financial instruments for the year 2017 as well as disclosures related to the line item Loans to customers in the balance sheet and the line item Impairment of loans and guarantees in the income statement for 2017 can be found in note 52 Additional financial instruments disclosures from the annual report 2017. The transition disclosures are presented under 21. Transition to IFRS 9.

<u>Changes to classification and measurement</u>

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

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

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

The Group's classification and measurement of financial

NOTE 1 Accounting principles (continued)

assets and liabilities is explained under 8. Financial Instruments.

Changes to impairment

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

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

The Group's expected credit loss measurement model is explained under 8. Financial Instruments and note 5 Measurement of expected credit loss.

IFRS 15 Revenue from contracts with customers

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

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

Contracts with customers that are accounted for in accordance with IFRS 9 Financial instruments follow the requirements in IFRS 9 as they are scoped out of IFRS 15. The new rules have no material impact on the Group's financial statements. See 7. Recognition in the income statement and in other comprehensive income, for further description of the revenue accounting principles.

4. Consolidation

The consolidated financial statements for DNB ASA ("DNB") include DNB Bank ASA, DNB Livsforsikring AS, DNB Asset Management Holding AS and DNB Forsikring AS, all including 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 group units, are eliminated.

Subsidiaries

Subsidiaries are defined as companies in which DNB, directly or indirectly, has control. Control over an entity is evidenced by the Group's ability to exercise its power in order to affect any variable returns that the Group is exposed to through its involvement with the entity. When assessing whether to consolidate an entity the 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 Group's rights result in the ability to direct the relevant activities
- whether the Group has exposure or right to variable returns
- whether the Group has the ability to use its power to affect its return.

Where voting rights are relevant, the Group is deemed to have control where it holds, directly or indirectly, more than half of the voting rights in an entity, unless DNB through agreements does not have corresponding voting rights in relevant decision-making bodies. With respect to companies where the Group's holding represent less than half of the rights, DNB 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.

The non-controlling interests that do not meet the definition of equity are classified as financial liabilities in the balance sheet (Other liabilities).

Consolidation of structured entities

The Group engages in various business activities with structured entities which are designed to achieve a specific business pur-pose. A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. An example is when voting rights relate to administrative tasks only, and the relevant activities are directed by means of contractual arrangements.

DNB (represented by DNB Livsforsikring) invests in both investment funds where DNB Asset Management is the fund manager and investment funds managed by unrelated asset managers. The principal uses of structured entities are to provide customers with access to specific portfolios of assets, especially in the insurance business. Fund managers apply various investment strategies to accomplish their respective investment objectives. Most of the investment funds finance their operations by issuing redeemable shares which are redeemable at the holder's option and entitle the holder to a proportional stake in the respective fund's net assets. DNB's investment strategy entails trading in funds on a regular basis, with the objective to achieve long-term capital growth.

Structured entities are consolidated when the substance of the relationship between the Group and the structured entities indicate that the structured entities are controlled by the Group due to con-tractual arrangements.

See note 31 Shareholdings for information about unconsoli-dated structured entities.

Associated companies and joint arrangements

Associated companies are companies in which DNB has a signifi-cant 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 assumes that significant influence exists when the 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 acquisition. Any goodwill is included in the acquisition cost. The 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

NOTE 1 Accounting principles (continued)

which have not been reflected in the income statement. The Group's share of losses is not reflected in the income statement if the carrying amount of the investment will be negative, unless the 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 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 Group's share of unrealised gains on transactions between the 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 Group's consolidated financial statements is Norwegian kroner. The most significant subsidiary in the 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. Operations presented as held for sale

The Group classifies operations as held for sale when the carrying amount will be retrieved through a sale. Operations are classified as held for sale from the time management has approved a concrete plan to sell the operations in their current form and it is highly probable that the sale will take place shortly.

Subsidiaries which are acquired with a view to their subsequent sale, including companies taken over as part of loan restructuring, are immediately classified as assets held for sale if the Group intends to sell the subsidiary.

Operations held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Acquired operations which are immediately classified as held for sale are recorded at fair value less costs to sell upon initial recognition.

Profits after taxes for such operations, which meet the criteria for "discontinued operations" in IFRS 5, are presented separately as "Profit from operations held for sale, after taxes" in the consolidated accounts. Total assets and liabilities from these operations are presented separately under "Assets held for sale" and "Liabilities held for sale" in the Group's balance sheet.

6. Segment information

Financial governance in DNB 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 Group's resources. Reported figures for the various segments reflect the 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 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's management model and the Group's accounting principles. The figures are based on a number of assumptions, estimates and judgmental distribution.

According to DNB's management model, the operating segments are independent profit centres that are fully responsible for their profit after tax and for achieving the targeted returns on allocated capital. All of the 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 Group Treasury at market terms, where interest rates are based on duration and the 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 Group's liquidity management, income from investments in equity instruments not included in the trading portfolio, interest income assigned to the Group's unallocated capital, ownership-related expenses and income from the management of the bank's real estate portfolio.

Effective from 2018, the Risk management, previously reported as Trading, and the Traditional pension products segments were combined with Other operations.

Net profits from repossessed operations which are fully consolidated in the 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.

7. 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, asset management services including performance/success fees, credit broking, real estate broking, corporate finance, securities

NOTE 1 Accounting principles (continued)

services and sale of insurance products. Credit broking commissions include syndication income in the form of fees and commissions from transactions where DNB 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 8. Financial instruments while net income from investment property is described under 9. 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.

8. 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 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 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 de-recognised 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 Group. This is done irrespective of whether the Group has the right to sell or repledge the securities. Upon the sale of securities received, the Group recognises an obligation in the balance sheet. For more information, see note 33 Securities received which can be sold or repledged.

Securities sold under agreements to repurchase are generally not derecognised as the risk and returns are normally not transferred. This is done irrespective of whether the recipient is entitled to sell or repledge the securities. These securities are presented as securities in the Group's balance sheet and are specified in note 32 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 Group has the right to sell or repledge the securities. Upon the sale of securities received, the Group will recognise an obligation in the balance sheet. For more information, see note 33 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 Group's balance sheet and are specified in note 32 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 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

NOTE 1 Accounting principles (continued)

and a profit margin.

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

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

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

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

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

Financial assets measured at amortised cost

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

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

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

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

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

This category mainly comprises loans to customers, cash and deposits, receivables, reverse repurchase agreements and bond investments.

Financial liabilities measured at amortised cost

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

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

Financial 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. Changes in the fair value of financial instruments within life insurance are presented under the line item “Net financial result, life insurance”. 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 the Group’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 the DNB Group’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 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

NOTE 1 Accounting principles (continued)

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 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 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 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 30 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 Group’s own credit risk (DVA). In addition, an adjustment is made for expected funding costs (FVA).

The 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 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 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 DNB’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 market 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.

NOTE 1 Accounting principles (continued)

Expected credit loss measurement (ECL)

The expected credit loss model estimates impairment on the following instruments that are not measured at fair value through profit and loss:

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

The 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 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 Group has elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

In the DNB Group 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 net investment hedge is applied to currency translation of investments in foreign operations. See note 15 Financial derivatives and hedge accounting for more information.

Fair value hedge of interest rate risk on issued debt

DNB uses interest rate swaps to protect against changes in the fair value of fixed-rate issued bonds and subordinated debt in foreign currency caused by movements in market interest rates. The hedges are entered into at the same time as the debt is issued in order to achieve a match in the terms of the derivative and the debt instrument.

Fair value hedge accounting is applied to the economic hedge relationships that qualify for hedge accounting. When hedge accounting is applied, the correlation between the debt instrument and the derivative is documented at the inception of the hedge. Thereafter it is periodically assessed whether the derivatives designated as hedging instruments have been highly effective in offsetting changes in fair value of the hedged item. The accumulated fair value changes related to interest rate risk on the debt instruments is compared with the accumulated fair value changes related to movements in the interest rate swaps. A hedge is effective if the result is within a range of 80 to 125 per cent.

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

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

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

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

Net investment hedge of investments in foreign operations

DNB hedges investments in foreign subsidiaries to eliminate the foreign currency exposure that arises when a subsidiary has a different functional currency from that of the 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 Group’s functional currency. This risk is hedged, since it may have significant financial impact on the Group’s financial statements.

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

Gains or losses after taxes on the hedging instruments are recognised directly in the 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.

9. 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. Properties which are mainly used for own operations, are presented as owner-used properties.

Other tangible assets are presented as fixed assets in the balance sheet.

On initial recognition, investment properties and owner-used 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. In

NOTE 1 Accounting principles (continued)

addition, analyses are made of changes from the previous period, as well as sensitivity analyses of key assumptions which are included in the overall evaluation of the fair value measurement. 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 within life insurance are recognised within the line item "Net financial result, life insurance". Changes in fair value of other investment property in the Group are presented within the line item "Net gains on investment property" in the income statement.

Buildings which are owned by DNB Livsforsikring as part of the company's common portfolio and used by the Group, are recognised according to the revaluation model.

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 the Group 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.

10. 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 combination'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 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.

11. Impairment of fixed and intangible assets

At end of each reporting period the 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 37 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.

12. Liabilities to policyholders

Products offered by DNB Livsforsikring include group pension insurance, group association insurance, individual endowment insurance, individual annuity and pension insurance, products with a choice of investment profile, group life insurance and occupational injury insurance. In addition, DNB Livsforsikring offers individual risk non-life insurance, mainly statutory occupational injury insurance and appurtenant coverage.

Technical insurance reserves in life insurance

Technical insurance reserves, as defined in the Act on Insurance Activity, include the premium reserve, additional allocations, the market value adjustment reserve, the claims reserve, the risk equalisation fund and other technical reserves. In addition, the premium fund, deposit fund and the pensioners' surplus fund are included in insurance pro-visions. Apart from the risk equalisation fund, which is classified as equity, all insurance provisions are classified as liabilities to policyholders.

The premium reserve is a reserve to secure future insurance liabilities to policyholders and insured persons. The premium reserve represents the technical cash value, i.e. the net present value, of the company's total insurance liabilities including costs, less the cash value of future agreed premiums.

Additional allocations are a conditional allocation to policyholders where changes during the year are recognised in the income statement. The Insurance Act includes stipulations on the use and volume of additional allocations. According to these stipulations, maximum additional allocations per contract cannot exceed 12 per cent of the premium reserve for the contract. Actual allocations for the individual years are determined in connection with year-end adjustments. Additional allocations can be used to cover any rate-of-return shortfall if the annual return is lower than the guaranteed return.

NOTE 1 Accounting principles (continued)

The market value adjustment reserve represents the sum total of unrealised gains on current financial assets included in the common portfolio. If the portfolio of current financial assets shows a net unrealised loss, the market value adjustment reserve is set at zero. Unrealised gains and losses arising from exchange rate movements on derivatives used for currency hedging of properties, loans and bonds in foreign currency are not included in the market value adjustment reserve.

The claims reserve shall cover the company's anticipated indemnity payments for insurance claims which have not been settled or advanced against the company at the end of the accounting year. The claims reserve represents only the funds that would have been disbursed during the accounting year if the processing of the insurance claims had been completed.

The risk equalisation fund can be used to cover negative risk results and to strengthen premium reserves in connection with changes in demographic assumptions in the calculation base. Each year, up to 50 per cent of the company's total risk result can be allocated to the risk equalisation fund for the products defined-benefit pension and paid-up policies. The annual return is reviewed in connection with year-end adjustments. The risk equalisation fund is classified as equity in the balance sheet.

The premium fund contains premiums prepaid by policyholders within individual and group pension insurance. A share of annual profits is allocated to the pensioners' surplus fund. The fund is used to strengthen the premium reserve for pensioners in connection with adjustments in pension payments.

Liabilities, customers bearing the risk

Allocations relating to insurance liabilities for which customers bear the risk represent the market value of invested policyholders' funds at any given time. The reserve covers a share of the surplus on the risk result and the guaranteed rate of return on the portfolio of products with a choice of investment profile and should correspond to expected payments from the company to customers reaching retirement age.

Assessment of liabilities to policyholders

Liabilities should be in reasonable proportion to the associated risk. This is ensured through continual monitoring of existing contracts. Furthermore, all premium rates charged by the company shall be reported to the Financial Supervisory Authority of Norway (Finanstilsynet), which has overall responsibility for controlling that adequate premiums are applied. Prevailing premium rates are continually reviewed.

The basis for calculating disability risk is more recent, taking into account the increase in disability observed in society at large. The base rate is used to calculate the present value of future premiums, payments and insurance provisions. The maximum base rate is stipulated by Finanstilsynet, based on the yield on long-term government bonds. The maximum base rate within pension products will be 2.0 per cent for new rights earned.

Adequacy test

The Group carries out a quarterly adequacy test to assess whether its premium reserves are adequate to cover its liabilities to policyholders. The adequacy test is susceptible to changes in the interest rate curve as well as to assumptions for increased reserves to reflect higher life expectancy. The test is described in more detail in note 17 Insurance risk.

Recognition of changes in liabilities to policyholders

Insurance premiums and insurance settlements are recognised by the amounts earned and accrued during the year. Accrual of premiums earned takes place through allocations to the premium reserve in the insurance fund.

Insurance contracts transferred from other companies are recognised at the time the insurance risk is transferred. If the risk is transferred as at 31 December, it is reflected in the financial statement for the subsequent year. Transfer amounts include the policies' shares of additional allocations, the market value adjustment reserve and profits for the year.

Recognition in the income statement

The line item "Net financial result, life insurance" includes returns and gains less all losses, adjusted for allocations to or elimination of the market value adjustment reserve. In addition, it includes the company's guaranteed rate of return on policyholders' funds and policyholders' share of profits including changes in additional allocations. If changes in the value of owner-used properties owned by DNB Livsforsikring as part of the company's common portfolio are recognised in other comprehensive income, a corresponding share of changes in liabilities to policyholders is recognised in other comprehensive income.

The line item "Net risk result, life insurance" includes risk premiums and the cost of claims for own account, plus claims handling costs. Claims include gross claims payments and changes in gross claims reserves, excluding the reinsurance share.

Administrative expenses are charged to policyholders through premium payments, returns and the dissolution of reserves, and included in "Commission and fee income etc.". Operating expenses and commission expenses are recognised in the consolidated financial statements according to type of expense.

Technical insurance reserves in non-life insurance

Technical insurance reserves are presented in the financial statement pursuant to the Act on Insurance Activity with appurtenant regulations. This implies that the technical insurance reserves in the financial statement represent the gross unearned premium reserve in the annul accounts.

The gross unearned premium reserves represent accrual accounting of gross premiums written. The reserve corresponds to that part of gross premiums written which represents the remaining term of insurance policies on the balance sheet date.

The claims reserve shall cover anticipated future compensation payments for claims which have been incurred, but not fully settled on the balance sheet date. This includes both reported but not settled claims (RBNS) and incurred but not reported claims (IBNR). Reserves relating to known claims are assessed individually by the claims settlement team, while IBNR reserves are based on empirical data, using statistical models to estimate the scope of subsequent claims. In addition, there is a reserve for future claims processing costs linked to the RBNS and IBNR reserves. The accuracy of the model is measured by estimating differences between previous subsequent claims estimated by the model. The claims reserve is discounted by using industry-specific inflation assumptions, such as developments in the basic amount (G), KPI and the risk-free interest rate from EIOIPA.

Recognition in the income statement

"Net insurance result, non-life insurance" includes premium income for own account. Insurance premiums are recognised as income in accordance with the insurance period. In addition, it includes the cost of claims for own account and costs related to the processing of claims. The cost of claims comprises paid gross compensation payments and changes in gross claims reserves, excluding the reinsurance share.

NOTE 1 Accounting principles (continued)

13. Pensions
DNB has country-specific pension schemes for its employees. In Norway, DNB has a defined-contribution pension scheme. See note 25 Pensions for more information.

Defined-contribution pension schemes
Under defined-contribution pension schemes, the 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 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.

14. 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 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 26 Taxes for more information.

15. Provisions
Provisions are recognised when it is probable that the DNB Group 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 DNB's operations or the way DNB 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.

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

DNB as lessor
Operating leases

Operating leases are leases where not an insignificant share of the risk and rewards relating to the investment in the leased object accrues to DNB 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 as lessee
Operating leases

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

17. 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.

18. 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.

19. Approved standards and interpretations that have not entered into force
By the end of 2018 the IASB had published a number of amendments to current regulations which have not entered into force. Below is a description of the amendments which may have impact on the Group's future reporting.

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

NOTE 1 Accounting principles (continued)

depreciation of the right-of-use assets will be recognised separately from interest on lease liabilities.

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

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

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

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

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.

IFRS 17 Insurance contracts

IFRS 17 Insurance contracts will replace IFRS 4 Insurance contracts and establishes principles for recognition, measurement, presentation and disclosure of insurance contracts. The objective of the new standard is to eliminate inconsistent accounting practices for insurance contracts.

In principle, IFRS 17 shall be applied retrospectively, but a modified retrospective approach or the fair value approach may be applied if retrospective application is impracticable.

The standard has been approved by the IASB and is effective from 1 January 2021. However, in November 2018 IASB proposed a one-year deferral until 2022. The standard has not yet been endorsed by the EU.

DNB is working on the implementation IFRS 17, but it is too early to give a reliable estimate of the expected implementation effect on the Group's financial statements.

20. 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 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 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 Group's financial instruments. For more information see note 29 Financial instruments at fair value.

Measurement of liabilities under insurance contracts in DNB Livsforsikring

With respect to technical insurance reserves in DNB Livsforsikring, risks and uncertainties are mainly related to the likelihood of death and disability, as well as the interest rate level. Higher life expectancy affects future expected insurance payments and provisions. For more information see note 17 Insurance risk.

Valuation of properties within DNB Livsforsikring

Investment property is measure at fair value by discounting the expected net future cash flows to its presented value. Establishment of the future cash flows requires high degree of judgment and the fair value depend to a large extent upon the selection of assumption about the future, as example required rate of return and the level of future rental rates. The assumptions used in calculating the fair value of the property portfolio in DNB Livsforsikring can be found in note 35 Investment properties.

Income taxes, including deferred tax assets and uncertain tax liabilities

The 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 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 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.

NOTE 1 Accounting principles (continued)

21. Transition to IFRS 9

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

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

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

Amounts in NOK million	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount IAS 39	New carrying amount IFRS 9
Cash and deposits with central banks	FVTPL (held for trading)	Amortised cost	143 463	143 461
	FVTPL (designated)	Amortised cost	3 251	3 251
	Amortised cost	Amortised cost	4 881	4 881
Due from credit institutions	FVTPL (held for trading)	Amortised cost	199 288	199 277
	Amortised cost	Amortised cost	40 041	40 034
Loans to customers	FVTPL (held for trading)	Amortised cost	55 839	55 837
	FVTPL (designated)	Amortised cost	75 101	10 085
		FVTPL (designated)		64 989
	Amortised cost	Amortised cost	1 414 475	1 414 163
Commercial paper and bonds	FVTPL (held for trading)	FVTPL (held for trading)	169 059	166 835
		FVTPL (designated)		2 224
	FVTPL (designated)	FVTPL (mandatory)	169 653	162 489
		Amortised cost		7 156
	Held-to-maturity	FVTPL (held for trading)	83 894	9 581
		Amortised cost		74 276
Shareholdings	FVTPL (held for trading)	FVTPL (held for trading)	6 304	5 508
		FVTPL (mandatory)		795
	FVTPL (designated)	FVTPL (mandatory)	21 917	21 917
Financial assets, customers bearing the risk	FVTPL (designated)	FVTPL (mandatory)	75 206	75 206
Financial derivatives	FVTPL (held for trading)	FVTPL (held for trading)	106 018	106 018
	FVTPL (hedging derivatives)	FVTPL (mandatory)	26 331	26 331
Other assets	Amortised cost	Amortised cost	56 559	56 559
Total			**2 651 279**	**2 650 875**

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

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

The held-to-maturity portfolio in DNB Livsforsikring AS has been classified as measured at amortised cost due to a hold to collect business model.

Certain bond portfolios and financial assets where the customer bears the risk are managed based on fair value. Under IAS 39, these instruments were designated at fair value using the fair value option, but are mandatorily measured at fair value through profit or loss under IFRS 9.

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

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

The portfolio of fixed rate mortgage loans with a carrying amount of NOK 64 989 million at 31 December 2017 consists of instruments with prepayment features with negative compensation. The instruments were designated at fair value under IAS 39 and continue to be designated at fair value under IFRS 9. See note 29 Financial instruments at fair value for information about fair value at 31 December 2018.

NOTE 1 Accounting principles (continued)

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

In the table below, the measurement categories in accordance with IAS 39 and IFRS 9 for the Group's financial liabilities are shown.

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

Amounts in NOK million	Original measurement category under IAS 39	New measurement category under IFRS 9	Original carrying amount IAS 39	New carrying amount IFRS 9
Due to credit institutions	FVTPL (held for trading)	Amortised cost	182 335	182 316
	FVTPL (designated)	Amortised cost	4 657	4 657
	Amortised cost	Amortised cost	37 115	37 115
Deposits from customers	FVTPL (held for trading)	Amortised cost	41 692	39 827
		FVTPL (designated)		1 895
	FVTPL (designated)	Amortised cost	14 090	192
		FVTPL (designated)		13 897
	Amortised cost	Amortised cost	915 356	915 356
Financial derivatives	FVTPL (held for trading)	FVTPL (held for trading)	106 997	106 997
	FVTPL (hedging derivatives)	FVTPL (mandatory)	3 265	3 265
Debt securities issued	FVTPL (held for trading)	FVTPL (held for trading)	158 693	(12)
		Amortised cost		158 701
	FVTPL (designated)	FVTPL (designated)	81 823	81 823
	Amortised cost	Amortised cost	539 731	539 731
Other liabilities	FVTPL (held for trading)	FVTPL (held for trading)	6 214	6 214
	Amortised cost	Amortised cost	61 865	61 865
Subordinated loan capital	FVTPL (designated)	FVTPL (designated)	2 873	2 873
	Amortised cost	Amortised cost	26 666	26 666
Total			**2 183 370**	**2 183 377**

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

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

NOTE 1 Accounting principles (continued)

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

Financial assets **DNB Group**

Amounts in NOK million	IAS 39 carrying amount 31 Dec. 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 Jan. 2018
Amortised cost				
Cash and deposits with central banks, opening balance	4 881			
From FVTPL		146 712		
Closing balance				151 593
Due from credit institutions, opening balance	40 041		(6)	
From FVTPL		199 277		
Closing balance				239 312
Loans to customers, opening balance	1 414 475		(310)	
From FVTPL		65 922	(2)	
Closing balance				1 480 085
Commercial paper and bonds, opening balance				
From FVTPL		7 156	(0)	
From commercial paper and bonds, held-to-maturity		74 281	(5)	
Closing balance				81 432
Commercial paper and bonds, held-to-maturity, opening balance	83 894			
To Commercial paper and bonds, FVTPL		(9 613)		
To Commercial paper and bonds, amortised cost		(74 281)		
Closing balance				0
Other assets	56 559			56 559
Total amortised cost	**1 599 850**	**409 454**	**(323)**	**2 008 981**
Fair value through profit and loss (FVTPL)				
Cash and deposits with central banks, opening balance	146 714			
To amortised cost		(146 712)	(2)	
Closing balance				0
Due from credit institutions, opening balance	199 288			
To amortised cost		(199 277)	(10)	
Closing balance				0
Loans to customers, opening balance	130 940			
To amortised cost		(65 922)	(29)	
Closing balance				64 989
Commercial paper and bonds, opening balance	338 713			
To amortised cost		(7 156)	(8)	
From Commercial paper and bonds, held-to-maturity		9 613	(32)	
Closing balance				341 129
Shareholdings	28 220			28 220
Financial assets, customers bearing the risk	75 206			75 206
Financial derivatives	132 349			132 349
Total FVTPL	**1 051 429**	**(409 454)**	**(81)**	**641 894**

NOTE 1 Accounting principles (continued)

Financial liabilities **DNB Group**

Amounts in NOK million	IAS 39 carrying amount 31 Dec. 2017	Reclassification	Remeasurement	IFRS 9 carrying amount 1 Jan. 2018
Amortised cost				
Due to credit institutions, opening balance	37 115			
From FVTPL		186 974		
Closing balance				224 089
Deposits from customers, opening balance	915 356			
From FVTPL		40 019		
Closing balance				955 375
Debt securities issued, opening balance	539 731			
From FVTPL		158 701		
Closing balance				698 432
Other liabilities	61 865			61 865
Subordinated loan capital	26 666			26 666
Total amortised cost	**1 580 732**	**385 694**		**1 966 426**
Fair value through profit and loss (FVTPL)				
Due to credit institutions, opening balance	186 993			
To amortised cost		(186 974)	(19)	
Closing balance				(0)
Deposits from customers, opening balance	55 782			
To amortised cost		(40 019)	30	
Closing balance				15 792
Debt securities issued, opening balance	240 516			
To amortised cost		(158 701)	(4)	
Closing balance				81 811
Other liabilities	6 214			6 214
Subordinated loan capital	2 873			2 873
Financial derivatives	110 262			110 262
Total FVTPL	**602 638**	**(385 694)**	**7**	**216 951**

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

DNB Group

Amounts in NOK million	Classification under IAS 39	Classification under IFRS 9	Reason for reclassification	IAS 39 carrying amount 31 Dec. 2017
Cash and deposits with central banks	Fair value option	Amortised cost	Required by IFRS 9	3 251
Loans to customers	Fair value option	Amortised cost	Elected to reclassify	8 764
Loans to customers	Fair value option	Amortised cost	Required by IFRS 9	1 321
Loans to customers, total				10 085
Commercial paper and bonds	Fair value option	Amortised cost	Elected to reclassify	7 165
Shareholdings	Fair value option	FVTPL	Required by IFRS 9	21 917
Financial assets, customers bearing the risk	Fair value option	FVTPL	Required by IFRS 9	75 206
Total financial assets				**117 623**
Due to credit institutions	Fair value option	Amortised cost	Elected to reclassify	4 657
Deposits from customers	Fair value option	Amortised cost	Elected to reclassify	192
Total financial liabilities				**4 850**

NOTE 1 Accounting principles (continued)

Accumulated impairments

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

							DNB Group
	Balance as at 31 December 2017			Balance as at 1 January 2018			
Amounts in NOK million	IAS 39 and IAS 37	Reclassi-fication	Remeasure-ment	IFRS 9	Stage 1	Stage 2	Stage 3
Accumulated impairment due from credit institutions			(6)	(6)	(6)		
Accumulated impairment loans to customers	(11 875)	11	(310)	(12 174)	(382)	(3 082)	(8 710)
Accumulated impairment commercial papers and bonds			(5)	(5)	(5)		
Accumulated impairment loan commitments and guarantees	(919)		(1 891)	(2 810)	(171)	(2 128)	(511)
Total accumulated impairments	(12 795)	11	(2 212)	(14 996)	(565)	(5 210)	(9 221)

NOTE 2 Segments

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

Personal customers - includes the Group's total products and activities to private customers in all channels, both digital and physical, with the exception of home mortgages recorded under Traditional pension products, where returns accrue to the policyholders. DNB offers a wide range of products through Norway's largest distribution network, comprising branches, telephone banking (24/7), digital banking, real estate broking as well as external channels (post offices and in-store postal outlets). Credit cards and consumer financing in Sweden are also included in this business area.

Small and medium-sized enterprises - is responsible for product sales and advisory services to small and medium-sized enterprises in Norway. Customers in this segment range from small businesses and start-up companies to relatively large corporate customers, and the product offerings are adapted to the customers' different needs. Small and medium-sized enterprises are served through the Group's physical distribution network throughout Norway as well as digital and telephone banking (24/7). Factoring, leasing and asset financing for small and medium-sized enterprises in Sweden and Denmark are also included in this business area.

Large corporates and international customers - includes large Norwegian and international corporate customers. Operations are based on sound industry expertise and long-term customer relationships.

