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Cecilie Andersen
Storebrand

Annual report 2018
Storebrand Boligkreditt AS

Company information

ADDRESS:

Storebrand Boligkreditt AS
Professor Kohts vei 9
P.O. Box 474
1327 Lysaker

Telephone:	+47 22 31 50 50
Website:	www.storebrand.no
E-mail address:	bank@storebrand.no

INVESTOR RELATIONS CONTACT PERSONS:
Einar Leikanger. Statutory Managing Director. E-mail: einar.andreas.leikanger@storebrand.no. Phone: +47 9342 0379.
Kjetil R. Krøkje. Head of IR. E-mail: kjetil.r.krokje@storebrand.no. Phone: + 47 9341 2155.

Content

Important notice:
This document may contain forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that may be beyond the Storebrand Group's control. As a result, the Storebrand Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in these forward-looking statements. Important factors that may cause such a difference for the Storebrand Group include, but are not limited to: (i) the macroeconomic development, (ii) change in the competitive climate, (iii) change in the regulatory environment and other government actions and (iv) market related risks such as changes in equity markets, interest rates and exchange rates, and the performance of financial markets generally. The Storebrand Group assumes no responsibility to update any of the forward-looking statements contained in this document or any other forward-looking statements it may make.

Key figures

NOK million	2018	2017
Profit and loss account: (as % of avg. total assets) 1)		
Net interest income	0.86 %	1.00 %
Main balance sheet figures:		
Total assets	18,822.9	14,944.9
Average total assets	17,575.7	15,328.5
Gross loans to customers	18,486.0	14,542.2
Equity	1,472.0	1,153.4
Other key figures:		
Loan losses and provisions as % of average total lending	0.00 %	0.02 %
Individual loan loss provisions as % of gross loss-exposed loans 3)	5.0 %	31.2 %
Cost/income ratio	48.8 %	46.1 %
Return on equity after tax 2)	4.7 %	5.2 %
Core equity Tier 1 (CET1) capital ratio	20.5 %	19.0 %
LCR 4)	214.0 %	205.0 %

Definitions:

1) Average total assets is calculated on the basis of monthly t otal assets for the quarter and for the year respectively.

2) Annualised profit after tax as % of average equity.

3) Gross loss-exposed loans with evidence of impairment.

4) Liquidity coverage requirement.

Annual Report

HIGHLIGHTS

Storebrand Boligkreditt AS is a wholly-owned subsidiary of Storebrand Bank ASA (parent bank). The company is located in Storebrand Bank ASA's head office at Lysaker in the municipality of Bærum.

The company is a finance company and has a license from the Financial Supervisory Authority of Norway to issue covered bonds. Assets consist primarily of securitized mortgages, purchased from Storebrand Bank ASA. Storebrand Bank ASA manages the mortgages on behalf of Storebrand Boligkreditt AS. The established loan program is AAA rated by the rating agency S&P Global Rating Services. At the end of 2018, Storebrand Boligkreditt AS had issued covered bonds worth approximately NOK 14.25 billion with remaining maturities ranging from 6 months to 4.5 years The issued volume is partly placed in the marketplace and partly placed in the balance sheet of the parent bank.

At the end of 2018, the lending volume had increased compared with the end of 2017 and amounted to 9,432 mortgages and residential mortgage products corresponding to NOK 18.5 billion (14.5 billion). The quality of the portfolio is very good. At year-end, there were 15 non-performing, corresponding to NOK 30.5 million. This represents 0.16 per cent of the portfolio. The average loan-to-value ratio is approximately 55 per cent.

FINANCIAL PERFORMANCE

The company's operating profit before losses for 2018 was NOK 76 million (NOK 79 million). Net losses on lending represented costs of NOK 1 million (cost of NOK 3 million). Profit after tax for Storebrand Boligkreditt AS in 2018 was NOK 57 million, compared to NOK 58 million for 2017.

NET INTEREST INCOME

Net interest income was NOK 151 million in 2018 (NOK 154 million). The decrease compared with the previous year is mainly due to increased interbank rates during the year. As a result of the bank groups strategic approach on competitive pricing, the interest margins are under pressure. Net interest income as a percentage of average total assets was 0.86 per cent in 2018 compared with 1.00 per cent in 2017.

OTHER INCOME

Other operating income amounted to minus NOK 4 million in 2018, compared with negative income of NOK 8 million in 2017. Other income in 2018 is primarily related to net accounting losses on financial instruments at fair value.

OPERATING EXPENSES

Operating expenses amounted to NOK 72 million in 2018 and represent an increase of NOK 5 million compared to 2017. The increase in operating expenses is primarily due to increase in manangement fees, caused by increased lending volumes. The company has no employees and purchases all services, primarily from Storebrand Bank ASA and Storebrand Livsforsikring AS.

LOSSES AND NON-PERFORMING LOANS

Losses on non-performing loans accounted for a cost of NOK 1 million in 2018, compared with NOK 3 million in 2017. At the end of 2018, default volume amounted to NOK 31 million (NOK 26 million). This volume corresponds to 0.17 per cent (0.18 per cent) of gross lending. All of the loans have a loan-to-value ratio within 75 per cent of market value or have generally been written down.

BALANCE SHEET

The company's total assets under management at the end of 2018 were NOK 18.8 billion compared with NOK 14.9 billion at the end of 2017.

The liabilities are covered bonds in NOK and a credit facility in Storebrand Bank ASA. The financing structure is balanced and tailored to the company. Storebrand Boligkreditt AS issued covered bonds of total NOK 5.0 billion in 2018 and maturities or repayments represented NOK 2.1 billion. At the end of 2018, covered bonds issued by Storebrand Boligkreditt AS amounted to NOK 14.25 billion, with maturities from 6 months to 4.5 years. NOK 12.75 billion of these bonds has been invested in the marketplace, while the remaining NOK 1.5 billion is being held by the parent bank.

RISK MANAGEMENT

A credit company's core activity is credit exposure with low risk. Storebrand Boligkreditt AS is proactive in managing the risks in its business activities and continuously strive to develop routines and processes for risk management. The risk profile is considered very low.

Risk in Storebrand Boligkreditt AS is monitored in accordance with the board's guidelines for risk management and internal control. For the individual forms of risk defined in the guidelines, policy documents are prepared that state the target parameters. The development of these parameters is monitored through risk reports to the board of the company.

Credit risk and liquidity risk are the most significant forms of risk in Storebrand Boligkreditt AS. The company is also exposed to operational risk, including IT risk, compliance risk and, to less extent, market risk.

CREDIT RISK

Storebrand Boligkreditt AS had a lending portfolio of total NOK 18.5 billion, in addition to unused credit facilities of NOK 1.4 billion as at 31 December 2018. Non-performing loans represented 0.17 per cent of gross lending.

Even though the non-performing volume is low, the default volume is being monitored carefully. Storebrand Bank ASA, who manages the loans of Storebrand Boligkreditt AS, operates with conservative lending practice with regard to the customers' ability to pay. Security is considered as extremely good, since most loans are less than 60 per cent of collateral value. Average loan-to-value ratio in Storebrand Boligkreditt AS portfolio is 55 per cent (51 per cent), and at the date of transfer the maximum loan-to-value ratio is 75 per cent. Loan-to-value ratio is calculated based on amounts drawn in the case of flexible secured loans. The risk in the lending portfolio is therefore considered to be very low. Approximately 99 per cent of mortgages have a loan-to-value ratio within 80 per cent.

The company has not issued any guarantees. Storebrand Boligkreditt AS has not deposited securities with Norges Bank as surety.

LIQUIDITY RISK

Liquidity in a credit company must be sufficient at all times to support balance sheet growth and to redeem loans reaching due date. The company controls its liquidity position based on minimum liquid holdings and maximum volume per issue within a 6 month period.

Storebrand Boligkreditt AS has two credit facilities with Storebrand Bank ASA. One of these is a normal overdraft facility, with a ceiling of NOK 6 billion. This has no expiry date, but can be terminated by the bank on 15 months' notice. The other facility must have a sufficient ceiling at all times to be able to cover interest and repayment on covered bonds and associated derivatives for the next 31 days. This credit facility cannot be terminated by Storebrand Bank ASA until at least 3 months after the maturity date of the covered bond and the associated derivatives with the longest period to maturity.

The purpose of the liquidity coverage requirement (LCR) is to measure the size of the company's liquid assets in relation to the net liquidity outflow 30 days in the future given a stress situation in the money and capital markets. The LCR was introduced to Storebrand Boligkreditt AS by 30 June 2016. From 31 December 2018, the company must comply with an LCR of 100 per cent. At the end of the year, the company's LCR was 214 per cent.

Storebrand companies receive credit ratings from Standard & Poor's Rating Services.

MARKET RISK

The company's aggregate interest and foreign currency exposure is limited by means of low exposure limits in the risk policies.

Storebrand Boligkreditt AS has limited ceilings for interest risk, and this is assessed to be low, since all lending has determined interest rates and borrowing is either on variable rates or swapped to three month floating NIBOR.

At the end of 2018, Storebrand Boligkreditt AS had no currency risk, since all items on and off the balance sheet are in NOK.

OPERATIONAL RISK

In order to manage operational risk, establishment of good control functions and routines is crucial and a priority for the administration of the company. Systematic risk reviews are conducted every six months, and during extraordinary transactions or unexpected events. According to the management agreement between Storebrand Bank ASA and Storebrand Boligkreditt AS, the bank is responsible for establishing and managing loans in the company.

Fulfilment of the terms of the agreement is being monitored by the company through daily reviews of the balanced amounts, spot checks of transfers from the bank to the company, and monthly reports to the external investigator are being issued. In addition, monthly risk reports are being issued containing risk reviews of development of risk classes and non-performing loans.

The banks IT systems are vital for product establishment, credit approval, portfolio follow-up and accounting. Errors and disruptions can have consequences for operations and impact on customer trust. In the worst case, abnormal situations may result in penalties from supervisory authorities. Operations of the IT systems are outsourced to a considerable extent. The bank's system platform is used by Storebrand Boligkreditt AS and is based on purchased standard systems that are operated and monitored through service agreements. The bank group has established an intra-group management model with close supplier assessment and internal control activities with the objective of reducing risk associated with the development, administration and operation of IT systems and information security.

COMPLIANCE RISK

The risk for public sanctions or financial losses as a result of failure to comply with external and internal regulations is defined as the compliance risk. Storebrand Boligkreditt AS is particularly aware of the risk in relation to compliance with and implementation of amendments to applicable laws concerning capital adequacy, liquidity management and the application of international accounting standards.

CAPITAL MANAGEMENT

CAPITAL ADEQUACY

Equity in the company at the end of the year amounted to NOK 1,472 million. The net primary capital at year-end after group contributions paid/ received amounted to NOK 1,453 million (NOK 1,097 million). During the fourth quarter in 2018, Storebrand Boligkreditt received additional equity of NOK 315 million from Storebrand Bank ASA. Storebrand Boligkreditt AS' capital base consists entirely of pure core capital. The pure core capital adequacy ratio was 20.5 per cent (19.0 per cent) at the end of the year and the company fulfilled the combined capital and capital buffer requirements with good margin at the end of the year.

PERSONNEL, ORGANISATION, GOVERNING BODIES AND THE ENVIRONMENT

SUSTAINABILITY

Storebrand's internal driving force is about creating security today and a future customers can look forward to. Storebrand's objective describes what the group works towards every day: a safe and sustainable future with financial freedom for customers to experience what they want to experience. Storebrand shall ensure that customers have a future they can look forward to. This shall be achieved by thinking long-term, demonstrating that this, together with sustainability, is the way forward and always putting the needs of the customers first.

The Storebrand group's sustainability work originated in asset management, where a separate sustainability analysis for investments was established in 1995. There are four areas in particular that are important for the group's sustainability work: Sustainable investments, climate strategy, guidelines for sustainability and commitments and collaboration.

By systematically screening all of the companies, the asset management sustainability team analyses the ability of the companies to adapt to global sustainability trends. The method Storebrand uses excludes companies that are in violation of the group's standards for sustainable investments, selects the best companies that are positioned to face global challenges and ranks all funds according to their level of sustainability.

Storebrand has implemented a separate climate strategy in the sustainability analysis and makes a focussed effort on the business having the lowest possible impact on the climate.

Storebrand has guidelines for how the group operates and works with sustainability which apply for the entire business. Storebrand has a made a number of commitments to operating in a sustainable manner through participation in international cooperation, including the UN Principles for Responsible Investment (UNPRI) and the UN Principles for Sustainable Insurance (UNPSI). The sustainability reporting is integrated into Storebrand ASA's annual report and complies with the Global Reporting Initiative's (GRI) reporting guidelines.

ETHICS AND TRUST

Trust is the lifeblood of Storebrand. The company sets strict requirements concerning high ethical standards for the group's employees.

Storebrand also has ethical rules, which are an important tool in our daily operations, and are followed up every year through training and monitoring. Management teams at all levels of the group discuss ethical dilemmas and review the rules at least annually. The group's rules relating to anti-corruption, notification and work to combat internal fraud are included in the ethical rules and apply to all employees and consultants that work for Storebrand.

THE ENVIRONMENT

The company makes a focused effort to reduce the impact of its business activities on the environment, through their own operations, investments, purchasing and property management. The Storebrand group requires strict compliance with the group environmental policies from its suppliers and companies in which it invests. The company's head office is a low-emission building that uses renewable energy sources such as solar energy and district heating. The building is also Eco-Lighthouse certified.

PERSONNEL AND ORGANISATION

At the end of 2018 there were no employees in the company. For this reason, no special working environment measures have been taken.

The company has entered into an agreement with Storebrand Bank ASA regarding terms and conditions for the purchase, transfer and management of loans. Administration and every day tasks are being performed by employees of Storebrand Bank ASA and other companies in the Storebrand group. The services purchased are regulated through service agreements and price agreements that are updated annually.

DIVERSITY

The Board of Storebrand Boligkreditt AS consists of four members, three men and one woman. The CEO is a woman.

CORPORATE GOVERNANCE

Storebrand Boligkreditt AS' internal control systems and risk management systems linked to the accounting processes corresponds to guidelines of the Storebrand group. These guidelines are determined and reviewed annually by the board. Storebrand Boligkreditt AS has entered into service agreements with Storebrand Livsforsikring AS that includes purchase of all accounting support and accounting and reporting services from Storebrand Livsforsikring AS.

The management and board of Storebrand ASA conducts an annual review of principles for corporate governance. Storebrand ASA established principles for corporate governance in 1998. In accordance with Section 3-3b of the Accounting Act and the Norwegian recommendation for corporate governance (most recently revised on 30 October 2014), Storebrand ASA presents a report containing principles and practices for corporate governance. For a more detailed description of the corporate governance in Storebrand and compliance with Section 3-3b of the Accounting Act, see the specific article in the Storebrand group's annual report for 2018.

Storebrand Boligkreditt AS publishes four quarterly financial statements in addition to the annual financial statement report. The financial reports must comply with laws and regulations and must be presented in accordance with established accounting principles, as well as following the deadlines determined by the board of Storebrand ASA. The company accounts for Storebrand Boligkreditt AS are prepared by the Group Accounts department of Storebrand Livsforsikring AS, which is organised under the CFO of Storebrand group.

Key managers in Group Accounts have a fixed annual remuneration that is not affected by the group's financial results. A number of risk assessment and control measures have been established in connection with the presentation of the financial reports. Internal meetings are held, as well as meetings in which external auditors participate, to identify risk conditions and measures in connection with significant accounting items or other circumstances. Corresponding quarterly meetings are held with various professional centers in the group who are key to the assessment and valuation of lending and financial instruments, as well as other items for assessment. These meetings have a particular focus on any market changes, specific conditions relating to default trends, individual loans and investments, transactions and operational conditions etc. Valuation relating to significant accounting items and any changes in principles are described in a separate document (valuation item memo). The external auditor participates in board meetings at least once a year, as well as in meetings of the audit committee of Storebrand ASA.

