Interim report Q4 2018

Storebrand Boligkreditt AS

(unaudited)

Contents

Storebrand Boligkreditt AS
- Interim report for the fourth quarter of 2018
(Profit figures for the corresponding period in 2017 are shown in parentheses. Balance sheet figures in parentheses are for the end of 2017.)

- Profit before taxes of NOK 19 million in the fourth quarter and NOK 75 million for the year
- Good portfolio quality
- Increased lending volume for the quarter

FINANCIAL PERFORMANCE
Pre-tax profit was NOK 19 million (NOK 25 million) for the fourth quarter and NOK 75 million (NOK 76 million) year to date.

Net interest income was NOK 39 million (NOK 43 million) for the fourth quarter and NOK 151 million (NOK 154 million) for the year. The interest margin improved in the quarter, but was influenced by competitive pricing in the retail market and increased interbank rates. As a percentage of average total assets, net interest income was 0.82 per cent (1.12 per cent) for the fourth quarter and 0.86 per cent (1.00 per cent) year to date.

Other operating income in the fourth quarter amounted to minus NOK 1 million (NOK 0 million) and minus NOK 4 million (minus NOK 8 million) for the year, and was related to commission income on loans and net accounting loss on financial instruments at fair value.

Operating expenses increased by NOK 2 million in the quarter and totalled NOK 19 million (NOK 17 million) for the fourth quarter and NOK 72 million (NOK 67 million) year to date.

Losses in the portfolio are low, and in the fourth quarter the company recognised an expense of NOK 0 million (NOK 1 million) for write-downs on lending and has recognised an expense of NOK 1 million (NOK 3 million) year to date.

BALANCE SHEET PERFORMANCE
The lending volume has increased by NOK 3.9 billion since the end of 2017 and amounted to NOK 18.5 billion (NOK 14.5 billion). Storebrand Bank ASA and Storebrand Boligkreditt AS operate with conservative lending practices. The average loan-to-value ratio in the portfolio was 55 per cent at the end of the fourth quarter, an increase of four percentage point compared with the end of 2017. On the date of transfer, the loan-to-value ratio never exceeds 75 per cent. The risk in the loan portfolio is considered to be very low. The company has over-collateralisation of 129 per cent (127 per cent).

Defaulted loans at the end of the fourth quarter amounted to NOK 31 million (NOK 26 million), equivalent to 0.17 per cent of gross loans in the company (0.18 per cent). All defaulted loans have a loan-to-value ratio within 75 per cent of market value or have practically been written down. Loan loss provisions amounted to NOK 1 million (NOK 4 million) at the end of the fourth quarter.

The company's loan programme is AAA rated by S&P Global Ratings.

At the end of the fourth quarter of 2018, the company had a liquidity portfolio consisting of fixed-income securities with a AAA rating from S&P Global Ratings with a market value of NOK 40 million. The investment is classified at fair value in the balance sheet with changes in value through profit or loss.

The company's total assets under management as at 31 December 2018 were NOK 18.8 billion (NOK 14.9 billion), an increase of NOK 3.9 billion compared with the end of 2017.

At the end of the fourth quarter of 2018, the company had issued covered bonds with a total carrying amount of NOK 14.25 billion with remaining terms of approximately 6 months to 4.5 years. NOK 12.75 billion of these bonds has been placed in the market, while NOK 1.5 billion is being held by the parent bank.

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 may not 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. Both agreements require 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.

Equity in the company at the end of the fourth quarter amounted to NOK 1.5 billion (NOK 1.2 billion). In the fourth quarter of 2018 the company had an increase of share capital and received NOK 0.3 billion from Storebrand Bank ASA. The eligible capital (Tier 1 capital + Tier 2 capital) at the end of the fourth quarter amounted to NOK 1.4 billion (NOK 1.1 billion). The capital base of Storebrand Boligkreditt AS consists entirely of Core Equity Tier 1 (CET1). The CET1 adequacy ratio in the company was 20.5 per cent (19.0 per cent) at the end of the fourth quarter. The requirement for the capital base was 15.5 per cent as at 31 December 2018. The company has satisfactory solvency and liquidity based on the company's business activities. The company satisfied the combined capital and capital buffer requirements by a good margin at the end of the quarter.