The income statement and balance sheet for the segments have been prepared on the basis of internal financial reporting for the functional organisation of the DNB 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 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 Group's common equity Tier 1 capital and long-term capitalisation ambition. There are special capital adequacy regulations for insurance operations, and in these companies, allocated capital corresponds to recorded equity. For other group operations, the allocation of capital to all units is based on the DNB 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 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 Group

Amounts in NOK million	Personal customers 2018	Personal customers 2017	Small and medium-sized enterprises 2018	Small and medium-sized enterprises 2017	Large corporates and international customers 2018	Large corporates and international customers 2017	Other operations 2018	Other operations 2017	Eliminations 2018	Eliminations 2017	DNB Group 2018	DNB Group 2017
Net interest income	13 452	13 367	9 530	8 578	12 111	12 683	1 729	794			36 822	35 422
Net other operating income	5 117	5 113	2 157	2 101	5 442	5 730	3 783	6 288	(2 953)	(3 513)	13 546	15 718
Total income	18 569	18 480	11 688	10 678	17 553	18 413	5 511	7 082	(2 953)	(3 513)	50 368	51 140
Total operating expenses	(8 300)	(8 137)	(3 498)	(3 686)	(6 165)	(6 840)	(4 643)	(4 913)	2 953	3 513	(19 653)	(20 062)
Deprecation and impairment of fixed and intangible assets	(86)	(142)	(730)	(694)	(725)	(731)	(863)	(963)			(2 404)	(2 531)
Total operating expenses	(8 386)	(8 279)	(4 228)	(4 380)	(6 890)	(7 572)	(5 506)	(5 877)	2 953	3 513	(22 057)	(22 593)
Pre-tax operating profit before impairment	10 183	10 201	7 459	6 298	10 663	10 842	5	1 205			28 311	28 547
Net gains on fixed and intangible assets	49	(0)	3	(1)	(0)	20	477	719			529	738
Impairment of financial instruments [1)]	(318)	(207)	(566)	(413)	1 022	(1 800)	(0)	(8)			139	(2 428)
Profit from repossessed operations			8	14	(263)	(19)	256	4				
Pre-tax operating profit	9 914	9 995	6 905	5 899	11 422	9 043	738	1 921			28 979	26 858
Tax expense	(2 478)	(2 499)	(1 726)	(1 475)	(2 627)	(2 532)	2 339	1 451			(4 493)	(5 054)
Profit from operations held for sale, after taxes					(10)	(0)	(194)	(1)			(204)	(1)
Profit for the year	7 435	7 496	5 179	4 424	8 785	6 511	2 883	3 372			24 282	21 803

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

Balance sheets

DNB Group

Amounts in NOK billion	Personal customers 31.12.18	Personal customers 31.12.17	Small and medium-sized enterprises 31.12.18	Small and medium-sized enterprises 31.12.17	Large corporates and international customers 31.12.18	Large corporates and international customers 31.12.17	Other operations 31.12.18	Other operations 31.12.17	Eliminations 31.12.18	Eliminations 31.12.17	DNB Group 31.12.18	DNB Group 31.12.17
Loans to customers [1)]	772	747	313	291	424	410	121	124	(32)	(27)	1 598	1 545
Assets held for sale					0		5		(0)		5	
Other assets	25	29	6	12	73	83	1 970	2 004	(1 042)	(975)	1 032	1 153
Total assets	797	776	319	303	497	492	2 096	2 128	(1 074)	(1 002)	2 635	2 698
Assets under management	54	55	30	26	201	218	31	29			316	328
Total combined assets	851	831	349	330	698	710	2 127	2 157	(1 074)	(1 002)	2 951	3 026
Deposits from customers [1)]	412	403	210	207	296	326	23	51	(14)	(15)	927	971
Liabilities held for sale							3		(0)		3	
Other liabilities	337	332	78	70	139	94	1 985	2 001	(1 059)	(987)	1 481	1 510
Total liabilities	749	736	289	277	435	419	2 012	2 051	(1 074)	(1 002)	2 411	2 481
Allocated capital [2)]	47	40	30	26	63	73	84	77			224	217
Total liabilities and equity	797	776	319	303	497	492	2 096	2 128	(1 074)	(1 002)	2 635	2 698

1) Loans to customers include accrued interest, impairment and value adjustments. Correspondingly, deposits from customers include accrued interest and value adjustments.

2) Allocated capital for the segments is calculated based on the external capital adequacy requirement (Basel III/Solvency II) which must be met by the Group. The capital allocated in 2018 corresponds to a common equity Tier 1 capital ratio of 16.2 per cent compared to 16.0 per cent in 2017. Recorded capital is used for the Group.

Key figures

DNB Group

Per cent	Personal customers 2018	Personal customers 2017	Small and medium-sized enterprises 2018	Small and medium-sized enterprises 2017	Large corporates and international customers 2018	Large corporates and international customers 2017	Other operations 2018	Other operations 2017	Eliminations 2018	Eliminations 2017	DNB Group 2018	DNB Group 2017
Cost/income ratio [1)]	45.2	44.8	36.2	41.0	39.3	41.1					43.8	44.2
Ratio of deposits to loans as at 31 December [2)]	53.4	54.0	67.3	70.9	69.7	79.5					58.0	62.8
Return on allocated capital [3)]	15.8	18.9	18.2	16.9	13.2	8.0					11.7	10.8

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 Group. Recorded capital is used for the Group.

NOTE 3 Capitalisation policy and capital adequacy

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

At year-end 2018, the DNB Group had a CET1 capital ratio of 16.4 per cent and a capital adequacy ratio of 19.9 per cent, compared with 16.4 per cent and 20.0 per cent, respectively, a year earlier. Risk-weighted assets came to NOK 1 078 billion at year-end 2018, compared with NOK 1 043 billion the year before.

The DNB Bank Group had a CET1 capital ratio of 16.5 per cent and a capital adequacy ratio of 20.9 per cent at year-end 2018, compared with 16.2 and 20.6 per cent, respectively, a year earlier.

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

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

As a supplement to the risk-weighted capital adequacy regime, the Basel Committee introduced a new capital measure, "leverage ratio" or non-risk based CET1 capital ratio. The Norwegian Ministry of Finance has set a minimum requirement for the leverage ratio in credit institutions and investment firms in Norway that entered into effect as of 30 June 2017, calculated on the basis of CET1 capital including additional Tier 1 capital. The basis of calculation consists of assets and off-balance sheet items converted by means of the conversion factors used in the standardised approach for calculating ordinary capital adequacy. In addition, some special adjustments are made for derivatives and repo transactions. The definitions of capital and the basis of calculation are in conformity with international rules. The Norwegian leverage ratio requirement consists of a minimum requirement of 3 per cent that will apply to all 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 Group calculates its leverage ratio in accordance with the revised article 429 of the CRR, and the European Commission Regulation that entered into force on 18 January 2015. At year-end 2018, the Group's leverage ratio was 7.5 per cent, compared with 7.2 per cent a year earlier. DNB meets the minimum requirement of 6 per cent by a wide margin.

NOTE 3 Capitalisation policy and capital adequacy (continued)

Capital adequacy

Capital adequacy is calculated and reported in accordance with Norwegian regulations, which are broadly in line with the EU capital requirements regulations for credit institutions and investment firms (CRD IV/CRR). The regulatory consolidation deviates from consolidation in the accounts and comprises the parent company, subsidiaries and associated companies within the financial sector, excluding insurance companies. DNB Livsforsikring and DNB Forsikring are thus not included in the calculations, see note 17 Insurance risk. Associated companies are consolidated pro rata.

Primary capital	**DNB Bank ASA**		**DNB Bank Group**		**DNB Group**	
Amounts in NOK million	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017 [1]
Total equity	176 562	169 720	207 933	203 685	223 966	216 897
Effect from regulatory consolidation			(234)	183	(5 595)	(6 328)
Additional Tier 1 capital instruments included in total equity	(15 574)	(15 574)	(15 574)	(15 574)	(15 574)	(15 574)
Net accrued interest on additional Tier 1 capital instruments	(465)	(439)	(465)	(439)	(465)	(439)
Common equity Tier 1 capital instruments	160 523	153 708	191 660	187 856	202 333	194 557
Deductions						
Goodwill	(2 389)	(2 404)	(2 929)	(2 559)	(4 634)	(4 264)
Deferred tax assets that are not due to temporary differences	(562)	(584)	(524)	(454)	(524)	(454)
Other intangible assets	(1 040)	(1 110)	(1 712)	(1 984)	(1 712)	(1 984)
Dividends payable etc.			(10 758)	(15 804)	(15 360)	(13 529)
Significant investments in financial sector entities [1]					(693)	(363)
Expected losses exceeding actual losses, IRB portfolios	(1 286)	(951)	(1 719)	(1 915)	(1 719)	(1 915)
Value adjustments due to the requirements for prudent valuation (AVA)	(467)	(449)	(886)	(720)	(886)	(720)
Adjustments for unrealised losses/(gains) on debt measured at fair value	63	123	176	123	176	123
Adjustments for unrealised losses/(gains) arising from the institution's own credit risk related to derivative liabilities (DVA)	(596)	(481)	(149)	(113)	(149)	(113)
Common Equity Tier 1 capital	154 247	147 851	173 159	164 431	176 831	171 339
Additional Tier 1 capital instruments	15 574	15 574	15 574	15 574	15 574	15 574
Deduction of holdings of Tier 1 instruments in DNB Livsforsikring [2]					(1 500)	
Non-eligible Tier 1 capital, DNB Group [3]					(19)	(56)
Tier 1 capital	169 820	163 425	188 733	180 005	190 886	186 856
Perpetual subordinated loan capital	5 693	5 361	5 693	5 361	5 693	5 361
Term subordinated loan capital	25 110	23 897	25 110	23 897	25 110	23 897
Deduction of holdings of Tier 2 instruments in DNB Livsforsikring and DNB Forsikring [2]					(5 750)	(5 750)
Non-eligible Tier 2 capital, DNB Group [3]					(1 936)	(1 813)
Tier 2 capital	30 804	29 258	30 804	29 258	23 117	21 696
Total eligible capital	200 624	192 683	219 537	209 263	214 003	208 552
Risk-weighted assets, transitional rules [4]	852 363	835 986	1 051 159	1 014 683	1 077 934	1 042 601
Minimum capital requirement, transitional rules	68 189	66 879	84 093	81 175	86 235	83 408
Common Equity Tier 1 capital ratio, transitional rules (%)	18.1	17.7	16.5	16.2	16.4	16.4
Tier 1 capital ratio, transitional rules (%)	19.9	19.5	18.0	17.7	17.7	17.9
Capital ratio, transitional rules (%)	23.5	23.0	20.9	20.6	19.9	20.0

1) Deductions are made for significant investments in financial sector entities that exceed 10 per cent of common equity Tier 1 capital. The amounts that are not deducted are given a risk weight of 250 per cent.

2) Investments in Tier 1 and Tier 2 instruments issued by DNB Livsforsikring and DNB Forsikring are deducted from the Group's Tier 1 and Tier 2 capital.

3) The amount of Tier 1 and Tier 2 capital in DNB Bank ASA that are not included in consolidated own funds in accordance with Articles 85-88 of the CRR.

4) Due to transitional rules, the minimum capital adequacy requirements cannot be reduced below 80 per cent of the corresponding figure calculated according to the Basel I regulations.

NOTE 3 Capitalisation policy and capital adequacy (continued)

Basel III

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

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

Amounts in NOK million	Nominal exposure 31 Dec. 2018	EAD [1] 31 Dec. 2018	Average risk weights in per cent 31 Dec. 2018	Risk-weighted assets 31 Dec. 2018	Capital requirements 31 Dec. 2018	Capital requirements 31 Dec. 2017
IRB approach						
Corporate	955 626	789 415	53.4	421 452	33 716	35 197
Specialised Lending (SL)	12 445	11 990	54.9	6 579	526	454
Retail - mortgage loans	773 419	773 419	22.0	170 213	13 617	13 220
Retail - other exposures	102 012	87 560	24.7	21 589	1 727	1 745
Securitisation						626
Total credit risk, IRB approach	1 843 502	1 662 385	37.3	619 833	49 587	51 241
Standardised approach						
Central government	273 420	256 743	0.1	148	12	6
Institutions	244 919	128 361	27.8	35 737	2 859	2 989
Corporate	225 851	166 450	88.8	147 794	11 824	9 796
Retail - mortgage loans	67 981	64 835	48.9	31 733	2 539	2 207
Retail - other exposures	124 556	49 276	75.0	36 973	2 958	2 941
Equity positions	21 237	21 235	220.9	46 916	3 753	3 742
Other assets	13 691	13 691	49.3	6 744	540	568
Total credit risk, standardised approach	971 656	700 592	43.7	306 045	24 484	22 249
Total credit risk	2 815 158	2 362 977	39.2	925 877	74 070	73 490
Market risk						
Position risk, debt instruments				11 583	927	1 120
Position risk, equity instruments				195	16	21
Currency risk						
Commodity risk				9	1	2
Credit value adjustment risk (CVA)				3 891	311	468
Total market risk				15 678	1 254	1 611
Operational risk				88 005	7 040	7 077
Total risk-weighted assets and capital requirements before transitional rule				1 029 560	82 365	82 178
Additional capital requirements according to transitional rule [2]				48 373	3 870	1 230
Total risk-weighted assets and capital requirements				1 077 934	86 235	83 408

1) *EAD, exposure at default.*

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

NOTE 4 Credit risk management

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

Credit risk management and measurement is described in detail in the Risk and Capital Management (Pillar 3) report. The group guidelines for credit activity are approved by the Boards of Directors of DNB. The principal objective of credit activity is to ensure that the quality and composition of the loan portfolio provide a good basis for the 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 Group's governance processes. The risk appetite framework should provide a holistic and balanced view of the risk in the business and it defines maximum limits for credit exposure. Limits have been set for annual growth in lending, risk concentrations, total credit risk exposure and predicted expected loss. An upper limit for growth, measured in terms of EAD, is set for each business area. To limit concentration risk, limits are set for exposure on individual customers and certain industries. The limit for expected losses applies to all types of credit risk and is measured by means of the 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 group's maximum credit risk exposure and related collateral at year end are presented in note 6 Credit risk exposure and collateral.

Classification

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

All corporate customers granted credit must be classified according to risk in connection with every significant credit approval and, unless otherwise decided, at least once a year. In the personal banking market, where there are a large number of customers, the majority of credit decisions are made on the basis of automated scoring and decision support systems. Risk classification should reflect long-term risk associated with each customer and the customer's credit commitment.

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

Probability of default, PD, is used to measure credit quality. The group divides its portfolio into ten risk grades based on the PD for each credit commitment. This is presented in the table below. Credit-impaired exposures (exposures in stage 3) are assigned a PD of 100 per cent. The group's portfolio divided into risk grades and IFRS 9 stages is presented in note 7 Credit risk exposure per risk grade.

DNB's risk classification [1)]

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

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

Guidelines for credit activity

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

NOTE 4 Credit risk management (continued)

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

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

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

Monitoring credit risk

Performing customers

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

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

Watchlist

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

Forbearance

If a customer gets into financial difficulties, DNB may in some cases grant voluntary concessions in the form of less stringent financial covenants or reduced/deferred interest and instalment payments. Such measures are offered in accordance with the 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 DNB Group's total forbearance exposures, in accordance with the definition of forbearance in CRD IV, are shown in the following table:

Forbearance			**DNB Group**
Amounts in NOK million	Stage 2	Stage 3	Total
Gross carrying amount and loan commitments	25 540	15 299	40 839
Expected credit loss	459	3 673	4 132

Credit-impaired portfolio

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

Repossessed companies and assets

In connection with the follow-up of defaulted exposures, DNB will in some cases take over assets provided as collateral for loans and guarantees. All acquired assets are normally followed up by the 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 used to hedge currency and interest rate risk arising in connection with funding and lending. Derivatives are generally traded "over the counter" (OTC), which means that individual contracts are agreed upon by the parties. The credit risk that arises in connection with derivative trading is included in the DNB Group's overall credit risk measurement.

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

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

NOTE 5 Measurement of expected credit loss

DNB applies a three-stage approach when measuring expected credit loss (ECL) on loans to customers, loan commitments, financial guarantees and other financial instruments subject to the IFRS 9 impairment rules:

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

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

- 12-month ECL is measured at an amount equal to the portion of lifetime ECL that results from possible default events within the next 12 months.
- The loss provision for financial assets in stage 1 and stage 2 is calculated as the present value of exposure at default (EAD) multiplied by the probability of default (PD) multiplied by loss given default (LGD) and discounted by using the effective interest rate (EIR). PD, LGD and EAD use the IRB framework as a starting point, but are converted to be point in time and forward-looking as opposed to through the cycle and conservative.
- Past, present and forward-looking information is used to estimate ECL. For this purpose, DNB's loan portfolio is split into 22 segments based on geography and industry. All customers within a segment are exposed to the same risk drivers.
- For stage 3 individual assessments are performed for credit impaired financial instruments.

For stage 1 and 2, a model is used to calculate ECL.

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

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

NOTE 5 Measurement of expected credit loss (continued)

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

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

Segmentation, macro scenarios and credit cycle index

The assessment of significant increase in credit risk and the calculation of ECL incorporate past, present and forward-looking information. In order to reflect the effect of macro drivers in a reasonable and supportable manner DNB's portfolio has been divided into 22 segments with shared credit risk characteristics. The segmentation is based on industry and geographical location, but about half of the industry segments are exposed to global markets and are influenced by global risk drivers.

Based on a statistical regression analysis, key risk drivers impacting PD are identified for the different segments. The assessments used to select the different risk drivers have been based on several criteria; the statistical model's explanatory power, a qualitative reasonableness check (e.g. if it makes sense to include the risk driver) and an aim not to have too many factors as this would unnecessarily increase the complexity. Relevant macro drivers and their impact on ECL will vary by financial instrument. Forecasts of each of the relevant risk drivers (the base economic scenario) are primarily provided by DNB Markets on a quarterly basis and provide the best estimate of developments in the risk drivers for the forecast period. DNB Markets bases its forecast on a range of information sources, primarily external market information, but also internal sources. The forecast period varies between three and four years.

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

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

Multiple scenarios

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

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

Calculation of ECL

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

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.

NOTE 5 Measurement of expected credit loss (continued)

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

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

Loss given default (LGD)
LGD represents the percentage of EAD which the Group expects to lose if the customer fails to meet his obligations, taking the collateral provided by the customer, future cash flows and other relevant factors into consideration.

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

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

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

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

Significant increase in credit risk (staging)

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

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

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

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

As part of DNB's credit risk management policy the group applies a risk scale where all customers and instruments are rated on a coherent scale meaning that a risk grade has the same explanatory power independent of segment, geography and product. DNB therefore uses a common threshold for all financial instruments with respect to what constitute a significant increase in credit risk. For further information about DNBs risk scale and classification see note 4 Credit risk management.

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

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

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

Expert credit judgement

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

NOTE 5 Measurement of expected credit loss (continued)

Definition of default and credit impaired exposures in stage 3

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

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

A commitment is also defined to be in default if the group:

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

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

Measurement of expected credit loss for credit-impaired financial instruments

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

DNB's write-off policy

DNB writes off and thereby reduces the carrying amount of a financial asset when there is no reasonable expectation of recovery. This might for example be the case when a court of law has reached a final decision, a decision has been made to forgive the debt, or a scheme of composition has been confirmed. Write-off can relate to the entire asset or a portion of the asset and can constitute a derecognition event. DNB maintains the legal claim towards the customer even though a write-off has been recognised. For corporate customers, there is a difference between internal write-offs and debt forgiveness. In the latter, DNB does not maintain a legal claim.

Measurement uncertainty

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

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

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

NOTE 6 Credit risk exposure and collateral

Credit risk exposure and collateral as at 31 December 2018 **DNB 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	130 146		74 939	363
Loans to customers	1 597 758	1 015 239	62 049	262 553
Commercial paper and bonds	409 328			
Financial derivatives	124 755		26 172	87 652
Other assets	45 742			
Total maximum exposure to credit risk reflected on the balance sheet	2 462 198	1 015 239	193 401	350 568
Guarantees	15 732	28		4 441
Unutilised credit lines and loan offers	609 886	118 579		79 376
Other commitments	81 512	7 633		15 277
Total maximum exposure to credit risk not reflected on the balance sheet	707 130	126 239		99 094
Total	3 169 328	1 141 478	193 401	449 662
Of which subject to expected credit loss:				
Deposits with central banks	*154 470*		*30 241*	
Due from credit institutions	*130 146*		*74 939*	*363*
Loans to customers	*1 535 282*	*954 731*	*62 049*	*262 485*
Commercial paper and bonds	*90 716*			
Total maximum exposure to credit risk reflected on the balance sheet	*1 910 614*	*954 731*	*167 229*	*262 848*
Guarantees	*15 732*	*28*		*4 441*
Unutilised credit lines and loan offers	*609 886*	*118 347*		*79 280*
Other commitments	*81 512*	*7 556*		*15 073*
Total maximum exposure to credit risk not reflected on the balance sheet	*707 130*	*125 931*		*98 794*
Total	*2 617 744*	*1 080 662*	*167 229*	*361 643*
Of which stage 3:				
Loans to customers	*19 524*	*3 625*		*12 713*
Total maximum exposure to credit risk reflected on the balance sheet	*19 524*	*3 625*		*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	*23 107*	*3 858*		*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 2 085 million in stage 3 has no credit loss due to collateralisation.

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

Comments to the main items as at 31 December 2018:

- *Deposits with central banks:* Deposits with Norges Bank totalled NOK 6 625 million. DNB engages only in short-term transactions with central banks outside Norway, mainly in OECD countries.
- *Loans to customers:* See further description under "Guidelines for credit activity" in note 4 Credit risk management.
- *Commercial paper and bonds:* The Group's investments in commercial paper and bonds, are within market risk limits approved by the Board of Directors.
- *Financial derivatives:* Other collateral represents netting opportunities against other outstanding balances with customers and cash collateral received.
- *Guarantees:* See further description under "Guidelines for credit activity" in note 4 Credit risk management.
- *Unutilised credit lines and loan offers:* Offers of loans, credits and credit lines totalling NOK 117 853 million were included in the maximum credit exposure. No formal collateral has been established for such exposure, and the assessed value is not included in the table. Collateral is established once the offers are accepted by the customers. The assessment of the value of any collateral established in connection with such offers follows the procedure and criteria described under "Guidelines for credit activity" in note 4 Credit risk management.

NOTE 7 Credit risk exposure by risk grade

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

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

	Loans				
Amounts in NOK million	Stage 1	Stage 2	Stage 3	Loans at fair value	Total
Risk grade based on probability of default					
1 - 4	1 101 218	3 323		50 632	1 155 173
5 - 7	308 646	41 850		11 157	361 652
8 - 10	25 151	37 149		632	62 931
Credit impaired			27 846	54	27 900
Total	1 435 014	82 321	27 846	62 476	1 607 656

	Financial commitments			
Amounts in NOK million	Stage 1	Stage 2	Stage 3	Total
Risk grade based on probability of default				
1 - 4	519 987	3 417		523 405
5 - 7	96 680	11 055		107 735
8 - 10	10 635	14 989		25 624
Credit impaired			4 152	4 152
Total	627 302	29 462	4 152	660 916

NOTE 8 Impairment of financial instruments

DNB Group

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

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity, was 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 at amortised cost — **DNB Group**

Amounts in NOK million	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	**1 376 314**	**90 102**	**25 843**	**1 492 259**
Transfer to stage 1	58 153	(57 295)	(858)	0
Transfer to stage 2	(74 482)	76 922	(2 440)	
Transfer to stage 3	(3 982)	(11 865)	15 847	
Originated and purchased	441 044	4 704	4 268	450 015
Derecognition	(363 286)	(20 347)	(14 856)	(398 489)
Exchange rate movements	1 253	101	41	1 396
Other sectors				
Gross carrying amount as at 31 December 2018	**1 435 014**	**82 321**	**27 846**	**1 545 180**

Financial commitments — **DNB Group**

Amounts in NOK million	Stage 1	Stage 2	Stage 3	Total
Maximum exposure as at 1 January 2018	**651 248**	**28 358**	**3 208**	**682 814**
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	247 002	5 247	3 599	255 848
Expired	(265 698)	(11 201)	(4 400)	(281 298)
Exchange rate movements	3 177	394	13	3 584
Other	(32)			(32)
Maximum exposure as at 31 December 2018	**627 302**	**29 462**	**4 152**	**660 916**

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 **DNB Group**

Amounts in NOK million	Stage 1	Stage 2	Stage 3	Total
Accumulated impairment as at 1 January 2018	**(382)**	**(3 082)**	**(8 710)**	**(12 174)**
Transfer to stage 1	(454)	425	29	(0)
Transfer to stage 2	79	(281)	202	(0)
Transfer to stage 3	3	1 351	(1 353)	
Originated and purchased	(176)	(161)		(336)
Increased expected credit loss	(160)	(944)	(6 158)	(7 262)
Decreased (reversed) expected credit loss	866	1 200	4 770	6 835
Write-offs			2 895	2 895
Derecognition	(124)	275	4	155
Exchange rate movements	(2)	(7)	(0)	(10)
Accumulated impairment as at 31 December 2018	**(352)**	**(1 225)**	**(8 321)**	**(9 898)**

Financial commitments **DNB Group**

Amounts in NOK million	Stage 1	Stage 2	Stage 3	Total
Accumulated impairment as at 1 January 2018	**(171)**	**(2 128)**	**(511)**	**(2 810)**
Transfer to stage 1	(194)	194		
Transfer to stage 2	27	(31)	4	
Transfer to stage 3	0	584	(584)	
Originated and purchased	(134)	(338)		(472)
Increased expected credit loss	(49)	(580)	(316)	(945)
Decreased (reversed) expected credit loss	371	958	821	2 150
Expired	2	370	17	389
Exchange rate movements	(1)	(30)	0	(31)
Accumulated impairment as at 31 December 2018	**(149)**	**(1 001)**	**(569)**	**(1 719)**

NOTE 11 Loans and financial commitments to customers by industry segment

Loans — **DNB Group**

Amounts in NOK million	Gross carrying amount	Accumulated impairment Stage 1	Accumulated impairment Stage 2	Accumulated impairment Stage 3	Loans at fair value	Total
Bank, insurance and portfolio management	65 390	(9)	(4)	(55)		65 322
Commercial real estate	169 204	(9)	(43)	(261)	179	169 069
Shipping	58 769	(67)	(117)	(655)		57 931
Oil, gas and offshore	61 201	(54)	(586)	(4 336)		56 225
Power and renewables	30 556	(8)	(85)	(107)		30 355
Healthcare	22 601	(7)	(9)	(0)		22 585
Public sector	22 303	(0)	(1)	(0)		22 301
Fishing, fish farming and farming	34 983	(3)	(13)	(70)	165	35 063
Trade	40 210	(15)	(13)	(595)	65	39 653
Manufacturing	45 914	(19)	(9)	(339)	21	45 568
Technology, media and telecom	28 336	(28)	(4)	(30)	18	28 292
Services	65 666	(18)	(18)	(545)	205	65 290
Residential property	91 562	(6)	(7)	(222)	375	91 702
Personal customers	760 144	(91)	(288)	(679)	61 368	820 454
Other corporate customers	48 341	(17)	(30)	(427)	80	47 948
Loans as at 31 December 2018 [1)]	**1 545 180**	**(352)**	**(1 225)**	**(8 321)**	**62 476**	**1 597 758**

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

Financial commitments — **DNB Group**

Amounts in NOK million	Maximum exposure	Accumulated impairment Stage 1	Accumulated impairment Stage 2	Accumulated impairment Stage 3	Loans at fair value	Total
Bank, insurance and portfolio management	24 270	(7)	(7)	(0)		24 256
Commercial real estate	26 867	(2)	(1)	(4)		26 861
Shipping	10 605	(6)	(22)			10 577
Oil, gas and offshore	73 945	(53)	(809)	(322)		72 761
Power and renewables	30 481	(4)	(38)	0		30 439
Healthcare	24 000	(7)	(0)			23 992
Public sector	10 711	(0)				10 711
Fishing, fish farming and farming	14 578	(3)	(1)	(3)		14 571
Trade	30 386	(9)	(5)	(98)		30 275
Manufacturing	56 392	(16)	(28)	(5)		56 343
Technology, media and telecom	17 799	(8)	(3)	(2)		17 785
Services	26 142	(11)	(11)	(11)		26 109
Residential property	34 240	(2)	(3)	(2)		34 232
Personal customers	241 943	(15)	(63)	(0)		241 866
Other corporate customers	38 558	(6)	(10)	(123)		38 419
Financial commitments as at 31 December 2018	**660 916**	**(149)**	**(1 001)**	**(569)**		**659 197**

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 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 DNB Group's overall risk, see note 4 Credit 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. For DNB Livsforsikring, the calculation also accounts for the obligations resulting from the guaranteed rate of return, equity buffers and dynamic portfolio management.