Monthly and quarterly operating reports are prepared in which business area results and product area results are analysed and reviewed against predetermined budgets. The operating reports are reconciled against other financial reporting. Reconciliations of the accounting system with a range of technical systems are being conducted on ongoing basis.

The board's operating method is regulated by specific instructions to the board. The board of Storebrand ASA has also established a general "Governing Document for Risk Management and Internal Control in Storebrand 2014" as well as instructions to the boards of subsidiaries. These documents describe how guidelines, plans and strategies adopted by the Group's Board of Directors are expected to be fulfilled, as well as how risk management and control shall be performed in the group. The board of Storebrand ASA has three advisory sub-committees that are common to the Storebrand group: The Compensation Committee, Audit Committee and Risk Committee.

The company has no articles or authorities that enable the board to decide that the company may buy back or issue own shares or capital certificates.

CHANGES TO THE COMPOSITION OF THE BOARD

Bernt Uppstad replaced Heidi Skaaret as the Chairman of the board from April 2018. Heidi Skaaret left the board in April 2018.

SOCIAL RESPONSIBILITY

Detailed description regarding sustainability is included in the 2018 annual report of the Storebrand group.

GOING CONCERN

The board confirms that the basis for continued operation as an going concern is in place and the annual financial report has been presented on this assumption.

EVENTS AFTER THE BALANCE DATE

The board is not aware of any events that have occurred after the end of the financial year that have any significant effect on the annual financial statements that have been presented.

ALLOCATION OF PROFIT

The company's profit for the year amounted to NOK 57.2 million. The board proposes to pay a group contribution of NOK 63.8 million before tax (NOK 49.1 million after tax) to Storebrand Bank ASA. The board considers the company's capital situation to be good in relation to the risk profile and proposes the following allocation of the profit for the year to the company's general meeting:

Amounts in NOK million:	Total
Transferred to / from other equity	-8.1
Group contribution paid to parent company (after tax)	-49.1
Total allocation	**-57.2**

STRATEGY AND OUTLOOK FOR 2019

In 2019, Storebrand Boligkreditt AS will continue its core activity, which is the acquisition and management of mortgages from Storebrand Bank ASA. The company is aiming for moderate growth in collateralisation during 2019.

The market trends and the non-performing loans are being closely monitored. Efforts to ensure good working procedures and high data quality will continue and thereby ensure that legal and rating requirements continue to be fulfilled. Developments in the Norwegian and international capital markets, interest rates, unemployment and the property market are regarded as the key risk factors that can affect the results of Storebrand Boligkreditt AS in 2019.

New issues of covered bonds will be made available when the company decides it is favorable to do so and there is sufficient collateral. Storebrand Boligkreditt AS will continue to contribute to Storebrand Bank ASA having diversified financing.

Lysaker, 12 February 2019
The Board of Directors of Storebrand Boligkreditt AS

Translation –not to be signed

Bernt Uppstad
-Chairman of the Board-

Jostein Dalland
- Deputy Chairman of the board-

Leif Helmich Pedersen
- Board Member -

Thor Bendik Weider
- Board Member -

Åse Jonassen
- CEO -

Profit and loss account
1 January - 31 December

NOK million	Note	2018	2017
Interest income on financial instruments at amortised cost		1.9	356.2
Interest income on financial instruments at fair value		393.9	1.8
Interest expense		-244.6	-204.1
Net interest income	10	**151.2**	**153.8**
Net gains on financial instruments valued at amortised cost		-1.7	-6.9
Net gains on other financial instruments	10	-1.9	-3.2
Other income			1.7
Total other operating income		**-3.6**	**-8.3**
Staff expenses	12, 26	-0.3	-0.2
General administration expenses	12	-0.2	-0.2
Other operating costs	11, 12	-71.5	-66.6
Total operating costs		**-72.0**	**-67.0**
Operating profit before losses and other items		**75.6**	**78.5**
Loan losses	13	-0.5	-2.5
Profit before tax		**75.0**	**76.0**
Tax	14	-17.9	-18.3
Profit for the year		**57.2**	**57.7**

Statement of comprehensive income

NOK million	Note	2018	2017
Profit for the year		57.2	57.7
Total comprehensive income for the period		**57.2**	**57.7**
Allocations:			
Provision for group contribution		-62.2	-39.5
Transferred to other equity		5.1	-18.2
Total allocations		**-57.2**	**-57.7**

Statement of financial position
31 December

ASSETS

NOK million	Note	2018	2017
Loans to and deposits with credit institutions	4, 8, 15	248.0	251.2
Loans to customers	4, 8, 13, 15, 18 19, 20	18,484.8	14,537.5
Financial assets designated at fair value through profit and loss account:			
Bonds and other fixed-income securities	4, 8, 15, 16	40.4	40.9
Derivatives	4, 5, 8, 15, 17, 22	39.5	87.1
Deferred tax assets	14		2.3
Other current assets	15, 21	10.2	25.9
Total assets		**18,822.9**	**14,944.9**

LIABILITIES AND EQUITY

NOK million	Note	2018	2017
Liabilities to credit institutions	5, 10, 15, 26	3,001.7	2,295.8
Other financial liabilities:			
Commercial papers and bonds issued	5, 8, 15	14,333.4	11,474.5
Other liabilities	5, 14, 15, 23	14.8	21.2
Deferred tax	14	0.9	
Total liabilities		**17,350.9**	**13,791.5**
Paid-in equity		1,395.3	1,074.4
Other equity		76.7	79.0
Total equity	**25**	**1,472.0**	**1,153.4**
Total liabilities and equity		**18,822.9**	**14,944.9**

Lysaker, 12 February 2019
The Board of Directors of Storebrand Boligkreditt AS

Translation - not to be signed

Bernt Uppstad
-Chairman of the Board-

Jostein Dalland
- Deputy Chairman of the board-

Åse Jonassen
- CEO -

Leif Helmich Pedersen
- Board Member -

Thor Bendik Weider
- Board Member -

Statement of changes in equity

NOK million	Share capital	Share premium	Other paid-in capital	Total paid-in capital	Other equity	Total other equity	Total equity
Equity at 31.12.2016	455.0	270.1	224.3	949.4	60.8	60.8	1,010.2
Profit for the period					57.7	57.7	57.7
Other comprehensive income							0.0
Total other comprehensive income	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total comprehensive income for the period	**0.0**	**0.0**	**0.0**	**0.0**	**57.7**	**57.7**	**57.7**
Equity transactions with the owner:							
Group contribution received			125.0	125.0			125.0
Group contribution paid					-39.5	-39.5	-39.5
Equity at 31.12.2017	**455.0**	**270.1**	**349.3**	**1,074.4**	**79.0**	**79.0**	**1,153.4**
Effect of implementing IFRS 9 in equity 01.01.2018					2.8	2.8	2.8
Profit for the period					57.2	57.2	57.2
Other comprehensive income							0.0
Total other comprehensive income	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total comprehensive income for the period	**0.0**	**0.0**	**0.0**	**0.0**	**57.2**	**57.2**	**57.2**
Equity transactions with the owner:							
Capital increase	35.0	280.0		315.0			315.0
Group contribution received			5.9	5.9			5.9
Group contribution paid					-62.2	-62.2	-62.2
Other changes							0.0
Equity at 31.12.2018	**490.0**	**550.1**	**355.2**	**1,395.3**	**76.7**	**76.7**	**1,472.0**

Storebrand Boligkreditt AS is 100% owned by Storebrand Bank ASA. Number of shares are 35.000.000 at nominal value NOK 13,- per share.

The equity changes with the result for the individual period, equity transactions with the owners and items that are entered directly on the balance sheet. Share capital, the share premium reserve and other equity is evaluated and managed together. The share premium fund may be used to cover a loss, and other equity may be used in accordance with the provisions of the Company Act.

Storebrand Boligkreditt AS actively manages the level of equity in the company. The capital level is tailored to the economic risk and capital requirements in which the composition of its business areas and their growth will be an important driver. The goal of the capital management is to ensure an effective capital structure and secure an appropriate balance between internal goals in relation to regulatory and the rating companies' requirements. If there is a need for new capital, this must be issued by the parent bank Storebrand Bank ASA.

Storebrand Boligkreditt AS is a credit institution subject to statutory requirements regarding primary capital under the capital adequacy regulations. Primary capital encompasses both equity and subordinated loan capital. For Storebrand Boligkreditt, these legal requirements are most important in its capital management.

For further information on the company's fulfilment of the capital requirements, see note 25.

Statement of cash flow
1 January - 31 December

NOK million	2018	2017
Cash flow from operations		
Net receipts/payments of interest, commissions and fees from customers	389.7	355.7
Net disbursement/payments on customer loans	-3,935.5	-1,170.0
Net receipts/payments - securities at fair value	0.2	-6.7
Payments of operating costs	-66.4	-73.8
Net cash flow from operating activities	**-3,612.1**	**-894.9**
Cash flow from investment activities		
Net payments on purchase/sale of fixed assets etc.		
Net cash flow from investment activities	**0.0**	**0.0**
Cash flow from financing activities		
Payments - repayments of loans and issuing of bond debt	-2,125.0	-3,065.0
Receipts - new loans and issuing of bond debt	5,706.0	4,202.6
Payments - interest on loans	-210.9	-205.0
Paid in share capital and other equity issued	315.0	0.0
Receipts - group contribution	5.9	125.0
Payments - group contribution	-81.9	-52.7
Net cash flow from financing activities	**3,609.0**	**1,005.0**
Net cash flow in period	**-3.1**	**110.1**
Net movement in cash and bank deposits	-3.1	110.1
Cash and bank deposits at the start of the period	251.2	141.0
Cash and bank deposits at the end of the period	**248.0**	**251.2**

The company has a credit arrangement (drawing facility) with Storebrand Bank ASA that is included in the item "Liabilities to credit institutions" as at 31.12.2018. See also Note 5.

See note 24 for information regarding undraft credit facilities.

The cash flow analysis shows the company's cash flows for operational, investment and financial activities pursuant to the direct method. The cash flows show the overall change in means of payment over the year.

Operational activities
A substantial part of the activities in a credit institution will be classified as operational.

Investment activities
Includes cash flows from tangible fixed assets.

Financing activities
Financing activities include cash flows for equity, subordinated loans and other borrowing that helps fund the company's activities. Payments of interest on borrowing and payments of group contribution are financial activities.

Cash/cash equivalents
Cash/cash equivalents are defined as claims on central banks and lending to and claims on financial institutions.

Notes to the account Storebrand Boligkreditt AS

Note 1 - Company information and accounting policies

1. COMPANY INFORMATION

Storebrand Boligkreditt AS is a Norwegian limited company with bonds listed on the Oslo Stock Exchange. The company's financial statements for 2018 were approved by the Board of Directors on 12 February 2019.

Storebrand Boligkreditt AS offers home mortgages to the retail market. Storebrand Boligkreditt AS consists of the retail market business area. Storebrand Boligkreditt AS is headquartered at Professor Kohts vei 9, Lysaker.

2. BASIS FOR PREPARATION OF THE FINANCIAL STATEMENTS

The accounting policies applied in the company accounts are described below. The policies are applied consistently to similar transactions and to other events involving similar circumstances.

The financial statements of Storebrand Boligkreditt AS have been prepared in accordance with the International Financial Reporting Standards (IFRS) and appurtenant interpretations, as well as other Norwegian disclosure requirements laid down in legislation and regulations.

USE OF ESTIMATES IN PREPARING THE ANNUAL FINANCIAL STATEMENTS.
The preparation of the annual financial statements in accordance with IFRS requires the management to make judgements, estimates and assumptions that affect assets, liabilities, revenue, expenses, the notes to the financial statements and information on potential liabilities. Actual amounts may differ from these estimates. See note 2 for further information.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR MATERIAL STATEMENT OF FINANCIAL POSITION ITEMS

The asset side of the company's statement of financial position primarily consists of financial instruments. Loans to customers with variable interest are measured as debt instruments at fair value through other comprehensive income (OCI), while loans to customers with fixed interest are measured at fair value through profit or loss. Shares and derivatives are measured at fair value through profit or loss. Other financial assets are measured at amortised cost. Capitalised intangible assets are also included on the statement of financial position. Intangible assets are measured at acquisition cost less any amortisation, and are tested for impairment at least annually.The liabilities side of the company's statement of financial position primarily consists of financial instruments (liabilities).

The accounting policies are described in more detail below.

4. CHANGES IN ACCOUNTING POLICIES

New accounting standards that have had a significant impact on the financial statements have been implemented in 2018.

NEW ACCOUNTING STANDARDS THAT ENTERED INTO EFFECT IN 2018.

IFRS 9
IFRS 9 Financial Instruments replaced the current IAS 39. IFRS 9 is applicable from 1 January 2018. IFRS 9 covers recognition, classification and measurement, impairment, derecognition and general hedge accounting. Implementation of IFRS 9 has significantly impacted accounting of financial instruments in Storebrand Boligkreditt AS`s financial statements. Storebrand Boligkreditt AS did not early adopt the standard.

Transitional rules
IFRS 9 is applied retrospectively, with the exception of hedge accounting. Retrospective application means that Storebrand Boligkreditt AS has calculated the opening balance for 1 January 2018 as if the company always has applied the new principles. Storebrand Boligkreditt AS has not restated the comparative figures for 2017 in the interim financial statements of fourth quarter 2018 due to IFRS 9. The effects of the new principles on the opening balance for 2018 are recognised in equity.

Storebrand Boligkreditt AS has chosen to introduce hedge accounting pursuant to IFRS 9, which includes similar hedging instruments used under IAS 39.

Implementation of IFRS 9 has changed recognition, classification and measurement of financial instruments and impairment of financial assets in Storebrand Boligkreditt AS`s financial statements. The introduction of IFRS 9 has resulted in significant changes in standards pertaining to note information for financial instruments, IFRS 7 Financial Instruments – disclosures.

Classification and measurement of financial instruments

Financial assets

Under IFRS 9, financial assets shall be classified into three measurement categories: fair value through profit or loss, fair value through other comprehensive income (OCI) and at amortised cost. The classification is based on whether the instruments are held in a business modelfor the purpuse to receive contractual cash flows, for both to receive contractual cash flows and for sale or in another business model, and whether contractual cash flows are solely payments of principal and interest on specified dates (pass the SPPI-test, "Solely payment of principal and interest"). Debt instruments are all financial assets that are not derivatives or equity instruments.

Financial assets that are debt instruments

Debt instruments with contractual cash flows that consist solely of payment of principal and interest on specified dates and which are held in a business model for the purpose of receiving contractual cash flows shall be measured at amortised cost. Instruments with contractual cash flows that are solely payments of principal and interest (SPPI) on specified dates and which are held in a business model for the purpose of receiving contractual cash flows and for sale shall be measured at fair value through OCI, with interest income, foreign currency effects and impairments through profit or loss. Any value adjustments through other OCI are recycled through to profit or loss on sale or other disposal of the assets. Other debt instruments are measured at fair value through profit or loss. This applies to instruments with cash flows that are not only payment of principal and interest, and instruments held in a business model where the main objective is not receipt of contracted cash flows.

Instruments that are to be measured at amortised cost or at fair value through OCI may be designated for measurement at fair value through profit or loss if this eliminates or significantly reduces an accounting mismatch.

Derivatives and investments in equity instruments

In principle, all derivatives shall be measured at fair value with all fair value adjustments recognised in profit or loss; but derivatives designated as hedging instruments shall be recognised in accordance with the principles governing hedge accounting. Investments in equity instruments shall be measured at fair value in the balance sheet. Adjustments in value must as a general rule be reported in profit or loss, but an equity instrument not held for trading purposes and which is not a conditional consideration after a transfer of business may be designated as measured at fair value with value changes presented in OCI.