Storebrand Boligkreditt AS must comply with an LCR of 100 per cent. At the end of the quarter, the company's LCR was 214 per cent.

STRATEGY AND FUTURE PROSPECTS

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 favourable to do so and there is sufficient collateral. Storebrand Boligkreditt AS will continue to contribute to Storebrand Bank ASA having diversified financing.

The Board of Directors are not aware of any events of material importance to the preparation of the interim financial statements that have occurred since the balance sheet date.

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

Storebrand Boligkreditt AS
Income statement

		Q4		Full Year	
(NOK million)	note	2018	2017	2018	2017
Interest income from financial instruments valued at amortised cost	4, 13	0,3	89,1	1,9	356,2
Interest income from financia instruments valued at fair value	4, 13	105,3	0,2	393,9	1,8
Interest expense	4, 13	-66,6	-46,3	-244,6	-204,1
Net interest income	**13**	**39,0**	**43,0**	**151,2**	**153,8**
Net gains on financial instruments valued at amortised cost		0,0	0,0	-1,7	-6,9
Net gains on other financial instruments		-0,8	-0,8	-1,9	-3,2
Other income		-0,1	0,4	0,0	1,7
Total other operating income		**-0,9**	**-0,4**	**-3,6**	**-8,3**
Staff expenses		-0,1	-0,1	-0,3	-0,2
General administration expenses		-0,1	-0,1	-0,2	-0,2
Other operating costs	4	-18,8	-17,1	-71,5	-66,6
Total operating costs		**-18,9**	**-17,2**	**-72,0**	**-67,0**
Operating profit before loan losses		**19,2**	**25,4**	**75,6**	**78,5**
Loan losses for the period	15	-0,4	-0,6	-0,5	-2,5
Profit before tax		**18,8**	**24,8**	**75,0**	**76,0**
Tax	3	-4,9	-6,0	-17,9	-18,3
Profit for the year		**13,9**	**18,7**	**57,2**	**57,7**

Statement of comprehensive income

	Q4		Full Year	
(NOK million)	2018	2017	2018	2017
Profit for the period	13,9	18,7	57,2	57.7
Other comprehensive income				
Total comprehensive income for the period	**13,9**	**18,7**	**57,2**	**57,7**

Storebrand Boligkreditt AS
Statement of financial position

(NOK million)	Note	31.12.2018	31.12.2017
Loans to and deposits with credit institutions	6, 14	248,0	251,2
Loans to customers	6, 11, 15	18.484,8	14.537,5
Financial assets designated at fair value through profit and loss:			
Bonds and other fixed-income securities	6, 11	40,4	40,9
Derivatives	6	39,5	87,1
Deferred tax assets			2.3
Other current assets	4, 6	10,2	25,9
Total assets		**18.822,9**	**14.944,9**
Liabilities to credit institutions	4, 6, 8	3.001,7	2.295,8
Other financial liabilities:			
Commercial papers and bonds issued	6, 9	14.333,4	11.474,5
Other liabilities	4, 6	14,8	21,2
Provisions for accrued expenses and liabilities		0,0	
Deferred tax		0,9	
Total liabilities		**17.350,9**	**13.791,5**
Paid in equity		1.395,3	1.074,4
Retained earnings		76,7	79,0
Total equity	**10**	**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

Storebrand Boligkreditt AS
Statement of changes in equity

(NOK million)	Share capital	Share premium	Other paid-in equity	Total paid-in equity	Other equity	Total retained earnings	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							
Total comprehensive income for the period					**57.7**	**57.7**	**57.7**
Equity transactions with the owner:							
Group contribution received			125.0	125.0			125.0
Provision for group contribution					-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	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		0.0	5.9
Provision for group contribution				0.0	-62.2	-62.2	-62.2
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 per cent owned by Storebrand Bank ASA. Number of shares are 35 000 000 of nominal value NOK 13 per share.