The economic capital for total market risk in the DNB Group increased from NOK 10.6 billion at the end of 2017 to NOK 13,9 billion at the end of 2018. The increase is due to a larger equity allocation in DNB Livsforsikring as a result of their new strategy. In addition, the drop in the stock market in the last quarter of 2018 has reduced the buffers in DNB Livsforsikring. Market risk represented 20.3 per cent of total economic capital at year-end 2018, which is within the limit of the Group's risk appetite.

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 DNB Group excluding DNB Livsforsikring and Baltics and 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 DNB relative to the Group's positions. Also, all interest rate movements within the same interval will be unfavourable for the Group. The figures will thus reflect maximum losses for DNB.

The calculations are based on the 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 Group [1)]
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	Total
31 December 2018						
NOK	445	73	750	332	255	155
USD	91	1	1	97	83	86
EUR	65	32	85	27	25	40
GBP	7	8	3	7		2
SEK	10	6	12	8	4	7
Other currencies	15	34	30	9	4	57
31 December 2017						
NOK	392	117	350	175	194	94
USD	51	47	52	23	53	77
EUR	42	117	48	7	2	129
GBP	3	6	10	1	2	3
SEK	33	14	6	27	5	21
Other currencies	17	20	13	7	12	46

1) Applies to the DNB Group excluding DNB Livsforsikring and Baltics and Poland.

NOTE 13 Interest rate sensitivity (continued)

Interest rate sensitivity for different time intervals – DNB Livsforsikring

The table shows interest rate sensitivity associated with financial assets in DNB Livsforsikring, excluding commercial paper and bonds held to maturity. The interest rate sensitivity of a security shows potential changes in the security's value resulting from a one percentage point change in interest rates.

						DNB Livsforsikring
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	Total
31 December 2018						
NOK	9	72	54	419	222	776
USD	3	12	3	41	157	185
EUR	2	3	1	64	55	115
GBP			1		13	14
Other currencies		2	11	1	4	8
31 December 2017						
NOK	3	40	83	495	227	848
USD	1	11	1	17	148	154
EUR	6	7	0	19	88	106
GBP		0	0	2	16	19
Other currencies	0	1	10	2	3	7

Interest rate sensitivity – liabilities to insurance policyholders

DNB Livsforsikring carries the risk of meeting liabilities in relation to policyholders. The return on financial assets must be sufficient to meet the guaranteed rate of return specified in insurance policies. Otherwise, inadequate returns will have to be covered by applying the market value adjustment reserve, additional allocations, equity or subordinated loan capital.

The guaranteed rate of return must be complied with on a yearly basis. Measured in relation to customer funds the company's total guaranteed rate of return averages 3.1 per cent.

Note 17 Insurance risk gives a description of a liability adequacy test prepared in compliance with IFRS 4 Insurance Contracts concerning liabilities to policyholders as at 31 December 2018.

NOTE 14 Currency positions

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

In DNB Livsforsikring foreign currency exposure arises when the company invests parts of its securities portfolio and property portfolio in the international securities market. Under DNB Livsforsikring's current foreign currency hedging strategy, the total foreign currency exposure is reduced to a minimum.

	DNB Livsforsikring		**DNB Group excl. DNB Livsforsikring**	
	Net currency positions		Net currency positions	
Amounts in NOK million	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
USD	(102)	63	1 936	1 213
EUR	(153)	(157)	4	140
GBP	7	42	(11)	52
SEK	411	378	39	7
DKK	12	0	(23)	(13)
CHF	5	9	27	4
JPY	2	27	7	9
Other	318	78	216	165
Total foreign currencies	499	439	2 196	1 575

NOTE 15 Financial derivatives and hedge accounting

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

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

DNB Group

	31 December 2018			31 December 2017		
Amounts in NOK million	Total nominal values	Positive market value	Negative market value	Total nominal values	Positive market value	Negative market value
Derivatives held for trading						
Interest rate contracts						
Forward rate agreements	1 058 532	154	175	1 010 066	208	276
Swaps	2 193 750	37 870	19 900	2 372 996	40 274	6 192
OTC options	77 245	630	608	49 191	606	599
Total interest rate contracts	3 329 527	38 654	20 682	3 432 252	41 087	7 067
Foreign exchange contracts						
Forward contracts	30 912	7 945	6 386	26 207	6 791	5 622
Swaps	749 167	21 191	32 573	863 353	16 942	54 102
OTC options	26 235	1 387	1 046	26 039	1 454	1 159
Total foreign exchange contracts	806 313	30 523	40 005	915 598	25 187	60 882
Equity-related contracts						
Forward contracts	3 315	2 281	938	3 350	1 439	971
Other	1 990	597	318	2 913	973	343
Total OTC derivatives	5 306	2 878	1 256	6 264	2 412	1 314
Futures	3 904		0	14 861		0
Other	3 783	288	80	3 423	126	91
Total exchange-traded contracts	7 688	288	80	18 283	126	91
Total equity-related contracts	12 993	3 166	1 337	24 547	2 538	1 405
Commodity-related contracts						
Swaps and options	65 055	2 292	2 062	33 235	2 669	2 334
Total commodity related contracts	65 055	2 292	2 062	33 235	2 669	2 334
Total financial derivatives trading	4 213 889	74 635	64 086	4 405 633	71 481	71 688
Derivatives held for hedge accounting						
Fair value hedges of interest rate risk						
Interest rate swaps	487 763	23 927	2 371	466 911	26 331	3 265
Total financial derivatives hedge accounting	487 763	23 927	2 371	466 911	26 331	3 265
Collateral pledged/received on financial derivatives						
Total cash collateral pledged/received		26 194	43 659		34 537	35 309
Total financial derivatives	**4 701 652**	**124 755**	**110 116**	**4 872 544**	**132 349**	**110 262**

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 Group. Netting agreements or bilateral agreements on collateral are entered into with a number of counterparties, thus reducing credit risk. The authorities' capital adequacy requirements take into account netting agreements and similar bilateral agreements, resulting in a reduction of capital adequacy requirements. See note 4 Credit risk management for a description of counter-party risk.

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

NOTE 15 Financial derivatives and hedge accounting (continued)

Use of financial derivatives in DNB Livsforsikring

The purpose of employing financial derivatives in DNB Livsforsikring is to be able to invest and allocate funds in accordance with the company's expectations of market trends, through swift and cost-effective asset and market exposure. In addition, the application of derivatives facilitates active risk management and adjustments in equity, interest rate and foreign exchange risk. DNB Livsforsikring does not apply hedge accounting. See notes 13 Interest rate sensitivity and 14 Currency positions for a further description.

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. 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.

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

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

Fair value hedges of interest rate risk as at 31 December 2018 **DNB Group**

Amounts in nok million	Balance sheet item	Carrying amount	Accumulated fair value adjustment of the hedged item	Value changes used for calculating hedge ineffectiveness
Hedged exposure				
Issued bonds	Debt securities issued	490 697	16 627	1 783
Subordinated debt	Debt securities issued	20 013	62	67

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

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

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

	Maturity				
Amounts in NOK million	Up to 1 month	From 1 month to 3 months	From 3 monts to 1 year	From 1 year to 5 years	Over 5 years
Fair value hedges of interest rate risk					
Hedges of issued bonds					
Nominal amounts	7 254	99	30 689	299 618	132 567
Average fixed interest rate (per cent)	1.03	4.25	1.58	2.08	1.92
Hedges of subordinated debt					
Nominal amounts			17 536		
Average fixed interest rate (per cent)			1.23		

In net investment hedges of foreign operations 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 Group's subsidiaries with functional currencies of EUR, USD, GBP, SEK and DKK.

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

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

NOTE 16 Liquidity risk

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

The Board of Directors has approved internal limits which restrict the short-term maturity of liabilities within different time frames. The various maturities are subject to stress testing based on a bank-specific crisis, a systemic crisis and a combination thereof, and a contingency plan has been established to handle market events. In addition, limits have been set for structural liquidity risk, which implies that lending to customers should largely be financed through customer deposits, subordinated capital and long-term funding. Ordinary senior bond debt and covered bonds are the major sources of long-term funding. The banking group's ratio of deposits to net loans was 58.8 per cent at end-December 2018, down from 64.0 per cent a year earlier. The ratio of deposits to net loans in DNB Bank ASA was 115.4 per cent at end-December 2018.

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

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

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

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

NOTE 16 Liquidity risk (continued)

Residual maturity as at 31 December 2018 [1)] **DNB 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	79 207	44 186	6 262	197	293		130 147
Loans to customers	206 755	89 087	156 465	295 943	852 892	(2 442)	1 598 699
Commercial paper and bonds	36 323	26 442	50 047	171 002	63 205	63 891	410 911
Shareholdings						55 224	55 224
Other assets		1 381		18			1 399
Total	456 477	180 133	215 137	467 160	916 390	116 673	2 351 972
Liabilities							
Due to credit institutions	184 245	448	3 271	100			188 063
Deposits from customers	927 096						927 096
Debt securities issued	95 962	54 114	96 442	412 283	125 325		784 126
Other liabilities etc.	645	4 287	138				5 070
Subordinated loan capital		218		25 110	5 693		31 021
Total	1 207 948	59 067	99 851	437 493	131 018		1 935 376
Financial derivatives							
Financial derivatives, gross settlement							
Incoming cash flows	449 022	283 339	242 011	415 341	198 550		1 588 263
Outgoing cash flows	444 942	281 071	246 318	433 381	202 338		1 608 050
Financial derivatives, net settlement	1 449	2 717	2 960	17 667	10 870		35 663
Total financial derivatives	5 529	4 985	(1 347)	(373)	7 082		15 876

Residual maturity as at 31 December 2017 [1)] **DNB Group**

Amounts in NOK million	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	No fixed maturity	Total
Assets							
Cash and deposits with central banks	151 593						151 593
Due from credit institutions	99 696	75 955	38 440	17 556	7 671		239 318
Loans to customers	242 800	76 971	58 738	283 916	885 641	(3 162)	1 544 904
Commercial paper and bonds	144 481	9 653	21 869	190 599	67 675		434 277
Shareholdings						153 527	153 527
Other assets		2 042		11			2 053
Total	638 570	164 621	119 048	492 081	960 986	150 366	2 525 673
Liabilities							
Due to credit institutions	78 042	63 038	68 308	14 699			224 087
Deposits from customers	971 105						971 105
Debt securities issued	98 491	71 535	77 254	417 539	95 536		760 355
Other liabilities etc.	458	4 362	195				5 015
Subordinated loan capital					29 456		29 456
Total	1 148 096	138 935	145 757	432 238	124 992		1 990 018
Financial derivatives							
Financial derivatives, gross settlement							
Incoming cash flows	663 489	376 719	216 187	383 067	213 472		1 852 934
Outgoing cash flows	661 310	378 009	221 220	393 219	213 788		1 867 546
Financial derivatives, net settlement	812	2 103	3 205	19 652	9 787		35 559
Total financial derivatives	2 991	813	(1 828)	9 500	9 471		20 947

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 Group**

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

NOTE 17 Insurance risk

Insurance risk in life insurance

Risk in DNB Livsforsikring AS includes financial risk and insurance risk, in addition to operational risk and business risk. Financial risk comprises credit and market risk, which is the risk that the return on financial assets will not be sufficient to meet the obligations specified in insurance policies (see description in notes 12-14). Insurance risk relates to changes in future insurance payments due to changes in life expectancy and disability rates.

Analysis of insurance liabilities, customers bearing the risk, and liabilities to policyholders

		DNB Group [1]
Amounts in NOK million	Insurance liabilities, customers bearing the risk	Liabilities to policyholders
Balance sheet as at 31 December 2016	**60 220**	**208 160**
Deposits	8 572	3 427
Return	7 019	10 030
Inflow of reserves	3 190	462
Outflow of reserves	(1 799)	(164)
Insurance payments	(1 427)	(12 698)
Other changes	(568)	(717)
Balance sheet as at 31 December 2017	**75 206**	**208 500**
Deposits	8 935	3 229
Return	(3 632)	5 137
Inflow of reserves	3 190	312
Outflow of reserves	(1 799)	(216)
Insurance payments	(3 841)	(12 231)
Other changes	(817)	(649)
Balance sheet as at 31 December 2018	**77 241**	**204 286**

1) Refers only to DNB Livsforsikring.

Description of the insurance products

The company offers traditional life and pension insurance, unit-linked insurance and non-life insurance. A calculation rate is used to determine provisions and premiums. The calculation rate is the annual guaranteed rate of return on policyholders' funds. In most unit-linked insurance products, policyholders bear the financial risk. Non-life insurance policies are products generating payments related to policyholders' life and health. These products are not subject to profit sharing and are repriced annually.

Group contracts

Under group defined-benefit pensions, pension payments are disbursed from an agreed age and until the death of the policyholder. It can also be agreed that the pension payments cease at a certain age. A defined-benefit pension may include a retirement pension, disability pension, spouse's pension, cohabitant's pension and child's pension. Policyholders pay an annual premium for interest rate risk, insurance risk and administration in advance. The company is entitled to change the premium annually. Interest in excess of the guaranteed rate of return is awarded to policyholders in its entirety. If the interest is between zero and the guaranteed rate of return, the company can use additional allocations to meet the guaranteed rate of return, otherwise the company must cover the deficit. A positive risk result may either be used to increase the risk equalisation fund or be distributed to the policyholders. No more than 50 per cent of annual profits may be allocated from the risk result to the risk equalisation fund. The company must cover any remaining losses after the risk equalisation fund has been used. The administration result is allocated in its entirety to the company. For one year agreements with disability pensions and dependent's pensions without savings, the risk result is transferred directly to the company.

When a member terminates a pension agreement or a pension agreement ends, he or she is entitled to a paid-up policy. Rights earned on the termination date are continued in paid-up policies. Paid-up policies have a separate profit model where a minimum of 80 per cent of the interest result is distributed to policyholders. Any surplus on the risk result can be used either to increase the risk equalisation fund or be allocated to policyholders. No more than 50 per cent of annual profits can be transferred from the risk result to the risk equalisation fund. The administration result is allocated in its entirety to the company.

Group association insurance is pension insurance taken out by associations for their members. Association insurance can comprise retirement pensions, disability pensions, spouse's pensions and child's pensions. Profits for distribution between policyholders and the company include the interest result, the risk result and the administration result. No less than 65 per cent of annual profits must be distributed to policyholders.

Individual contracts

Individual annuity and pension insurance policies are savings schemes whereby the company disburses monthly amounts up until the death of the policyholder, or until the policyholder reaches an agreed age. This usually comprises a retirement pension, disability pension, spouse's pension and child's pension.

Individual endowment insurance policies are contracts whereby the company disburses an agreed amount upon the death of the policyholder or when the policyholder attains an agreed age. Individual endowment insurance may also include disability cover, which is a one-off benefit for permanent disability.

NOTE 17 Insurance risk (continued)

For individual contracts sold prior to 1 January 2008, total profits are distributed between policyholders and the company. Profits for distribution include the interest result, the risk result and the administration result. No less than 65 per cent of total profits must be distributed to policyholders. The new regulations apply to contracts sold after 1 January 2008, with annual pricing of each profit element, which is in accordance with the regulations for group defined-benefit pensions.

Contracts in the unit-linked portfolio
Defined-contribution pensions are group pension schemes where the employees bear the financial risk. However, full or partial hedging of the paid amount can be bought.

Individual unit-linked insurance policies are endowment insurance policies or annuity insurance policies where policyholders bear the financial risk.

Other sectors
Group life insurance policies are life level term insurance policies taken out by employers or associations for their employees or members and, where applicable, also for their spouses and children. The amount recoverable under the policy is disbursed upon the death of the policyholder. Group life insurance may also comprise disability cover, which is a one-off benefit for permanent disability.

Employer's liability insurance is a one-year risk product which companies link to their pension agreements. This may be corporate group life insurance or accident insurance. Occupational injury insurance is mandatory for all enterprises.

Personal risk products for personal customers are one-year risk products which include monthly disability benefits and lump-sum compensation payments in the event of death, disability or critical illness. DNB Livsforsikring also offers child and youth insurance, which ensures financial security in the event of accidents, serious illness or incapacity for work.

Specification of liabilities to policyholders recorded in the balance sheet as at 31 December 2018 **DNB Group** [1)]

	Group life insurance - defined-benefit pensions		Individual annuity and pension insurance					
Amounts in NOK million	Private sector	Group association insurance	Annuity and pension insurance	Endowment insurance	Group life insurance	Non-life insurance	Total 2018	Total 2017
Premium reserve	216 474	3 128	19 223	30 324	763	1 389	271 301	271 370
Additional allocations	5 652	132	574	850			7 209	7 664
Market value adjustment reserve	988	31	185	252	0	0	1 457	3 262
Premium fund	758	6		64			828	923
Pensioners' profit fund	682						682	663
Other technical reserves						51	51	29
Liabilities to policyholders	**224 554**	**3 298**	**19 981**	**31 491**	**763**	**1 441**	**281 528**	**283 911**
Unrealised gains on bonds held to maturity [2)]							5 879	7 863

1) Refers only to DNB Livsforsikring.
2) Unrealised gains on bonds held to maturity are not included in balance sheet values.

Insurance risk

Within life insurance, insurance risk is mainly related to the likelihood of death and disability.

Insurance risk in DNB Livsforsikring is divided, in varying degrees, between policyholders and the company. With respect to the non-life insurance products employers' liability insurance and certain pure risk products, the company is exposed to insurance risk. For individual pension and endowment insurance products sold after 1 January 2008 and group pension agreements, the company's risk represents its obligation to cover a possible negative risk result. The company is credited up to 50 per cent of any positive risk result in the form of allocations to the risk equalisation fund.

The risk result arises when empirical data for mortality, disability and exit risk deviate from the assumptions underlying the calculation base for premiums and provisions. When the risk result generates a surplus, the surplus can be allocated to the risk equalisation fund. The risk equalisation fund cannot exceed 150 per cent of the company's total risk premiums for the accounting year. If there is a deficit on the risk result, the risk equalisation fund can be used. The risk equalisation fund does not apply to risk contracts with a maximum term of one year, disability pensions and dependent’s pensions with no accrued entitlement or individual contracts sold prior to 1 January 2008.

Risk for DNB Livsforsikring related to changes in mortality rates is twofold. With respect to mortality risk coverage, mainly spouse’s and child's pensions, lower mortality rates will give an improved risk result and a more limited need for provisions. For pensions that are currently payable, lower mortality rates will result in extended disbursement periods and thus require greater provisions, called pure endowment risk. It will be possible to cover the required increase in reserves relating to insurance risk by future surpluses on investment results. The company’s insurance risk mainly comprises pure endowment risk and disability risk.

In consequence of higher life expectancy, DNB Livsforsikring increased the premium reserves by NOK 11.2 billion in the period 2011-2017. Of this amount, NOK 9.0 billion was financed by policyholder surpluses and the risk equalisation fund, while NOK 2.2 billion was financed by equity. The build-up of reserves was completed on 31 December 2017.

NOTE 17 Insurance risk (continued)

Disability risk is more exposed to short-term changes. Allocations covering incurred, unsettled insurance claims are under continuous review. No further needs for strengthening existing provisions relating to disability pensions or other disability products have been identified.

With respect to existing contracts, insurance risk is subject to continual review by analysing and monitoring risk results within each business sector. In addition, the company applies reinsurance as an instrument to reduce insurance risk. The company's current reinsurance contracts cover catastrophes and significant individual risks within group and individual insurance. The reinsurance agreements imply that DNB Livsforsikring is responsible for risk up to a certain level while the reinsurer covers excess risk up to a maximum defined limit.

In order to reduce insurance risk exposure, it is mandatory that policyholders undergo a health check before entering into a contract for individual risk products. Individual health checks are also required under small-scale group schemes. In connection with the sale of disability pensions, policyholders are divided into risk categories based on a concrete risk assessment in each individual case.

DNB Livsforsikring's operations are concentrated in Norway.

Risk result

The table shows the effect on the risk result for 2018 of given changes in empirical mortality or disability data.

DNB Livsforsikring

		Group life insurance - defined-benefit pensions		Individual annuity and pension insurance				
Amounts in NOK million		Private sector	Group association insurance	Annuity and pension insurance	Endow-ment insurance	Other sectors	Total 2018	Total 2017
Risk result								
Risk result in 2018 *)		320	13	43	116	(97)	395	
Risk result in 2017		311	6	52	126	(3)		491
Sensitivites - effect on risk result in 2018								
5 per cent reduction in mortality rate		(35)	(1)	(10)	2	1	(42)	(36)
10 per cent increase in disability rate		(107)	(0)	(10)	(10)	(24)	(151)	(139)
**) Of which:*	*Mortality risk*	*5*	*7*	*9*	*60*	*30*	*110*	*59*
	Longevity risk	*(29)*	*(6)*	*(9)*	*(1)*	*0*	*(45)*	*1*
	Disability rate	*261*	*9*	*21*	*20*	*(128)*	*184*	*297*
	Employer's liability insurance	*77*			*34*	*1*	*112*	*68*
	Other	*6*	*2*	*22*	*4*		*34*	*65*

Permanent changes in the calculation assumptions will require changes in premiums and provisions. Higher premium reserve requirements can be financed by the risk result for the year or by the year’s and future required rates of return. When calculation assumptions are changed, the company’s financing plan must be approved by Finanstilsynet.

Calculation assumptions

The table shows the effect of changes in key calculation assumptions on gross premium reserves.

DNB Livsforsikring

Amounts in NOK million	Change in per cent	Effect on gross premium reserve
Mortality	(5)	+1 541
Disability	10	+851

Mortality and disability

The table shows the net annual risk premium for a sum assured of NOK 100 000. For spouse’s pensions, the premium shown is for an annual spouse’s pension of NOK 10 000 paid from the death of the primary policyholder until the spouse reaches the age of 77. For disability pensions, the premium shown is for an annual disability pension of NOK 10 000, payable after a 12-month waiting period, until 67 years of age. All premiums relating to individual schemes are gender neutral.

DNB Livsforsikring

	Men			Women		
Amounts in NOK million	30 years	45 years	60 years	30 years	45 years	60 years
Individual life insurance	84	216	924	84	216	924
Individual disability lump sum	260	892		260	892	
Individual disability pension	490	1 433	4 301	490	1 433	4 301
Spouse's pensions in group schemes	15	107	437	12	64	181
Disability pensions in group schemes	280	452	1 296	401	1 117	2 209

NOTE 17 Insurance risk (continued)

Interest rate sensitivity – liabilities to policyholders

DNB Livsforsikring carries the risk of fulfilling the company's commitments in contracts with policyholders. The return on financial assets must be sufficient to meet the guaranteed rate of return specified in insurance policies. Otherwise, inadequate returns will have to be covered by applying the market value adjustment reserve, additional allocations, equity or subordinated loan capital. The guaranteed rate of return must be complied with on a yearly basis. Measured in relation to customer funds, the company's total guaranteed rate of return averages 3.1 per cent.

The table shows long-term developments in the average guaranteed rate of return for each sector. The guaranteed rate of return is shown as a percentage of the premium reserve, premium fund and additional allocations, and is measured as at 31 December. The interest rate guarantee is gradually reduced each year.

				DNB Livsforsikring
Per cent	2018	2017	2016	2015
Group pension insurance, private sector	3.1	3.1	3.1	3.1
Individual pension insurance	3.4	3.4	3.4	3.4
Individual endowment insurance	2.2	2.2	2.3	2.3
Group association insurance	4.0	4.0	4.0	4.0
Total	3.1	3.1	3.1	3.1

Liability adequacy test

In accordance with IFRS 4, the company has assessed whether its premium reserves are adequate to cover its liabilities. If the test shows that the premium reserves are too low to bear the future liabilities of the company, the difference should be recorded on the test date. Adequacy tests are performed each quarter.

All premium rates used by the company are based on the company's past experience within product segments or business sectors. Thus, products may have different technical rates of interest, mortality and disability assumptions, and may incur different costs. The adequacy test assesses the margins in the premium rates and the future required increase in reserves to reflect higher life expectancy.

Adequacy tests are calculated based on the net present value of all future cash flows generated by the insurance contracts, discounted by a spot interest rate curve. The interest rate curve is calculated based on observable Norwegian swap rates. The Smith Wilson-model is used to estimate the interest rate curve over a 10-year period, and it is assumed that the spot interest rate will converge against a long-term macro-economic target rate. The adequacy test is susceptible to changes in the interest rate curve.

The adequacy test indicated no need for further provisions covering liabilities to policyholders as at 31 December 2018.

Solvency capital

The solvency capital consists of the market value adjustment reserve, additional allocations, risk equalisation fund, equity, subordinated loan capital and perpetual subordinated loan capital securities and unrealised gains on bonds held to maturity. All these elements, with the exception of the risk equalisation fund, can be used to meet the guaranteed rate of return on policyholders' funds.

		DNB Livsforsikring
Amounts in NOK million	31 Dec. 2018	31 Dec. 2017
Market value adjustment reserve	1 457	3 262
Additional allocations	7 209	7 664
Risk equalisation fund	601	516
Equity	22 541	24 062
Subordinated loan capital and perpetual subordinated loan capital securities	7 000	5 500
Unrealised gains on bonds held to maturity	5 879	7 863
Total available capital	44 686	48 867
Guaranteed return on policyholders' funds [1)]	6 283	6 437

1) *One-year guaranteed rate of return on insurance contracts at end of period.*

NOTE 17 Insurance risk (continued)

Capital requirements and solvency capital

New regulatory capital requirements for European insurance companies are specified in the Solvency II Directive, which entered into force on 1 January 2016. The directive has been implemented in Norwegian law in the Financial Institutions Act and the Solvency II regulations. In addition to capital and capital requirements, the directive includes rules for capital management and internal control, supervisory review and evaluation, and market discipline in the form of requirements for public disclosure and supervisory reporting. The Solvency II regulations set a minimum requirement for primary capital to cover the solvency capital requirement (SCR) and the minimum capital requirement (MCR). The solvency capital requirement is set at a level to ensure that there is a 99.5 per cent probability that total losses, including insurance and financial losses, over a period of 12 months do not exceed the estimated capital requirement. The calculations take risk-mitigating measures and systems into consideration. The minimum requirement is set at a level to ensure that there is an 85 per cent probability that total losses over a period of 12 months will not exceed the estimated capital requirement. The capital is divided into three groups according to quality. Minimum 50 per cent of the SCR must be covered by capital group 1. Capital group 3 cannot cover more than 15 per cent of the solvency capital requirement. Capital group 1 must constitute minimum 80 per cent of the MCR requirement. The new regulations allow the use of transitional rules when calculating solvency capital. In December 2015, DNB Livsforsikring was given permission by Finanstilsynet to use the transitional rules for insurance provisions. Thus, the company is allowed to use recorded insurance provisions instead of the market value of the liabilities. The transitional rules apply for 16 years, and will be reduced linearly, initially on 1 January 2017. As at 31 December 2018, DNB Livsforsikring had a solvency margin according to the transitional rules of 184 per cent. Without the transitional rules, the solvency margin was 152 per cent. The solvency margin has been calculated after the payment of dividends of NOK 1.4 billion.