Changes to classification and measurement of financial assets

Storebrand Boligkreditt AS's financial assets, which were measured at fair value under IAS 39, are also measured at fair value under IFRS 9. The following changes were made to the classification of the company's financial assets when implementing IFRS 9:

Accounts receivables and cash equivalents

The instruments were previously classified as Loans and Receivables measured at amortised cost under IAS 39, and are held to receive contractual cash flows consisting exclusively of the payment of interest and principal amounts on specified dates. The instruments are classified as debt instruments at amortised cost under IFRS 9.

Loans to and receivables from customers with variable interest

The instruments were previously classified as Loans and Receivables measured at amortised cost under IAS 39, but are now measured as debt instruments at fair value through OCI. Storebrand Boligkreditt AS expects not only to hold the instruments to receive contractual cash flows, but also to sell substantial units relatively often.

Loans to and receivables from customers with fixed interest

The instruments were previously classified as At fair value through profit or loss according to the fair value option (FVO) in order to eliminate or substantially reduce the accounting mismatch that would otherwise have arisen since interest rate derivatives have been entered into to bring the exposure back to variable interest loans. IFRS 9 allows for several alternative classification options for these types of instruments that include terms for early payment, as well as the possibility of negative compensation. Measurement at fair value through profit or loss will still eliminate or substantially reduce accounting mismatch that would otherwise have arisen. Storebrand Boligkreditt AS has chosen to classify loans with fixed interest rates at fair value with change in value through profit or loss under IFRS 9.

Bonds and securities - liquidity portfolio

The instruments were previously classified as At fair value through profit or loss according to the fair value option (FVO). The purpose of the portfolio is liquidity management and Storebrand Boligkreditt AS holds the instruments to receive cash flows consisting solely payments of principal and interest of the principal amount outstanding on specified dates and for sale. The portfolio is held to continually have satisfactory liquidity allocated to strategies and policies and is freely traded to be best placed in terms of liquidity and to maximise the return within specified frameworks. The frequency and volume will vary a great deal. FVO under IAS 39 was used when the portfolio was followed up on fair value basis. The business model has not been changed and it is therefore mandatory under IFRS 9 to classify the portfolio at fair value with change in value through profit or loss.

Financial liabilities

There are no changes in the classification and measurement of Storebrand Boligkreditt AS's financial liabilities arising from the implementation of IFRS 9. Financial liabilities that are not derivatives are measured at amortised cost. Financial derivatives that are liabilities are measured as financial derivatives that are assets.

Hedge accounting
IFRS 9 simplifies the requirements pertaining to hedge accounting in that hedge effectiveness is linked more closely to the management's risk management. The 80–125 per cent hedge effectiveness requirement has been removed and replaced by more qualitative requirements, including that there must be an economic relationship between the hedging instrument and the hedged item, and that credit risk must not dominate the value adjustments in the hedging instrument. Hedging documentation is still required.

Changes in write-downs on lending
In IAS 39, impairment losses on loans were only recognised when there was objective evidence that a loss event had occurred following initial recognition. Under IFRS 9, the loss provisions are recognised based on expected credit loss (ECL). The general model for write-down on financial assets in IFRS 9 applies to financial assets measured at amortised cost or at fair value with changes in value through OCI, and which had not accrued credit losses at initial recognition. Loan commitments, financial guarantee contracts that are not measured at fair value through profit or loss and lease receivables are also included.

The measurement of the provision for expected losses in the general model depends on whether the credit risk has increased significantly since initial recognition. At initial recognition and when the credit risk has not increased significantly following initial recognition, provisions must be made for 12 months expected loss. 12 months expected loss is the loss that is expected to occur over the economic life of the instrument, but that cannot be linked to events that occur during the first 12 months. If the credit risk has increased significantly since initial recognition, provisions must be made for expected losses over the entire economic life. Expected credit losses are calculated based on the present value of all cash flows over the remaining expected economic life, i.e. the difference between the contractual cash flows in accordance with the contract and the cash flow that is expected to be received, discounted by the effective interest on the instruments.

In addition to the general model, there are separate principles for issued loans, including renegotiated loans that are treated as new loans and purchased loans for which credit losses are accrued at initial recognition. An effective interest rate shall be calculated for these that takes into account expected credit losses and, in the event of changes in expected cash flows, the change must be discounted by the originally stipulated effective interest rate and charged to the income statement. Thus, for these assets there is no need to monitor whether there has been a significant increase in the credit risk after initial recognition because expected losses over the entire economic life will be taken into account regardless.

For loans with accrued credit losses, an interest income is calculated and presented based on effective interest from amortised cost. For loans without accrued credit losses, an interest income is calculated and presented based on the effective interest on gross carrying amount before loss provisions.

A simplified model is used for accounts receivables without significant financing components, where provisions are made for expected loss over the entire economic life from initial recognition. As an accounting principle, Storebrand Boligkreditt AS has chosen to also use the simplified model for accounts receivables with significant financing elements and lease receivables.

Effects of the transition to IFRS 9
In connection of transition to IFRS 9, Storebrand Boligkreditt AS conducted a detailed analysis of business models and associated cash flow characteristics for the correct classification and measurement of their financial instruments under IFRS 9.

See section 7 below for more detailed information on the classification of financial instruments according to the principles in IFRS 9.

Measurement categories and book values for financial assets and liabilities according to IAS 39 and IFRS 9 as of 1 January 2018 are presented below:

NOK million	Note	Classification according to IAS 39	Classification according to IFRS 9	Book value according to IAS 39 31 December 2017	Book value according to IFRS 9 1 January 2018
Loans to and deposits with credit institutions		AC	AC	251	251
Loans to and receivables from customers - floating interest		AC	FVOCI	14,538	14,540
Loans to and receivables from customers - fixed interest		FVP&L (FVO)	FVP&L (FVO)	0	0
Bonds and other fixed-income securities		FVP&L (FVO)	FVP&L (FVO)	41	41
Bonds and other fixed-income securities		AC	AC	0	0
Liabilities to credit institutions		AC	AC	2,296	2,296
Commercial papers and bonds issued		AC	AC	11,475	11,475
Fianancial derivatives		FVP&L/Hedge Accounting	FVP&L/Hedge Accounting	87	87

The table below shows changes in book values for financial instruments with changed classification and measurement due to transition from IAS 39 to IFRS 9 as of 1 January 2018:

NOK million	Book value according to IAS 39 31 December 2017	Change due to reclassification	Change due to remeasurement	Book value according to IFRS 9 1 January 2018
Loans and receiveavbles and instruments held to maturity according to IAS 39 which will be measured at amortised cost according to IFRS 9				0
Debt instruments classified as available for sale according to IAS 39 which will be measured at amortised cost according to IFRS 9				0
Total instruments measured at amortised cost according to IFRS 9	**0**	**0**	**0**	**0**
Loans and receivables and instruments held to maturity according to IAS 39 which will be measured at fair value over other comprehensive income (OCI) according to IFRS 9	14,538		3	14,540
Debt instruments classified as available for sale according to IAS 39 which will be measured at fair value over other comprehensive income (OCI) according to IFRS 9.				0
Total instruments measured at fair value over OCI according to IFRS 9	**14,538**	**0**	**3**	**14,540**
Loans and receivables and instruments at fair value through profit & loss according to IAS 39 which will be measured at fair value through profit & loss according to IFRS 9	41			41
Debt instruments classified at fair value through profit & loss according to IAS 39 which will be measured at fair value through profit & loss according to IFRS 9				0
Total instruments measured at fair value through profit & loss according to IFRS 9	**41**	**0**	**0**	**41**
Total	**14,578**	**0**	**3**	**14,581**
Financial guarantee agreements				0
Loan committments				0
Total financiel guarantees and loan commitments	**0**	**0**	**0**	**0**

IFRS 15

The new standard IFRS 15 for recognising revenue from contracts with customers entered into force from 1 January 2018, and replaced the current IAS 18. Revenue recognition in the Storebrand Boligkreditt AS are primarily regulated by IFRS 9. Revenue that will be recognised under Other Income is assessed in relation to IFRS 15.

The implementation of IFRS 15 have no significant impact on the result in Storebrand Boligkreditt AS's financial statements.

NEW STANDARDS AND CHANGES IN STANDARDS THAT HAVE NOT COME INTO EFFECT

IFRS 16

IFRS 16 Leases raplaces the current standard IAS 17 and comes into force from 1 January 2019. IFRS 16 sets out principles for recognition, measurement, presentation and publication of leases. The new leasing standard will not entail any major changes for lessors, but will entail substantial changes for lessees' accounting. IFRS 16 requires that lessees shall in principle recognise all lease contracts in the balance sheet in accordance with a simplified model similar to the accounting of financial leases under IAS 17. The present value of the total lease payments shall be recognised as a liability and an asset that reflect the right of use of the asset in the lease period. The recognised asset is amortised over the lease period, and the depreciation cost is recognised in the income statement on an ongoing basis as an operating cost. Interest charges on the lease commitment are recognised as a financial cost.

IFRS 16 can be implemented either in accordance with the full retrospective method or modified retrospective method, and Storebrand has selected the modified retrospective method. This means that comparable figures are not restated and the effect is entered in the balance sheet for the implementation year of 2019. Upon implementation, the right of use of the asset and liability will be the same amount and will not have any effect on equity.

Storebrand Boligkreditt AS has no lease agreements according to IFRS 16 at year end 2018.

5. INCOME RECOGNITION

INTEREST INCOME - BANKING

Interest income related to loans and bonds are recognised in the income statement using the effective interest method. See Section 6 for more information.

INCOME FROM FINANCIAL ASSETS

Income from financial assets is described in Section 6.

OTHER INCOME

Fees are recognised when the income can be measured reliably and earned, fixed fees are recognised as income in line with delivery of the service, and performance fees are recognised as income once the success criteria have been met.

6. FINANCIAL INSTRUMENTS

6-1. GENERAL POLICIES AND DEFINITIONS

RECOGNITION AND DERECOGNITION

Financial assets and liabilities are included in the statement of financial position from such time Storebrand Boligkreditt AS becomes party to the instrument's contractual terms and conditions. Ordinary purchases and sales of financial assets are booked on the transaction date and financial liabilities are booked on the settlement date. When a financial asset or a financial liability is initially recognised, it is valued at fair value. Initial recognition includes transaction costs directly related to the acquisition or issue of the financial asset or the financial liability if it is not a financial asset or a financial liability at fair value.

Financial assets are derecognised when the contractual right to the cash flows from the financial asset expires, or when the company transfers the financial asset to another party in a transaction by which all, or virtually all, the risk and reward associated with ownership of the asset is transferred.

Financial liabilities are derecognised in the statement of financial position when they cease to exist, i.e once the contractual liability has been fulfilled, cancelled or has expired.

MODIFIED ASSETS AND LIABILITIES

If terms of an existing financial asset or obligation are modified or changed, the instrument is treated as a new financial asset if the renegotiated terms are substantially different from the old terms. If the terms are substantially different, the old financial asset or liability is derecognised and a new financial asset or liability is recognised. In general, a loan is considered to be a new financial asset if new loan documentation is issued and a new credit granting process is undertaken, resulting in new loan terms and conditions.

If the modified instrument is not considered to be substantially different from the existing instrument, the instrument is treated as a continuation of the existing instrument in terms of accounting. In the event of modification that is treated as a continuation of the existing instrument in the accounts, the new cash flows are discounted with the instrument’s original effective interest rate, and any difference compared with the existing book value is recognised.

AMORTISED COST

For financial instruments measured at amortised cost, interest recognised in the income statement is calculated using the effective interest method. The calculation of the effective interest rate involves estimating all cash flows and all contractual terms of the financial instruments (for example, early repayment, call options and equivalent options). The calculation includes all fees and margins paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

FAIR VALUE

Fair value is the amount for which an asset could be exchanged between well-informed, willing parties in an arm's length transaction. The fair value of financial assets listed on a stock exchange or on another regulated market in which regular trading takes place is determined as the bid price on the last trading day up to and including the reporting date.

If a market for a financial instrument is not active, fair value is determined by using recognised valuation techniques. Such valuation techniques make use of recent arm's length market transactions between knowledgeable and independent parties, where available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis, and options pricing models. If a valuation technique is in common use by participants in the market for pricing the instrument and this method has proved to provide reliable estimates of prices actually achieved in market transactions, this method is used.

In calculating the fair value of loans the current market rate on similar loans is used. Changes in credit risk are taken into account.

IMPAIRMENT OF FINANCIAL ASSETS

The general model for impairment of financial assets in IFRS 9 will apply to financial assets that are measured at amortised cost or at fair value through other comprehensive income and for which no losses were determined at initial recognition. Loan commitments, financial guarantee contracts not measured at fair value through profit and loss, and lease receivables are also encompassed by the model. Measurement of the allowance for expected loss in the general model depends on whether the credit risk has increased significantly since initial recognition.

In addition to the general model, there are separate principles for issued, including renegotiated, loans that are treated as new, and bought loans where there is accrued credit loss on initial recognition in the balance sheet. For these, an effective interest rate will be calculated that takes into account expected credit loss, and in the event of any changes in expected cash flows, the change will be discounted with the originally set effective interest rate and recognised in the income statement. For these assets, there is thus no need to monitor whether there has been a substantial increase in credit risk after initial recognition, as the expected losses over the whole lifetime are taken into account.

For accounts receivable without a significant financing component, a simplified model will be used, where provisions will be made for expected loss over the entire lifetime from initial recognition. Storebrand Boligkreditt AS has chosen to use the simplified model as the accounting policy also for accounts receivable with a significant financing component and lease receivables.

6-2. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

FINANCIAL ASSETS ARE CLASSIFIED AND MEASURED IN ONE OF THE FOLLOWING CATEGORIES:

- Financial assets measured at amortised cost
- Financial assets measured at fair value with value change through other earnings and costs with a reclassification of accumulated gains and losses for the profit or loss
- Financial assets measured at fair value through profit or loss

FINANCIAL ASSETS CLASSIFIED AND MEASURED AT AMORTISED COST

A financial asset is classified and measured at amortised cost if the following condition is met:

- it is primarily procured or contracted to hold the asset in order to collect contractual cash flows, which are only payment of principal and interest on given dates.

Financial assets measured at amortised cost are booked at amortised cost using the effective interest method.

FINANCIAL ASSETS CLASSIFIED AND MEASURED AT FAIR VALUE THROUGH OCI WITH A RECLASSIFICATION OF ACCUMULATED GAINS AND LOSSES FOR THE PROFIT OR LOSS

A financial asset is classified and measured at fair value through OCI if the following condition is met:

- it is primarily procured or contracted to hold the asset in order to collect contractual cash flows, which are only payment of principal and interest on given dates, and for sales.

Financial assets in this category are booked at fair value with value change through OCI. For realisation of the instrument, accumulated value changes from OCI are reclassified for the profit or loss. Associated interest income, foreign currency translation differences and any impairments are booked in the ordinary profit or loss.

FINANCIAL ASSETS ARE CLASSIFIED AND MEASURED AT FAIR VALUE THROUGH THE PROFIT OR LOSS

A significant share of Storebrands Boligkreditt AS's financial instruments are classified in the category fair value through profit or loss for the following reasons:

- the financial assets are included in a portfolio that is continuously measured and reported at fair value, the financial assets have cash flows generated not only by interest and instalments on the principal, or
- such classification reduces the mismatch in the measurement or recognition that would otherwise arise due to different rules for measuring assets and liabilities.