Storebrand Boligkreditt AS
Statement of cash flow

(NOK million)	31.12.2018	31.12.2017
Cash flow from operations		
Net receipts of interest, commissions and fees from customers	389.7	355.7
Net disbursements/payments on customer loans	-3,935.5	-1,170.0
Net receipts/payments on securities	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 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
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 the period	**-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**

Storebrand Boligkreditt AS has credit facility agreements with Storebrand Bank ASA
The amount drawn on the credit facilities is recognized in the item "Liabilities to credit institutions" as at 31.12.2018. See also Note 8.

Storebrand Boligkreditt AS
Notes

Note 01 Accounting principles

The financial statements are prepared in accordance with IAS 34 Interim Financial Reporting. The interim financial statements do not contain all the information that is required in full annual financial statements. The financial statements of Storebrand Boligkreditt AS have been prepared in accordance with International Financial Reporting Standards (IFRS) and appurtenant interpretations.

A description of the accounting policies applied in the preparation of the financial statements is provided in the 2017 annual report, and the interim financial statements are prepared with respect to these accounting policies and the accounting principles due to implementing new accounting standard IFRS 9 as described below.

There are 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 of 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 Banks 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 and 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 model for 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 and loss. Any value adjustments through OCI are recycled through to profit and loss on sale or other disposal of the assets. Other debt instruments are measured at fair value through profit and 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 and 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 and 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 and 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 solely payments of principal and interes on the principal amounts amount 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 on the principal amounts 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 lending 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 note 2 in the annual report 2017 for the effects of transition to IFRS 9. Note 2 in the 2017 annual report also consist of a more detailed description of the new impairment model due to implementaion of IFRS 9 as of 1 January 2018.

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 replaces 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` asset and liability will be the same amount and 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

Note 02 Estimates

Critical accounting estimates and judgements are described in the 2017 annual financial statements' note 3 and valuation of financial instruments at fair value are described in note 9.

In preparing 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 are based on historical experience and expectations of future events and represent the management's best judgment at the time the financial statements were prepared.

Actual results may differ from these estimates.

Note 03 Tax

In December 2017, the Norwegian Parliament (Stortinget) agreed to reduce the company tax rate from 24 to 23 per cent with effect from 1 January 2018. It was also agreed to maintain the tax rate at 25 per cent for companies subject to the financial tax. 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 23 per cent has been used for capitalizing deferred tax asset in the balance sheet.

Note 04 Related Parties

ISSUED COVERED BONDS

Storebrand Bank ASA has invested NOK 1.5 billion in covered bonds issued by Storebrand Boligkreditt AS as of 31 December 2018.

LOANS TRANSFERRED FROM STOREBRAND BANK ASA

Storebrand Bank ASA sells loans to the mortgage company Storebrand Boligkreditt AS. Once the loans are transferred, Storebrand Boligkreditt AS assumes all the risks and benefits of owning the loan portfolio. It is Storebrand Boligkreditt AS that receives all the cash flows from the loan customer. Storebrand Bank ASA shall arrange the transfer and return of loans when changes have to be made in case of change from variable to fixed interest and conversion to a flexible mortgage. In some cases Storebrand Bank ASA shall arrange the transfer and return of loans when changes of loan amount or conversion to another mortgage product have to be made. The costs are included in the contractual administration fee.Non-performing loans in Storebrand Boligkreditt AS remain in the company. These loans will, pursuant to the service agreement with Storebrand Bank ASA, be treated in the same way as non-performing loans in the bank. Specific reports are prepared for non-performing loans in Storebrand Boligkreditt AS. These loans are not included in the cover pool.

Loans to employees can be transferred to Storebrand Boligkreditt AS. The difference between the market interest rate and the subsidised interest rate is covered monthly by the company in which the debtor is employed.

Storebrand Bank ASA has not pledged any guarantees in connection with loans to Storebrand Boligkreditt AS.

CREDIT FACILITIES WITH STOREBRAND BANK ASA

Storebrand Boligkreditt AS has two credit facilities with Storebrand Bank ASA. See note 8 for more information.

OTHER

Storebrand Boligkreditt AS has no employees, and purchases personnel resources from Storebrand Bank ASA and services including accounting functions from Storebrand Livsforsikring AS.

Storebrand Boligkreditt AS conducts transactions with close associates as part of its normal business activities. The terms for transactions with senior employees and related parties are stipulated in note 26 in the 2018 annual report for Storebrand Boligkreditt AS.