Solvency capital

	DNB Livsforsikring	
Amounts in NOK million	31 Dec. 2018	1 Jan. 2018
Capital group 1		
Share capital	1 750	1 750
Share premium reserve	6 016	6 016
Subordinated loans	1 500	0
Reconciliation reserve [1)]	17 431	20 520
Including effect of the transitional rules [2)]	5 200	7 162
Total capital group 1	26 697	28 286
Capital group 2		
Subordinated loan capital	5 500	5 500
Risk equalisation fund	601	516
Total capital group 2	6 101	6 016
Capital group 3		
Deferred taxes	0	0
Total capital group 3	0	0
Total solvency capital	**32 797**	**34 302**
Total solvency capital without the transitional rules	**27 598**	**27 140**

1) Retained earnings are included in the reconciliation reserve. In addition, changes in capital due to the transition to market values for assets and liabilities will be a part of the reconciliation reserve.

2) In addition to using recorded provisions when calculating liabilities, DNB Livsforsikring avails itself of the opportunity to apply reduced stress for equities acquired prior to 1 January 2016. Such reduced equity stress applies for a period of seven years, with a linear increase in the stress from 22 per cent to 39 per cent. According to the solvency capital regulations, government bonds issued in the home country are not subject to spread risk. During a transitional period, this also applies to government bonds issued by EEA states. The exception applies through 2018, while there will be an escalation period in 2019, and the exception will no longer apply as of 1 January 2020.

Solvency capital requirement

	DNB Livsforsikring	
Amounts in NOK million	31 Dec. 2018	1 Jan. 2018
Market and counterparty risk	30 613	29 554
Insurance risk	10 973	11 328
Operational risk	1 123	1 123
Diversification [1)]	(7 322)	(7 423)
Loss absorption, deferred taxes	(5 007)	(5 126)
Loss absorption, technical insurance reserves	(12 603)	(11 376)
Solvency capital requirement [2)]	17 777	18 079
Minimum capital requirement	7 332	7 908

1) Diversification between market and counterparty risk and insurance risk.

2) As at 31 December 2018, the solvency capital requirement without transitional rules represented NOK 18 163 million.

Solvency margin

	DNB Livsforsikring	
Figures in per cent	31 Dec. 2018	1 Jan. 2018
Solvency margin with transitional rules	184	190
Solvency margin without transitional rules	152	146

NOTE 17 Insurance risk (continued)

Insurance risk in non-life insurance

The non-life insurance products offered by DNB Forsikring AS are distributed mainly through the DNB Group's sales channels. The premium portfolio totalled NOK 2 319 million at year-end 2018, of which the greater part represented insurance coverage for individual customers.

Risk in DNB Forsikring comprises insurance, market, counterparty, operational and business risk. Insurance risk includes the risk of losses if insurance premiums fail to cover future claims payments, in addition to the risk that the company has not set aside adequate claims reserves for incurred claims. Indemnity payments are influenced by a number of factors, including catastrophic losses, claims frequency and inflation. An increase in claims frequency can be due to seasonal variations or reflect more lasting effects. A permanent change in claims frequency due to, for example, changes in customer behaviour and new types of claims, will have the most pronounced effect on profitability. Insufficient risk diversification with respect to risk categories and sums insured and the geographic locations and types of operations covered by the insurance policies could also have a negative effect on insurance risk.

DNB Forsikring has established a reinsurance programme to ensure a more predictable profit performance and to meet the capital requirements for the company and the Group. The programme is adapted to the company's overall risk, which is the sum of insurance risk, market risk, counterparty risk and operational risk.

During 2018, DNB Forsikring had a reinsurance programme (excess of loss programme) covering large individual losses and incidents above chosen own-risk limit within the individual product groups. The programme was adapted to the risk profile of the portfolio and was divided between several reinsurers with a minimum rating of A- to reduce counterparty risk.

Insurance risk is subject to continual review by monitoring the profitability of all products and quarterly risk measurement.

NOTE 18 Net interest income

						DNB Group
	2018			2017		
Amounts in NOK million	Measured at FVTPL	Measured at amortised cost [1)]	Total	Measured at FVTPL	Measured at amortised cost [1)]	Total
Interest on amounts due from credit institutions	(0)	3 935	3 935	2 287	426	2 713
Interest on loans to customers	1 309	44 965	46 273	2 168	43 451	45 619
Interest on commercial paper and bonds	4 127	100	4 227	4 030	170	4 200
Front-end fees etc.	5	279	284	2	298	300
Other interest income	(402)	3 344	2 942	(1 939)	2 973	1 033
Total interest income	**5 039**	**52 621**	**57 660**	**6 547**	**47 318**	**53 865**
Interest on amounts due to credit institutions		(3 981)	(3 981)	(2 212)	(254)	(2 465)
Interest on deposits from customers	(264)	(7 882)	(8 146)	(799)	(6 720)	(7 519)
Interest on debt securities issued	(1 718)	(10 549)	(12 267)	(3 758)	(7 381)	(11 139)
Interest on subordinated loan capital	(76)	(408)	(484)	(75)	(377)	(452)
Guarantee fund levy		(564)	(564)		(637)	(637)
Other interest expenses [2)]	4 870	(266)	4 605	3 873	(104)	3 770
Total interest expenses	**2 812**	**(23 650)**	**(20 838)**	**(2 970)**	**(15 472)**	**(18 442)**
Net interest income	**7 851**	**28 971**	**36 822**	**3 577**	**31 846**	**35 422**

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

NOTE 19 Interest rates on selected balance sheet items

	DNB Group [1]			
	Average interest rate in per cent [2]		Average volume in NOK million	
	2018	2017	2018	2017
Assets				
Due from credit institutions	0.83	0.51	472 320	531 618
Loans to customers	3.05	3.06	1 524 090	1 495 287
Commercial paper and bonds	1.86	1.90	227 338	221 427
Liabilities				
Due to credit institutions	1.49	0.88	267 413	280 012
Deposits from customers	0.83	0.74	979 283	1 023 376
Debt securities issued	1.58	1.45	777 565	768 830

1) Applies to the DNB Group excluding DNB Livsforsikring.
2) Average interest rate in per cent is calculated as total interest in NOK for the specific products in relation to the appurtenant average capital.

NOTE 20 Net commission and fee income

	DNB Group	
Amounts in NOK million	2018	2017
Money transfer and interbank transactions	3 647	3 968
Guarantee commissions	888	
Asset management services	1 871	1 719
Custodial services	345	346
Securities broking	778	789
Corporate finance	851	820
Credit broking	576	453
Sale of insurance products	2 322	2 243
Real estate broking	1 143	1 150
Other commissions and fees	812	791
Total commission and fee income	**13 235**	**12 279**
Money transfer and interbank transactions	(1 786)	(2 158)
Guarantee commissions	(78)	
Asset management services	(504)	(421)
Custodial services	(199)	(181)
Securities broking	(152)	(151)
Corporate finance	(253)	(135)
Credit broking		(13)
Sale of insurance products	(280)	(194)
Other commissions and fees	(671)	(577)
Total commission and fee expenses	**(3 925)**	**(3 831)**
Net commission and fee income	**9 310**	**8 448**

NOTE 21 Net gains on financial instruments at fair value

	DNB Group	
Amounts in NOK million	2018	2017
Foreign exchange and financial derivatives	2 743	3 262
Commercial paper and bonds	(388)	(294)
Shareholdings	129	92
Other financial assets	0	(40)
Financial liabilities	23	182
Net gains on financial instruments, mandatorily at FVTPL	2 508	3 202
Loans at fair value [1)]	(386)	152
Commercial paper and bonds [2)]	(1 161)	(326)
Shareholdings		40
Financial liabilities [3)]	611	93
Net gains on financial instruments, designated as at FVTPL	(936)	(41)
Financial derivatives, hedging	(2 088)	(9 750)
Financial assets, hedged items	(1)	(1)
Financial liabilities, hedged items	1 850	10 149
Net gains on hedged items [4) 5)]	(239)	397
Financial guarantees		907
Dividends	10	84
Net gains on financial instruments at FVTPL	**1 342**	**4 548**

1) The change in fair value due to credit risk amounted to a NOK 16 million gain during the year and a NOK 103 million loss cumulatively. Credit risk reflected in fair value measurements is based on normalised losses and changes in normalised losses in the relevant portfolio.

2) The change in fair value due to changes in credit spreads amounted to a NOK 45 million gain during the year and a NOK 267 million gain cumulatively.

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

4) With respect to hedged liabilities, the hedged risk is measured at fair value, while the rest of the instrument is measured at amortised cost. Derivatives used for hedging are measured at fair value. Changes in fair value arising from hedged risk are presented under Financial derivatives, hedging. Net gains on hedged financial liabilities include amortization of fair values on discontinued hedging relationships.

5) The DNB Group uses hedge accounting for long-term borrowings in foreign currency in DNB Boligkreditt and DNB Bank ASA. Loans are hedged 1:1 through external contracts where there is a correlation between currencies, interest rate flows and the hedging instrument. At the time the loans are raised, Markets considers whether to enter into a hedging transaction for the relevant loan based on the Group's foreign currency positions and the underlying interest rate exposure for the loan.

NOTE 22 Salaries and other personnel expenses

	DNB Group	
Amounts in NOK million	2018	2017
Salaries [*)]	(8 322)	(8 316)
Employer's national insurance contributions	(1 504)	(1 546)
Pension expenses	(1 262)	(1 347)
Restructuring expenses	(123)	(346)
Other personnel expenses	(654)	(629)
Total salaries and other personnel expenses	**(11 864)**	**(12 184)**

**) Of which: Ordinary salaries*	*(6 619)*	*(6 632)*
Performance-based pay	*(1 397)*	*(1 396)*

Number of employees/full-time positions

	DNB Group	
	2018	2017 [1)]
Number of employees as at 31 December	9 638	9 561
- of which number of employees abroad	1 421	1 404
Number of employees calculated on a full-time basis as at 31 December	9 225	9 144
- of which number of employees calculated on a full-time basis abroad	1 399	1 384
Average number of employees	9 568	10 895
Average number of employees calculated on a full-time basis	9 143	10 449

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

NOTE 23 Other expenses

	DNB Group	
Amounts in NOK million	2018	2017
Fees	(660)	(559)
IT expenses [1)]	(3 775)	(3 593)
Postage and telecommunications	(173)	(209)
Office supplies	(43)	(62)
Marketing and public relations	(749)	(810)
Travel expenses	(261)	(284)
Reimbursement to Norway Post for transactions executed	(179)	(183)
Training expenses	(66)	(65)
Operating expenses on properties and premises [2)]	(1 096)	(1 174)
Operating expenses on machinery, vehicles and office equipment	(71)	(82)
Other operating expenses	(716)	(857)
Total other expenses	**(7 789)**	**(7 878)**

1) Systems development fees totalled NOK 1 371 million in 2018 and NOK 1 388 million in 2017.
2) Costs relating to leased premises were NOK 899 million in 2018 and NOK 925 million in 2017.

NOTE 24 Depreciation and impairment of fixed and intangible assets

	DNB Group	
Amounts in NOK million	2018	2017
Depreciation of machinery, vehicles and office equipment	(1 523)	(1 458)
Other depreciation of tangible and intangible assets	(500)	(453)
Impairment of capitalised systems development	(146)	(68)
Impairment losses for goodwill [1)]		(545)
Other impairment of fixed and intangible assets	(234)	(8)
Total depreciation and impairment of fixed and intangible assets	**(2 404)**	**(2 531)**

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

See note 37 Intangible assets and note 38 Fixed assets.

NOTE 25 Pensions

Description of the pension schemes

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

The contribution rates are:

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

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

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

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

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

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

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

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

Subsidiaries and branches outside Norway have separate schemes for their employees, mainly in the form of defined-contribution schemes. Pension expenses for employees outside Norway represented NOK 212 million.

NOTE 25 Pensions (continued)

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

Pension expenses

		DNB Group
Amounts in NOK million	2018	2017
Net present value of pension entitlements	(462)	(518)
Interest expenses on pension commitments	(114)	(123)
Calculated return on pension funds	42	84
Curtailment	109	(46)
Administrative expenses	(1)	(1)
Total defined benefit pension schemes	(426)	(604)
Contractual pensions, new scheme	(107)	(104)
Risk coverage premium	(52)	(46)
Defined contribution pension schemes	(676)	(593)
Net pension expenses	(1 262)	(1 347)

Pension commitments

		DNB Group
Amounts in NOK million	2018	2017
Opening balance	5 967	5 410
Accumulated pension entitlements	462	518
Interest expenses	114	123
Actuarial losses/(gains), net	116	110
Changes in the pension schemes	(5)	22
Curtailments	(168)	53
Pension payments	(304)	(289)
Exchange rate differences	(188)	20
Closing balance	5 993	5 967

Pension funds

		DNB Group
Amounts in NOK million	2018	2017
Opening balance	2 700	2 654
Expected return	42	84
Actuarial gains/(losses), net	15	(2)
Curtailments	(59)	7
Excess pension funds that cannot be carried forward		(36)
Premium paid	136	81
Pension payments	(130)	(134)
Administrative expenses	(1)	(1)
Exchange rate differences	(199)	47
Closing balance	2 504	2 700
Net defined benefit obligation	3 489	3 267

Sensitivity analysis for pension calculations

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

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

NOTE 26 Taxes

Tax expense on pre-tax operating profit		**DNB Group**
Amounts in NOK million	2018	2017
Current taxes	(2 761)	(5 767)
Changes in deferred taxes	(1 732)	713
Tax expense	**(4 493)**	**(5 054)**

Reconciliation of tax expense against nominal tax rate		
Amounts in NOK million		
Pre-tax operating profit	28 979	26 868
Estimated tax expense at nominal tax rate 23 per cent (24 per cent in 2017)	(6 665)	(6 446)
Tax effect of financial tax in Norway	(341)	(151)
Tax effect of different tax rates in other countries	(21)	(165)
Transitional effects from new tax rules DNB Livsforsikring	880	
Tax effect of debt interest distribution with international branches	1 104	749
Tax effect of tax-exempt income from shareholdings [1]	290	725
Tax effect of other tax-exempt income and non-deductible expenses	170	353
Tax effect of tax losses carried forward not recognised in the balance sheet [2]	(5)	(23)
Tax effect of changed tax rate for deferred taxes recognised in the balance sheet		(47)
Excess tax provision previous year	95	(49)
Tax expense	**(4 493)**	**(5 054)**
Effective tax rate	16%	19%

Income tax on other comprehensive income		
Amounts in NOK million		
Items that will not be reclassified to the income statement	(11)	(10)
Hedges of net investments	265	171
Total income tax on other comprehensive income	**254**	**161**

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.*

New tax rules for insurance and pension companies in 2018

By adopting the Act of 20 December 2018, the Norwegian Storting laid down new tax rules with appurtenant transitional rules for life insurance and pension companies, with effect for 2018. The new rules involve taxation of income and costs related to assets in the common portfolio and the investment choice portfolio. The transition to new rules is regulated in the transitional provisions, where tax value and commitments as at 31 December 2018 shall be determined in line with the accounting rules. Changes in tax value are taxable or deductible in the 2018 fiscal year.

Based on our evaluation and understanding of the new tax rules with appurtenant transitional rules, the transition will result in a tax income of NOK 880 million for 2018, which is included in the table above under transitional effects from new tax rules DNB Livsforsikring. DNB will consider recognising further tax income in the time ahead. On 21 December 2018, the Norwegian Directorate of Taxes gave a statement of principles of their understanding of the transitional rule that may be conceived as divergent from DNB's view.

Tax effect of different tax rates in other countries

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

Tax effect of debt interest distribution with international branches

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

Expectations regarding the effective tax rate

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

NOTE 26 Taxes (continued)

Deferred tax assets/(deferred taxes)		**DNB Group**
Amounts in NOK million	2018	2017
The year's changes in deferred tax assets/(deferred taxes)		
Deferred tax assets/(deferred taxes) as at 1 January	(1 805)	(2 412)
Implementation of IFRS 9	346	
Changes recorded against profits	(1 733)	713
Changes recorded against comprehensive income	(11)	(10)
Currency translation differences on deferred taxes	(22)	(38)
Changes recorded against equity	(48)	(58)
Transferred to assets held for sale	53	
Deferred tax assets/(deferred taxes) as at 31 December	(3 220)	(1 805)

Deferred tax assets and deferred taxes in the balance sheet relates to the following temporary differences	Deferred tax assets		Deferred taxes	
Amounts in NOK million	31 Dec. 2018	31 Dec. 2017	31 Dec. 2018	31 Dec. 2017
Fixed assets and intangible assets	2	5	1 257	1 608
Commercial paper and bonds			1 568	1 827
Debt securities issued			(4 557)	(5 099)
Financial derivatives	280	(4)	6 501	5 181
Net pension liabilities	42	67	(831)	(775)
Net other tax-deductable temporary differences	148	260	753	397
Tax losses and tax credits carried forward	524	441	(475)	(565)
Total deferred tax assets/deferred taxes	**996**	**769**	**4 216**	**2 574**

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

Overview over deferred tax assets from tax losses and tax credits carried forward						**DNB Group**
	31 December 2018			31 December 2017		
Amounts in NOK million Tax losses carried forward	Total tax losses carried forward	Of which basis for tax assets	Recognised tax asset	Total tax losses carried forward	Of which basis for tax assets	Recognised tax assets
Norway	677			412	412	103
Singapore	510	510	87	660	660	113
Denmark	1 986	1 986	437	2 005	1 491	329
Total of tax losses and tax assets	3 173	2 496	524	3 077	2 563	545
Tax credits carried forward [1]			475			461
Total of deferred tax assets from tax losses and tax credits carried forward			**999**			**1 006**

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 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 27 Classification of financial instruments

As at 31 December 2018 **DNB Group**

Amounts in NOK million	Mandatorily at FVTPL Trading	Mandatorily at FVTPL Other [1)]	Designated as at FVTPL [2)]	Amortised cost [3)]	Carrying amount
Cash and deposits with central banks				155 592	155 592
Due from credit institutions				130 146	130 146
Loans to customers		10	62 466	1 535 282	1 597 758
Commercial paper and bonds	112 888	2	205 722	90 716	409 328
Shareholdings	5 823	33 979			39 802
Financial assets, customers bearing the risk		77 241			77 241
Financial derivatives	100 829	23 927			124 755
Other assets				7 928	7 928
Total financial assets	219 539	135 159	268 188	1 919 664	2 542 550
Due to credit institutions				188 063	188 063
Deposits from customers			14 680	912 412	927 092
Financial derivatives	107 745	2 371			110 116
Debt securities issued	329		77 195	724 394	801 918
Other liabilities	3 157			14 966	18 123
Subordinated loan capital			2 483	28 599	31 082
Total financial liabilities [4)]	111 231	2 371	94 358	1 868 433	2 076 393

1) Including derivatives used as hedging instruments.
2) For liabilities designated as at FVTPL, changes in fair value due to credit risk are recognised in other comprehensive income.
3) Including hedged liabilities.
4) Contractual obligations of financial liabilities designated as at fair value totalled NOK 93 176 million.

As at 31 December 2017 **DNB Group**

Amounts in NOK million	At fair value through profit and loss Trading	At fair value through profit and loss Designated as at fair value	Designated as hedging instruments	Amortised cost [1)]	Held to maturity	Total
Cash and deposits with central banks	143 463	3 251		4 881		151 595
Due from credit institutions	199 288			40 041		239 328
Loans to customers	55 839	75 101		1 414 475		1 545 415
Commercial paper and bonds at fair value	169 059	169 653				338 713
Shareholdings	6 304	21 917				28 220
Financial assets, customers bearing the risk		75 206				75 206
Financial derivatives	106 018		26 331			132 349
Commercial paper and bonds, held to maturity					83 894	83 894
Other assets				56 559		56 559
Total financial assets	679 971	345 128	26 331	1 515 956	83 894	2 651 279
Due to credit institutions	182 335	4 657		37 115		224 107
Deposits from customers	41 692	14 090		915 356		971 137
Financial derivatives	106 997		3 265			110 262
Debt securities issued	158 693	81 823		539 731		780 247
Other liabilities	6 214			61 865		68 078
Subordinated loan capital		2 873		26 666		29 538
Total financial liabilities [2)]	495 930	103 443	3 265	1 580 732		2 183 370

1) Includes hedged liabilities.
2) Contractual obligations of financial liabilities designated as at fair value totalled NOK 101 444 million.

NOTE 28 Fair value of financial instruments at amortised cost

				DNB Group
	31 December 2018		31 December 2017	
Amounts in NOK million	Carrying amount	Fair value	Carrying amount	Fair value
Cash and deposits with central banks	155 592	155 592	4 881	4 881
Due from credit institutions	130 146	130 146	40 041	40 041
Loans to customers	1 535 282	1 539 114	1 414 475	1 420 528
Commercial paper and bonds	90 716	96 692	83 894	91 542
Total financial assets	1 911 736	1 921 543	1 543 290	1 556 991
Due to credit institutions	188 063	188 055	37 115	37 115
Deposits from customers	912 412	912 552	915 356	915 356
Securities issued	724 394	729 357	539 731	548 082
Subordinated loan capital	28 599	27 249	26 666	26 378
Total financial liabilities	1 853 467	1 857 213	1 518 867	1 526 931

				DNB Group
Amounts in NOK million	Valuation based on quoted prices in an active market Level 1 [1)]	Valuation based on observable market data Level 2 [1)]	Valuation based on inputs other than observable market data Level 3 [1)]	Total
Assets as at 31 December 2018				
Cash and deposits with central banks		155 592		155 592
Due from credit institutions		130 146		130 146
Loans to customers		702 526	836 587	1 539 114
Commercial paper and bonds		91 461	5 231	96 692
Liabilities as at 31 December 2018				
Due to credit institutions		188 055		188 055
Deposits from customers		912 552		912 552
Securities issued		695 110	34 246	729 357
Subordinated loan capital		27 249		27 249
Assets as at 31 December 2017				
Cash and deposits with central banks		4 881		4 881
Due from credit institutions		40 041		40 041
Loans to customers		678 337	742 191	1 420 528
Commercial paper and bonds		81 960	9 581	91 542
Liabilities as at 31 December 2017				
Due to credit institutions		37 115		37 115
Deposits from customers		915 356		915 356
Securities issued		519 955	28 127	548 082
Subordinated loan capital		11 081	15 297	26 378

1) See note 29 Financial instruments at fair value for a definition of the levels.

NOTE 28 Fair value of financial instruments at amortised cost (continued)

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

Due from credit institutions (level 2)

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

Loans to customers (levels 2 and 3)

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

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

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

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

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

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 (levels 2 and 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 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 29 Financial instruments at fair value

				DNB Group
Amounts in NOK million	Valuation based on quoted prices in an active market Level 1	Valuation based on observable market data Level 2	Valuation based on inputs other than observable market data Level 3	Total
Assets as at 31 December 2018				
Loans to customers			62 476	62 476
Commercial paper and bonds	55 834	262 459	319	318 612
Shareholdings	8 159	26 833	4 810	39 802
Financial assets, customers bearing the risk		77 241		77 241
Financial derivatives	238	122 480	2 036	124 755
Liabilities as at 31 December 2018				
Deposits from customers		14 680		14 680
Debt securities issued		77 524		77 524
Subordinated loan capital		2 483		2 483
Financial derivatives	285	108 177	1 654	110 116
Other financial liabilities [1)]	3 157			3 157
Assets as at 31 December 2017				
Deposits with central banks		146 714		146 714
Due from credit institutions		199 288		199 288
Loans to customers		55 839	75 101	130 940
Commercial paper and bonds	53 391	284 994	328	338 713
Shareholdings	7 482	16 240	4 498	28 220
Financial assets, customers bearing the risk		75 206		75 206
Financial derivatives	131	130 149	2 069	132 349
Liabilities as at 31 December 2017				
Due to credit institutions		186 993		186 993
Deposits from customers		55 782		55 782
Debt securities issued		240 516		240 516
Subordinated loan capital		2 873		2 873
Financial derivatives	150	108 363	1 749	110 262
Other financial liabilities [1)]	6 153	61		6 214

1) Short positions, trading activities.

The levels

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

See note 1 Accounting principles for a description of the reclassifications made as a consequence of the implementation of IFRS 9. See note 29 Financial instruments at fair value in the 2017 annual report for a description of the financial instruments in the fair value hierarchy at the end of 2017.

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

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

Level 2: Valuation based on observable market data

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

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

NOTE 29 Financial instruments at fair value (continued)

Level 3: Valuation based on other than observable market data

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

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

Gains or losses, that occur when the estimated fair value is different from the transaction price (day-one gain/loss) has not had significant impact to the financial statement neither for 2018 nor 2017.

The instruments in the different levels

Loans to customers (level 3)

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, as well as hedge fund units and investments in unquoted equities.

When determining the fair value of private equity, PE, investments, an industry standard prepared by the European Private Equity & Venture Capital Association, EVCA, is used. The method is considered to represent the best basis for the best estimate of fair values for investments in not very liquid equity instruments. The value of the PE funds on the balance sheet date is reported by the fund managers after the Group has finalised its accounts. Valuations in the consolidated accounts are thus based on valuations received for previous periods, adjusted for a reporting lag of approximately three months. The time lag is determined based on developments in a weighted index consisting of a stock market parameter, using MSCI World as reference index, along with a parameter for anticipated long-term returns on PE investments.

Financial assets, customers bearing the risk (level 2)

The item applies to unit-linked products in DNB Livsforsikring, and the value development of the underlying funds is available on a daily basis.

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 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 29 Financial instruments at fair value (continued)

Financial instruments at fair value, level 3 **DNB Group**

	Financial assets				Financial liabilities
Amounts in NOK million	Loans to customers	Commercial paper and bonds	Share-holdings	Financial derivatives	Financial derivatives
Carrying amount as at 31 December 2016	**93 753**	**375**	**5 122**	**1 319**	**1 062**
Net gains recognised in the income statement	104	(63)	608	(75)	(99)
Additions/purchases	5 041	331	439	1 422	1 349
Sales		(291)	(1 672)		
Settled	(23 713)			(592)	(578)
Transferred from level 1 or level 2		100			
Transferred to level 1 or level 2		(132)			
Other	(84)	8		(5)	15
Carrying amount as at 31 December 2017	**75 101**	**328**	**4 498**	**2 069**	**1 749**
Implementation impact from IFRS 9 at 1 January 2018	(10 103)				
Net gains recognised in the income statement	(398)	(459)	383	(462)	(237)
Additions/purchases	15 324	358	1 097	1 185	886
Sales		(27)	(1 854)		
Settled	(17 195)	(0)		(756)	(745)
Transferred from level 1 or level 2		230	882		
Transferred to level 1 or level 2		(69)			
Other	(254)	(42)	(197)	0	2
Carrying amount as at 31 December 2018	**62 476**	**319**	**4 810**	**2 036**	**1 654**

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

Fixed-rate loans
The value of fixed-rate loans is determined by discounting agreed interest flows over the term of the loan, using a discount factor adjusted for margin requirements. The discount factor used has as a starting point a swap rate based on a duration equal to the average remaining lock-in period for the relevant fixed-rate loans. The assumptions underlying the calculation of the margin requirement are based on a review of the market conditions on the balance sheet date and on an assessment of the deliberations made by external investors when investing in a corresponding portfolio. Fixed-rate loans carried at fair value totalled NOK 62 466 million at year-end 2018.

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.