6-3. IMPAIRMENT - GENERAL METHOD

In the purpose of estimating the expected credit loss (ECL), models for the probability of default (PD), loss given defaults (LGD) and exposure at default (EAD) have been developed. The models are derived from similar models used for the internal capital adequacy assessment process. For IFRS 9 purposes, the models are positioned in the macro economy and expectations going forward, which is why the PD, LGD and EAD models are "point in time" (PIT) models. These differ from the "through the cycle" (TTC) models used for capital adequacy purposes. The risk parameters for IFRS 9 are also calibrated to assess the future to an even greater extent. As the future is uncertain, different future scenarios are used to compute PDs, LGDs and EADs for the commitments. The various future scenarios have different weights that are determined based on a perspective of the business cycle and forecasts. The final expected credit loss per commitment will be a weighted average of the expected credit losses in the different scenarios. The total expected credit loss for the portfolio is the sum of the weighted credit losses per commitment.

In the PD model, financial factors are a significant explanatory variable along with the customer's behavioural data. The model is statistically developed based on logistic regression. Loan-to-asset value is a significant factor in the LGD model. For EAD, the most significant factors are the amount of the loan for amortising loans and the amount of credit for lines of credit. The models are validated on a yearly basis.

Evaluations of future developments have a particular impact on PD and LGD estimates.

Storebrand Boligkreditt AS makes use of future scenarios to calculated expected credit losses. The company bases its assessments of future scenarios on future scenarios presented by Norges Bank in the Financial Stability Report and on assessments from Statistics Norway (SSB). The scenarios build on the current macroeconomic situation, macroeconomic forecasts and the macroeconomic impact on the credit risk in the company's commitments. The forecasts affect the probability of default, the exposure and the degree of loss.

Factors such as unemployment, wage growth and interest rates are significant to PD. Rising unemployment and interest rates weaken the portfolio's serviceability, and lower wage growth also weakens serviceability, thus increasing the PD. Macro variables can impact the risk parameters in different directions, and this impact can be vastly different for the individual customers in the portfolio. Average PD will increase during recessions.

All other factors being equal, recessions weaken house-price trends. This will affect the loan-to-asset value and thus also LGD. For several commitments, the loss ratio is very small given the current market prices. The increase in LGD when house prices decline is greater than the reduction in LGD when house prices rise. The nonlinearity of ECL is taken into account by estimating ECL in various scenarios.

Stress tests and sensitivity tests are used to assess ECL. Sensitivity assessments of stage migration risk are done by assessing the change in ECL if a few commitments migrate from stage 1 to 2. Sensitivity analyses are conducted in ICAAP and carried out on a regular basis.

The portfolio's ECL is deemed sensitive to changes in observed defaults, losses and expected maturities of the financial assets. The individual estimates are also subject to model uncertainty. Among other factors, the uncertainty arises from estimates of the extent and development of different macro variables in the future in the individual macro scenarios and the impact of the various future prospects on a few parameters.

DEFINITION OF DEFAULT

A loan facility/line of credit is deemed in default if the scheduled payment of an instalment and/or interest on loans is overdue by more than 90 days or the lines of credit are overdrawn for more than 90 days and the amount is not immaterial. NOK 2000 is deemed a material amount.

A loan facility/line of credit is also deemed in default if individual impairments of the commitment have been implemented (see the section on the definition of credit loss).

Storebrand Boligkreditt AS assesses default at line-of-credit /loan-facility level for customers in the Retail market.

Default is defined pursuant to internal credit-risk assessments, credit risk models and reporting. The credit risk models are developed at loan-facility/line-of-credit level in the Retail market.

DEFINITION OF CREDIT LOSS

Credit loss is a loss that arises from a credit risk where the loss is the difference between the value of the contractual cash flow and the expected cash flow discounted by the original effective interest rate.

The expected credit loss is the difference between the present value of the contractual cash flow and the expected probability-weighted cash flow.

An expected credit loss is estimated either by means of an individual assessment (individual impairment) or by using statistical models (model-based impairment) to calculate the expected probability-weighted cash flow.

An individual assessment with subsequent booking of individual impairments is done for commitments with objective evidence of loss and that the loss reduces the future cash flows of the commitment. Individually assessed commitments are moved to stage 3 (see a more detailed description of stage 3 below). Objective loss incidents can be significant financial problems involving a debtor, defaults, debt and/or bankruptcy proceedings for the debtor, or that this is likely, or forbearance caused by financial problems. The calculation of cash flow and the impairments are assessed based on the expected values.

For other commitments, expected credit loss is estimated using model-based impairment. The commitments are divided into different stages (see the section below on calculating ECL). Model-based impairment depends on the stage to which the commitment belongs, parameter estimates for PD, EAD, LGD and expected maturity.

CALCULATING ECL

The classification and changing of stages are described below.

Stage 1

The starting point for all financial assets is stage 1. Stage 1 includes all financial instruments that have not had a significant increase in credit risk since initial recognition. In any event, financial assets with a low credit risk will be in stage 1. A low credit risk includes loan facilities/lines of credit in the Retail market with a probability of default below 0.75%. For Corporate market commitments, a low credit risk is defined as a probability of default at customer level of less than 0.75 %. In stage 1, the expected credit loss is calculated over 12 months.

Stage 2

Stage 2 includes financial assets that have had a significant increase in credit risk since initial recognition, but which are not in default or do not have objective evidence of loss. The expected credit loss for financial assets in stage 2 is calculated over the expected maturity of the asset. Expected maturity varies from contractual maturity and is estimated as a historically observed maturity.

Stage 3

Stage 3 includes financial assets that are in default and/or which have objective evidence of loss. For commitments that have objective evidence of loss, an assessment of whether an individual impairment must be done is carried out. For other commitments without individual impairment, the expected credit loss is calculated over the expected maturity of the asset.

Migrating to a lower stage

A commitment that no longer meets the criterion for stage 2 is moved to stage 1. The risk models ensure that the period of payment is sufficiently long before reducing and returning the risk to stage 1. A commitment in stage 3 can be moved both to stage 2, if stage-2 criteria are met, or directly to stage 1 once the criteria for stage 3 are no longer met.

Calculation of interest

Interest income is calculated by the net commitment for commitments with individual impairments. For other commitments, interest is calculated for the entire commitment.

SIGNIFICANT INCREASE IN CREDIT RISK

A significant increase in credit risk is assessed according to the probability of default for the commitment at the time of measurement in relation to initial recognition. The assessment is done on the basis of both changes in the probability of default over the expected economic life and changes in PD over the next 12 months. Assessments are done in relation to absolute changes and relative changes. A criterion for relative change is a doubling of the probability of default over the expected maturity of the asset, and absolute change is an increase of 1.5 percentage points in the probability of default over the next 12 months. Both assessments are done at the time of measurement in relation to the time of initial recognition.

Commitments for which scheduled payment is overdue for 30 days or more are assessed, irrespective of whether this has caused a significant increase in the credit risk. This is similarly true of commitments where forbearance has been granted.

EXPECTED MATURITY

Expected maturity is estimated for different commitments. The expected maturity is significant because for commitments whose credit risk has significantly increased, including defaulted commitments, i.e. commitments in stage 2 and stage 3, the expected credit loss must be calculated over the expected maturity of the commitments. The overall probability of default increases over the time horizon being measured, and the expected credit loss over the expected maturity of the commitment is therefore higher than the expected credit loss over one year, provided that the loan's remaining expected maturity is more than 12 months.

The expected maturity is calculated for different products. The expected maturity is estimated at about 5 years for amortising loans and 6 years for lines of credit. For credit cards, the expected maturity at the time of loan approval is estimated to be 9 years and 9 years for overdraft accounts. The expected maturity is also contractual maturity for top-up loans (loan share besides LTV of 70%), building credit and bridging financing. The expected maturity is reassessed and validated on a regular basis.

For ongoing commitments, expected maturity is adjusted by a maturity coefficient: The maturity coefficient is the ratio of expected maturity to contractual maturity. The remaining expected maturity is the expected maturity of the product multiplied by the maturity coefficient.

CLASSIFICATION INTO PORTFOLIOS

The Retail market portfolio is classified into

i) Mortgages and home-owner loans
II) Credit cards
III) Other credit agreements

6-4. BONDS AT AMORTISED COST

Bonds measured at amortised cost are measured at amortised cost using an effective interest method. See the description above concerning Financial instruments and amortised cost how the effective interest is calculated.

6-5. DERIVATIVES

Derivatives that do not meet the criteria for hedge accounting are treated as financial instruments held for trading. The fair value of such derivatives is classified either as an asset or a liability with changes in fair value through profit or loss.

The majority of the derivatives used on an ongoing basis for asset management fall into this category.

6-6. HEDGE ACCOUNTING

FAIR VALUE HEDGING

Storebrand Boligkreditt AS uses fair value hedging, where the items hedged are financial assets and financial liabilities measured at amortised cost. Derivatives are recognised at fair value through profit or loss. Changes in the value of the hedged item that are attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognised through profit or loss.

6-7. FINANCIAL LIABILITIES

Subsequent to initial recognition, all financial liabilities are measured at amortised cost using an effective interest method, or at fair value in accordance with the fair value option.

7. TAX

The tax expense in the income statement comprises current tax and changes to deferred tax and is based on the accounting standard IAS 12 Income Taxes. Tax is recognised in the income statement, except to the extent that it relates to items recognised in the statement of total comprehensive income. Deferred tax and deferred tax assets are calculated on the differences between accounting and tax values of assets and liabilities.

Deferred tax is calculated on the basis of Storebrand Boligkreditt AS's tax loss carryforwards, deductible temporary differences and taxable temporary differences. Any deferred tax asset is recognised if it is considered probable that the tax asset will be recovered. Deferred tax assets and liabilities are recognized net when there is a legal right to offset taxable assets and liabilities and Storebrand Boligkreditt AS is capable of and intends to settle payable taxes net.

Changes in deferred tax assets and liabilities due to changes in tax rates are recognised as a basis in the income statement.

8. PROVISION FOR GROUP CONTRIBUTIONS

In accordance with IAS 10 on events after the statement of financial position date, proposed group contributions are to be classified as equity until approved by the general meeting.

9. LEASING

A lease is classified as a finance lease if it essentially transfers the risk and rewards incident to ownership. Other leases are classified as operating leases. Storebrand has no finance leases.

10. STATEMENT OF CASH FLOWS

The statement of cash flows is prepared using the direct method and shows cash flows grouped by sources and area of use. Cash is defined as cash, receivables from central banks and receivables from credit institutions with no agreed period of notice.
The statement of cash flows is classified according to operating, investing and financing activities.

Note 2 – Critical accounting estimates and judgements

In preparing the company's financial statements, the management are required to make judgements, estimates and assumptions of uncertain amounts. The estimates and underlying assumptions are reviewed on an ongoing basis, and they are based on historical experience and expectations of future events and represent the management's best judgement at the time the financial statements were prepared.
Actual results may differ from these estimates.

The company's critical estimates and judgements that could result in material adjustment of recognised amounts are discussed below.

IMPAIRMENT LOSSES ON LENDING

Loans valued at amortised cost or at fair value through OCI, loss provisions are recognised based on the Expected Credit Loss (ECL) in accordance with the general method. The models used for IFRS 9 are based on the current macroeconomic situation and forecasts, and the models for probability of default (PD), loss given default (LGD) and exposure at default (EAD) are thus point in time (PIT) models. Future scenarios are used to calculate PD, LGD and EAD for the commitments.

Forecasts affect the PD and LGD estimates in particular.

Among other things, PD is affected by unemployment, wage growth and interest rates. Periods of economic downturn will, in isolation, result in weaker growth in house prices, which will in turn impact the loan-to-value ratio and thus also LGD.

The portfolio's ECL is considered to be sensitive to changes in observed default, loss and expected maturity of the financial assets. There is also model uncertainty associated with the individual estimates. Among other things, the uncertainty relates to estimates of size and development of different macrovariables in the future in each macro-scenario, as well as impact different outlooks have on individual parameters.

FINANCIAL INSTRUMENTS AT FAIR VALUE

There will be some uncertainty associated with the pricing of financial instruments not priced in an active market. This is particularly true of the types of securities priced on the basis of non-observable assumptions. Various valuation techniques are applied to these investments in order to determine the fair value. They include fixed-rate loans and other financial instruments where theoretical models are used for pricing Any changes to the assumptions could affect recognised amounts.

Reference is also made to Note 8 in which the valuation of financial instruments at fair value is described in more detail.

INTANGIBLE ASSETS

Intangible assets with undefined useful lives are tested annually for impairment. The test's valuation method requires estimating the cash flows that arise in the relevant cash flow generating unit, as well as applying the relevant discount rate. Tangible fixed assets and other intangible assets are measured annually to ensure that the method and time period used correspond with economic realities.

CONTINGENT LIABILITIES

Companies in the Storebrand Boligkreditt AS can be a party in legal disputes. Contingent liabilities are assessed in each case and will be based on legal considerations.

Note 3 - Risk Management

Continuous monitoring and active risk management are core areas of the bank's activities and organisation. The strategy and planning process provides guidance for the business for the next few years. The board determines the risk appetite and risk limits for the different forms of risk on an annual basis.

ORGANISATION OF RISK MANAGEMENT

The board of Storebrand Boligkreditt AS has ultimate responsibility for monitoring and managing the organisation's risks. The board determines the annual risk appetite and risk strategy as well as ceilings and guidelines for the risks taken by the business, receives reports of actual risk levels and provides a forward assessment of risks.

The CEO is responsible for the company operating within the risk limits stipulated by the board.

The Storebrand group's organisation of risk management responsibility follows a model based on three lines of defence. The objective of the model is to safeguard the responsibility for risk management at both company and group level.

FIRST LINE OF DEFENCE

At the Storebrand group, responsibility for risk management and internal control is an integral part of management responsibility. Managers at all levels of the company are responsible for risk management within their own area of responsibility. Good risk management requires targeted work on objectives, strategies and action plans, identification and assessment of risks and events, documentation of processes and routines, prioritisation and implementation of improvement measures, and good communication, information and reporting.

A high level of awareness of risks and risk management are vital elements of the group's culture.

The CEO of Storebrand Boligkreditt AS submits an annual confirmation documenting the unit's risk management activities.

SECOND LINE OF DEFENCE

Storebrand Boligkreditt AS has independent control functions for the company's risk management (Chief Risk Officer, CRO) and for compliance (Chief Compliance Officer, CCO). The CRO and CCO are directly subordinate to the CEO and both report directly to the board of the company. The independent control functions are affiliated with the group CRO, who is in turn responsible to the group CEO and reports to the board of Storebrand ASA.

THIRD LINE OF DEFENCE

Internal auditing is under the direct authority of the board and is intended to give the board confirmation of the appropriateness and effectiveness of the organisation's risk management, including how the lines of defence are functioning.

Note 4 - Credit risk

Credit risk is the risk of loss associated with customers or counterparties not fulfilling their debt obligations. The risk includes risk associated with lending to customers and counterparty risk on bank deposits, securities and financial derivatives. Credit risk includes potential concentration risk in the loan portfolio.

RISK MANAGEMENT

All loans of Storebrand Boligkreditt AS are granted in Storebrand Bank ASA. Credit risk is assessed in relation to the capacity and willingness of customers to service debt and potential security. The bank uses credit risk models to conduct risk classifications of customers with regard to probability of default and loss given default.

The bank group's routines for credit management are set forth in credit manuals. The credit manuals are primarily designed for account managers and others who are involved in case management processes. The credit manuals contain common guidelines for the bank group's credit activities, and are intended to ensure uniform and consistent credit management practices.

Counterparty risk in connection with bank deposits, securities and financial derivatives with counterparties is included under credit risk and is managed according to a specific policy on the basis of an assessment of the counterparty's repayment capacity, rating and amount under management.

The CRO reports to the board on credit risk trends on an ongoing basis.