Note 05 Financial risk

Storebrand Boligkreditt AS' financial assets and liabilities fluctuate in value due to risk in the financial markets. Notes 4 to 8 in the 2018 annual report provide a more detailed overview of the company's financial risk.

Note 06 Valuation of financial instruments

The Storebrand Group categorises financial instruments on three different levels. Criteria for the categorisation and processes associated with valuing are described in more detail in note 9 in the 2017 annual report for Storebrand Boligkreditt AS.

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

VALUATION OF FINANCIAL INSTRUMENTS AT AMORTISED COST

(NOK million)	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	251.2	248.0	251.2
Net loans to customers - retail market		14,537.5		14,537.5
Other current assets	10.2	25.9	10.2	25.9
Financial liabilities				
Liablities to credit institutions	3,001.7	2,295.8	3,001.7	2,295.8
Commercial papers and bonds issued	14,3338,0	11,482.2	14,333.4	11,474.5
Other liabilities	14.8	21.2	14.8	21.2

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
Government and government guaranteed bonds		40.4		40.4	40.9
Total bonds 31.12.2018		**40.4**		**40.4**	
Total bonds 31.12.2017		40.9			
Interest rate derivatives		39.5		39.5	87.1
Total derivatives 31.12.2018		**39.5**		**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 quarter.

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

(NOK million)	Stage 1	Stage 2	Stage 3	Book value 31.12.2018
Loans to customers - retail market			18,484.8	18,484.8
Total loans to customers 31.12.2018			18,484.8	18,484.8

Note 07 Segment information

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 4th quarter of 2018 therefore relate entirely to the Retail Lending segment.

Note 08 Liabilities to credit institutions

Storebrand Boligkreditt AS has two credit facilities with Storebrand Bank ASA. One of these facilities is a normal overdraft facility, with a commitment of NOK 6 billion. This has no expiry date, but can be terminated by the bank on 15 months' notice. The amount of the other facility is the payment obligations of Storebrand Boligkreditt the following 31 days on interest and principal amounts regarding Covered Bonds, including any connected derivatives. This facility may not 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 covenant requirements are fulfilled.

Note 09 Commercial papers and bonds issued

COVERED BONDS

(NOK million) ISIN Code	Nominal value	Currency	Interest	Maturity [1]	Book value 31.12.2018
NO0010548373	1,250.0	NOK	Fixed	28.10.2019	1,293.3
NO0010736903	2,500.0	NOK	Floating	17.06.2020	2,498.8
NO0010760192	4,000.0	NOK	Floating	16.06.2021	4,022.7
NO0010786726	4,000.0	NOK	Floating	15.06.2022	4,018.4
NO0010813959	2,500.0	NOK	Floating	20.06.2023	2,500.2
Total commercial papers and bonds issued [2]	**14,250.0**				**14,333.4**
Total commercial papers and bonds issued as at 31.12.2017	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. See note 11.

Note 10 Capital Adequacy

ELIGIBLE CAPTITAL

(NOK million)	31.12.2018	31.12.2017
Share capital	490.0	455.0
Other equity	982.0	698.4
Total equity	**1,472.0**	**1,153.4**
Deductions		
Profit not included in the calculation of eligible capital		
AVA justments	-18.6	-0.1
Provision for group contribution	-49.1	-62.2
Additions		
Group contriubution received	49.1	5.9
Core Equity Tier 1 (CET1)	**1,453.2**	**1,096.9**
Additional Tier 1 capital		
Capital instruments eligible as Additional Tier 1 capital		
Additions		
Tier 1 capital	**1,453.2**	**1,096.9**
Tier 2 capital		
Subordinated loans		
Tier 2 capital deductions		
Eligible captial (Tier 1 capital + Tier 2 capital)	**1,453.2**	**1,096.9**

MINIMUM CAPITAL REQUIREMENT

(NOK million)	31.12.2018	31.12.2017
Credit risk	543.8	432.3
Of which:		
Local and regional authorities	0.0	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**
Total minimum requirement for market risk	**0.0**	**0.0**
Operational risk	21.6	25.8
CVA risk [1)]	0.7	3.1
Deductions		
Loan loss provisions on groups of loans		-0.3
Minimum requirement for net primary capital	**566.2**	**460.9**