NOTE 29 Financial instruments at fair value (continued)

Breakdown of fair value, level 3

DNB Group

Amounts in NOK million	31 December 2018 Loans to customers	Commercial paper and bonds	Share-holdings
Principal amount/purchase price	61 821	362	4 259
Fair value adjustment [1)]	563	(44)	551
Accrued interest	91		
Carrying amount	62 476	319	4 810

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 Group

Amounts in NOK million	Property funds	Hedge-funds	Unquoted equities	Private Equity (PE) funds	Other	Total
Carrying amount as at 31 December 2018	67	832	779	1 977	1 155	4 810

Sensitivity analysis, level 3

DNB Group

Amounts in NOK million	Carrying amount 31 Dec. 2018	Effect of reasonably possible alternative assumptions
Loans to customers	62 476	(177)
Commercial paper and bonds	319	(4)
Shareholdings	4 810	
Financial derivatives, net	382	

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

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

Level 3 equities represent a total of NOK 4 069 million in private equity investments, property funds, hedge funds and unquoted equities in DNB Livsforsikring. The fair values of the funds are largely based on reported values from the fund managers. For private equity and property funds, the fund managers use cash flow-based models or multiples when determining fair values. The Group does not have full access to information about all elements in these valuations and thus has no basis for determining alternative values for alternative assumptions. The use of alternative values will have a limited effect on the Group's profits, as the investments are included in DNB Livsforsikring's common portfolio.

NOTE 30 Offsetting

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

DNB Group

Amounts in NOK million	Gross amount	Amounts offset in the statement of financial position	Carrying amount	Netting agreements	Other collateral [1]	Amounts after possible netting
Assets as at 31 December 2018						
Cash and deposits with central banks [2]	30 241		30 241		30 241	
Due from credit institutions [2]	74 939		74 939		74 939	
Loans to customers [2]	61 357		61 357		61 357	
Financial derivatives [3]	124 755		124 755	17 799	96 025	10 931
Liabilities as at 31 December 2018						
Due to credit institutions	38 874		38 874		38 874	
Deposits from customers [2]	1 846		1 846		1 846	
Financial derivatives [3]	110 116		110 116	17 799	70 551	21 766
Assets as at 31 December 2017						
Cash and deposits with central banks [2]						
Due from credit institutions [2]	192 707		192 707		192 707	
Loans to customers [2]	56 430		56 430		56 430	
Financial derivatives [3]	132 349		132 349	23 797	71 599	36 953
Liabilities as at 31 December 2017						
Due to credit institutions	30 922		30 922		30 922	
Deposits from customers [2]	1 552		1 552		1 552	
Financial derivatives [3]	110 262		110 262	23 797	70 801	15 664

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 collateralised by cash or securities under Credit Support Annex.*

NOTE 31 Shareholdings

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

		DNB Group
Amounts in NOK million	31 Dec. 2018	31 Dec. 2017
Total investments in shares, mutual funds and equity certificates, excluding DNB Livsforsikring	8 229	7 917
Total investments in shares, mutual funds and equity certificates, DNB Livsforsikring	31 573	20 304
Total investments in shares, mutual funds and equity certificates	**39 802**	**28 220**

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

NOTE 32 Transferred assets or assets with other restrictions

Transferred assets still recognised in the balance sheet

Amounts in NOK million	DNB Group 31 Dec. 2018	31 Dec. 2017
Repurchase agreements		
Commercial paper and bonds	1 588	2 688
Derivatives		
Commercial paper and bonds	3 592	2 698
Securities lending		
Shares	311	178
Total repurchase agreements, derivatives and securities lending	5 490	5 564

Liabilities associated with the assets

Amounts in NOK million	31 Dec. 2018	31 Dec. 2017
Repurchase agreements		
Due to credit institutions	727	1 808
Deposits from customers	860	877
Derivatives	3 592	2 698
Securities lending	326	187
Total liabilities	5 505	5 570

Restricted assets

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

Restrictions affecting the Group's ability to use assets:

- The Group has pledged assets to collateralise its obligations (pledged securities) and issued covered bonds (cover pool). The Group has pledged collateral in connection with derivative instruments, see note 15 Financial derivatives and hedge accounting for further information.
- The assets of consolidated structured entities (investment funds) are held for the benefit of the parties that have bought the notes issued by these entities. At year-end 2018 and 2017, assets related to holdings outside the Group represented NOK 37 497 million and NOK 46 685 million, respectively, which is reflected as a corresponding liability in the balance sheet.
- Assets held by insurance subsidiaries are primarily held to satisfy the obligations to the companies' policy holders. At year-end 2018 assets held by the insurance subsidiaries amounted to NOK 319 484 million, compared to NOK 320 339 million at year-end 2017. These assets are related to DNB Livsforsikring AS and DNB Forsikring AS, and include Financial assets, customers bearing the risk.

Cover pool

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

1) *The debt securities issued are bonds with preferred rights in the appurtenant cover pool. The composition and calculation of values in the cover pool are defined in Sections 11-8 and 11-11 of the Financial Institutions Act with appurtenant regulations.*

NOTE 33 Securities received which can be sold or repledged

Securities received

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

NOTE 34 Financial assets and insurance liabilities, customers bearing the risk

Amounts in NOK million	31 Dec. 2018	DNB Group 31 Dec. 2017
Mutual funds	37 245	36 384
Bond funds	25 323	24 443
Money market funds	8 994	8 482
Combination funds	4 117	4 369
Bank deposits	1 562	1 528
Total financial assets, customers bearing the risk	**77 241**	**75 206**
Total insurance liabilities, customers bearing the risk	**77 241**	**75 206**

NOTE 35 Investment properties

		DNB Group
Amounts in NOK million	31 Dec. 2018	31 Dec. 2017
DNB Livsforsikring	16 844	16 106
Properties for own use	(767)	(790)
Other investment properties [1)]	638	990
Total investment properties	**16 715**	**16 306**

1) Other investment properties are mainly related to acquired companies.

Fair value

Investment properties in DNB Livsforsikring are part of the common portfolio and are owned with the intention to achieve long-term returns for policyholders. The property portfolio is measured at fair value on the balance sheet date. Fair value is defined as the price that would be received to sell an asset in an orderly transaction between market participants (exit price).The Norwegian properties are valued by using an internal valuation model, and is thus classified at level three in the valuation hierarchy. As a supplement, external appraisals are obtained for a representative selection of properties in the portfolio at regular intervals throughout the year. This selection represents close to 95 per cent of the values in the portfolio. During the fourth quarter of 2018, external appraisals were obtained for a total of ten properties, representing 43 per cent of portfolio value in Norway. The purpose of the external appraisals is to benchmark the internal valuations against independent references. The Swedish properties in the portfolio and partially owned properties are valued based on external appraisals.

Internal valuation model

In the internal model, fair value is calculated as the present value of future cash flows during and after the contract period. The required rate of return stipulated in the model reflects market risk. At the end of 2018, a required rate of return of 7.6 per cent was generally used. However, certain individual assessments of the required rate of return are made at segment level. The model uses the same required rates of return for cash flow both during and after the contract period.

Specific property risk is reflected in the cash flow through contractual rent, future market rent, operating expenses, required investments, adaptations for new tenants upon expiry of the contract, vacancy risk and adjustments for future price inflation, CPI (Norges Bank's inflation target).

Developments in market and contractual rents

During 2018, total contractual rent for the wholly-owned portfolio in Norway increased by NOK 42 million to NOK 778 million, while the estimated market rent for the same portfolio went up by NOK 16 million to NOK 784 million.

Value development and sensitivity

The valuations resulted in a NOK 738 million positive revaluation of the property portfolio in 2018.

Valuations are particularly sensitive to changes in required rates of return and assumptions regarding future income flows. Other things equal, a 0.25 percentage point reduction in the required rate of return will change the value of the property portfolio by approximately 4.9 per cent or NOK 661 million. Correspondingly, a 5 per cent change in future contractual rents will change the value of the property portfolio by approximately 4.0 per cent or NOK 540 million.

Vacancy

At year-end 2018, economic vacancy in the portfolio was 7.0 per cent, compared with 6.8 per cent a year earlier.

Other investment properties

The Group's other investment properties are mainly related to acquired companies and are classified at level 3 in the valuation hierarchy.

NOTE 35 Investment properties (continued)

Investment properties according to geographical location

DNB Livsforsikring

Type of building	Location	Fair value *NOK million*	Gross rental area *m²*	Average rental period *No. of years*
Office buildings	Eastern Norway	4 100	103 879	5.0
Office buildings	Rest of Norway	3 068	122 827	4.6
Shopping centres	Norwegian cities	4 144	111 083	3.7
Hotels	Norwegian cities	2 103	64 176	10.0
Abroad	Stockholm/Gothenburg	3 429	35 836	7.6
Total investment properties as at 31 December 2018		16 844	437 801	5.5
Total investment properties as at 31 December 2017		16 106	479 394	6.0
Change in 2018		738	(41 593)	(0.5)
Total investment properties as at 31 December 2018		16 844	437 801	5.5

Projects, expected completion

DNB Livsforsikring

Amounts in NOK million	2019	2020	2021
Contractual obligations for property purchases and development	53		9

Amounts included in the income statement

DNB Group

Amounts in NOK million	2018	2017
Rental income from investment properties	832	893
Direct expenses (including repairs and maintenance) related to investment properties generating rental income	(147)	(175)
Direct expenses (including repairs and maintenance) related to investment properties not generating rental income	(0)	(12)
Total	684	705

Changes in the value of investment properties

DNB Group

Amounts in NOK million	Investment properties
Carrying amount as at 31 December 2016	**15 912**
Additions, capitalised investments	161
Net gains	947
Disposals	(888)
Exchange rate movements	173
Carrying amount as at 31 December 2017	**16 306**
Additions, purchases of new properties	13
Additions, capitalised investments	330
Net gains [1)]	565
Disposals	(362)
Exchange rate movements	(137)
Carrying amount as at 31 December 2018	**16 715**

1) Of which NOK 60 million represented a net loss on investment properties which are not owned by DNB Livsforsikring.

NOTE 36 Investments accounted for by the equity method

	DNB Group	
Amounts in NOK million	2018	2017
Reclassification effects related to the implementation of IFRS 9 in Luminor Group AB	(179)	
Carrying amount as at 1 January	15 431	7 768
Share of profits after tax	293	(587)
Share of other comprehensive income	43	175
Additions/disposals	595	8 254
Carrying amount as at 31 December [1)]	**16 362**	**15 609**

							DNB Group
Amounts in NOK million	Assets 31 Dec. 2018 [2)]	Liabilities 31 Dec. 2018 [2)]	Income 2018 [2)]	Profit 2018 [2)]	Ownership share (%) 31 Dec. 2018	Carrying amount 31 Dec. 2018	Carrying amount 31 Dec. 2017
Luminor Group AB [3)]	152 178	134 290	3 591	1 228	43	7 680	7 387
DNB Scandinavian Property Fund DA	8 604	94	401	563	35	3 021	2 914
Eksportfinans AS	19 225	12 804	185	71	40	2 569	2 721
Sørlandssenteret DA	2 643	22	140	123	44	1 311	1 300
Vipps AS [4)]	2 556	308	1 133	(199)	44	907	525
Visa Norge						467	443
Other associated companies						407	320
Total						**16 362**	**15 609**

1) Include deferred tax positions and value adjustments not reflected in the company's balance sheet.

2) Values in the accounts of associated companies. Preliminary and unaudited accounts have been used.

3) In mid-September 2018, an agreement was signed with Blackstone to sell part of the Luminor Group AB. The agreement means that Blackstone will purchase 60.1 per cent of the Luminor Group from today's owners. DNB's ownership interest will be reduced from 43.5 per cent to 20 per cent as a consequence of the transaction. The transaction is expected to be completed during the first half of 2019, subject to regulatory approvals.

4) At the end of April 2018, the Norwegian Competition Authority approved the merger between Vipps, BankID Norge and BankAxept, and Finanstilsynet gave its approval at the beginning of June 2018. After the merger and a private placement in Vipps in June 2018, DNB owns 44.3 per cent of Vipps. The transaction had a total positive effect on profits of NOK 464 million presented as "Net gain on fixed and intangible assets".

NOTE 37 Intangible assets

DNB Group

Amounts in NOK million	Goodwill	Capitalised systems development	Other intangible assets	Total
Cost as at 1 January 2017	9 134	4 582	845	14 561
Additions	45	535	28	609
Additions from the aquisition/establishment of other companies		2		2
Increase/reduction in cost price			(0)	(0)
Disposals [1]	(703)	(43)	(0)	(745)
Exchange rate movements	22	147	79	248
Cost as at 31 December 2017	8 498	5 223	952	14 673
Total depreciation and impairment as at 1 January 2017	(4 368)	(3 634)	(745)	(8 747)
Depreciation		(254)	(69)	(323)
Impairment	(5)	(45)		(50)
Disposals [1]	160	43	0	203
Exchange rate movements	7	(130)	(34)	(156)
Total depreciation and impairment as at 31 December 2017	(4 206)	(4 020)	(847)	(9 073)
Carrying amount as at 31 December 2017	**4 292**	**1 203**	**105**	**5 600**
Cost as at 1 January 2018	8 498	5 223	952	14 673
Additions	5	441	20	466
Held for sale		(204)		(204)
Increase/reduction in cost price		(6)	0	(6)
Disposals	(8)	(205)	22	(191)
Exchange rate movements	(16)	0	(11)	(28)
Cost as at 31 December 2018	8 478	5 248	983	14 709
Total depreciation and impairment as at 1 January 2018	(4 206)	(4 020)	(847)	(9 073)
Depreciation		(306)	(47)	(353)
Impairment	(5)	0	0	(5)
Disposals	8	68	(0)	76
Held for sale		89		89
Exchange rate movements	0	1	10	12
Total depreciation and impairment as at 31 December 2018	(4 203)	(4 167)	(884)	(9 254)
Carrying amount as at 31 December 2018	**4 276**	**1 081**	**99**	**5 455**

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

Goodwill

The risk-free interest rate is set at 3 per cent, the market risk premium is set at 5 per cent, and the long-term growth factor is set at 2.0 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 37 Intangible assets (continued)

Goodwill per unit **DNB Group**

	31 December 2018		31 December 2017	
	Required rate of return (per cent)	Recorded (NOK million)	Required rate of return (per cent)	Recorded (NOK million)
DNB Asset Management	11.3	1 679	13.1	1 679
Personal customers	11.4	982	11.9	982
Small and medium-sized enterprises	11.4	483	11.9	483
DNB Finans – car financing	11.5	791	11.9	791
Other	11.5	341	11.9	357
Total goodwill		**4 276**		**4 292**

DNB Asset Management

The unit includes asset management operations, mainly in Norway and Sweden. Total goodwill from units in the operational area is assessed collectively, and the cash-generating unit represents the entire operational area. Operations are integrated, and synergies and rationalisation effects have been realised throughout the organisation. The most critical assumptions for cash flows during the plan period are developments in the securities markets, net sales of mutual funds and margins.

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 impairments of loans.

NOTE 38 Fixed assets

						DNB Group
Amounts in NOK million	Real property at historic cost	Real property at fair value	Machinery, equipment and vehicles	Fixed assets operational leases	Other fixed assets	Total
Accumulated cost as at 31 December 2016	173	998	3 302	8 018	67	12 558
Reclassified fixed assets					(22)	(22)
Additions	3		388	2 883	3	3 277
Revaluation	0	(38)	(0)			(38)
Disposals	(11)		(56)	(2 272)	(4)	(2 343)
Exchange rate movements	2		0	228	5	235
Cost as at 31 December 2017	168	961	3 634	8 857	50	13 668
Total depreciation and impairment as at 31 December 2016	(39)	(171)	(1 875)	(2 493)	(31)	(4 609)
Disposals			5	900	(1)	904
Depreciation [1)]	(9)		(311)	(853)	(4)	(1 177)
Reversal of previous impairment losses					2	2
Exchange rate movements	(1)		1	(81)	(4)	(84)
Total depreciation and impairment as at 31 December 2017	(49)	(171)	(2 179)	(2 528)	(37)	(4 965)
Carrying amount as at 31 December 2017	118	790	1 454	6 329	12	8 704
Value of property classified at fair value according to the historic cost principle		168				

Accumulated cost as at 31 December 2017	168	961	3 634	8 857	50	13 668
Reclassified fixed assets						
Additions	1		150	3 030	11	3 191
Revaluation		(23)	0			(23)
Disposals	(6)		(27)	(2 067)	(4)	(2 104)
Exchange rate movements	0		19	(50)	(0)	(31)
Cost as at 31 December 2018	162	938	3 776	9 769	56	14 701
Total depreciation and impairment ast at 31 December 2017	(49)	(171)	(2 179)	(2 528)	(37)	(4 965)
Disposals			17	1 164	4	1 185
Depreciation [1)]	(9)		(330)	(1 333)	(5)	(1 677)
Impairment				(4)		(4)
Exchange rate movements	3		(16)	14	0	0
Total depreciation and impairment as at 31 December 2018	(56)	(171)	(2 508)	(2 688)	(38)	(5 461)
Carrying amount as at 31 December 2018	106	767	1 267	7 082	18	9 240
Value of property classified at fair value according to the historic cost principle		166				

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 Group has not placed any collateral for loans/funding of fixed assets, including property.

NOTE 39 Assets and liabilities held for sale

On 24 September 2018, SpareBank 1 Gruppen AS and DNB ASA signed a transaction agreement to merge their insurance operations in a new company called Fremtind.

The transaction agreement included the merger of the insurance companies DNB Forsikring and SpareBank 1 Skadeforsikring, the transfer of individual personal risk products from DNB Livsforsikring and SpareBank 1 Forsikring as well as the company paid personal risk products from SpareBank 1 Forsikring. The Norwegian Competition Authority approved the agreement at an early stage, and on 19 December 2018, Finanstilsynet (the Financial Supervisory Authority of Norway) approved the part of the agreement that applies to the merger of the non-life insurance companies DNB Forsikring and SpareBank 1 Skadeforsikring, that is, without the individual personal and the company paid personal risk products. Due to this, the parties decided to implement the merger in two steps, and the merger of the non-life insurance companies was carried out at the beginning of January 2019.

Based on the completed transaction at the beginning of 2019, DNB Forsikring is presented as held for sale in the Group's balance sheet at year-end 2018. Because of the uncertainty surrounding the approval of the demerger of the individual personal risk products in DNB Livsforsikring, this part of the transaction is not presented as held for sale. DNB's ownership of 35 per cent in Fremtind will from the first quarter of 2019 be presented under "Investments accounted for by the equity method".

As part of the transaction the Group will recognise a gain of NOK 1.7 billion in the first quarter of 2019.

NOTE 40 Leasing

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

Operational leases (as lessor)		**DNB Group**
Amounts in NOK million	31 Dec. 2018	31 Dec. 2017
Future minimum lease payments under non-cancellable leases		
Due within 1 year	888	268
Due in 1-5 years	3 096	2 126
Due in more than 5 years	38	17
Total future minimum lease payments under non-cancellable leases	4 022	2 410

Operational leases (as lessee)		**DNB Group**
Amounts in NOK million	31 Dec. 2018	31 Dec. 2017
Minimum future lease payments under non-cancellable leases		
Due within 1 year	100	49
Due in 1-5 years	636	447
Due in more than 5 years	4 566	5 103
Total minimum future lease payments under non-cancellable leases	5 302	5 598
Total minimum future sublease payments expected to be received under non-cancellable subleases	278	322

		DNB Group
Amounts in NOK million	2018	2017
Leases recognised as an expense during the period		
Minimum lease payments	958	643
Variable lease payments	13	13
Total leases recognised as an expense during the period	971	656
Impairment of leases	(0)	(0)

NOTE 41 Other assets

		DNB Group
Amounts in NOK million	31 Dec. 2018	31 Dec. 2017
Accrued expenses and prepaid revenues	728	807
Amounts outstanding on documentary credits and other payment services	1 000	1 743
Unsettled contract notes	2 330	2 693
Past due, unpaid insurance premiums	501	220
Investment funds owned by non-controlling interests	37 301	46 685
Other amounts outstanding	4 610	4 411
Total other assets	**46 469**	**56 559**

NOTE 42 Deposits from customers by industry segment

	DNB Group
Amounts in NOK million	31 Dec. 2018
Bank, insurance and portfolio management	32 299
Commercial real estate	44 065
Shipping	39 484
Oil, gas and offshore	60 185
Power and renewables	11 632
Healthcare	7 432
Public sector	50 046
Fishing, fish farming and farming	13 551
Trade	28 954
Manufacturing	50 484
Technology, media and telecom	14 386
Services	88 957
Residential property	15 419
Personal customers	372 024
Other corporate customers	98 173
Deposits from customers	**927 092**

NOTE 43 Debt securities issued

Changes in debt securities issued

DNB Group

Amounts in NOK million	Balance sheet 31 Dec. 2018	Issued 2018	Matured/ redeemed 2018	Exchange rate movements 2018	Other adjustments 2018	Balance sheet 31 Dec. 2017
Commercial paper issued, nominal amount	174 732	1 037 792	(1 028 264)	6 529		158 675
Bond debt, nominal amount [1]	604 127	78 195	(81 198)	10 754		596 377
Adjustments	23 059				(2 137)	25 195
Total debt securities issued	**801 918**	**1 115 987**	**(1 109 463)**	**17 283**	**(2 137)**	**780 247**

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

DNB Group

Amounts in NOK million	NOK	Foreign currency	Total
2019		174 380	174 380
Total commercial paper issued, nominal amount		174 380	174 380
2019		55 805	55 805
2020		87 101	87 101
2021		86 686	86 686
2022		89 630	89 630
2023		86 513	86 513
2024		26 350	26 350
2025 and later		96 284	96 284
Total bond debt, nominal amount		528 369	528 369
Total debt securities issued, nominal amount		702 749	702 749

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

DNB Group

Amounts in NOK million	NOK	Foreign currency	Total
2019	352		352
Total commercial paper issued, nominal amount	352		352
2019	10 712		10 712
2020	19 990		19 990
2021	26 708		26 708
2022	15 160		15 160
2023	1 173		1 173
2024	695		695
2025 and later	1 321		1 321
Total bond debt, nominal amount	75 758		75 758
Total debt securities issued, nominal amount	76 110		76 110
Adjustments	1 414	21 645	23 059
Debt securities issued	77 524	724 394	801 918

1) *Minus own bonds. Nominal amount of outstanding covered bonds in DNB Boligkreditt totalled NOK 461.5 billion as at 31 December 2018. The cover pool market value represented NOK 623.8 billion.*
2) *Includes hedged items.*

NOTE 44 Subordinated loan capital and perpetual subordinated loan capital securities

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

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

DNB Group

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

NOTE 45 Other liabilities

DNB Group

Amounts in NOK million	31 Dec. 2018	31 Dec. 2017
Short-term funding	645	458
Short positions trading	3 157	6 214
Accrued expenses and prepaid revenues	4 287	4 362
Documentary credits, cheques and other payment services	2 211	2 053
Unsettled contract notes	1 771	2 828
Accounts payable	1 681	2 004
General employee bonus	278	219
Non-controlling interests	37 301	46 685
Other liabilities	4 093	3 256
Total other liabilities [1]	**55 424**	**68 078**

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

NOTE 46 Equity

Share capital

The Annual General Meeting held on 24 April 2018 resolved a reduction in share capital by cancelling own shares and redeeming shares held by the Norwegian government. The cancellation of the shares was registered in the Register of Business Enterprises 30 July 2018. The number of issued shares was reduced by 24 431 973 to 1 604 366 888.

The share capital of DNB ASA at 31 December 2018 was NOK 16 043 668 880 divided into 1 604 366 888 shares, each with a nominal value of NOK 10. The share capital of DNB ASA at 31 December 2017 was NOK 16 287 988 610 divided into 1 628 798 861 shares, each with a nominal value of NOK 10.

DNB ASA has one class of shares, and all shares carry voting rights. Shareholders are entitled to receive the dividend proposed at any time and have one voting right per share at the company's general meeting.

The Board of Directors of DNB ASA has proposed that the general meeting to be held in April 2019 approve a dividend of NOK 8.25 per share for 2018.

Own shares

The Annual General Meeting held on 24 April 2018 approved a new authorization for the Board of Directors of DNB ASA to acquire own shares for a total face value of up to 3.5 per cent of the company's share capital. The first buy-back programme under the new authorisation was initiated on 6 June and comprises up to 1.5 per cent of the shares. DNB ASA has signed an agreement with the Norwegian government, represented by the Ministry of Trade, Industry and Fisheries for the redemption of a proportional share of government holdings to ensure that the government's percentage ownership does not change as a result of the redemption of repurchased shares.

DNB ASA repurchased a total of 10 015 000 shares in the open market under this authorisation during 2018, representing 0.62 per cent of its registered shares, at an average price of NOK 160.52 per share. The total price of repurchased shares was NOK 1 608 376 615. In addition, the government's proportional share, representing 5 159 242 shares, will be redeemed.

Additional Tier 1 capital

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

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

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

DNB Group

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

NOTE 47 Remunerations etc.

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

"Information about DNB's remuneration scheme

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

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

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

Variable remuneration

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

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

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

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

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

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

Decision-making process

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

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

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

NOTE 47 Remunerations etc. (continued)

A. Standards for the coming accounting year

Remuneration to the group chief executive

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

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

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

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

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

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

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

Remuneration to senior executives

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

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

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

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

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

Target structure 2019

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

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

Remuneration structure

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

NOTE 47 Remunerations etc. (continued)

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

Determination of variable remuneration for 2019

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

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

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

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

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

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

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

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

Pensions etc.

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

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

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

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

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

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

See table of remunerations for senior executives below.