ANALYSIS OF CREDIT RISK BY TYPE OF FINANCIAL INSTRUMENT

MAXIMUM CREDIT EXPOSURE

NOK million	Book value	Guarantees, unused credits and loan commitments	2018 Maximum credit exposure	2017 Maximum credit exposure
Loans to and deposits with credit institutions	248.0		248.0	251.2
Loans to customers at amortised cost				14,539.4
Total financial instruments at amortised cost	**248.0**	**0.0**	**248.0**	**14,790.6**
Bonds and commercial papers at fair value through profit and loss	40.4		40.4	40.9
Interest swaps	39.5		39.5	87.1
Total financial instruments at fair value through profit and loss	**79.9**	**0.0**	**79.9**	**128.1**
Loans to customers at fair value through other comprehensive income (OCI)	18,486.0		18,486.0	0.0
Total financial instruments at fair value through other comprehensive income (OCI)	**18,486.0**	**0.0**	**18,486.0**	**0.0**
Gross exposure with credit risk	**18,813.9**	**0.0**	**18,813.9**	**14,918.6**
Loan loss provisions	-1.2		-1.2	-1.9
Net exposure with credit risk	**18,812.7**	**0.0**	**18,812.7**	**14,916.8**
Other current assets without credit risk	10.2			
Total assets	**18,822.9**			

CREDIT RISK LIQUIDITY PORTFOLIO

INTEREST-BEARING SECURITIES AT FAIR VALUE
CREDIT RISK PER COUNTERPARTY

Short-term holdings of interest-bearing securities
Issuer category

NOK million	AAA Fair value	AA Fair value	A Fair value	BBB Fair value	NIG Fair value	Total 2018 Fair value	Total 2017 Fair value
Sovereign and Government Guaranteed bonds	40.4					40.4	40.9
Total	**40.4**	**0.0**	**0.0**	**0.0**	**0.0**	**40.4**	**40.9**
Rating classes are based on Standard & Poors.							
Change in value:							
Total change in value on the balance sheet							-0.7
Change in value recognised in the profit and loss during the period	0.7					0.7	-0.4

CREDIT RISK ON LOANS TO AND DEPOSITS WITH CREDIT INSTITUTIONS

CREDIT RISK PER COUNTERPARTY

NOK million	AAA Fair value	AA Fair value	A Fair value	BBB Fair value	NIG Fair value	Total 2018 Fair value	Total 2017 Fair value
Norway		234.0				234.0	251.2
Denmark			14.1			14.1	
Total	**0.0**	**234.0**	**14.1**	**0.0**	**0.0**	**248.0**	**251.2**

CREDIT EXPOSURE FOR LENDING ACTIVITIES

Mortgage customers are assessed in relation to their ability and willingness to repay the loan. Ability to pay is calculated and a risk assessment of customers is made at the time of application. The loan-to-value ratio for customers of Storebrand Boligkreditt AS is less than 75% at the time of transfer from Storebrand Bank ASA.

Storebrand Boligkreditt AS provides loans with residential property as security. There is some volume where some or all of the security is in holiday and leisure property. For this type of security, the maximum loan-to-value ratio at the time of transfer is 60%.

When loans are entered into, information of significance to the value of the home is obtained. Updated, independent valuations of homes are obtained every quarter from the property valuation company Eiendomsverdi AS. For homes where Eiendomsverdi does not have an up-to-date valuation (such as housing cooperative apartments, owner-tenant apartments and some leisure properties) the most recent updated market value is used until further notice. Where Eiendomsverdi AS cannot determine the market value of a property with a high degree of certainty, a "haircut" is used so as to reduce the risk of giving an inflated estimate of market value. If Eiendomsverdi AS never had information about the home's market value, the value registered on entering into the contract will be used. A list of collateral that has had no value update in the last three years is regularly reviewed so as to initiate measures to reduce the number of items on the list.

Average loan-to-value ratio in Storebrand Boligkreditt AS' portfolio is 55 percent. Approximately 47 percent of mortgages have a loan-to-value ratio within 60 percent and almost 99 percent of mortgages have a loan-to-value ratio within 80 percent, as per 31 December 2018. Remaining mortgages have a loan-to-value ratio within 100 percent. The risk in the lending portfolio is therefore considered to be very low.

The security in Storebrand Boligkreditt AS is security on residential property. Security for the portfolio is assessed as being extremely good. Security for matured loans is also considered good.

Security for private-customer defaulted loans without value loss is good. Average weighted loan-to-value ratio for these loans is approximately 51%, and the largest observed loan-to-value ratio for loans in default at the end of December 2018 is 75.1%. Security pledged in the retail market is sold. It is not overtaken by the bank.

COMMITMENTS PER CUSTOMER GROUP

NOK million	Loans to customers at amortised cost	Loans to customers at fair value through other comprehensive income (OCI)	Loans to customers at fair value through profit and loss	Guarantees	Undrawn credit limits	Total commitments
		2018				
Wage-earners		18,412.8			1,391.2	19,804.0
Other		0.8			0.0	0.8
Rest of world		72.4			9.9	82.3
Total	**0.0**	**18,486.0**	**0.0**	**0.0**	**1,401.1**	**19,887.1**
Provision for expected loss Stage 1		-0.4				-0.4
Provision for expected loss Stage 2		-0.6				-0.6
Provision for expected loss Stage 3		-0.2				-0.2
Total loans to and due from customers	**0.0**	**18,484.8**	**0.0**	**0.0**	**1,401.1**	**19,885.9**

NOK million	Loans to customers at amortised cost	Loans to customers at fair value through other comprehensive income (OCI)	Loans to customers at fair value through profit and loss	Guarantees	Undrawn credit limits	Total commitments
		2017				
Wage-earners	14,478.4				1,507.0	15,985.4
Other	0.9					0.9
Rest of world	62.9				7.4	70.4
Total	**14,542.2**	**0.0**	**0.0**	**0.0**	**1,514.5**	**16,056.7**
Loan loss provisions on individual loans *)	-1.4					-1.4
Loan loss provisions on groups of loans *)	-3.3					-3.3
Total loans to and due from customers	**14,537.5**	**0.0**	**0.0**	**0.0**	**1,514.5**	**16,052.0**

*) According to IAS 39

Undrawn credit limits relate to the unused portion of credit limits on residential mortgage loans.

The classification into customer groups is based on Statistics Norway's standard for sector and business classification. The individual customer's classification is determined by the customer's primary activity.

AVERAGE VOLUME ENGAGEMENT PER CUSTOMER GROUP

2018

NOK million	Average volume loans to and deposits from customers *)	Average volume guarantees	Average volume undrawn credit limits	Total average engagement
Wage-earners	16,446.4		1,449.1	17,895.6
Rest of world	67.7		8.7	76.3
Total	**16,514.1**	**0.0**	**1,457.8**	**17,971.9**

*) Based on total loans per 31 December 2018.

2017

NOK million	Average volume loans to and deposits from customers	Average volume guarantees	Average volume undrawn credit limits	Total average engagement
Wage-earners	13,898.6		1,617.7	15,516.3
Other	2.1		0.1	2.2
Rest of world	58.2		7.6	65.8
Total	**13,958.9**	**0.0**	**1,625.4**	**15,584.3**

ENGAGEMENT PER GEOGRAPHICAL AREA

2018

NOK million	Loans to customers at amortised cost	Loans to customers at fair value through other comprehensive income (OCI)	Loans to customers at fair value through profit and loss	Guarantees	Undrawn credit limits	Total commitments	Non-performing loans without evidence of impairment	Non-performing and loss-exposed loans with evidence of impairment	Gross defaulted and loss-exposed loans	Provisions for individual loan losses	Model based provisions for loan losses*)	Net defaulted and loss-exposed loans
Eastern Norway		14,076.8			1,085.5	15,162.3	22.4	2.6	25.0	0.1		24.9
Western Norway		2,844.2			230.4	3,074.6	2.6	3.0	5.6	0.1		5.5
Southern Norway		358.6			19.1	377.7			0.0			0.0
Mid-Norway		453.1			32.5	485.6	0.1		0.1			0.1
Northern Norway		700.7			23.6	724.3			0.0			0.0
Rest of world		52.7			9.9	62.6			0.0			0.0
Total	**0.0**	**18,486.0**	**0.0**	**0.0**	**1,401.1**	**19,887.1**	**25.1**	**5.6**	**30.7**	**0.2**	**0.0**	**30.5**

*) Model based provisions are used for defaulted loans without impairment. Stage 3 provisions consist of these provisions, and provisions for defaulted loans with impairment.

NOK million	Loans to customers at amortised cost	Loans to customers at fair value through other compre-hensive income (OCI)	Loans to customers at fair value through profit and loss	Guaran-tees	Undrawn credit limits	Total commit-ments	Non-performing loans without evidence of impairment	Non-performing and loss-exposed loans with evidence of impairment	Gross defaulted and loss-exposed loans	Provisions for individual loan losses*	Net defaulted and loss-exposed loans
					2017						
Eastern Norway	10,967.3				1,145.5	12,112.8	4.8	10.2	15.0	0.9	14.1
Western Norway	2,351.1				265.5	2,616.6	4.5	6.7	11.2	0.5	10.8
Southern Norway	263.8				27.1	290.9			0.0	0.0	0.0
Mid-Norway	437.9				40.6	478.5			0.0		0.0
Northern Norway	462.6				28.3	490.9			0.0		0.0
Rest of world	59.6				7.4	67.0			0.0		0.0
Total	**14,542.2**	**0.0**	**0.0**	**0.0**	**1,514.5**	**16,056.7**	**9.3**	**16.9**	**26.2**	**1.4**	**24.8**

*) According to IAS 39.

TOTAL ENGAGEMENT AMOUNT BY REMAINING TERM TO MATURITY

NOK million	Loans to customers at amortised cost	Loans to customers at fair value through other comprehensive income (OCI)	Loans to customers at fair value through profit and loss	Guarantees	Undrawn credit limits	Total commitments
			2018			
Up to 1 month		13.8			3.3	17.1
1 - 3 months		40.9			29.8	70.7
3 months - 1 year		137.1			92.3	229.5
1 - 5 years		1,210.8			633.0	1,843.8
More than 5 years		17,083.3			642.7	17,726.0
Total	**0.0**	**18,486.0**	**0.0**	**0.0**	**1,401.1**	**19,887.1**

NOK million	Loans to customers at amortised cost	Loans to customers at fair value through other comprehensive income (OCI)	Loans to customers at fair value through profit and loss	Guarantees	Undrawn credit limits	Total commitments
			2017			
Up to 1 month	37.9				22.2	60.1
1 - 3 months	29.4				38.2	67.6
3 months - 1 year	378.7				204.8	583.5
1 - 5 years	1,195.8				658.3	1,854.1
More than 5 years	12,900.4				590.9	13,491.3
Total	**14,542.2**	**0.0**	**0.0**	**0.0**	**1,514.5**	**16,056.7**

AGE DISTRIBUTION OF OVERDUE ENGAGEMENTS WITHOUT IMPAIRMENTS

2018						
NOK million	Loans to customers at amortised cost	Loans to customers at fair value through other comprehensive income (OCI)	Loans to customers at fair value through profit and loss	Guarantees	Undrawn credit limits	Total commitments
Overdue 1 - 30 days		86.7				86.7
Overdue 31 - 60 days		22.0				22.0
Overdue 61- 90 days						0.0
Overdue more than 90 days		25.1				25.1
Total	**0.0**	**133.7**	**0.0**	**0.0**	**0.0**	**133.7**
Engagements overdue more than 90 days (loss-exposed) by geographical area:						
Eastern Norway		22.4				22.4
Western Norway		2.6				2.6
Mid-Norway		0.1				0.1
Total	**0.0**	**25.1**	**0.0**	**0.0**	**0.0**	**25.1**

2017						
NOK million	Loans to customers at amortised cost	Loans to customers at fair value through other comprehensive income (OCI)	Loans to customers at fair value through profit and loss	Guarantees	Undrawn credit limits	Total commitments
Overdue 1 - 30 days	131.0				0.4	131.4
Overdue 31 - 60 days	24.9					24.9
Overdue 61- 90 days	12.9					12.9
Overdue more than 90 days	9.3					9.3
Total	**178.2**	**0.0**	**0.0**	**0.0**	**0.4**	**178.5**
Engagements overdue more than 90 days (loss-exposed) by geographical area:						
Østlandet	4.8					4.8
Vestlandet	4.5					4.5
Sum	**9.3**	**0.0**	**0.0**	**0.0**	**0.0**	**9.3**

Only non-performing and loss-exposed loans are classified by geographical area in this overview. The same definition is used for due commitments as the one in the capital requirements regulations, however the number of days in the definition equals the age distribution.

Loans are regarded as non-performing and loss-exposed:
- when a credit facility has been overdrawn for more than 90 days and the overdrawn amount minimum is NOK 2,000
- when an ordinary mortgage has arrears older than 90 days and thee arrears minimum is NOK 2,000
- when a credit card has arrears older than 90 days
When one of the three situations described above occurs, the loans and the rest of the customer's commitments are considered as non-performing

CREDIT RISK BY CUSTOMER GROUP

2018							
NOK million	Non-performing and loss-exposed loans with evidence of impairment	Non-performing loans without evidence of impairment	Gross defaulted and loss-exposed loans	Provisions for expected loan loss provisions stage 3 *)	Net defaulted and loss-exposed loans	Total value changes	Total value change recognized in the profit and loss account during period
Wage-earners	5.6	25.1	30.7	0.2	30.5		-1.2
Total	**5.6**	**25.1**	**30.7**	**0.2**	**30.5**	**0.0**	**-1.2**

*) Individual and model based provisions are included. Only provisions on defaulted loans, with and without impairment.

2017							
NOK million	Non-performing and loss-exposed loans with evidence of impairment	Non-performing loans without evidence of impairment	Gross defaulted and loss-exposed loans	Total provisions for individual loan losses	Net defaulted and loss-exposed loans	Total value changes	Total value change recognized in the profit and loss account during period
Wage-earners	16.9	9.3	26.2	1.4	24.8		-1.5
Total	**16.9**	**9.3**	**26.2**	**1.4**	**24.8**	**0.0**	**-1.5**

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS (FVO)

	Liquidity portfolio	
NOK million	2018	2017
Book value maximum exposure for credit risk	40.4	40.9
Book value of related credit derivatives that reduce credit risk		
Collateral		
This year's change in fair value of financial assets due to change in credit risk		0.3
Accumulated change in fair value of financial assets due to change in credit risk		
This year's change in value of related credit derivatives		
Accumulated change in value of related credit derivatives		

At recognition financial assets are measured to Fair Value (FVO) if other measurements would imply inconsistencies in the profit and loss statement.

CREDIT RISK DERIVATIVES

The purpose of the use of financial derivatives is to identify and reduce currency and interest rate risk. Counterparty risk in connection with the trading of financial derivatives is included in credit risk. The Storebrand Boligkreditt's risk strategy establishes overall limits for how much credit risk the company is willing to accept. The summary shows the gross exposure, the company has no collateral for the credit risk.

CREDIT RISK PER COUNTERPARTY

2018						
NOK million	AAA Fair value	AA Fair value	A Fair value	BBB Fair value	NIG Fair value	Total 2018 Fair value
Norway			39.5			39.5
Total	**0.0**	**0.0**	**39.5**	**0.0**	**0.0**	**39.5**

Rating classes are based on Standard & Poors.

Change in value:						
Total change in value on the balance sheet			39.5			39.5
Change in value recognized in the profit and loss during the period			-47.6			-47.6

CREDIT RISK PER COUNTERPARTY

	2017					
	AAA	AA	A	BBB	NIG	Total 2017
NOK million	Fair value	Fair value	Fair value	Fair value	Fair value	Fair value
Norway			87.1			87.1
Total	**0.0**	**0.0**	**87.1**	**0.0**	**0.0**	**87.1**

Rating classes are based on Standard & Poors.

Change in value:						
Total change in value on the balance sheet			87.1			87.1
Change in value recognised in the profit and loss during the period			-35.8			-35.8

INTEREST RATE SWAPS AND BASIS SWAPS

Derivatives are entered into for hedging purposes. Derivative transactions are entered with counterparties that are "investment grade" rated.