CAPITAL ADEQUACY

(NOK million)	31.12.2018	31.12.2017
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 %

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

The standard method is used for credit risk and market risk and the basis method is used 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)	31.12.2018	31.12.2017
Credit risk	6,797.5	5,404.0
Of which:		
Local and regional auuthorities	0.0	5.7
Institutions	71.0	102.0
Retail market		
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	0,0	-3.3
Total basis of calculation of minimum requirements for capital base	**7,076.7**	**5,761.4**

Note 11 Loan to value ratios and collateral

(NOK million)	31.12.2018	31.12.2017
Gross loans [1]	18,486.0	14,542.2
Average loan balance	2.0	1.8
No. of loans	9,432	7,858
Weighted average seasoning (months)	37	41
Weighted average remaning 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 12 Key figures

	Q4		Full Year	
(NOK million)	2018	2017	2018	2017
Profit and loss account: (as % of avg. total assets) [1]				
Net interest income	0.82 %	1.12 %	0.86 %	1.00 %
Main balance sheet figures:				
Total assets			18,822.9	14,944.9
Average total assets	18,800.9	15,181.2	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	0.01 %	0.02 %	0.00 %	0.02 %
Individual loan loss provisions as % of gross loss-exposed loans [3]			5.0 %	31.2 %
Cost/income ratio	49.6 %	40.4 %	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 total 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.

Note 13 Net interest income

(NOK million)	Q4 2018	Q4 2017	Full Year 2018	Full Year 2017
Interest on financial assets valued at amortised cost				
Interest on lons to creditinstitutions	0.3	0.2	1.9	1.7
Interest on loans to customer	0.3	88.9	0.3	354.4
Total interest on financial assets valued at amortised cost	**0.6**	**89.1**	**2.2**	**356.2**
Interest on financial assets valued at fair value through other comprehensive income (OCI)				
Interest on loans to customer	104.9	0.0	393.2	0.0
Total interest on financial assets valued at fair value through other comprehensive income (OCI)	**104.9**	**0.0**	**393.2**	**0.0**
Interest on financial assets valued at fair value throug profit and loss				
Interest on commercial papers, bonds and other interest-bearing securities	0.1	0.2	0.4	1.8
Total interest on financial assets valued at fair value throug profit and loss	**0.1**	**0.2**	**0.4**	**1.8**
Total interest income	**105.6**	**89.3**	**395.8**	**358.0**
Interest on financial liabilities valued at amortised cost				
Interest on debt to credit institutions	-12.9	-8.1	-50.0	-34.9
Interest on securities issued	-53.6	-38.2	-194.6	-169.2
Total interest on financial liaibilities valued at amortised cost	**-66.6**	**-46.3**	**-244.6**	**-204.1**
Interest on financial liabilities valued at fair value through profit and loss				
Interest on debt to credit institutions	0.0	0.0	0.0	0.0
Total interest on financial liabilities valued at fair value throug profit and loss	**0.0**	**0.0**	**0.0**	**0.0**
Total interest expenses	**-66.6**	**-46.3**	**-244.6**	**-204.1**
Net interest income	**39.0**	**43.0**	**151.2**	**153.8**

Note 14 Off balance sheet liabilities and contingent liabilities

(NOK million)	31.12.2018	31.12.2017
Unused credit facilities	1,401.1	1,514.5
Total contingent liabilities	**1,401.1**	**1,514.5**

Unused credit facilities encompass unused flexible mortgage facilities.

Per 31 December 2018, the company has not pledged any collateral.

Note 15 Non-performing loans and loan losses

(NOK million)	31.12.2018	31.12.2017
Non-performing loans		
Non-performing loans without evidence of impairment	25.1	9.3
Loss-exposed loans with evidence of impairment	5.6	16.9
Gross non-performing and loss-exposed loans	**30.7**	**26.2**
Loan loss provisions on individual loans excl. statistical provisions (IFRS9)	-0.2	-1.4
Net non-performing and loss-exposed loans	**30.5**	**24.8**
Key figures		
Net non-performing and loss-exposed loans as % of gross loans	0.17 %	0.18 %

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 specific loan is considered as non-performing.
without taking into account the customers other engagements.