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

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

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

NOTE 47 Remunerations etc. (continued)

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

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

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

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

Terms for the chair of the Board of Directors

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

Terms for the group chief executive

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

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

NOTE 47 Remunerations etc. (continued)

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

Remunerations etc. in 2018 **DNB Group**

Amounts in NOK 1 000	Fixed annual salary as at 31 Dec. 2018 [1]	Remune-ration earned in 2018 [2]	Paid salaries in 2018 [3]	Variable remune-ration earned in 2018 [4]	Benefits in kind and other benefits in 2018	Total remunera-tion earned in 2018	Loans as at 31 Dec. 2018 [5]	Specially agreed retire-ment age [9]	Accrued pension expenses in 2018 [6]
Board of Directors of DNB ASA									
Olaug Svarva (chair, from 24.04.18) [7]		713			5	718			
Anne Carine Tanum (chair, until 24.04.18)		338			3	341			
Tore Olaf Rimmereid (vice chair) [8]		536				536	12		
Karl-Christian Agerup [7]		364				364	3		
Carl A. Løvvik	745	343	744	24	20	1 131	849		175
Vigdis Mathisen [7]	816	389	817	24	28	1 258	4 316		171
Jaan Ivar Semlitsch [8]		524				524	106		
Berit Svendsen [8]		505				505	13 780		
Group management									
Rune Bjerke, CEO	5 855		6 173	2 474	385	9 031	9 783	60	5 259
Kjerstin Braathen, CFO	4 205		4 355	1 774	272	6 401	68	65	745
Trond Bentestuen, group EVP (until 07.06.18)	3 635		3 063		224	3 287	5 925	65	542
Ottar Ertzeid, group EVP	9 225		9 610	3 874	248	13 731	0	62	805
Benedicte S. Fasmer, group EVP	3 405		3 523	1 449	219	5 191	5 130		119
Rasmus Aage Figenschou, group EVP	3 055		3 150	1 349	237	4 736	11 590		119
Håkon Hansen, group EVP (from 07.06.18)	3 400		2 986	1 424	195	4 604	5 888		351
Solveig Hellebust, group EVP	3 205		3 324	1 349	236	4 909	6	65	404
Ida Lerner, group EVP [10]	3 937		4 047	24	2 326	6 398			
Thomas Midteide, group EVP	3 055		3 031	1 294	247	4 572	2 107	65	272
Alf Otterstad, group EVP	3 110		3 067	1 349	230	4 645	3 001		119
Hans Olav Rønningen, group EVP (until 08.01.18)	1 690		1 874	724	177	2 775	4 635		80
Harald Serck-Hanssen, group EVP	4 265		4 436	1 774	268	6 477	24 883	65	1 244
Ingjerd Blekeli Spiten, group EVP (from 08.01.18)	3 400		3 196	1 449	259	4 904	5 768		119
Mirella E. Os Wassiluk, group EVP (from 02.04.18)	3 100		2 347	24	157	2 528	0		90
Loans to other employees							22 165 427		

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. Board remuneration from DNB ASA was NOK 3 243 000 in 2018. Some persons are members of more than one body.
3) Includes salary payments for the entire year and holiday pay on variable remuneration. Some employees were members of the Board of Directors or the group management team for only parts of the year.
4) Variable remuneration earned excluding holiday pay.
5) Loans to shareholder-elected representatives are extended on ordinary customer terms. Loans to DNB employees are extended on special terms, which are close to ordinary customer terms.
6) Pension rights earned during the year (SCC). The calculation of pension entitlements is based on the same economic and actuarial assumptions as those used in note 25 Pensions.
7) Also a member of the Compensation Committee.
8) Also a member of the Audit Committee and the Risk Management Committee.
9) 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.
10) 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 47 Remunerations etc. (continued)

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

Remunerations etc. in 2017

DNB Group

Amounts in NOK 1 000	Fixed annual salary as at 31 Dec. 2017 [1)]	Remune-ration earned in 2017 [2)]	Paid salaries in 2017 [3)]	Variable remune-ration earned in 2017 [4)]	Benefits in kind and other benefits in 2017	Total remunera-tion earned in 2017	Loans as at 31 Dec. 2017 [5)]	Specially agreed retire-ment age [9)]	Accrued pension expenses in 2017 [6)]
Board of Directors of DNB ASA									
Anne Carine Tanum (chair) [7)]		1 009				1 009			
Tore Olaf Rimmereid (vice chair) [7) 8)]		575				575			
Karl-Christian Agerup (from 25.04.17) [8)]		284				284			
Jarle Bergo (until 25.04.17)		253			1	254			
Carl A. Løvvik	725	327	734	22	22	1 105	553		173
Vigdis Mathisen [7)]	796	417	795	22	30	1 265	2 015		167
Jaan Ivar Semlitsch [8)]		478				478	4		
Berit Svendsen [7) 8)]		482				482	13 348		
Group management									
Rune Bjerke, CEO	5 695		5 957	2 272	301	8 530	9 620	60	5 105
Bjørn Erik Næss, CFO (until 01.03.17)			2 045	250	3 308	5 603	957		19
Kjerstin Braathen, CFO (from 01.03.17)	4 000		3 881	1 522	216	5 618	12	65	707
Trond Bentestuen, group EVP	3 560		3 675	1 362	263	5 300	6 144	65	881
Ottar Ertzeid, group EVP	9 020		9 419	3 822	238	13 479	21	62	781
Benedicte S. Fasmer, group EVP	2 950		3 179	1 122	270	4 571	6 014		115
Rasmus Aage Figenschou, group EVP (from 11.12.17)	2 340		2 130	647	163	2 940	11 666		115
Liv Fiksdahl, group EVP (until 11.12.17)	3 200		3 347	1 222	245	4 814	1 113	62	1 235
Rune Garborg, group EVP (until 01.09.17)	2 950		2 179	950	214	3 343	6 401		175
Solveig Hellebust, group EVP	3 200		2 693	1 022	234	3 950	18	65	400
Ida Lerner, group EVP (from 11.12.17) [10)]	3 992		2 162	1 477	2 376	6 015			
Bengt Olav Lund, group EVP (from 01.05.17 until 11.12.17)	2 950		3 232	1 072	255	4 558	6 592		115
Thomas Midteide, group EVP	2 500		2 568	1 022	251	3 840	2 186	65	269
Kari Olrud Moen, group EVP (until 11.12.17)	2 880		3 021	1 000	234	4 255	21	62	1 441
Alf Otterstad, group EVP (from 11.12.17)	1 840		1 664	622	150	2 436	3 124		115
Tom Rathke, group EVP (until 01.05.17)	3 480		3 795	872	245	4 912	6 078	62	2 454
Hans Olav Rønningen, group EVP (from 11.12.17)	1 650		1 714	822	180	2 716	4 880		206
Harald Serck-Hanssen, group EVP	4 175		4 368	1 422	258	6 048	5 130	65	1 217
Terje Turnes, group EVP (until 11.12.17)	4 010		4 143	582	242	4 967	92		709
Loans to other employees							20 766 087		

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. Board remuneration from DNB ASA was NOK 3 267 000 in 2017. 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 25 Pensions.
7) Also a member of the Compensation Committee.
8) Also a member of the Audit and Risk Management Committees.
9) 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
10) Ida Lerner is on international assignment from Sweden to Norway. Prior to joining DNB's management team on 11 December 2017, she was head of DNB CEMEA in London, also on an international assignment contract. In accordance with DNB's international assignment policy, she has assignment-related benefits in kind, such as accommodation and children's school costs. Both her salary and benefits in kind are provided as net entitlements. The amounts have been grossed up with Norwegian taxes by an external service provider. As she is not a member of the Norwegian National Insurance Scheme, no social security contributions have been included in the gross amounts. In her new role as head of an independent control function, Ida Lerner will receive no variable remuneration as from the 2018 income year.

NOTE 47 Remunerations etc. (continued)

Changes in the group management team

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

Other information on pension agreements

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

Subscription rights programme for employees

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

Remuneration to the statutory auditor	**DNB ASA**		**DNB Group**	
Amounts in NOK 1 000, excluding VAT	2018	2017	2018	2017
Statutory audit [1)]	(589)	(578)	(28 760)	(28 370)
Other certification services			(2 464)	(2 407)
Tax-related advice [2)]			(8 937)	(12 679)
Other services			(2 620)	(7 078)
Total remuneration to the statutory auditor	(589)	(578)	(42 781)	(50 534)

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 48 Information on related parties

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. See note 50 largest shareholders.

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 are associated companies plus DNB Savings Bank Foundation. See note 36 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 related parties **DNB Group**

	Group management and Board of Directors		Related companies	
Amounts in NOK million	2018	2017	2018	2017
Loans as at 1 January	79	82	22 316	1 125
New loans/repayments during the year	26	14	(339)	(48)
Changes in related parties	(1)	(17)		21 238
Loans as at 31 December	**105**	**79**	**21 977**	**22 316**
Interest income	**2**	**3**	**34**	**25**
Deposits as at 1 January	285	287	1 605	899
Deposits/withdrawals during the year	27	64	(362)	372
Changes in related parties	(197)	(65)	97	334
Deposits as at 31 December	**115**	**285**	**1 340**	**1 605**
Interest expenses	**(0)**	**(1)**	**(8)**	**(8)**
Guarantees [1)]	**-**	**-**	**2 480**	**3 543**

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

No impairments were made on loans to related parties in 2017 and 2018. Reference is made to note 47 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 arrears. Employee loans are within the term limits applying to general customer relationships. Security is furnished for employee loans in accordance with legal requirements.

NOTE 49 Earnings per share

	DNB Group	
	2018	2017
Profit for the year (NOK million) [1)]	23 323	20 865
Profit attributable to shareholders (NOK million)	23 323	20 865
Profit attributable to shareholders excluding operations held for sale (NOK million)	23 527	20 866
Profit from operations and non-current assets held for sale, after taxes (NOK million)	(204)	(1)
Issued shares opening balance (in 1000)	1 628 799	1 628 799
Average number of cancelled shares (in 1000)	18 324	
Average number of own shares (in 1 000)	8 634	3 541
Average number of outstanding shares (in 1 000)	1 601 841	1 625 258
Average number of outstanding shares, fully dilluted (in 1 000)	1 601 841	1 625 258
Earnings/diluted earnings per share (NOK)	14.56	12.84
Earnings/dilutet earnings per share excluding operations held for sale (NOK)	14.69	12.84
Earnings/diluted earnings per share, operations held for sale (NOK)	(0.13)	(0.00)

1) Portion attributable to shareholders.

The main purpose of the financial ratio earnings per share is to show the return for the Group’s ordinary shareholders. Accumulated interest for the period, which will be paid to those investing in the additional Tier 1 capital instruments, has therefore been deducted from Profit for the period in the calculation of the period’s earnings per share.

NOTE 50 Largest shareholders

Shareholder structure in DNB ASA as at 31 December 2018	Shares in 1 000	Ownership in per cent
Norwegian Government/Ministry of Trade, Industry and Fisheries	545 485	34.2
DNB Savings Bank Foundation	130 001	8.2
Folketrygdfondet	96 989	6.1
Fidelity	30 680	1.9
The Vanguard Group	30 011	1.9
BlackRock	29 814	1.9
DWS	24 788	1.6
Schroders	20 452	1.3
Capital World	18 601	1.2
Storebrand Kapitalforvaltning	16 483	1.0
T. Rowe Price	16 475	1.0
Davis Selected Advisers	14 873	0.9
KLP Forsikring	14 404	0.9
DNB Asset Management	12 900	0.8
Nordea Funds	12 428	0.8
SAFE	12 248	0.8
State Street Global Advisors	12 080	0.8
Newton	10 962	0.7
MFS	10 245	0.6
Danske Capital	9 671	0.6
Total largest shareholders	1 069 590	67.1
Other shareholders	524 762	32.9
Total	**1 594 352**	**100.0**

The owners of shares in nominee accounts are determined on the basis of third-party analyses.

Share buy-back programme

The table above does not include shares owned by DNB as part of the ongoing share buy-back programme, which constituted 10 015 thousand as at 31 December 2018. The total number of issued shares as at 31 December 2018 was 1 604 367 thousand. In connection with the share buy-back programme, the Norwegian government will, according to an agreement, redeem shares on a proportional basis so as to maintain its holding at 34 per cent. For more information on the share buy-back programme, see the Directors' report.

NOTE 51 Contingencies

Due to its extensive operations in Norway and abroad, the DNB 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 Group's financial position.

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

On 21 June 2016, the Norwegian Consumer Council instituted legal proceedings before the Oslo District Court against DNB Asset Management AS, a wholly-owned subsidiary of DNB ASA offering asset management services. The Norwegian Consumer Council has instituted a class action to pursue compensation of up to NOK 690 million on behalf of current and former investors in a fund managed by DNB Asset Management AS, as well as two funds merged into that fund. The lawsuit alleges that the funds were charging high fees for active management, but were actually tracking an index. The Oslo District Court passed its judgment on 12 January 2018, whereby the claim was rejected and DNB Asset Management was acquitted. On 12 February 2018, the Norwegian Consumer Council appealed to Borgarting Court of Appeal and reduced the compensation claim to NOK 450 million. The appeal hearing will be held from 19 March to 4 April 2019.

NOTE 52 Additional financial instruments disclosures from 2017

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

ACCOUNTING PRINCIPLES
Financial instruments
Recognition and derecognition
Recognition of assets and liabilities

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

Derecognition of financial assets

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

Derecognition of financial liabilities

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

Repurchase and reverse repurchase agreements

Securities purchased under agreements to resell are generally not recognised in the financial statements as the risk and returns are normally not taken over by the Group. This is done irrespective of whether the Group has the right to sell or repledge the securities. Upon the sale of securities received, the Group recognises an obligation in the balance sheet. For more information, see note 33 Securities received which can be sold or repledged.

Securities sold under agreements to repurchase are generally not derecognised as the risk and returns are normally not transferred. This is done irrespective of whether the recipient is entitled to sell or repledge the securities. These securities are presented as securities in the Group's balance sheet and are specified in note 32 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 Group has the right to sell or repledge the securities. Upon the sale of securities received, the Group will recognise an obligation in the balance sheet. For more information, see note 33 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 Group's balance sheet and are specified in note 32 Transferred assets or assets with other restrictions.

Classification and presentation
On initial recognition financial assets are classified in one of the following categories according to the type of instrument and the purpose of the investment:

- financial assets held for trading and derivatives carried at fair value with changes in value recognised in profit or loss (trading portfolio)
- financial assets designated as at fair value with changes in value recognised in profit or loss
- financial derivatives designated as hedging instruments
- loans and receivables, carried at amortised cost
- held-to-maturity investments, carried at amortised cost
- financial assets available for sale carried at fair value with changes in value recognised in other comprehensive income

On initial recognition financial liabilities are classified in one of the following categories:

- financial liabilities held for trading and derivatives carried at fair value with changes in value recognised in profit or loss (trading portfolio)
- financial liabilities designated as at fair value with changes in value recognised in profit or loss
- financial derivatives designated as hedging instruments
- other financial liabilities carried at amortised cost

Guidelines for classification in the various portfolios of the DNB Group are given below.

NOTE 52 Additional financial instruments disclosures from 2017 (continued)

Financial assets and liabilities in the trading portfolio

Financial instruments in the trading portfolio are initially recognised at fair value.The fair value corresponds to the transaction price, unless another value can be justified based on observable market transactions. See the paragraph below on determining fair value at subsequent valuation.

Changes in the fair value of the financial instruments are presented within "Net gains on financial instruments at fair value" in the income statement. Interest income and interest expenses from interest-bearing securities are presented within "Net interest income".

Financial derivatives are presented as an asset if the fair value is positive and as a liability if the fair value is negative.

The trading portfolio mainly includes financial assets and liabilities in Markets and financial derivatives not used for hedge accounting purposes. In addition, the portfolio includes securities borrowing and deposits that are used actively in interest rate and liquidity management and have a short remaining maturity.

Financial assets and liabilities designated as at fair value with changes in value recognised in profit or loss

Financial instruments in the portfolio are recognised at fair value. See the paragraph below on determining fair value at subsequent valuation. Financial instruments are classified in this category if one of the following criteria is fulfilled:

- The classification eliminates or significantly reduces measurement or recognition inconsistency that would otherwise arise from measuring financial assets or liabilities or recognising the gains and losses on them on different bases
- The financial instruments are part of a portfolio that is managed and evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Changes in fair value of the financial instruments are presented within "Net gains on financial instruments at fair value" in the income statement. Interest income and interest expenses on loans designated as at fair value and other fixed-income securities are presented within "Net interest income".

Changes in fair value of financial instruments within life insurance are presented within the line item "Net financial result, DNB Livsforsikring".

The portfolios include commercial paper, bonds, equities, fixed-rate loans in Norwegian kroner, financial assets - customers bearing the risk, current financial assets within life insurance, fixed-rate securities issued in Norwegian kroner, such as index-linked bonds and equity-linked bank deposits and other fixed-rate deposits in Norwegian kroner.

Financial derivatives designated as hedging instruments

The Group enters into hedging transactions to manage interest rate risk on long-term borrowings and deposits in foreign currencies. These transactions are recognised as fair value hedges. See item Hedge accounting.

Loans and receivables carried at amortised cost

Loans and receivables carried at amortised cost are recognised at the transaction price plus direct transaction expenses. Subsequent measurement follows the effective interest method, less any impairment charges. The effective interest method is described under Recognition in the income statement and in other comprehensive income.

Interest income on financial instruments classified as lending is presented within "Net interest income" using the effective interest method.

A decrease in value on the balance sheet date based on objective indications of impairment for loans valued at amortised cost and in the portfolios of fixed-rate loans measured at fair value, are presented within "Impairment of loans and guarantees".

Held-to-maturity investments carried at amortised cost

Held-to-maturity investments are carried at amortised cost and recognised at the transaction price plus direct transaction expenses. Subsequent measurement follows the effective interest method, less any impairment charges. The effective interest method is described under Recognition in the income statement and in other comprehensive income.

This category mainly comprises the international bond portfolio in DNB Markets and investments in bonds in DNB Livsforsikring.

Interest income relating to the instruments is presented within "Net interest income" and “Net financial result, DNB Livsforsikring” respectively.

Financial assets available for sale carried at fair value with changes in value recognised in other comprehensive income

Financial assets in the available for sale category are recognised at fair value with the subsequent change in fair value presented in other comprehensive income. See the paragraph below about the determination of fair value. At the time of realisation the change in fair value shall be included as a part of the gain that is presented in the income statement. Financial assets are classified in this category if they do not meet the criteria for being classified in any of the other categories presented above.

Other financial liabilities carried at amortised cost

Financial liabilities carried at amortised cost are recognised at the transaction price plus direct transaction expenses.

Interest expenses on such instruments are presented within "Net interest income" using the effective interest method.

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

NOTE 52 Additional financial instruments disclosures from 2017 (continued)

Issued financial guarantees

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

On initial recognition, issued financial guarantees are recognised at the consideration received for the guarantee. Issued financial guarantees are subsequently measured at the higher of the consideration received for the guarantee excluding any amortised amounts recognised in the income statement and the best estimate of the payment due if the guarantee is honoured.

When issuing financial guarantees, the consideration for the guarantee is presented within the line item "Provisions" in the balance sheet. Changes in the carrying amount of financial guarantees are recognised within the line item "Net gains on financial instruments at fair value", except for changes related to guarantees which are part of loans which are individually impaired. Changes in the value of such guarantee contracts are recognised within the line item "Impairment of loans and guarantees".

Financial instruments with the characteristics of equity

Issued additional Tier 1 capital instruments are instruments where DNB 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 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 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 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 30 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.

NOTE 52 Additional financial instruments disclosures from 2017 (continued)

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 Group's own credit risk (DVA). In addition, an adjustment is made for expected funding costs (FVA).

The 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 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 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 DNB'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 market 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.

Impairment of financial assets

At end of each reporting period, the Group considers whether any objective evidence of impairment exist as a result of one or more events have taken place after initial recognition (loss event) and the loss event has impact on the estimated future cash flows . A financial asset or group of financial assets is impaired if there is any objective evidence of impairment. Objective indications of impairment include an assessment of the following loss events:

- serious financial problems on the part of the debtor,
- non-payment or other serious breaches of contract,
- the probability that the debtor will enter into debt negotiations or
- other special circumstances that have occurred.

Renegotiation of loan terms to ease the position of the borrower qualifies as a loss event.

<u>Individual impairment of loans</u>

If objective evidence of impairment exists, impairment of loans is calculated as the difference between the carrying amount and the net present value of estimated future cash flows discounted by the original effective interest rate.

The business areas calculate estimated future cash flows based on developments in the exposure, past experience with the debtor, the probable outcome of negotiations and expected macroeconomic trends that will influence the customer's cash flow. In addition, the probability of debt settlement proceedings and bankruptcies is taken into consideration, including the probability that assets provided as collateral will be taken over. When measuring collateral, recognised methods for measuring underlying assets are used.

Individual impairment of loans reduces the carrying amount of loans and guarantees. Impairment during the period is recognised as "Impairment of loans and guarantees" in profit or loss.

<u>Collective impairment of loans</u>

Loans which are not individually impaired are assessed collectively for impairment. The assessment is based on whether objective evidence of impairment exists that can be related to a group of financial assets.

Loans are grouped on the basis of similar credit risk characteristics and in accordance with the division of customers into sectors or industries and risk categories. Impairment is estimated per group of financial assets based on estimates of the general economic situation and loss experience for the respective groups.

Collective impairment reduces the carrying amount of the line item "Loans to customers" in the balance sheet. Changes during the period are recognised within the line item "Impairment of loans and guarantees" in the income statement. Like individual impairment, collective impairment is discounted. The discount factor is based on statistics derived from individual impairment.

NOTE 52 Additional financial instruments disclosures from 2017 (continued)

Repossession of assets

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

Hedge accounting

When instruments are individually hedged, there is a clear, direct and documented correlation between changes in the value of the hedged item resulting from the hedged risk and changes in the value of the financial derivative (hedging instrument).

Upon entering into the hedging relationship, the correlation between the hedged item and the hedging instrument is documented. In addition, the underlying risk management objective and strategy are documented. Changes in fair value related to the hedged risk of the hedged item and instrument are evaluated periodically to ensure the necessary hedge effectiveness. Hedging instruments are recognised at fair value in the financial statements and changes in the fair value are presented within "Net gains on financial instruments at fair value" in the income statement.

For fair value hedging, the changes in the fair value of the hedged item attributable to the hedged risk will be recognised as an addition to or deduction from the balance sheet value of financial liabilities and assets and presented within "Net gains on financial instruments at fair value" in the income statement.

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

The Group undertakes hedging of investments in foreign subsidiaries to eliminate the currency risk on the invested amount. Hedging transactions are in the form of currency swaps or long-term borrowings in foreign currency. In the consolidated financial statement, the hedge relationships are presented as hedging of net investments in international operations.

LOANS AND COMMITMENTS FOR PRINCIPAL CUSTOMER GROUPS

Loans and commitments as at 31 December 2017 **DNB Group**

Amounts in NOK million	Loans and receivables	Guarantees	Unutilised credit lines	Total loans and commitments
Private individuals	796 559	216	224 399	1 021 173
Transportation by sea and pipelines and vessel construction	78 314	10 135	28 454	116 902
Real estate	215 631	4 387	33 775	253 793
Manufacturing	77 177	18 596	59 998	155 771
Services	91 620	5 946	44 396	141 963
Trade	40 370	4 667	26 055	71 091
Oil and gas	22 599	5 792	28 927	57 319
Transportation and communication	59 740	8 741	28 454	96 935
Building and construction	61 946	10 482	34 068	106 495
Power and water supply	25 601	7 859	22 058	55 518
Seafood	20 390	139	5 546	26 074
Hotels and restaurants	7 389	365	1 219	8 973
Agriculture and forestry	4 867	43	1 912	6 822
Central and local government	15 895	168	8 759	24 822
Other sectors	30 478	677	2 985	34 140
Total customers, nominal amount after individual impairment	1 548 577	78 213	551 004	2 177 794
– Collective impairment, customers	(3 162)			(3 162)
+ Other adjustments		(408)		(408)
Loans to customers	**1 545 415**	**77 805**	**551 004**	**2 174 224**
Credit institutions, nominal amount after individual impairment	239 328	8 344	38 023	285 695
+ Other adjustments				
Loans to and due from credit institutions	**239 328**	**8 344**	**38 023**	**285 695**

The breakdown into principal customer groups corresponds to the EU's standard industrial classification, NACE Rev.2.

NOTE 52 Additional financial instruments disclosures from 2017 (continued)

LOANS AND COMMITMENTS ACCORDING TO GEOGRAPHICAL LOCATION

Loans and commitments as at 31 December 2017 **DNB Group**

Amounts in NOK million	Loans to customers	Loans to and receivables from credit institutions	Guarantees	Unutilised credit lines	Total loans and commitments
Oslo	303 294	8 941	11 280	209 094	532 609
Eastern and southern Norway	519 459	2	16 767	120 203	656 432
Western Norway	202 254	85	8 059	49 110	259 508
Northern and central Norway	212 966	100	7 390	44 501	264 958
Total Norway	1 237 973	9 128	43 496	422 909	1 713 506
Sweden	91 354	27 446	6 611	49 932	175 343
United Kingdom	18 770	87 948	4 127	15 762	126 607
Other Western European countries	80 441	97 711	5 792	34 223	218 167
Poland	17 595	29	1 535	2 468	21 627
Other Eastern European countries	1 203	922	1 002	253	3 380
Total Europe outside Norway	209 363	214 056	19 068	102 637	545 124
USA and Canada	32 645	992	14 138	48 770	96 546
Bermuda and Panama [1)]	21 392	1	4 104	4 878	30 374
Other South and Central American countries	14 116	1 352	1 868	3 731	21 068
Total America	68 153	2 345	20 110	57 379	147 988
Singapore [1)]	4 253	92	675	184	5 204
Hong Kong	1 588	62		3	1 653
Other Asian countries	5 893	13 391	1 196	1 205	21 685
Total Asia	11 735	13 545	1 871	1 391	28 542
Other African countries	5 910	241	1 708	982	8 841
Oceania [1)]	15 443	13	303	3 728	19 488
Commitments	1 548 577	239 328	86 557	589 027	2 463 489
– Collective impairment	(3 162)				(3 162)
+ Other adjustments			(408)		(408)
Net loans and commitments	**1 545 415**	**239 328**	**86 149**	**589 027**	**2 459 919**

1) Represents shipping loans and commitments.

Based on the customer's address.

NOTE 52 Additional financial instruments disclosures from 2017 (continued)

IMPAIRED LOANS AND GUARANTEES FOR PRINCIPAL CUSTOMER GROUPS

			DNB Group
Amounts in NOK million	Gross impaired loans and guarantees 31 Dec. 2017	Total individual impairment 31 Dec. 2017	Net impaired loans and guarantees 31 Dec. 2017
Private individuals	2 732	(695)	2 037
Transportation by sea and pipelines and vessel construction	2 787	(1 407)	1 381
Real estate	1 220	(531)	689
Manufacturing	2 892	(1 112)	1 780
Services	947	(477)	469
Trade	2 177	(779)	1 398
Oil and gas	3 805	(1 038)	2 767
Transportation and communication	3 334	(1 391)	1 943
Building and construction	1 049	(494)	556
Power and water supply	2 571	(1 228)	1 343
Seafood	27	(16)	11
Hotels and restaurants	48	(24)	24
Agriculture and forestry	68	(31)	38
Central and local government	0		0
Other sectors	2	(1)	1
Total customers	23 660	(9 225)	14 435
Credit institutions			
Total impaired loans and guarantees	23 660	(9 225)	14 435
Non-performing loans and guarantees not subject to impairment	2 842		2 842
Total non-performing and impaired loans and guarantees	26 502	(9 225)	17 277

Includes loans and guarantees subject to individual impairment and total non-performing loans and guarantees not subject to impairment. The breakdown into principal customer groups corresponds to the EU's standard industrial classification, NACE Rev.2.

IMPAIRMENT OF LOANS AND GUARANTEES

			DNB Group
		2017	
Amounts in NOK million	Loans [1)]	Guarantees	Total
Write-offs	(1 662)		(1 662)
New/increased individual impairment	(4 227)	(218)	(4 445)
Total new/increased individual impairment	(5 889)	(218)	(6 106)
Reassessed individual impairment previous years	1 950	212	2 162
Recoveries on loans and guarantees previously written off	249		249
Net individual impairment	(3 690)	(6)	(3 696)
Changes in collective impairment of loans	1 268		1 268
Impairment of loans and guarantees	**(2 422)**	**(6)**	**(2 428)**
Write-offs covered by individual impairment made in previous years	3 232	54	3 286

1) Including impairment of loans at fair value.

NOTE 52 Additional financial instruments disclosures from 2017 (continued)

IMPAIRMENT OF LOANS AND GUARANTEES FOR PRINCIPAL CUSTOMER GROUPS

DNB Group

	2017			
Amounts in NOK million	New individual impairment	Reassessed individual impairment	Recoveries on loans and guarantees previously written off	Net impairment
Private individuals	(715)	401	174	(140)
Transportation by sea and pipelines and vessel construction	(782)	294	12	(476)
Real estate	(176)	203	23	50
Manufacturing	(308)	487	6	186
Services	(387)	233	11	(143)
Trade	(896)	122	2	(772)
Oil and gas	(435)	84		(352)
Transportation and communication	(1 331)	216	11	(1 104)
Building and construction	(132)	102	4	(26)
Power and water supply	(926)	2	5	(920)
Seafood	(2)	3	0	2
Hotels and restaurants	(9)	5	1	(4)
Agriculture and forestry	(7)	8	1	1
Central and local government	(0)			(0)
Other sectors	(1)	2	0	0
Total customers	(6 106)	2 162	249	(3 696)
Credit institutions				
Changes in collective impairment of loans				1 268
Impairment of loans and guarantees	**(6 106)**	**2 162**	**249**	**(2 428)**
Of which individual impairment of guarantees	*(218)*	*212*		*(6)*

The breakdown into principal customer groups corresponds to the EU's standard industrial classification, NACE Rev.2.