Note 5 - Liquidity risk

Liquidity risk is the risk that the company will be unable to refinance its obligations or that the company will not be able to refinance its obligations without incurring substantial additional expenses.

The company's policy for liquidity risk describes principles for liquidity management and specifies stress testing, minimum liquidity holdings and indicators for measuring liquidity risk. Stress tests are used to identify anticipated effects of various scenarios in the balance sheet and cash flows.

Results of the stress tests are applied when assessing the framework for liquidity risk. A contingency plan is drawn up annually to safeguard proper management of the liquidity situation during stressful periods.

The company's liquidity is affected by relatively few large amounts falling due for payment on bonds. In order to ensure a sound liquidity situation, the company will as far as possible take up so-called soft bullet bonds, on which the due date can be extended by up to a year. There will also be limits to how large each amount due for payment can be. Due dates for new borrowing by Storebrand Boligkreditt AS must always be planned in such a way that no breach of any of the liquidity targets in any future period may be anticipated.

The Treasury function at Storebrand Bank ASA is responsible for the bank group's liquidity management and the bank's Middle Office monitors utilization of the ceilings in accordance with liquidity policy, while the CRO group reports to the board of Storebrand Boligkreditt AS.

NON-DISCOUNTED CASH FLOWS - FINANCIAL OBLIGATIONS

NOK million	0 - 6 months	6 months - 12 months	1 - 3 years	3 - 5 years	More than 5 years	Total	Book value
Liabilities to credit institutions	3,001.7					3,001.7	3,001.7
Commercial paper and bonds issued	136.5	1,453.8	11,158.1	2,549.1		15,297.5	14,333.4
Other liabilities	14.8					14.8	14.8
Undrawn credit limits	1,401.1					1,401.1	
Total financial liabilities 2018	**4,554.2**	**1,453.8**	**11,158.1**	**2,549.1**	**0.0**	**19,715.2**	**17,350.0**
Derivatives related to liabilities 31.12.2018	10.8	-51.6	0.0	0.0	0.0	-40.8	39.5
Total financial liabilities 2017	6,025.6	123.6	4,091.2	5,625.1	0.0	15,865.5	13,791.5

The amounts includes accrued interest.

The overview of non-discounted cash flows includes interest. Implicit forward interest rates based on the yield curve on 31 December 2018 are used to calculate interest for lending with FRN conditions.
The maturity overview does not take account of the fact that the loans have extended due date, i.e. the original maturity date is used.

LOANS TO AND DEPOSITS WITH CREDIT INSTITUTIONS

NOK million	2018	2017
Total loans to and deposits with credit institutions without fixed maturity at amortised cost	3,001.7	2,295.8
Total loans to and deposits with credit institutions at amortised cost	**3,001.7**	**2,295.8**

Storebrand Boligkreditt AS has two credit facilities with Storebrand Bank ASA. One of these is a normal overdraft facility, with a ceiling of NOK 6 billion. This has no expiry date, but can be terminated by the bank on 15 months' notice. The other facility must have a sufficient ceiling at all times to be able to cover interest and repayment on covered bonds and associated derivatives for the next 31 days. This credit facility cannot be terminated by Storebrand Bank ASA until at least 3 months after the maturity date of the covered bond and the associated derivatives with the longest period to maturity. In 2018 all covenants are fulfilled.

COVERED BONDS

NOK million

ISIN CODE	Nominal value	Currency	Maturity [1)]	Book value
NO0010548373	1,250.0	NOK	28.10.2019	1,293.3
NO0010736903	2,500.0	NOK	17.06.2020	2,498.8
NO0010760192	4,000.0	NOK	16.06.2021	4,022.7
NO0010786726	4,000.0	NOK	15.06.2022	4,018.4
NO0010813959	2,500.0	NOK	20.06.2023	2,500.2
Total commercial papers and bonds issued 2018 [2)]	**14,250.0**			**14,333.4**
Total commercial papers and bonds issued 2017 [2)]	11,375.0			11,474.5

1) Maturity date in this summary is the first possible maturity date (Call date).

2) For covered bonds (CBs) that are allocated to the company's security, regulatory requirements for over-collateralisation of 102 per cent and an over-collateralisation requirement of 109.5 per cent apply for bonds issued prior to 21 June 2017. In 2018 all covenants are fulfilled.

FINANCING ACTIVITIES - CHANGES DURING THE YEAR

	2018		
NOK million	Subordinated loans	Liabilities to credit institutions	Commercial papers and bonds issued
Book value 01.01.2018		2,295.8	11,474.5
New loans / bond debt issued		706.0	5,027.4
Repayment of loans/liabilities			-2,127.5
Changes in accrued interest			-41.0
Other			0.0
Book value 31.12.2018	**0.0**	**3,001.7**	**14,333.4**

		2017	
NOK million	Subordinated loans	Liabilities to credit institutions	Commercial papers and bonds issued
Book value 01.01.2017		1,091.0	11,575.4
New loans / bond debt issued		1,204.8	3,000.0
Repayment of loans/liabilities			-3,065.0
Changes in accrued interest			-2.3
Other			-33.6
Book value 31.12.2017	**0.0**	**2,295.8**	**11,474.5**

Note 6 - Market risk

Market risk is risk of a change in value due to financial market prices or volatility differing from what was expected.

Risk policies for interest rate and currency risk set ceilings for market risk. Credit spread risk is regulated through ceilings on investments. The company may be exposed to currency risk to a minor extent. Storebrand Boligkreditt AS has no obligations or property in any foreign currency as at 31.12.2018.

The company's market risk is mainly managed and controlled through daily monitoring of risk exposure with regard to the policies and ongoing analyses of outstanding positions. The ceilings for exposure are reviewed and renewed by the board at least once per year. The positioning of the ceilings is determined on the basis of stress tests and analyses of market movements.

Middle Office in the bank is responsible for the ongoing, independent monitoring of market risk. Risk control of market risk is performed, among other things, by monthly reports on indicators of market risk. Market risk indicators that are followed are described in the interest rate risk policy and currency risk policy and are included in the CRO's ongoing reporting to the board.

EFFECT ON ACCOUNTING INCOME

NOK million	2018	2017
Interest -1,0%	-2.7	-2.6
Interest +1,0%	2.7	2.6

EFFECT ON ACCOUNTING PROFIT/EQUITY [1)]

NOK million	2018	2017
Interest -1,0%	-2.7	-2.6
Interest +1,0%	2.7	2.6

1) Before taxes

FINANCIAL INTEREST RATE RISK

NOK million	2018	2017
Interest -1,0%	-16.9	-13.2
Interest +1,0%	16.9	13.2

The note presents the accounting effect over a 12-month period and the direct financial effect of an immediate parallel change in interest rates of +1.0% and -1.0% respectively. In calculating the accounting effect, consideration has been given to the one-time effect such an immediate interest rate change has on the items recognised at fair value and hedging value, and to the effects the interest rate change has on the result for the remainder of the interest rate duration before the interest rate change has income and costs-related effects. Items that would be affected by the one-time effects and which are recorded at fair value are the investment portfolio and derivatives. Items that would be affected by the one-time effects and which are recorded using hedging accounting are borrowings with fixed interest rate. When calculating the financial effect, consideration has been given to the effect such an immediate change in interest rates would have on the market value of all items recorded in the statement of financial position.

Note 7 - Operational risk

The assessment of operational risks is linked to the ability to achieve targets and to implement plans. Operational risk is defined as the risk of financial loss or damaged reputation due to inadequate or failing internal processes, control routines, systems, human error, or external events.

The company seeks to reduce operational risk through an effective system for internal control with (1) clear descriptions of responsibilities, (2) clear routines, and (3) documented powers of attorney/authority. Risks are monitored through the management's risk review, with documentation of risks, measures and follow-up of events. In addition, Internal Audit carries out an independent control in accordance with audit projects adopted by the Board.

The CRO supports the risk review process and is responsible for compiling and reporting the area's risk scenario, following up on improvement measures and checking that risk registration is up to date in Easy Risk Manager (ERM). The results of the process are reported to the board of the company.

In order to be able to identify problem areas internally, the Storebrand group has implemented routines for ongoing reporting of events to the CRO, who is responsible for logging and follow-up of reported events. The CRO reviews significant events with the board of the company.

In connection with monthly, quarterly and annual accounts, the bank's staff functions perform various checks and reconciliations so as to control and reduce operational risk. The compliance function and internal auditor also make spot checks in a number of the bank's most important work processes. The results of these are reported to the company's board.

Pursuant to the management agreement between Storebrand Bank ASA and Storebrand Boligkreditt AS, the bank is responsible for establishing and managing loans in the company. The agreement is followed-up by the company through daily controls of the balance, random checks of batch transfers from the bank to the company and in connection with monthly reports to the external investigator. In addition, there is follow-up of the development of risk classes and defaults in the monthly risk reports.

The bank group's IT systems are vital for credit approval in the bank and for portfolio follow-up and accounting in the company. Errors can have consequences for the operation of the company and may impact on customer trust. In the worst case, abnormal situations may result in penalties from supervisory authorities. Operations of the IT systems are outsourced. The bank's system platform that is used by Storebrand Boligkreditt AS is based on purchased standard systems operated and monitored through service agreements. The bank group has established an intragroup management model with close supplier follow-up and internal control activities to ensure that development, management and operations provide complete, precise and reliable financial reporting.

COMPLIANCE RISK

Compliance risk is the risk of the company incurring public sanctions or financial loss as a result of non-compliance with external or internal rules. The bank's independent control function for regulatory compliance (CCO) is responsible for supporting the company's board and management in the work on complying with relevant laws and regulatory provisions.

Note 8 - Valuation of financial instruments

Storebrand Boligkreditt AS conducts a comprehensive process to ensure that financial instruments are valued as closely as possible to their market value. Publicly listed financial instruments are valued on the basis of the official closing price on stock exchanges, supplied by Reuters and Bloomberg. Bonds are generally valued based on prices collected from Reuters, Bloomberg and Nordic Bond Pricing. Bonds that are not regularly quoted will normally be valued using recognised theoretical models. The latter is particularly applicable to bonds denominated in Norwegian kroner. Discount rates composed of the swap rates plus a credit premium are used as a basis for these types of valuations. The credit premium will often be specific to the issuer, and will normally be based on a consensus of credit spreads quoted by a selected brokerage firm.

Unlisted derivatives, including primarily interest rate and foreign exchange instruments, are also valued theoretically. Money market rates, swap rates, exchange rates and volatilities that form the basis for valuations are supplied by Reuters, Bloomberg and Norges Bank.

Storebrand Boligkreditt AS carries out continual checks to safeguard the quality of market data that has been collected from external sources. These types of checks will generally involve comparing multiple sources as well as controlling and assessing the likelihood of unusual changes.

The Storebrand Group categorises financial instruments into three different levels which are described in more detail below. The levels express the differing degrees of liquidity and different measurement methods used. The company has established valuation models to gather information from a wide range of well-informed sources with a view to minimising the uncertainty of valuations.

LEVEL 1: FINANCIAL INSTRUMENTS VALUED ON THE BASIS OF QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS
Bonds, certificates or equivalent instruments issued by nation states are generally classified as level 1.

LEVEL 2: FINANCIAL INSTRUMENTS VALUED ON THE BASIS OF OBSERVABLE MARKET INFORMATION NOT COVERED BY LEVEL 1
This category encompasses financial instruments that are valued based on market information that can be directly observable or indirectly observable. Market information that is indirectly observable means that the prices can be derived from observable related markets. Level 2 covers bonds and equivalent instruments. Moreover, interest rate and foreign exchange swaps, non-standardised interest rate and foreign exchange derivatives are classified as level 2.

LEVEL 3: FINANCIAL INSTRUMENTS VALUED ON THE BASIS OF INFORMATION THAT IS NOT OBSERVABLE ACCORDING TO THE DEFINITION FOR LEVEL 2
Investments classified as level 3 largely include investments in unlisted/private companies. The company did not have any investments that were classified at this level at year-end.

The value of variable home loans is determined by discounting cash flows over the remaining maturity using the current discount rate. The discount rate that is used is based on a swap interest rate (mid swap) with a maturity that corresponds to the maturity of the underlying loan.

VALUATION OF FINANCIAL INSTRUMENTS AT AMORTISED COST

The fair value of bonds is based on normal valuation techniques. Cash flows are discounted over the remaining maturity using the current discount rate. The discount rate that is used is based on a swap interest rate (mid swap) with a maturity that corresponds to the maturity of the underlying loan.

NOK million	Level 1 Quoted prices	Level 2 Observable assumptions	Level 3 Non-observable assumptions	Fair value 31.12.2018	Fair value 31.12.2017	Book value 31.12.2018	Book value 31.12.2017
Financial assets							
Loans to and deposits with credit institutions		248.0		248.0	251.2	248.0	251.2
Net loans to customers - corporate market				0.0			
Net loans to customers - retail market				0.0	14,537.5		14,537.5
Total financial assets 31.12.2018	**0.0**	**248.0**	**0.0**	**248.0**		**248.0**	
Total financial assets 31.12.2017	0.0	14,788.7	0.0		14,788.7		14,788.7
Financial liabilities							
Liabilities to credit institutions		3,001.7		3,001.7	2,295.8	3,001.7	2,295.8
Commercial papers and bonds issued		14,338.0		14,338.0	11,482.2	14,333.4	11,474.5
Total financial liabilities 31.12.2018	**0.0**	**17,339.7**	**0.0**	**17,339.7**		**17,335.2**	
Total financial liabilities 31.12.2017	0.0	13,777.9	0.0		13,777.9		13,770.3

VALUATION OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

Valuation of financial instruments at fair value through profit and loss (FVTPL)

NOK million	Level 1 Quoted prices	Level 2 Observable assumptions	Level 3 Non-observable assumptions	Book value 31.12.2018	Book value 31.12.2017
Sovereign and Government Guaranteed bonds		40.4		40.4	40.9
Total bonds 31.12.2018	**0.0**	**40.4**	**0.0**	**40.4**	
Total bonds 31.12.2017		40.9			
Interest rate derivatives		39.5		39.5	87.1
Total derivatives 31.12.2018	**0.0**	**39.5**	**0.0**	**39.5**	
Derivatives with a positive fair value		39.5		39.5	87.1
Derivatives with a negative fair value					
Total derivatives 31.12.2017		87.1			

There have not been any changes between quoted prices and observable assumptions on the various financial instruments in the year.

VALUATION OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (FVOCI)

NOK million	Level 1 Quoted prices	Level 2 Observable assumptions	Level 3 Non-observable assumptions	Book value 31.12.2018
Net loans to customers - corporate market				0.0
Net loans to customers - retail market			18,484.8	18,484.8
Total net loans to customers	**0.0**	**0.0**	**18,484.8**	**18,484.8**

Due to transition to IFRS 9 from 1 January 2018, a significant proportion of the loan portfolio has been reclassified from amortised cost to fair value through other comprehensive income (OCI). There are no requirement for restating comparable figures in 2018.

SPECIFICATION OF SECURITIES PURSUANT TO VALUATION TECHNIQUES (LEVEL 3 - NON-OBSERVABLE ASSUMPTIONS)

NOK million	Loans to customers at fair value through other comprehensive income (OCI)
Book value 01.01.2018	14,540.3
Net gains/losses on financial instruments	0.7
Supply / disposal	8,483.1
Sales / due settlements	-4,539.3
Book value 31.12.2018	**18,484.8**

SENSITIVITY ANALYSIS OF FINANCIAL INSTRUMENTS VALUED AT FAIR VALUE

Loans to customers at fair value through other comprehensive income (OCI)
The value of variable home loans is determined by discounting cash flows over the remaining maturity using the current discount rate. The discount rate that is used is based on a swap interest rate (mid swap) with a maturity that corresponds to the maturity of the underlying loan.