LOSSES ON LOANS, GURAENTEES AND UNUSED CREDITS

(NOK million)	31.12.2018	31.12.2017*
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
Realises losses	-1.3	
Realised losses on commitments specifically provided for previously (IAS 39)		-2.1
Realised losses on commitments not specifically provided for previously (IAS 39)		0.0
Recoveries on previously realised losses		0.2
Credit loss on interest-bearing securities		
Other changes	0.0	
Loss expense for the period	**-0.5**	**-2.5**

*Comparable figures for 2017 are reported in accordance with IAS39 and modelled losses are not directly comparble with figures from 2018

LOANS PORTFOLIE AND GURANTEES

(NOK million)	31.12.2018 Book value	31.12.2017 Book value *)
Loans to customers at amortised cost		14 542,2
Loans to customers at fair value through profit and loss		
Loans to customers at fair value through other comprehensive income (OCI)	18 486,0	
Total gross loans 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 loans to customers	**18 484,8**	**14 537,5**

*IAS 39

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

Storebrand Bank Group (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	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	0,0	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 31.12.2018	17 416,3	1 039,1	**30,7**	**18 486,0**

CHANGE IN MAXIMUM EXPOSURE FOR GUARANTEES AND UNSUED CREDITS

Storebrand Bank Group (NOK million)	Stage 1	Stage 2	Stage 3	Total gross loans
Gross loans 01.01.2018	1 508,8	5,6	0,0	1 514,5
Transfer to stage 1	0,8	-0,8	0,0	0,0
Transfer to stage 2	-2,2	2,2	0,0	0,0
Transfer to stage 3	0,0	0,0	0,0	0,0
New loans	114,5	0,1	0,0	114,6
Derecognition	-268,6	-2,6	0,0	-271,2
Other changes	43,9	-0,7	0,0	43,3
Gross loans 31.12.2018	1 397,2	3,9	**0,0**	**1 401,1**

TOTAL LOAN LOSS PROVISIONS IN THE BALANCE SHEET

(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 2018	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
ECL allowance on written-off (financial) assets			-0.8	-0.8
Foreign exchange and other changes				0.0
Changes in models/risk parameters				0.0
Balance at 31 December 2018	**0.4**	**0.6**	**0.2**	**1.3**
Loan loss provisions on loans to customers valued at amortised cost				0.0
Loan loss provisions on loans to customers valued at fair value through other comprehensive income (OCI)	0.4	0.6	0.2	1.2
Loan loss provisions on guarantees and unused credit limits				0.0
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.

Note 16 Quarterly income statement

(NOK million)	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Interest income	105.6	96.7	98.2	95.3	89.3
Interest expense	-66.6	-61.3	-63.6	-53.1	-46.3
Net interest income	**39.0**	**35.3**	**34.6**	**42.2**	**43.0**
Net gains on financial instruments	-0.8	-0.2	-0.7	-1.9	-0.8
Other income	-0.1		0.1		0.4
Total other operating income	**-0.9**	**-0.2**	**-0.6**	**-1.9**	**-0.4**
Staff expenses	-0.1	-0.2		-0.1	-0.1
General administration expenses	-0.1				-0.1
Other operating cost	-18.8	-18.3	-18.1	-16.4	-17.1
Total operating costs	**-18.9**	**-18.5**	**-18.1**	**-16.4**	**-17.2**
Operating profit before loan losses	**19.2**	**16.6**	**15.9**	**23.9**	**25.4**
Loan losses for the period	-0.4	0.3	0.8	-1.3	-0.6
Profit before tax	**18.8**	**16.9**	**16.7**	**22.6**	**24.8**
Tax	-4.9	-3.9	-3.8	-5.2	-6.0
Profit for the year	**13.9**	**13.0**	**12.9**	**17.4**	**18.7**

02/2019

Financial Calender 2019

8 May	Result 1Q 2019
13 July	Result 2Q 2019
24 October	Result 3Q 2019
February 2020	Result 4Q 2019

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