DEVELOPMENTS IN IMPAIRMENT OF LOANS AND GUARANTEES

DNB Group

		2017			
Amounts in NOK million		Loans to credit institutions	Loans to customers	Guarantees	Total
Impairment as at 1 January			(13 548)	(529)	(14 077)
New impairment			(1 855)	(105)	(1 960)
Increase in impairment			(2 173)	(112)	(2 285)
Reassessed impairment			1 765	212	1 977
Write-offs covered by previous impairment			3 232	54	3 286
Changes in individual impairment of accrued interest and amortisation					
Changes in collective impairment			1 271		1 271
Baltics, reclassified as assets held for sale					
Changes due to exchange rate movement			(568)	(30)	(598)
Impairment as at 31 December			(11 875)	(511)	(12 386)
Of which:	*Individual impairment*		*(8 234)*	*(511)*	*(8 745)*
	Individual impairment of accrued interest and amortisation		*(480)*		*(480)*
	Collective impairment		*(3 162)*		*(3 162)*

DNB ASA

Income statement

			DNB ASA
Amounts in NOK million	Note	2018	2017
Interest income, amortised cost		32	38
Interest expenses, amortised cost		(452)	(392)
Net interest income		**(420)**	**(353)**
Commissions and fees payable etc.		(7)	(6)
Other income	2	14 087	19 280
Net other operating income		**14 081**	**19 274**
Total income		**13 661**	**18 921**
Salaries and other personnel expenses		(4)	(4)
Other expenses		(329)	(348)
Total operating expenses		**(334)**	**(352)**
Pre-tax operating profit		**13 327**	**18 569**
Tax expense	4		(150)
Profit/comprehensive income for the year		**13 327**	**18 419**
Earnings/diluted earnings per share (NOK)		8.36	11.38
Earnings per share excluding operations held for sale (NOK)		8.36	11.38

Balance sheet

			DNB ASA
Amounts in NOK million	Note	31 Dec. 2018	31 Dec. 2017
Assets			
Due from DNB Bank ASA	6	8 925	5 339
Investments in group companies	5	74 720	74 720
Receivables due from group companies	6	12 585	18 580
Total assets		**96 229**	**98 639**
Liabilities and equity			
Short-term amounts due to DNB Bank ASA	6	11	10
Due to other group companies	6		600
Other liabilities and provisions	2	13 105	11 393
Long-term amounts due to DNB Bank ASA	6	20 087	20 086
Total liabilities		**33 204**	**32 090**
Share capital		15 944	16 180
Share premium		22 556	22 556
Other equity		24 525	27 813
Total equity		**63 025**	**66 550**
Total liabilities and equity		**96 229**	**98 639**

Statement of changes in equity

				DNB ASA
Amounts in NOK million	Share capital	Share premium	Other equity	Total equity
Balance sheet as at 31 December 2016	**16 288**	**22 556**	**22 337**	**61 181**
Repurchase under share buy-back programme	(108)		(1 552)	(1 659)
Profit for the period			18 419	18 419
Dividends for 2017 (NOK 7.10 per share)			(11 392)	(11 392)
Balance sheet as at 31 December 2017	**16 180**	**22 556**	**27 813**	**66 550**
Repurchase under share buy-back programme	(237)		(3 510)	(3 747)
Profit for the period			13 327	13 327
Dividends for 2018 (NOK 8.25 proposed per share)			(13 105)	(13 105)
Balance sheet as at 31 December 2018	**15 944**	**22 556**	**24 525**	**63 025**

Share premium and Other equity can be used in accordance with stipulations in the Public Limited Companies Act.

The share capital of DNB ASA at 31 December 2018 was NOK 16 043 668 880 divided into 1 604 366 888 shares, each with a nominal value of NOK 10. A total of 10 015 000 shares (NOK 100 015 000) were repurchased, but not redeemed.

Cash flow statement

		DNB ASA
Amounts in NOK million	2018	2017
Operating activities		
Net interest payment to subsidiaries	(419)	(351)
Payments to operations	(340)	(813)
Net cash flow relating to operations	**(759)**	**(1 164)**
Investment activities		
Net receipts on long-term investments in shares		700
Net cash flow relating to investment activities		**700**
Funding activities		
Group contributions from subsidiaries	19 483	5 722
Dividend payments	(11 392)	(9 284)
Repurchased shares	(3 747)	(1 659)
Net receipts on loans from other companies		4 200
Net cash flow relating to funding activities	**4 345**	**(1 021)**
Net cash flow	**3 586**	**(1 485)**
Cash as at 1 January	5 339	6 824
Net receipts/payments of cash	3 586	(1 485)
Cash as at 31 December	8 925	5 339

NOTE 1 Accounting principles

Basis for preparation

DNB ASA is the parent company in the DNB Group. DNB ASA has prepared its financial statement 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 record the Board of Directors' proposed dividends and group contributions as liabilities on the balance sheet date. According to IFRS, dividends should be classified as equity until approved by the general meeting.

Ownership interests in group companies

Subsidiaries are defined as companies in which DNB ASA, directly or indirectly, has control. Control over an entity is evidenced by DNB ASA's ability to exercise its power in order to affect any variable return that the company is exposed to through its involvement in the entity.

Where voting rights are relevant, DNB ASA is deemed to have control where it holds, directly or indirectly, more than half of the voting rights over an entity, unless DNB ASA through agreements does not have corresponding voting rights in relevant decision-making bodies. For more information see note 5 Investments in subsidiaries as at 31 December 2018.

In the financial statement of DNB ASA, investments in subsidiaries are recognised at cost. At the end of each reporting period the company assess whether any indication of impairment exists. If such indication exists, the investment is tested for impairment.

Transactions with group companies

Transactions with subsidiaries are conducted in accordance with general business conditions and principles.

Dividends and group contributions

Dividends and group contributions from group companies are recognised in DNB ASA in the same year as provisions are made in the relevant companies. Group contributions received are classified as dividends when considered to represent return on invested capital. The Board of Directors proposed dividends and group contributions are recognised as liabilities on the balance sheet date. Provision for dividends is presented within Other liabilities and provisions in the balance sheet.

Taxes

Taxes for the year comprise payable taxes for the financial year and changes in the value of deferred taxes and deferred tax assets.

Deferred taxes are calculated on the basis of differences between the profits stated in the income statement and the profits computed for tax purposes, which will be offset in the future. Evaluations are based on the balance sheet and tax position on the balance sheet date. Taxable and tax-deductible timing differences will be netted against each other within the same time interval. Deferred tax assets can be recognised as assets in the balance sheet when it is considered probable that the tax-deductible timing differences may be realised.

NOTE 2 Dividends/group contributions from subsidiaries

	DNB ASA	
Amounts in NOK million	2018	2017
Group contributions/dividends received from:		
DNB Bank ASA	10 758	16 094
DNB Livsforsikring AS	2 900	1 950
DNB Forsikring AS		150
DNB Asset Management Holding AS	427	386
Total group contributions from subsidiaries	**14 085**	**18 580**

As part of transaction where Vipps was demerged from DNB Bank ASA was NOK 700 million received as a non-cash dividend by DNB ASA which is included in other income in 2017.

Allocations	DNB ASA	
Amounts in NOK million	2018	2017
Proposed dividends per share (NOK)	8.3	7,10
Share dividend	13 105	11 392
Transfers to other equity	222	7 027
Total allocations	**13 327**	**18 419**

NOTE 3 Remunerations etc.

All employees in DNB ASA are also employed in one of the underlying companies within the Group. The holding company purchases services from other units within the Group. The group chief executive and group executive vice presidents are employed in both DNB ASA and one of the subsidiaries in the Group. Personnel expenses and other administrative expenses relating to these individuals are divided between the subsidiaries and DNB ASA according to use.

See note 47 for the DNB Group for further details on remunerations etc. See also note 7 for DNB ASA, specifying shares in DNB ASA owned by senior executives and members of governing bodies.

NOTE 4 Taxes

	DNB ASA	
Amounts in NOK million	2018	2017
Tax base		
Pre-tax operating profit in DNB ASA	13 327	18 569
Tax-exempt income, group contribution	(13 327)	(17 269)
Other tax-exempt income and non-deductible expenses		(700)
Tax base for the year		600
Tax expense		
Payable taxes		(150)
Tax expense		**(150)**

The effective tax rate in 2018 was zero per cent. The effective tax rate in 2017 was 1 per cent. The difference between the effective tax rate and the nominal tax rate is due to the receipt of tax-exempt group contributions.

NOTE 5 Investments in subsidiaries as at 31 December 2018[1)]

Amounts in 1 000 *Values in NOK unless otherwise indicated*		Share capital	Number of shares		Nominal value	Ownership share in per cent	DNB ASA Carrying amount
DNB Bank		18 255 648	182 556 480		18 255 648	100	54 092 502
DNB Capital [2)]						100	
DNB Invest Denmark	DKK	877 579	877 578 841	DKK	877 579	100	
DNB Bank Polska	PLN	1 257 200	1 257 200 000	PLN	1 257 200	100	
Aksje- og Eiendomsinvest		100	100 000		100	100	
Bryggetorget Holding		2 500	2 500		2 500	100	
DNB Asia [3)]	SGD	20 000	20 000 000	SGD	20 000	100	
DNB Asia [3)]	USD	788 226	150 000 000	USD	788 226	100	
DNB Boligkreditt		4 157 000	41 570 000		4 157 000	100	
DNB Eiendom		10 003	100 033		10 003	100	
DNB Eiendomsutvikling		91 200	91 200 000		91 200	100	
DNB Luxembourg	EUR	70 000	70 000	EUR	70 000	100	
DNB Markets Inc.	USD	1	1 000	USD	1	100	
DNB Næringskreditt		550 000	550 000		550 000	100	
DNB Næringsmegling		1 000	10 000		1 000	100	
DNB Sweden	SEK	100 000	100 000 000	SEK	100 000	100	
DNB (UK) Limited	GBP	1 154 200	1 154 200 000	GBP	1 154 200	100	
Godfjellet		8 030	8 030		8 030	100	
Godfjorden		1 000	10 000		1 000	100	
DNB Asset Management Holding		274 842	220 050		274 842	100	2 182 107
DNB Asset Management		109 680	548 402		109 680	100	
DNB Asset Management	SEK	3 921	39 206	SEK	3 921	100	
DNB Asset Management	EUR	425	5 000	EUR	425	100	
DNB Forsikring		265 000	265 000		265 000	100	462 790
DNB Livsforsikring		1 750 337	64 827 288		1 750 337	100	17 982 795
DNB Næringseiendom		1 020	20 000		1 020	100	
DNB Eiendomsholding		57 000	1		57 000	100	
Total investments in subsidiaries							**74 720 195**

1) Major subsidiaries and sub-subsidiaries in the DNB Group.
2) DNB Capital LLC, a limited liability company, has paid-in capital of USD 2.4 billion.
3) 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.

NOTE 6 Loans and deposits with other DNB Group companies

Transactions with other DNB Group companies *Amounts in NOK million*	31 Dec. 2018	**DNB ASA** 31 Dec. 2017
Receiveables DNB Group companies		
Deposits with DNB Bank ASA	8 925	5 339
Group contributions	12 585	18 580
Liabilities DNB Group companies		
Receivables due from DNB Bank ASA	20 098	20 096
Group contributions DNB Livsforsikring AS		600

All transactions with related parties are based on market terms.

NOTE 7 Shares in DNB ASA held by the Board of Directors and senior executives

	Number of shares alloted in 2018	Number of shares 31 Dec. 2018
Board of Directors of DNB ASA		
Olaug Svarva, chair		7 000
Tore Olaf Rimmereid, vice chair		10 611
Karl-Christian Agerup		6 400
Carl A. Løvvik		1 458
Vigdis Mathisen		817
Jaan Ivar Semlitsch		12 300
Berit Svendsen		
Senior executives as at 31 December 2018		
Rune Bjerke, group chief executive	4 246	62 017
Kjerstin Braathen, chief financial officer	2 670	28 540
Ottar Ertzeid, group EVP	6 359	234 059
Benedicte Schilbred Fasmer, group EVP	1 997	6 435
Rasmus Figenschou, group EVP	1 246	7 837
Håkon Hansen, group EVP	2 360	6 891
Solveig Hellebust, group EVP	1 815	21 930
Ida Lerner, group EVP	2 697	3 781
Thomas Midteide, group EVP	1 887	12 439
Alf Otterstad, group EVP		384
Harald Serck-Hanssen, group EVP	2 642	37 986
Ingjerd Blekeli Spiten, group EVP		1 714
Mirella E. Wassiluk, group EVP		384
Group Audit		
Tor Steenfeldt-Foss, group EVP		

The figures also include shares held by the immediate family and companies in which the shareholder has such influence as stated in Section 7-26 of the Act relating to annual accounts, etc. The statutory auditor owns no shares in DNB ASA.

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

Olaug Svarva
(chair of the board)

Tore Olaf Rimmereid
(vice chair of the board)

Karl-Christian Agerup

Carl A. Løvvik

Vigdis Mathisen

Jaan Ivar Semlitsch

Berit Svendsen

Rune Bjerke
(group chief executive)

STATEMENT PURSUANT TO SECTION 5-5 OF THE SECURITIES TRADING ACT

We hereby confirm that the annual accounts for the Group and the company for 2018 to the best of our knowledge have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the company taken as a whole.

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

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

Olaug Svarva
(chair of the board)

Tore Olaf Rimmereid
(vice chair of the board)

Karl-Christian Agerup

Carl A. Løvvik

Vigdis Mathisen

Jaan Ivar Semlitsch

Berit Svendsen

Rune Bjerke
(group chief executive)

Kjerstin R. Braathen
(chief financial officer)

Statsautoriserte revisorer
Ernst & Young AS

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

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

www.ey.no
Medlemmer av Den norske revisorforening

INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of DNB ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of DNB ASA comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2018, the income statement, statements of cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2018, the income statement, statements of comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2018 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 2018. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

Impairment of loans and financial commitments

On 1 January 2018 the Group implemented the accounting standard IFRS 9. The implementation required the Group to reassess the classification of its financial assets and to make provisions for expected future credit losses “ECL” on debt instruments measured at amortised cost or fair value through other comprehensive income, as well as financial commitments, regardless of whether objective evidence of impairment exists on the balance sheet date.

Loans to customers represent NOK 1 597 758 million (61 % per cent) of total assets for the Group as at 31 December 2018. Financial commitments amount to NOK 659 197 million as at 31 December 2018. Total expected credit losses on loans to customers and financial commitments amount to NOK 11 617 million, of which NOK 2 727 million is based on model calculations (stages 1 and 2) and NOK 8 890 million is based on individual assessments (stage 3).

In respect of the ECL calculation, IFRS 9 requires models, but does not prescribe a specific approach, thus requiring management to use judgement to obtain an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes. In addition, the measurement of ECL shall reflect the time value of money and reasonable and supportable information about past events, current conditions and forecasts of economic expectations as well as assessing criteria for significant increases in credit risk at engagement or portfolio level. To calculate the provision the Group is required to make estimates and assumptions, including the probability of default, exposure at default, loss given default and forecasts of economic expectations. Loans subject to individual assessments (stage 3) require judgement about various assumptions, including the expected future cash flows and the value of underlying collateral. Due to the use of judgement in applying the ECL measurement criteria of IFRS 9, the complexity of the calculation and the effect of estimates, we consider provisioning for ECL a key audit matter.

We assessed the Group’s methodology applied for calculating ECL including the criteria for determining significant increases in credit risk. We assessed the design and tested the effectiveness of controls related to assumptions, input and calculation of ECL. We also tested IT general controls over access and change management for related IT-systems.

We involved specialists on our team and assessed management’s internal validation of the ECL models. We evaluated management’s assessments of multiple economic scenarios as well as macroeconomic data used to create forward looking information, including parameters and conclusions from management’s expert credit judgement forum. For loans subject to individual assessment by management (stage 3), we assessed the expected future cash flows and the estimated value of underlying collateral for a sample of engagements.

Furthermore, we assessed the adequacy of the disclosures in the financial statements related to IFRS 9 implementation and ECL, and refer to note 4, 5, 6, 7, 8, 9, 10 and 11 in the consolidated financial statements.

Valuation of Financial Instruments

Unlisted or illiquid financial instruments measured at fair value are valued based on models that use assumptions that are not observable in the market place. The valuation of these instruments therefore have a higher risk of errors. Such instruments comprise assets of NOK 69 641 million and liabilities of NOK 1 654 million measured at fair value in the consolidated balance sheet and classified as level 3 instruments within the fair value hierarchy. Due to the materiality of the unlisted or illiquid instruments, and the increased risk of errors, we considered the valuation of these instruments a key audit matter.

We assessed the design and tested the operating effectiveness of internal controls over the valuation process including management's determination and approval of assumptions and methodologies used in model-based calculations as well as management's review of valuations provided by internal experts. We also assessed pricing model methodologies against industry practice and valuation guidelines. We performed independent valuations for selected instruments and used external source data where available, and compared results of our valuations to the Group’s valuations.

Level 3 instruments which are presented at fair value on the balance sheet are disclosed in note 29 in the consolidated financial statements.

Hedge accounting - Interest rate risk on long-term debt securities issued

Derivative instruments are used to manage exposure to interest rate risk related to long-term debt securities issued in foreign currencies. Derivatives and borrowings designated at initial recognition as hedging relationships, are accounted for as fair value hedges. The effectiveness of the hedging relationships is assessed at the beginning and end of the relevant period. The application of hedge accounting and ensuring hedge effectiveness is judgmental and requires close monitoring from management. Due to the materiality of the hedging relationships and judgement from management, we considered hedge accounting of interest rate risk on long-term debt securities issued a key audit matter.

We assessed the design and tested the operating effectiveness of internal controls over the designation and ongoing management of hedge accounting relationships, including testing of hedge effectiveness. We examined hedge documentation to assess whether the documentation complied with the requirements of the accounting standards. We tested reconciliations between underlying source systems and documents used to manage and document hedging relationships, including testing the mathematical accuracy and calculation of hedge effectiveness.

See note 15 in the consolidated financial statements for further information.

IT environment supporting financial reporting

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

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

Other information

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

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

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial

Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Report on other legal and regulatory requirements

Opinion on the Directors' report and on the statements on corporate governance and corporate social responsibility

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

Opinion on registration and documentation

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

Oslo, 6 March 2019
ERNST & YOUNG AS

Anders Gøbel
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)

Statsautoriserte revisorer
Ernst & Young AS

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

Foretaksregisteret: NO 976 389 387 MVA
Tlf: +47 24 00 24 00
Fax:
www.ey.no
Medlemmer av Den norske revisorforening

To the Board of Directors of DNB ASA

Independent assurance report – Reporting on corporate social responsibility for 2018

We have performed an independent verification of DNB ASA's reporting on corporate social responsibility (CSR) for 2018, which involves a review of DNB ASA's 15 most material CSR aspects, presented in the company's materiality matrix for CSR. We have assessed if the information being presented in the Reporting on CSR is based on relevant criteria from the GRI (Global Reporting Initiative) sustainability reporting standards GRI Standards, option "core". Controlled information is shown in the company's overview of reporting on GRI indicators (the GRI index, see dnb.no/om-oss/samfunnsansvar/barekraftsbibliotek.html), hereinafter referred to as Reporting on CSR.

Management's responsibility

The board of directors and the Chief Executive (management) is responsible for the selection of the information and collection of the data for presentation and for the preparation of Reporting on CSR in accordance with the GRI Standards.

Our Independence and Quality Control

We have complied with the independence requirements of the Norwegian Law on Auditors and Auditing and other ethical requirements from the Code of Ethics of the Norwegian Institute of Public Accountants which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

We apply International Standard on Quality Control (ISQC1) "Quality control for firms that perform audits and reviews of financial statements, and other assurance and related services engagements" and accordingly maintain a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Auditor's tasks and duties

Our task is to issue an independent report to the Board of Directors on the Reporting on CSR based on our work. Our work is conducted in accordance with ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information". The standard requires that we plan and perform procedures to obtain limited assurance that the information in the Reporting on CSR is prepared and presented in accordance with relevant criteria for sustainability reporting in accordance with GRI Standards and does not contain material errors.

Building a better
working world

2

Our work has consisted of the following procedures:

- Review of DNB ASA's process for the preparation and presentation of the Reporting on CSR to provide us with an understanding of how CSR is ensured in practice within the business
- Interviewed those in charge of CSR reporting to develop an understanding of the process for the preparation of the Reporting on CSR
- Verified on a sample basis the information in the Reporting on CSR against source data and other information prepared by DNB ASA
- Assessed the overall presentation of Reporting on CSR against the criteria in GRI Standards including a review of the consistency of information against the GRI index.

In our opinion, the evidence obtained is sufficient and appropriate to provide a basis for our conclusion.

Conclusion

Based on our work, nothing has come to our attention that causes us to believe that the Reporting on CSR, in all material respects, is not prepared and presented in accordance with the GRI Standards, and that the information in the Reporting on CSR contains material misstatements. Indicators covered by our assurance report are listed in the GRI index.

Oslo, 6. March 2019
ERNST & YOUNG AS

Anders Gøbel
State Authorised Public Accountant

(This translation from Norwegian has been made for information purposes only.)

FINANCIAL CALENDAR 2019

Annual General Meeting	30 April
Distribution of dividends	as of 10 May
First quarter	3 May
Second quarter	11 July
Third quarter	24 October
Capital Markets Day	20 November

ANNUAL GENERAL MEETING

The Annual General Meeting will be held on 30 April 2019 at 3 p.m. at DNB's premises in Dronning Eufemias gate 30, Bjørvika, Oslo. Information on how to register attendance and items on the agenda can be found at dnb.no/en/agm.

Shareholders registered as owners in DNB ASA with the Norwegian Central Securities Depository, VPS, may opt to receive annual reports and the notice of the Annual General Meeting electronically. For more information about investor account services, please contact your VPS registrar. Shareholders with VPS accounts in DNB, who do not wish to receive notices by regular mail and who do not have access to DNB's Internet bank, may register at dnb.no/en/investor-account-services. Select "New user sign-up". Shareholders who have access to DNB's Internet bank can go to the "Savings & investments" menu. Select "Investor account services" and follow the procedure described on the page. Customers with BankID may also log in via vps.no.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This report contains statements regarding the future prospects of DNB, 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 Group's annual report has been approved by the Board of Directors in the original Norwegian version. This is an English translation.

CONTACT PERSONS

Kjerstin Braathen
Chief financial officer
Tel.: (+47) 905 66 848
kjerstin.braathen@dnb.no

Rune Helland
Head of Investor Relations
Tel.: (+47) 23 26 84 00 / 977 13 250
rune.helland@dnb.no

Jan Ole Huseby
SVP Investor Relations
Tel.: (+47) 23 26 84 08 / 958 61 003
jan.ole.huseby@dnb.no

Ida Eilertsen Nygård
Investor Relations
Tel.: (+47) 986 11 952
ida.eilertsen.nygard@dnb.no

DNB's annual report 2018 has been produced by Group Financial Reporting and Corporate Responsibility and Public Affairs in DNB.

Concept and design: Redink
Layout accounts and notes: DNB
Photography: Wenche Hoel-Knai (photo of Agerup, page 92) and Stig B. Fiksdal (all other photos)
Translation: Marianne Perkis Nørstebø and Merete Løberg, DNB
Cover paper: Munken Lynx 300 g
Inside paper: Munken Lynx 120 g and Rainbow grey 80 g
No. of copies: 600
Print: RK Grafisk

MILJØMERKET
241 450
Trykksak

We are here.
So you can
stay ahead.

DNB

Mailing address:
P.O.Box 1600 Sentrum
N-0021 Oslo

Visiting address:
Dronning Eufemias gate 30
Bjørvika, Oslo

dnb.no

DNB Group

Sustainability Factbook 2018

Contents

Sustainability Factbook

This part of the 2018 annual report is a supplement to the strategic section (pages 34–72), and provides a more quantitative overview of the topics that we consider to be most important for DNB's ability to achieve long-term value creation. The factbook is based on the materiality analysis which was updated in 2018, and which shows the topics that are strategically important for the bank's long-term value creation, seen in the context of the expectations from our various stakeholders within the different topics. We use this analysis as a tool to help us identify the areas where we can make the greatest difference in society and that support our strategy. Moreover, our goals of creating the best customer experiences and delivering on financial targets form a foundation for the analysis.

Together with the description of the topics in the annual report, the factbook constitutes DNB's sustainability reporting in accordance with the reporting standard GRI Standards. The fifteen topics in the materiality matrix are addressed under the headings Society, Customers and People.

Materiality matrix

Importance to DNB's stakeholders

• Open and ethical business management • Pricing of products and services • Equality and diversity	• Preventing financial crime and corruption • Information security and stable IT systems/ financial infrastructure • Privacy protection • Responsible lending and investment • Innovative business model and product development • View risks and opportunities in a long-term perspective • User-friendly products and services
• Working conditions • Responsible purchasing • Helping startups succeed • Financial literacy	• Restructuring and skills enhancement

The topics that ended at the bottom and at the far left have been taken out of the matrix.
The topics that remain in the matrix are considered the most material and shall be reported in accordance with GRI.

Impact on DNB's long-term value creation

Society

1 View risks and opportunities in a long-term perspective

WHAT DOES THIS MEAN FOR US?

The ability to balance risks and opportunities over time is essential to the successful operation of the business, and is followed up through DNB's governance system. DNB shall take long-term risks and opportunities into consideration, not just short-term gains. This may for instance be done by incorporating long-term trends and challenges into risk appetite, risk reporting, management and capital allocation. Sustainability considerations (ESG)[1] are becoming increasingly important, and have become an integral part of DNB's risk and opportunity scenario.

STATUS 2018

- ESG considerations in DNB's credit manual have been expanded and better systematised. This leads to increased focus on ESG-related risks and opportunities in each credit proposal.
- DNB scored an A in CDP's[2] reporting of climate data.
- The incentive structure is described in the strategic report.

↓ FACTS

Responsible area in the bank:
Group Risk Management

Measurement parameter:
DNB indicator:
Incentive structures for DNB's Group Management. CDP reporting score.

Governing documents:
Corporate governance in DNB, Group policy financial management and reporting

UN Sustainable Development Goals:
5, 8

2 Help startups succeed

WHAT DOES THIS MEAN FOR US?

It is essential for Norway that more companies are established, and DNB will ensure that small and large companies have a greater chance of success. We invest in startups and contribute with measures to promote innovation and restructuring.

STATUS 2018

- DNB's start-up pilots have been in contact with 5 061 companies in the course of 2018, and 17 000 since the start.
- Arranged 19 NXT events, with more than 4 000 participants.
- Launched growth loans of NOK 200 million, 6 companies were in 2018 granted a growth loan (of a total of 100 applicants).

↓ FACTS

Responsible area in the bank:
Corporate Banking

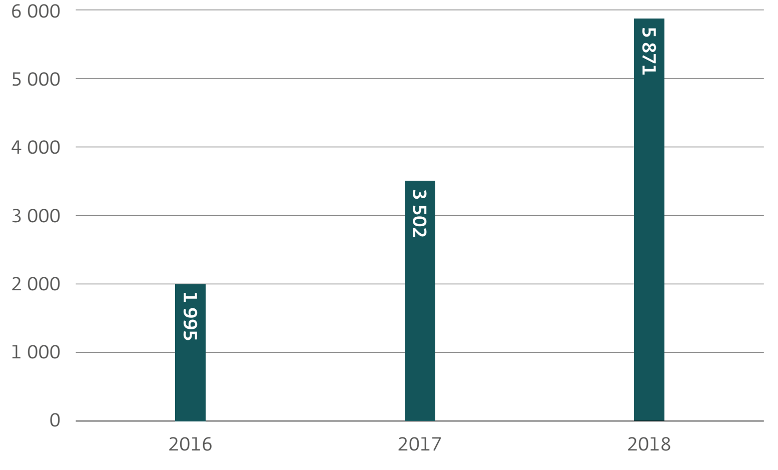
Measurement parameter:
DNB indicator:
In progress

Governing documents:
Corporate governance in DNB

UN Sustainable Development Goals:
8, 9

1) Environmental, social and governance (ESG) factors are used to assess risks and opportunities of a non-financial nature.
2) CDP, formerly the Carbon Disclosure Project, is a foundation whose purpose is to help give businesses and authorities a better overview of their own climate impact.