	Floating loans to customers Fair value through other comprehensive income (OCI) Change in market spread		**Floating loans to customers** Fair value through other comprehensive income (OCI) Change in market spread	
Increase/reduction in fair value	+ 10 bp	- 10 bp	+ 25 bp	- 25 bp
Increase/reduction in fair value at 31.12.2018 (MNOK)	**(2.1)**	**2.1**	**(5.3)**	**5.3**

Comparable figures are not presented. Storebrand Boligkreditt AS have changed accounting principles in 2018 why 2017 figures would not be comparable to the 2018 figures.

Note 9 - Segment

Business segments are the company's primary reporting segments. The company has only one segment, Retail Lending. This segment comprises lending to private individuals, and all loans are purchased from Storebrand Bank ASA. The company's accounts for 2018 therefore relate entirely to the Retail Lending segment. Geographic segments form the company's secondary reporting segments. The company does not have any activities outside Norway. Customers from abroad are classified as part of the Norwegian activities. All operating income and the company's earnings therefore relate solely to its Norwegian activities.

Note 10 - Net income from financial instruments

NOK Million	2018	2017
Net interest income		
Interest on financial instruments valued at amortised cost		
Interest on loans to credit institutions	1.9	1.7
Interest on loans to customer	0.3	354.4
Total interest on financial instruments valued at amortised cost	**2.2**	**356.2**
Interest on financial instruments valued at fair value through other comprehensive income (OCI)		
Interest on loans to customer	393.2	
Total interest on financial instruments valued at fair value through other comprehensive income (OCI)	**393.2**	**0.0**
Interest on financial instruments valued at fair value through profit and loss		
Interest on commercial papers, bonds and other interest-bearing securities	0.4	1.8
Total interest on financial instruments valued at fair value through profit and loss	**0.4**	**1.8**
Total interest income	**395.8**	**358.0**
Interest on financial instruments valued at amortised cost		
Interest on debt to credit institutions	-50.0	-34.9
Interest on securities issued	-194.6	-169.2
Total interest on financial instruments valued at amortised cost	**-244.6**	**-204.1**
Interest on financial instruments valued at fair value through profit and loss		
Interest on debt to credit institutions		
Total interest on financial instruments valued at fair value through profit and loss	**0.0**	**0.0**
Total interest expenses	**-244.6**	**-204.1**
Net interest income	**151.2**	**153.8**

NOK (mill.)	2018	2017
Net income and gains from financial assets and liabilities		
Commercial papers and bonds at fair value through profit and loss		
Realized gain/loss on commercial papers and bonds, FVO	0.2	0.1
Unrealised gain/loss on commercial papers and bonds, FVO	0.7	-0.4
Total gain/loss on commercial papers and bonds, FVO	**0.9**	**-0.4**
Loans to customers valued at fair value through profit and loss		
Net gain/loss on loans to customers	-0.2	
Reclassified realised gain/loss on loans to customers valued at fair value through other comprehensive income (OCI)		
Total gain/loss on loans to customers valued at fair value through profit and loss	**-0.2**	**0.0**
Financial derivatives valued at fair value through profit and loss		
Realised gain/loss on financial derivatives		0.1
Total financial derivatives valued at fair value through profit and loss	**0.0**	**0.1**
Fair value hedging		
Unrealised gain/loss on derivatives and bonds issued, fair value hedging	-2.7	-2.9
Net gain/loss on fair value hedging	**-2.7**	**-2.9**
Bonds issued		
Realised gain/loss on bonds issued at amortised cost	-1.7	-6.9
Total gain/loss on bonds issued at amortised cost	**-1.7**	**-6.9**
Net income and gains from financial assets and liabilities	**-3.7**	**-10.1**
Net gain/loss on financial assets at fair value through profit and loss account:		
Financial assets designated at fair value upon initial recognition	-1.7	-3.3
Financial assets classified as held for trading		0.1
Changes in fair value on assets due to changes i credit risk		0.3
Net gain/loss on financial liabilities at fair value through profit and loss account:		
Financial liabilities designated at fair value upon initial recognition		
Financial liabilities classified as held for trading		

The note includes gain and loss on financial derivatives, net gain and loss on fair value hedging and bonds issued.
Other financial assets and liabilities are not included in the note.

Note 11 - Remuneration paid to auditor

REMUNERATION EXCL. VALUED ADDED TAX

(NOK 1000)	2018	2017
Statutory audit	-105	-106
Other non-audit services	-294	-263
Total	**-399**	**-369**

Storebrand group have changed external auditors in 2018.
Remuneration paid to auditors in 2018 includes cost to both PWC and Deloitte.

Note 12 - Operating expenses

NOK million	2018	2017
Other staff expenses	-0.3	-0.2
Total staff expenses	**-0.3**	**-0.2**
IT costs	-0.2	-0.2
Total general administration expenses	**-0.2**	**-0.2**
Foreign services	-0.6	-0.5
Purchase from group companies	-68.9	-62.4
Other operating expenses	-2.0	-3.7
Total other operating expenses	**-71.5**	**-66.6**
Total operating expenses	**-72.0**	**-67.0**

Note 13 - Losses on loans, guarantees and unused credits

NOK million	2018	2017
The periods change in impairment losses stage 1	-0.2	
The periods change in impairment losses stage 2	-0.4	
The periods change in impairment losses stage 3	1.2	
Change in loan loss provisions on individual loans for the period (IAS 39)		1.5
Change in loan loss provisions on groups of loans for the period (IAS 39)		-2.1
Realised losses	-1.3	
Realised losses on commitments specifically provided for previously (IAS 39)		-2.1
Recoveries on previously realised losses		0.2
Total loan losses for the period	**-0.5**	**-2.5**

Provisions for loan losses and losses for period have been calculated according with the new accounting principles in IFRS 9 and are based on expected credit loss (ECL) with use of a three-stage method.

Comparable figures for 2017 are reported in accordance with IAS 39 and modelled losses are not directly comparable with figures from 2018.

Note 14 - Tax

TAX CHARGE FOR THE YEAR

NOK million	2018	2017
Tax payable for the period	14.7	19.7
Changes in deferred tax/deferred tax asset	3.2	-1.3
Total tax charge	**17.9**	**18.3**

TAX BASE FOR THE YEAR

NOK million	2018	2017
Ordinary pre-tax profit	75.0	76.0
Change in temporary differences	-14.0	5.9
Tax base for the year	**61.0**	**81.9**

RECONCILIATION OF EXPECTED AND ACTUAL TAX CHARGE

NOK million	2018	2017
Ordinary pre-tax profit	75.0	76.0
Expected tax on income at nominal rate (23%)	-17.3	-18.2
Tax effect of:		
Change in tax rules	-0.6	-0.1
Tax charge	**-17.9**	**-18.3**
Effective tax rate	24 %	24 %
Tax payable		
Tax payable during the period	14.7	19.7
Tax payable in the balance sheet (note 23)	**14.7**	**19.7**

The company has provided a group contribution with tax effect for 2018. The group contribution will be recognised after the general meeting is held in 2019. Taking the group contribution into consideration, tax payable will be NOK 0.

ANALYSIS OF THE TAX EFFECT OF TEMPORARY DIFFERENCES AND TAX LOSSES CARRIED FORWARD

NOK million	2018	2017
Tax-increasing temporary differences		
Derivatives	39.5	70.3
Total tax-increasing temporary differences	**39.5**	**70.3**
Tax-reducing temporary differences		
Securities		-0.7
Bonds issued	-32.7	-77.6
Other	-2.6	-1.8
Total tax-reducing temporary differences	**-35.3**	**-80.2**
Losses/allowances carried forward		
Net base for deferred tax/tax assets	**4.1**	**-9.9**
Net deferred tax/dererred tax asset in the balance sheet	**-0.9**	**2.3**
Booked in the balance sheet:		
Deferred tax asset	-0.9	2.3

In December 2018, the Norwegian Parliament (Storting) agreed to reduce the company tax rate from 23 per cent to 22 per cent effective from 1 January 2019.

Storebrand Boligkreditt AS has activities within "Section K" (financing and insurance activities as defined in Standard Industrial Classification 2007) which exceed 30 per cent and are therefore subject to the financial tax, but since the company does not have any employees it is not subject to finance tax. A tax rate of 22 per cent has been used for capitalizing deferred tax asset in the balance sheet.

Note 15 - Classification of financial assets and liabilities

NOK million	Amortised cost	Fair value through profit and loss	Fair value through other comprehensive income (OCI)	Total book value
Financial assets				
Loans to and deposits with credit institutions	248.0			248.0
Bonds and other fixed-income securities		40.4		40.4
Derivatives		39.5		39.5
Net loans to customers			18,484.8	18,484.8
Other assets	10.2		0.0	10.2
Total financial assets 2018	**258.3**	**79.9**	**18,484.8**	**18,822.9**
Total financial assets 2017	14,814.6	87.1	40.9	14,942.7
Financial liabilities				
Liabilities to credit institutions	3,001.7			3,001.7
Commercial papers and bonds issued	14,333.4			14,333.4
Other liabilities	14.8			14.8
Total financial liabilities 2018	**17,350.0**	**0.0**	**0.0**	**17,350.0**
Total financial liabilities 2017	13,791.5	0.0	0.0	13,791.5

Note 16 - Bonds and other fixed-income securities at fair value through the profit and loss account

NOK million	2018 Fair value	2017 Fair value
Sovereign and Government Guaranteed bonds	40.4	40.9
Total bonds and other fixed-income securities at fair value through the profit and loss account	**40.4**	**40.9**
Modified duration	0.07	0.07
Average effective yield per 31.12.	0.84 %	0.46 %

The portfolio is mainly denominated in NOK.
Calculated effective yields are weighted to give an average effective yield on the basis of each asset's share of the total interest rate sensitivity.

Note 17 - Financial derivatives

Financial derivatives are linked to underlying amounts which are not recognised in the statement of financial position. In order to quantify the volume of derivatives, reference is made to underlying amounts like underlying principal, nominal volume, etc. Different calculation methods are applied to nominal volume for different types of financial derivatives, and this figure gives some expression of the scope and risk of the positions of financial derivatives.

Gross nominal volume primarily provides information on the scope, while net nominal volume provides a certain expression of risk positions. However, the nominal volume for different instruments is not necessarily comparable, considering the risk exposure. As opposed to gross nominal volume, the calculation of net nominal volume also takes into account the sign for the instrument's market risk exposure, by differing between so-called asset positions and liability positions.

An asset position in a currency derivative generates a positive change in value if the exchange rate against the NOK increases. The average gross nominal volume is based on daily calculations of gross nominal volume.

NOK million	Gross nom. volume 1)	Gross recognised fin. assets	Gross recognised debt	Net fin. assets/ debt in the statement of financial position	Net amounts taken into account netting agreements Fin. assets	Fin. debt	Net amount
Interest derivatives 2)	1,250.0	39.5					39.5
Total derivatives 31.12.2018	**1,250.0**	**39.5**	**0.0**	**0.0**	**0.0**	**0.0**	**39.5**
Total derivatives 31.12.2017	1,250.0	87.1	0.0	0.0	0.0	0.0	87.1

1) Values as at 31.12.

2) Interest derivatives include accrued, not due, interest.

INVESTMENTS SUBJECT TO NETTING AGREEMENTS / CSA

NOK million	Recognised assets	Recognised liabilities	Net assets	Collateral Cash (+/-)	Collateral Securities (+/-)	Net exposure
Total 2018	**39.5**		**39.5**			**39.5**
Total 2017	87.1		87.1			87.1

Note 18 - Analysis of loan portfolio and guarantees

NOK million	2018 Book value	2017 Book value *)
Loans to customers at amortised cost		14,542.2
Loans to customers at fair value through other comprehensive income (OCI)	18,486.0	
Total gross lending to customers	**18,486.0**	**14,542.2**
Loan loss provisions on individual loans (IAS 39)		-1.4
Loan loss provisions on groups of loans (IAS 39)		-3.3
Provision for expected loss Stage 1	-0.4	
Provision for expected loss Stage 2	-0.6	
Provision for expected loss Stage 3	-0.2	
Net lending to customers	**18,484.8**	**14,537.5**

*) According to IAS 39.

See note 4 for analysis of loan portfolio and guarantees per customer group.

CHANGE IN GROSS LOANS TO CUSTOMERS VALUED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (OCI)

NOK million	Stage 1	Stage 2	Stage 3	Total gross loans
Gross loans 01.01.2018	13,849.3	667.9	25.1	14,542.2
Transfer to stage 1	169.3	-169.3		0.0
Transfer to stage 2	-400.3	403.9	-3.6	0.0
Transfer to stage 3	-5.5	-19.6	25.1	0.0
New loans	8,135.4	347.7		8,483.1
Derecognition	-4,015.3	-181.7	-16.0	-4,213.1
Other changes	-316.6	-9.7	0.1	-326.2
Gross loans at fair value through other comprehensive income (OCI) 31.12.2018	**17,416.3**	**1,039.1**	**30.7**	**18,486.0**

CHANGE IN MAXIMUM EXPOSURE FOR GUARANTEES AND UNUSED CREDITS

NOK million	Stage 1	Stage 2	Stage 3	Total exposure
Maximum exposure 01.01.2018	1,508.8	5.6		1,514.5
Transfer to stage 1	0.8	-0.8		0.0
Transfer to stage 2	-2.2	2.2		0.0
Transfer to stage 3				0.0
New guarantees and unused credits	114.5	0.1		114.6
Derecognition	-268.6	-2.6		-271.2
Other changes	43.9	-0.7		43.3
Maximum exposure 31.12.2018	**1,397.2**	**3.9**	**0.0**	**1,401.1**

Note 19 - Loan to value ratios and collateral

NOK million	2018	2017
Gross lending	18,486.0	14,542.2
Average loan balance	2.0	1.8
No. of loans	9,432.0	7,858.0
Weighted average seasoning (months)	37	41
Weighted average remaining term (months)	262	240
Average loan to value ratio	55 %	51 %
Over-collateralisation 2)	129 %	127 %
Cover pool:		
Residential mortgages 1)	18,390.4	14,468.2
Supplementary security	50.4	102.9
Total	**18,440.8**	**14,571.1**

1) In accordance with the Regulation for credit institutions that issue covered bonds, lending cannot exceed 75% of the value of collateral (i.e. value of properties pledged as collateral). As per 31 December 2018 the company had NOK 49,0 million that exceeds the loan to value limit and has therefore not been included in the cover pool. As per 31 December 2018, the company has 11 non-performing loans without evidence of impairment, equivalent to NOK 25,1 million. There are 4 non-performing loans with evidence of impairment of NOK 5,3 million where the impairment is assessed to be NOK 0,2 million. Non-performing loans with and without evidence of impairment, are not included in the cover pool.
2) Over-collateralisation has been calculated based on total volume of issued covered bonds of NOK 14,3 billion (nominal value).

Note 20 - Loan loss provisions on loans, guarantees and unused credits

NOK million	Stage 1 12-month ECL	Stage 2 Lifetime ECL - no objective evidence of impairment	Stage 3 Lifetime ECL - objective evidence of impairment	Total
Loan loss provisions 31 December 2017 according to IAS 39				4.7
Effect of implementation IFRS 9				-2.8
Loan loss provisions IFRS 9 at 1 January	0.2	0.3	1.4	1.9
Transfer to stage 1 (12-month ECL)				0.0
Transfer to stage 2 (lifetime ECL - no objective evidence of impairment)				0.0
Transfer to stage 3 (lifetime ECL - objective evidence of impairment)				0.0
Net remeasurement of loan losses		0.1		0.1
New financial assets originated or purchased	0.3	0.2		0.6
Financial assets that have been derecognised	-0.1	-0.1	-0.5	-0.6
ECL changes of balances on financial assets without changes in stage in the period	-0.1	0.1	0.1	0.1
Financial assets written off during the period			-0.8	-0.8
Loan loss provisions at 31 December	**0.4**	**0.6**	**0.2**	**1.3**
Loan loss provisions on loans to customers valued at fair value through other comprehensive income (OCI)	0.4	0.6	0.2	1.3
Total loans loss provisions	**0.4**	**0.6**	**0.2**	**1.3**

Periodical changes in individual impairments and expected credit loss on loans, loan commitments and guarantees are shown above. The periods realised losses are not included in the overview above.

Storebrand Boligkreditt AS has not any expected loan loss provisions related to loans to credit institutions and commercial papers and bonds.

Note 21 - Other current assets

NOK million	2018 Book value	2017 Book value
Due from Storebrand group companies	8.3	17.8
Other current assets	2.0	8.1
Total other current assets	**10.2**	**25.9**

Note 22 - Hedge accounting

Storebrand Bank group has chosen to transition to IFRS 9 for hedge accounting, but expects to keep hedging at the current level. There will thus be no accounting effects when transitioning to the new standard. The Storebrand Bank group's interest rate risk strategy is defined in the interest rate risk policy, which sets frameworks for limiting the company's interest rate risk exposure.

The group uses fair value hedging to reduce the interest rate risk on borrowings with fixed interest terms. The risk that is hedged in accordance with the interest rate risk policy is Nibor. This entails that separate credit risk is not hedged by keeping the credit spread constant as when established. Hedged risk accounts for approximately 90% of the total interest rate risk exposure in the loans. Fair value hedging of the hedged item is interest rate hedged by entering into an interest rate swap in which we swap from fixed to variable interest to reduce the risk associated with future changes in interest rates. The hedging satisfies the requirements for hedge accounting at individual transaction level by a hedging instrument being directly linked to a hedged item and the hedging relationship being adequately documented.

All hedging relationships are established with an identical fixed interest profile, i.e. fixed interest, principal, coupon dates and maturity, both in the object and the instrument. The instrument swaps from fixed interest to variable interest quoted on Nibor three months. The fixed leg is between 2% to 5.05%. The hedging relationship is expected to be highly effective in counteracting the effect of changes in fair value due to changes in interest rates. Net recognised changes in value of fair value hedges are due to changes in value resulting from changed market interest rates, i.e. hedged risk. This is entered in the accounts under "Net unrealised changes in value of financial instruments". The hedging efficiency is measured based on the basic "Dollar Offset" method with regard to prospective efficiency.

We have identified the following sources of inefficiency: -Change in value of the short leg (Nibor 3 months).
-Credit risk for counterparty.

It is not expected that these factors will create significant inefficiency. No other sources of inefficiency were identified during the financial year.

	2018			2017		
	Contract/ nominal value	Fair value [1), 2)]		Contract/ nominal value	Fair value [1), 2)]	
NOK million	0 - 3 years	Assets	Liabilities	0 - 3 years	Assets	Liabilities
Interest rate swaps	1,250.0	39.5		1,250.0	87.1	
Total interest rate derivatives	1,250.0	39.5	0.0	1,250.0	87.1	0.0
Total derivatives	**1,250.0**	**39.5**	**0.0**	**1,250.0**	**87.1**	**0.0**

	Contract/ nominal value	Hedging value [1), 2)]		Contract/ nominal value	Hedging value [1), 2)]	
	0 - 3 years	Assets	Liabilities	0 - 3 years	Assets	Liabilities
Underlying objects :						
Bonds issued	1,250.0		1,293.3	1,250.0		1,339.9
Hedging effectiveness - prospective			-92 %			-97 %

GAIN/LOSS ON FAIR VALUE HEDGING: [3)]

NOK million	2018 Gain / loss	2017 Gain / loss
Gain/loss on fair value hedging:	-46.8	-36.5
På objektet som sikres	44.1	33.6

1) Book value at 31.12.

2) Includes accrued interest.

3) Amounts included in the line "Net gains on financial instruments".

Note 23 - Other liabilities

NOK million	2018 Book value	2017 Book value
Tax payable (note 14)	14.7	19.7
Other liabilities	0.2	1.6
Total other liabilities	**14.8**	**21.2**

Note 24 - Off balance sheet liabilities and contingent liabilities

NOK million	2018	2017
Undrawn credit limits	1,401.1	1,514.5
Total contingent liabilities	**1,401.1**	**1,514.5**

Undrawn credit limits relate to the unused portion of credit limits on residential mortgage loans.

Note 25 - Capital Adequacy

NET PRIMARY CAPITAL

NOK million	2018	2017
Share capital	490.0	455.0
Other equity	982.0	698.4
Total equity	**1,472.0**	**1,153.4**
Deductions		
AVA adjustments	-18.6	-0.1
Provision for group contribution	-49.1	-62.2
Addition		
Group contribution received	49.1	5.9
Core Equity Tier 1 (CET1)	**1,453.4**	**1,096.9**
Additional Tier 1 capital		
Capital instruments eligible as Additional Tier 1 capital		
Additions		
Tier 1 capital	**1,453.4**	**1,096.9**
Tier 2 capital		
Subordinated loans		
Tier 2 capital deductions		
Eligible capital (Tier 1 capital + Tier 2 capital)	**1,453.4**	**1,096.9**

MINIMUM CAPITAL REQUIREMENT

NOK million	2018	2017
Credit risk	543.8	432.3
Of which:		
Local and regional authorities		0.5
Institutions	5.7	8.2
Loans secured against real estate	514.1	407.7
Loans past-due	2.8	2.5
Other	21.2	13.6
Total minimum requirement for credit risk	**543.8**	**432.3**
Counterparty risk		
Position risk		
Operational risk		
Currency risk		
Total minimum requirement for market risk	**0.0**	**0.0**
Operational risk	21.6	25.8
CVA risk *)	0.7	3.1
Deductions		
Loan loss provisions on groups of loans		-0.3
Minimum requirement for net primary capital	**566.1**	**460.9**

*) Regulation on own funds requirements for credit valuation adjustment risk.

CAPITAL ADEQUACY

	2018	2017
Capital ratio	20.5 %	19.0 %
Tier 1 capital ratio	20.5 %	19.0 %
Core equity Tier 1 (CET1) capital ratio	20.5 %	19.0 %

The standard method is used for credit risk and market risk, and the basic method for operational risk.
Total requirement to Core Equity Tier 1 (CET1) and eligible capital (Tier 1 capital + Tier 2 capital) are 12 per cent and 15.5 per cent.

BASIS OF CALCULATION (RISK-WEIGHTED VOLUME)

NOK million	2018	2017
Credit risk	6,797.3	5,404.0
Of which:		
Local and regional authorities		5.7
Institutions	71.0	102.0
Loans secured against real estate	6,426.3	5,095.7
Loans past-due	35.6	31.1
Other	264.4	169.5
Total basis of calculation credit risk	**6,797.3**	**5,404.0**
Total basis of calculation market risk	**0.0**	**0.0**
Operational risk	270.5	322.2
CVA risk	9.0	38.5
Deductions		
Loan loss provisions on groups of loans		-3.3
Total basis of calculation of minimum requirements for capital base	**7,076.7**	**5,761.4**

Note 26 - Remuneration and related parties

REMUNERATION OF SENIOR EMPLOYEES AND ELECTED OFFICERS

(NOK 1000)	Ordinary salary	Other benefits [2]	Total remuneration earned in the year	Pension accrued for the year	Post termination salary (months)	Loans [3]	No. of shares owned [4]
Senior employees							
Åse Jonassen (CEO) [1]	800	119	920	85		3,460	7,969
Total 2018	**800**	**119**	**920**	**85**	**0**	**3,460**	**7,969**
Total 2017	783	132	915	82	0	3,168	7,269

1) Åse Jonassen does not receive any remuneration from Storebrand Boligkreditt AS for her appointment as CEO. The company purchases all administrative services including the CEO service from Storebrand Bank ASA. Åse Jonassen is not covered by Storebrand's bonus bank scheme.

2) Comprises company car, telephone, insurance, concessionary interest rate, other taxable benefits.

3) Loans up to NOK 7 million hold ordinary employee terms while excess loan amount hold market rate.

4) The summary shows the number of shares owned by the individual, as well as his or her immediate family and companies where the individual exercises significant influence, cf. the Accounting Act, Section 7-26..

(NOK 1000)	Remuneration	Loans	No. of shares owned [1]
Board of Directors			
Bengt Uppstad [2]		879	1,625
Heidi Skaaret [2]		3,366	54,473
Jostein Dalland [2]			16,701
Thor Bendik Weider	87	5,615	
Leif Helmich Pedersen	260		
Total 2018	**347**	**9,860**	**72,799**
Total 2017	170	6,859	47,973

1) The summary shows the number of shares owned by the individual, as well as his or her close family and companies where the individual exercises significant influence, cf. the Accounting Act, Section 7-26.

2) Neither Bengt Uppstad, Heidi Skaaret nor Jostein Dalland receives any remuneration from Storebrand Boligkreditt AS for their appointments as members of the Board.

TRANSACTIONS WITH GROUP COMPANIES

	2018		2017	
NOK million	Storebrand Bank ASA	Other group companies	Storebrand Bank ASA	Other group companies
Interest income				
Interest expense	69.1		37.6	
Services sold				
Services purchased	68.3	0.6	61.8	0.6
Due from	8.3		17.8	
Liabilities to	3,001.7		2,295.8	

Storebrand Boligkreditt AS does not have any employees, and purchases personnel services from Storebrand Bank ASA and other services including bookkeeping from Storebrand Livsforsikring AS. All loans in the company are purchased from Storebrand Bank ASA after the loan purchase agreement has been signed with Storebrand Bank ASA, and a management agreement has been signed with Storebrand Bank ASA concerning management of the lending portfolio. In brief, the management agreement involves the company paying a fee to Storebrand Bank ASA for administering the company's lending portfolio. When purchasing the loans, Storebrand Boligkreditt AS assumes all the risks and rewards incidental to ownership of the lending portfolio. Storebrand Boligkreditt AS receives all the cash flows from the borrower. The bank and Storebrand Boligkreditt AS have not signed agreements for guarantees, options, repurchases or similar in connection with the lending portfolio in Storebrand Boligkreditt AS. It is Storebrand Boligkreditt AS that is exposed to any losses that may result from non-performance. Non-performing loans remain in the company, but are not included in the securities portfolio. The company has also signed an agreement with Storebrand Bank ASA concerning a credit facility for funding purchased loans (see note 5).

ANALYSIS OF TRANSFERRED LOANS TO/FROM STOREBRAND BOLIGKREDITT AS

NOK million	2018	2017
To Storebrand Boligkreditt AS - accumulated transfers	18,486.0	14,529.1
From Storebrand Boligkreditt AS - last year transfers	212.5	486.7

Storebrand Bank ASA have not granted Storebrand Boligkreditt AS any guarantees related to the transferred loans.

LOANS TO EMPLOYEES

NOK million	2018	2017
Loans to employees of Storebrand group associated to Storebrand Boligkreditt AS	3,5	3,2
Loans to employees of Storebrand group	719.4	609.4

Loans to employees are granted in part on the normal terms and conditions for loans to employees, i.e. loan to an individual of up to NOK 7 million at 80% of normal market interest rate. Loans in excess of NOK 7 million are granted on normal commercial terms and conditions. There has not been provided guarantees or security for borrowing by employees..

HEADCOUNT AND PERSONNEL INFORMATION

There are no employees in the company.

Storebrand Boligkreditt AS
- Statement from the Board of Directors and the CEO

Today the Board members and the CEO have considered and approved the annual report and annual financial statements of Storebrand Bank ASA for the 2018 financial year and as of 31 December 2018 (2018 annual report).

The annual accounts have been prepared in accordance with International Financial Reporting Standards approved by the EU and appurtenant interpretations, as well as the other disclosure obligations stipulated by the Norwegian Accounting Act and the current applicable regulations relating to annual accounts of banks and finance companies etc. as of 31 December 2018. The annual report complies with the requirements of the Norwegian Accounting Act and Norwegian Accounting Standard no. 16 as at 31 December 2018.

In the best judgement of the board and the CEO, the annual financial statements for 2018 have been prepared in accordance with the applicable accounting standards, and the information presented in the the financial accounts provides a true and fair view of company's assets, liabilities, financial position and results as a whole as of 31 December 2018. In the best judgement of the board and the CEO, the annual report provides a true and fair view of the material events that occurred during the accounting period and their effects on the annual financial statements of Storebrand Boligkreditt AS. In the best judgement of the board and the CEO, the descriptions of the most important elements of risk and uncertainty that the company faces in the next accounting period, and a description of related parties' material transactions, also provide a true and fair view.

Lysaker, 12 February 2019
The Board of Directors of Storebrand Boligkreditt AS

Translation – not to be signed

Bernt Uppstad
- Chairman of the Board -

Jostein Dalland
- Deputy Chairman of the board -

Leif Helmich Pedersen
- Board Member -

Thor Bendik Weider
- Board Member -

Åse Jonassen
- CEO -

To the General Meeting of Storebrand Boligkreditt AS

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Storebrand Boligkreditt AS, which comprise financial position - balance sheet as at 31 December 2018, profit and loss account, statement of comprehensive income, statement of changes in equity and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by 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 as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 of the current period. 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.

Key Audit Matter	How our audit addressed the Key Audit Matter
Loans to customers	
The mortgage company's assets primarily consists of securitized mortgages of NOK 18.5 billion, and they have issued covered bonds (OMFs). Processes and routines are established to ensure compliance with applicable laws and restrictions relating to the securities under the covered bonds. Mainly, the property value must exceed 75% of the mortgage value in the covered pool.	To ensure compliance with the regulations in place for the company's covered bonds, a set of processes and procedures has been established to review documentation and loan applications. The process entails formal controls and division of labour to ensure compliance before the loan is approved, or before it is transferred to the mortgage company from other group companies. We conducted our audit by gathering documents and data on the control operation to test wether the controls

PricewaterhouseCoopers AS, Postboks 748 Sentrum, NO-0106 Oslo
T: 02316, org. no.: 987 009 713 VAT, www.pwc.no
State authorised public accountants, members of The Norwegian Institute of Public Accountants, and authorised accounting firm

Historically there has not been any losses on the company loans to customers. Because the restricitons and processes in place are of fundamental value to the comapany's continued operations, we have focused on the area during our audit.

had been effective during the period. Our investigations included an assessment of whether the underlying documentation the mortgage company had obtained supported the conclusions the mortgage company had drawn in regards of wether the requirements of law and regulations were fulfilled. The controls we have carried out support the fact that the internal controls the mortgage company has performed are in line with the mortgage company's routines and that the regulatory requirements are followed in this area.

IT systems supporting processes over financial reporting

The company's financial accounting and reporting processes are dependent on complex systems and there is a risk that automated accounting procedures and related IT dependent manual controls are not designed and operating effectively.

The company utilize external service providers to operate some of its central IT systems. External auditors at the relevant service organizations has evaluated the control environment, design and operational effectiveness of controls to ensure the integrity of the IT systems in use relevant to financial reporting. For important IT-systems supporting financial reporting, the audit team performed detailed testing of relevant reports and automated controls. We also tested controls over application management and we relied on assurance reports on controls at service organizations where that was relevant for our work. Our work gave us sufficient evidence to enable us to rely on the operation of the group's IT systems deemed relevant for our audit.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

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 the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including 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 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 laws, regulations, and auditing standards and practices generally accepted 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. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed 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 produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 12 February 2019

PricewaterhouseCoopers AS

Magne Sem

State Authorised Public Accountant

Note: This translation from Norwegian has been prepared for information purposes only.

Head office:
Professor Kohts vei 9
P.O. Box 474, N-1327 Lysaker
Phone: +47 915 08 880
storebrand.no

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