Meeting requests exchanged between entrepreneurs and investors at NXT
Number



❸ Prevent financial crime and corruption

WHAT DOES THIS MEAN FOR US?

DNB has measures and practices in place which counter and prevent financial crime. We provide structures and guidelines that contribute to preventing corruption among our own employees and in the value chain.

STATUS 2018

→ Launched new mandatory training course on anti-corruption (completion rate: 83 per cent).
→ Joined Nordic KYC Utility, a bank collaboration to establish a common Know-Your-Customer infrastructure.
→ Prevented digital fraud against our customers of a total value of NOK 266 million.
→ In total, DNB prevented NOK 725 million of the Group's and our customers' money from falling into the wrong hands.

↓ FACTS

Responsible area in the bank:
Group Compliance

Measurement parameter:
GRI 205-2 Anti-corruption training

Governing documents:
Corporate governance in DNB, DNB's Code of Conduct, Group guidelines for compliance, Anti-corruption guide, Procedure for the anonymous, internal whistleblowing channel

UN Sustainable Development Goals:
16

4 Financial literacy

WHAT DOES THIS MEAN FOR US?

Having a sound understanding of personal finances enables the individual to make better financial decisions and avoid ending up in financial distress. The bank's products, services and advisory services shall help ensure that more people develop good financial habits.

STATUS 2018

- 327 113 downloads of the savings app Spare.
- 125 670 customers in the share savings account scheme (market share: 26 per cent).
- DNB Markets named best brokerage house within equities (Prospera survey).
- DNB Markets ranked top 3 in 16 out of 17 analysis sectors.
- «A valuable lesson» 2.0 under development.

↓ FACTS

Responsible area in the bank:
Personal Banking, Wealth Management and Insurance, and Markets

Measurement parameter:
DNB indicator:
Downloads of the savings app Spare

Governing documents:
Corporate governance in DNB

UN Sustainable Development Goals:
8, 10

5 Responsible purchasing

WHAT DOES THIS MEAN FOR US?

DNB takes sustainability (ESG) into consideration in the supplier management. This is part of the bank's requirements and expectations in DNB's Code of Responsible Business Conduct for Suppliers. Purchases shall be conducted in a transparent manner and according to DNB's ethical standards. Through dialogue, corporate responsibility analyses (such as EcoVadis) and supplier audits, we are working to mitigate risks and contribute to good practices in the bank's supply chain.

STATUS 2018

- Three supplier audits conducted based on risk profile and share of procurements.
- Continued ongoing assessment of suppliers in EcoVadis.

↓ FACTS

Responsible area in the bank:
Group Finance

Measurement parameter:
DNB indicator:
Number of audits of important suppliers (based on risk/share of procurements)

Governing documents:
DNB's Code of Responsible Business Conduct for Suppliers, DNB's procurement principles, Anti-corruption guide

UN Sustainable Development Goals:
8, 12

Customers

6 Innovative business model and product development

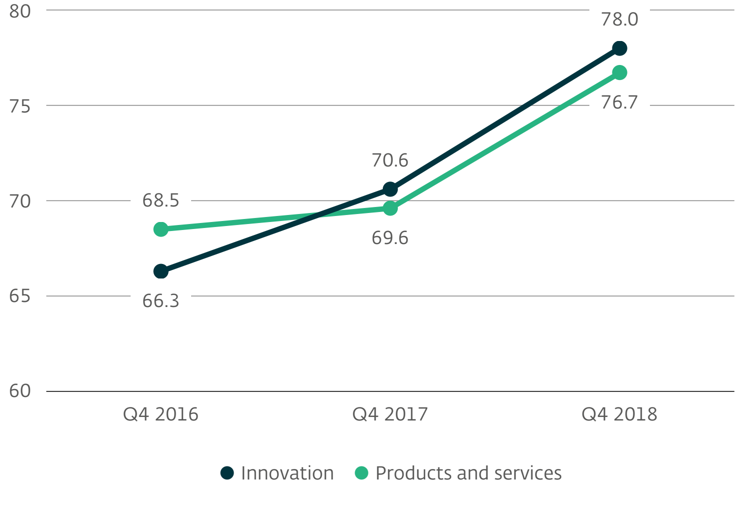
WHAT DOES THIS MEAN FOR US?

DNB is facing new competition. We need to effectively develop innovative business opportunities for our customers. New Business was established as a separate business area in 2018 to ensure competitive strength within four priority areas: Data and customer insight, payments and payment infrastructure, open banking, and technology application and strategic partnerships. New Business will also facilitate the development of innovative products and services in the business areas.

STATUS 2018

- New Business established as a separate unit.
- Developed new mobile bank which was launched in January 2019.
- Developed the corporate banking app DNB Puls.
- Entered into various collaborations and partnerships.
- Launched the chatbot Aino.

Innovation score from RepTrak
Points



FACTS

Responsible area in the bank:
New Business

Measurement parameter:
DNB indicator:
RepTrak/CSI score on Innovation in DNB

Governing documents:
Corporate governance in DNB

UN Sustainable Development Goals:
8, 9

7 Information security and stable IT systems

WHAT DOES THIS MEAN FOR US?

DNBs shall have good security procedures that protect the customers' and the bank's data against cyberattacks. DNB is a provider of critical financial infrastructure, and it is therefore important to ensure that our platforms and services, such as payments infrastructure, mobile and online banking, and ATM machines, are available and safe.

STATUS 2018

- Enhanced digital security in the protection of infrastructure and defence against digital fraud.
- Strengthened training in IT security for IT professionals.
- Established proactive monitoring of DNB's critical systems.
- Improved high-availability solutions.
- New data centre for DNB's mainframe computer and network lines.
- Mainframe upgraded for disaster recovery.

↓ FACTS

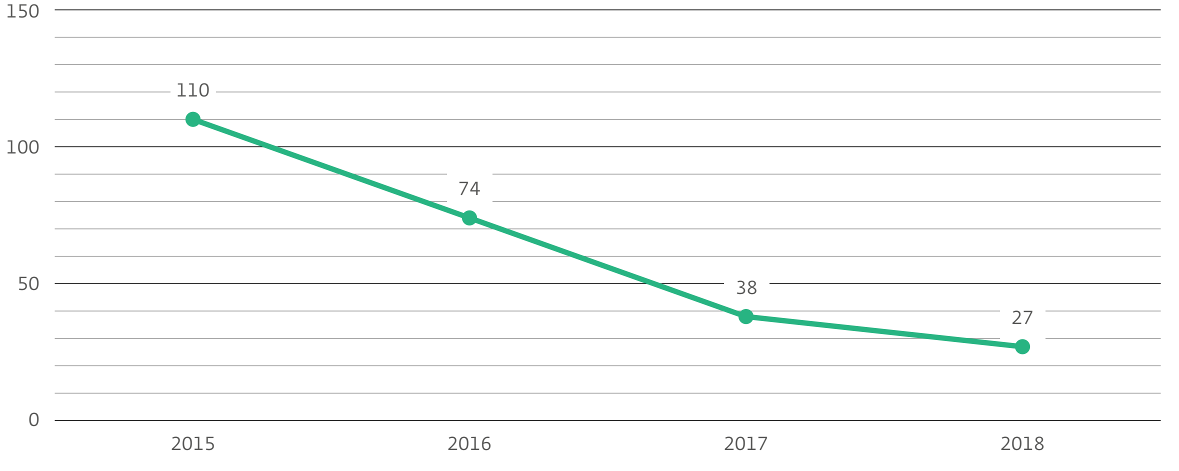
Responsible area in the bank:
IT/People and operations

Measurement parameter:
DNB indicator:
Number of days with incidents resulting in services being unavailable or having long response times

Governing documents:
DNB's Code of Conduct, DNB's privacy statement, DNB's Code of Responsible Business Conduct for Suppliers, Group policy security

UN Sustainable Development Goals:
9

Days with incidents resulting in services being unavailable or having long response times
Number of days



8 Privacy protection

WHAT DOES THIS MEAN FOR US?

DNB shall protect our customers' personal data, and inform the customer about the information that is collected. DNB shall act in accordance with the Norwegian Personal Data Act and the EU General Data Protection Regulation (GDPR). A Group Privacy Officer was appointed in 2018, and a separate team has been established under this function to ensure that our customers' personal data are protected.

STATUS 2018

- Incurred fines or orders from the Norwegian Data Protection Authority: 0.
- Share of employees who have undergone GDPR training: 81 per cent.
- Appointed Group Compliance Privacy Officer in 2018.
- Established Group Compliance Privacy Office, and the team now consists of four people.

↓ FACTS

Responsible area in the bank:
Group Compliance

Measurement parameter:
DNB indicator:
Incurred fines or orders from the Norwegian Data Protection Authority due to GDPR violations

Governing documents:
DNB's Code of Conduct,
DNB's privacy statement

UN Sustainable Development Goals:
9

9 Pricing of products and services

WHAT DOES THIS MEAN FOR US?

Availability and transparency of pricing of products and services.

STATUS 2018

- No fines or reactions from authorities with regard to marketing and communication.
- New strategy for unsecured credit.
- Out of 70 cases considered by the Norwegian Financial Services Complaints Board involving DNB, 60 went in favour of DNB.

↓ FACTS

Responsible area in the bank:
Personal Banking

Measurement parameter:
GRI 417-2, 417-3 Compliance, marketing and communications
DNB indicator:
Cases considered by the Norwegian Financial Services Complaints Board

Governing documents:
Group policy for communication,
Standard for approval of products and services

UN Sustainable Development Goals:
16

10 User-friendly products and services

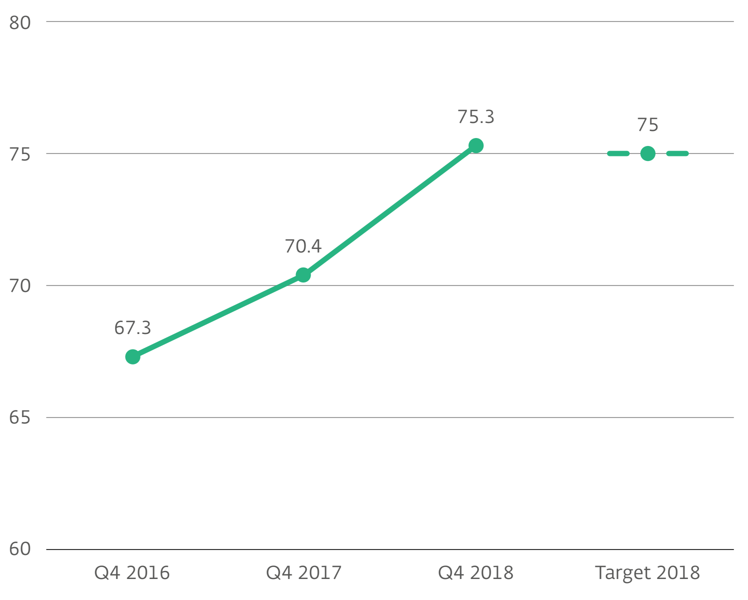
WHAT DOES THIS MEAN FOR US?

DNB makes products and services available and easy to use for various target groups. To help our customers stay ahead, we also have to understand their needs. This means, among other things, offering simple and relevant solutions, being available and delivering transparent and competitive terms and conditions and good customer service.

STATUS 2018

- High customer satisfaction all year, up from 2017.
- Carried out Shelf Control on all of DNB's products and services.
- Launched new strategy for unsecured credit.
- Launched green home mortgages.

Customer satisfaction development
Points



↓ FACTS

Responsible area in the bank:
Personal Banking

Measurement parameter:
DNB indicator:
Customer satisfaction

Governing documents:
Standard for approval of products and services

UN Sustainable Development Goals:
8, 12

11 Responsible lending and investment

WHAT DOES THIS MEAN FOR US?

The GRI reporting primarily covers reporting of responsible lending related to ESG factors, and initially in the corporate segment. Responsible lending to the personal customer market is described in the strategic report, under the topic Responsible lending and investment.

① Responsible lending to corporate customers

WHAT DOES THIS MEAN FOR US?

Responsible lending means that DNB takes sustainability (ESG) into consideration in its corporate customer lending activities (Corporate Banking and LCI). This is done through operationalisation, management and development of policies, guidelines and principles. The bank also brings up sustainability considerations in customer dialogues. Having an important role in society also requires the bank to help safeguard the viability of the Norwegian economy by facilitating capital for sustainable development.

STATUS 2018

- Published 15 sector-specific business strategies that all include ESG considerations.
- New ESG sector guidance note on plastic packaging.
- Conducted 50 sector-specific ESG workshops in the corporate customers segment.
- Introduced framework for green loans, based on the Green Loan Principles.
- Processed one project in accordance with the Equator Principles.
- LCI participated in UNEP FI's TCFD pilot for scenario testing of climate risk in the lending portfolio.

↓ FACTS

Responsible area in the bank:
LCI and Corporate Banking

Measurement parameter:
GRI FS8 ESG products and services
DNB indicator:
The number of new Equator projects

Governing documents:
Group standard for corporate responsibility in DNB's credit activities, CSR ESG risk assessment tool, CSR ESG sector guidance notes for plastic packaging, energy, metals and mining, forestry, seafood, arms and defence.

UN Sustainable Development Goals:
7, 8, 9, 12, 13, 14, 16

② Responsible investment

WHAT DOES THIS MEAN FOR US?

Responsible investment means that DNB integrates ESG-related risks and opportunities in all asset management, through the operationalisation and development of policies, guidelines and principles. For a full ESG report related to responsible investment, see the 2018 Annual Report Responsible Investment which is published by DNB Asset Management.

STATUS 2018

- Percentage of total assets that have undergone negative screening: 100.
- Percentage of total assets that have undergone positive and negative screening: 83.
- Number of companies excluded from the investment portfolio in acc. with Group standard for responsible investment: 173.
- Number of meetings with companies where various ESG-related topics have been discussed: 176.
- Number of votings, Norway: 139.
- DNB Asset Management (DAM) participated in UNEP FI's TCFD pilot about scenario testing of climate risks in the investment portfolio.

↓ FACTS

Responsible area in the bank:
Wealth Management and Insurance

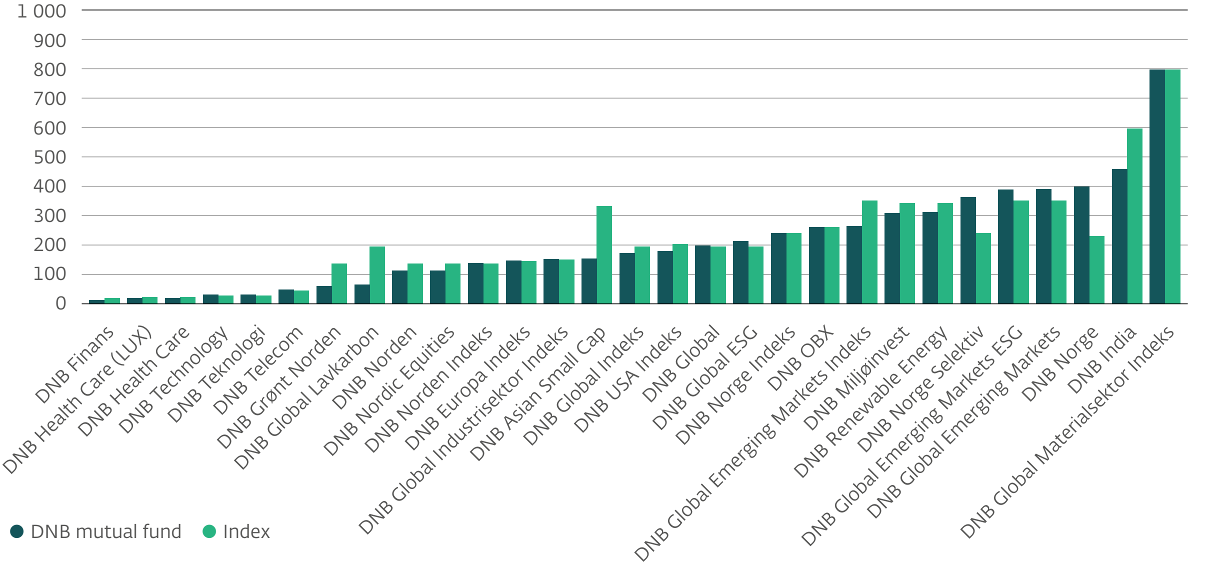
Measurement parameter:
GRI 305-4 GHG emissions, GRI FS 10 Dialogue, GRI FS11 Positive and negative screening, GRI FS8 Financial ESG products and services.

DNB indicator:
All mutual funds are screened in acc. with the Standard for responsible investments, Carbon footprints of mutual funds

Governing documents:
Group standard for responsible investment, Voting guidelines for Norway, Criteria and expectations for: Human rights, Climate change, Serious environmental harm, Anti-corruption and Tax.

UN Sustainable Development Goals:
7, 8, 9, 12, 13, 14, 16

Greenhouse gas emissions in DNB's mutual funds relative to reference indices
Tonnes of CO_2 equivalent for every USD 1 million of revenue



③ Green bonds

WHAT DOES THIS MEAN FOR US?

DNB Markets takes sustainability (ESG) into consideration in advisory services and when facilitating investments, e.g. through financial products such as green bonds.

STATUS 2018

- DNB is the largest Norwegian issuer of green bonds.
- Outstanding volume: EUR 1.6 billion.

↓ FACTS

Responsible area in the bank:
Markets

Measurement parameter:
DNB indicator:
In progress

Governing documents:
Standard procedure for Corporate Responsibility (CR) – Markets

UN Sustainable Development Goals:
7, 8, 9, 13

People

12 Equality and diversity

WHAT DOES THIS MEAN FOR US?

DNB works for equality and diversity among own employees, among business partners/suppliers and in society at large.

STATUS 2018

- Share of women at management levels 1–4: 38.1 per cent.
- Share of women in DNB's Board of Directors: 42.9 per cent.
- Held the first DNB:Diversity network meeting with 200 participants to increase diversity within the Group.
- Changed customer systems and training of customer advisers to prevent unconscious bias.
- DNB tops the 2018 SHE Index.

FACTS

Responsible area in the bank:
People and operations

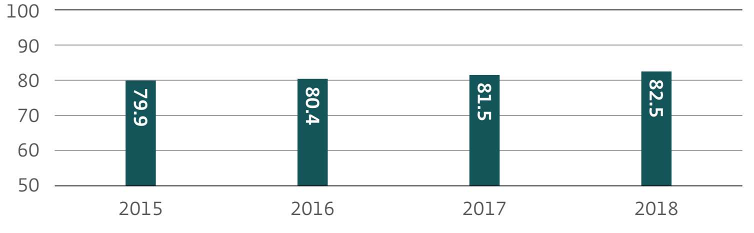
Measurement parameter:
GRI 405-2 Women's salary relative to men's

DNB indicator:
Goal: 40 per cent women at management levels 1–4

Governing documents:
Corporate governance in DNB, DNB's Code of Conduct

UN Sustainable Development Goals:
5, 8, 10

Women's salary relative to men (group wide)
Per cent



Share of women in total and management levels 1–4
Per cent

13 Restructuring and skills enhancement

WHAT DOES THIS MEAN FOR US?

DNB focuses on being able to attract, retain and develop the skills that the bank will need in the future. Restructuring and skills enhancement is about building a diverse workforce.

STATUS 2018

- Voted the most attractive employer by business students in the Universum survey for the third year running. Ranked number five among IT students. Named 'climber of the year' among engineers (from 55th to 44th place).
- 9 045 (91 per cent) have made use of the Group's training programmes.
- Reskill training programme: Educated 14 Data Scientists, while 10 IT graduates started a 3-year Architect Greenhouse education.
- Motimate and LinkedIn Learning (digital learning tools) available to all employees.

↓ FACTS

Responsible area in the bank:
People and operations

Measurement parameter:
GRI 404-2 Upgrading employee skills
DNB indicator:
Training

Governing documents:
DNB's Code of Conduct, Group standard for health, safety and environment (HSE), Standard for leadership and competence development

UN Sustainable Development Goals:
4, 5, 8, 10

14 Working conditions

WHAT DOES THIS MEAN FOR US?

Employees should be given good opportunities to develop and enhance their skills and responsibilities. DNB therefore aims to be an attractive employer with competitive benefits and salary levels that are perceived as fair by the employees and society.

STATUS 2018

- Number of recruited employees: 965.
- Total turnover: 9.6 percent.
- Turnover of permanent employees who resigned: 6.6 percent.
- In 2018, the sickness absence rate for DNB in Norway was 4.5 per cent, just above the goal of 4 per cent.

↓ FACTS

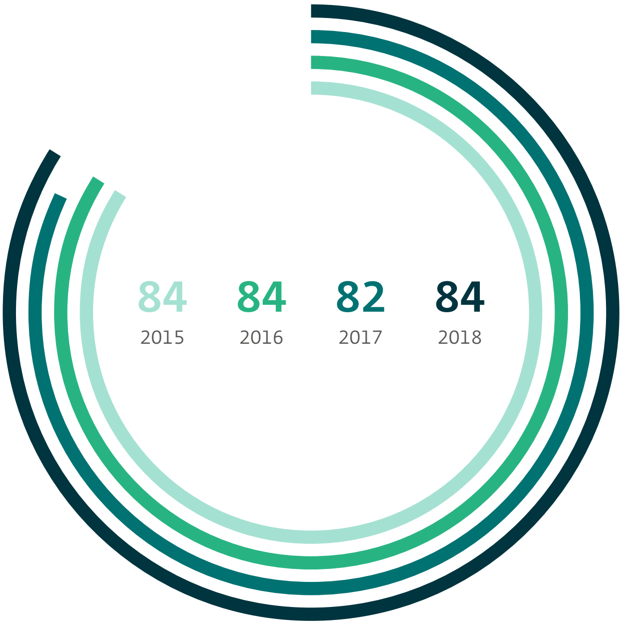
Responsible area in the bank:
People and operations

Measurement parameter:
GRI 401-1 New employee hires and employee turnover
DNB indicator:
Employee survey

Governing documents:
Group standard for health, safety and environment (HSE)

UN Sustainable Development Goals:
5, 8, 10

Share of employees who are proud to work in DNB
Per cent



15 Open and ethical business management

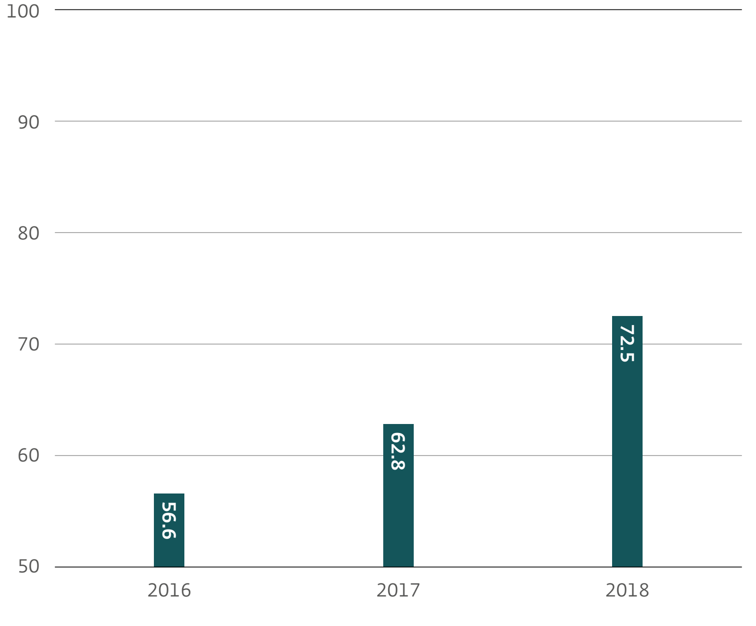
WHAT DOES THIS MEAN FOR US?

Open and ethical business management is about ensuring confidence in the bank's intentions and future prospects through openness about the Group's opinions and activities. Employees and business partners must comply with the ethical guidelines (Code of Conduct). This also includes transparency and clarity in reporting and communication.

STATUS 2018

- Achieved record high numbers for transparency in connection with reputation.
- Launched anonymous third-party whistleblowing channel.

Transparency development
Points



↓ FACTS

Responsible area in the bank:
People and operations

Measurement parameter:
DNB indicator:
RepTrak score on Openness and transparency in business operations.

Governing documents:
Corporate governance in DNB, DNB's Code of Conduct, Group policy compliance, Group standard for anti-money laundering and counter-terrorist financing, Principles for corporate responsibility, Group policy for communication, Tax policy

UN Sustainable Development Goals:
16

DNB's work with the UN Sustainable Development Goals

Since 2015, we have supported the UN Sustainable Development Goals, and the goals have been a source of inspiration for DNB and our corporate responsibility activities. To us, they represent a platform for innovation and growth for DNB, but also a framework that we can use to talk to our corporate customers about their sustainability efforts.
We have identified two goals as particularly important to us, that represent areas where we can make a difference both by contributing positively and by reducing potential downsides and risks:

- **Goal 5:** Achieve gender equality and empower all women and girls.
- **Goal 8:** Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

In addition to these two, we have also identified seven additional goals as relevant to our business operations: 7, 9, 10, 12, 13, 14 and 16. We are constantly seeking to reduce our negative impact and to contribute positively to these goals through our role as employer, investor, lender, arranger and provider of financial infrastructure.
To realise our ambitions in the field of corporate responsibility, it is essential that we understand our stakeholders and cooperate with other players. Goal 17 is therefore a prerequisite for success, and has thus also been included as a particularly relevant goal.

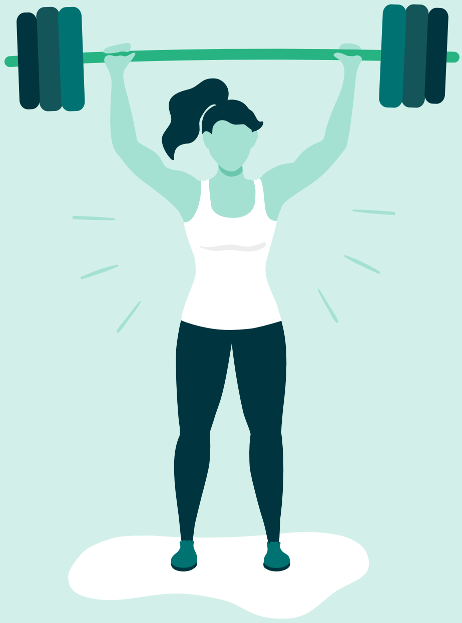
All the fifteen topics in this Factbook are linked with one or more of the UN's Sustainable Development Goals.

Purpose

We are here.
So you can stay ahead.

This is our purpose, and the answer to why DNB is here for customers, society and employees. The purpose sets the direction for our choices and priorities. It inspires innovation and drives change.

Our values describe how we will deliver our purpose, both as an organisation and as colleagues. Our values describe what we expect from each other and what customers, our owners and society in general can expect from us.



Values

Curious

Being curious means that we seek new knowledge and learn from our experiences, so that we continuously gain new insight. We are genuinely interested in and curious about how we can make everyday life better for our customers and colleagues. We find good solutions together.

Bold

Being bold means that we challenge established truths, and make decisions even though the picture is unclear. We take responsibility for our actions, admit when we make mistakes and then learn from them. We face challenges and new competition with an unshakeable conviction that we will become even better at developing the best ideas and solutions.

Responsible

We create value in a sustainable way. We will be transparent about our operations and contribute positively to society. We listen to those who have insight into and opinions about what society expects of us. We use simple language and are predictable in our actions.

We are here. So you can stay ahead.

DNB

Mailing address:
P.O.Box 1600 Sentrum
N-0021 Oslo

Visiting address:
Dronning Eufemias gate 30
Bjørvika, Oslo

dnb.no