Boligkreditt

Annual Report 2018

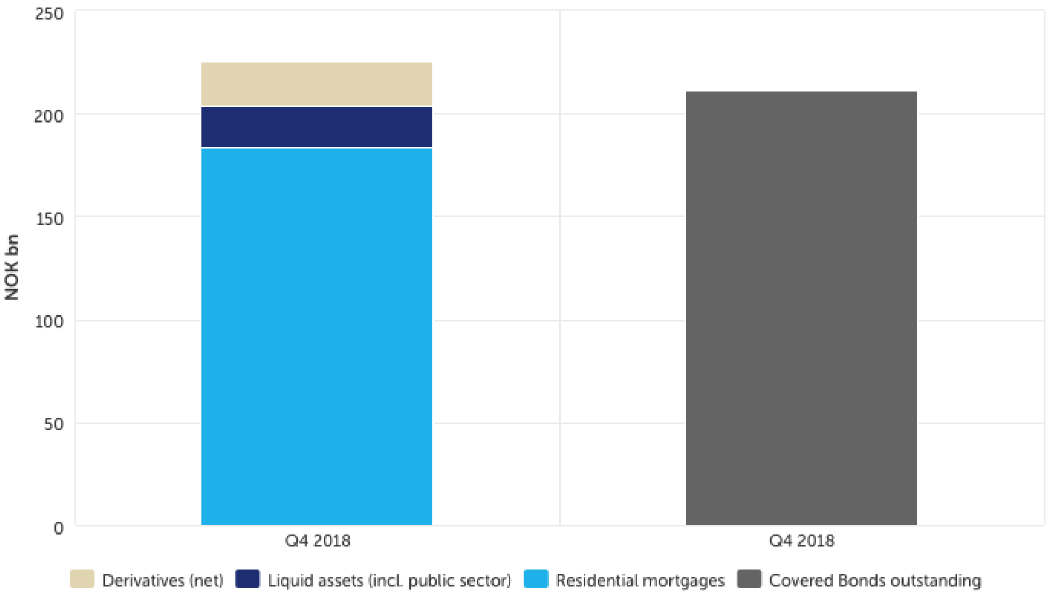
Building Insight:
Natural resources for homes of the future

Table of contents

Statement of the Board of Directors

Cover pool and outstanding covered bonds[1]

SpareBank 1 Boligkreditt's ('Boligkreditt', 'SpaBol', or 'The Company') cover pool consists of residential mortgages and liquid, highly rated assets as well as derivatives hedging liabilities in a foreign currency and/or at fixed rates. The chart below illustrates the balances as of year-end 2018:



The amount of liquid assets varies over time and the variation is solely a result of the Issuer's liquidity risk management (and regulatory requirements), whereby upcoming redemptions are refinanced early with proceeds held as liquid assets (please see the investor reports for details on the composition of liquid assets). Derivatives are used solely to hedge currency and interest rate risk. The table below describes the mortgages in the cover pool:

Key figures overview

	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017
Weighted Average Current LTV (%)	52.7 %	51.7 %	51.3 %	52.4 %	52.4 %
Weighted Average Original LTV (%)	59.6 %	59.8 %	59.8 %	59.9 %	59.8 %
Average Loan Balance (NOK)	1,422,929	1,414,203	1,414,916	1,400,686	1,386,865
Number of Mortgages in Pool	129,209	129,791	129,057	129,173	127,927
Pct. of non first-lien mortgages	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Overcollateralization	6.5 %	6.5 %	6.7 %	6.7 %	6.4 %

[1,2] The source is the balance sheet figures as of 31 December 2018 and the cover pool asset liability test for overcollateralization (see notes to the financial statements). Norwegian covered bond issuers are by law obligated to group derivatives not together with the issued bonds that they hedge, but as part of cover pool assets. This is reflected in the chart and figures above.

Key developments in Q4 and full year 2018

Overall issuance in 2018 was approximately NOK 31 billion, across NOK, EUR and GBP (currency swapped values) which was similar to the prior year total issuance figure. Two benchmarks were issued in EUR for a total of EUR 2 bn, one issue in GBP and the rest in NOK.

The residential mortgage lending volume at SpaBol has increased moderately as expected by approximately 3.6 per cent during to the year, as measured against the balance of loans as of December 31, 2017. The current mortgage balance is 184 billion kroner (equivalent to approximately EUR 20 billion). One Alliance bank, SR-bank, has continued to decrease its loan volume in the cover pool and is below 5 per cent of the overall pool and Boligkreditt equity share as of year-end 2018. Other banks have increased their transferred volumes. The largest mortgage volume is provided by SpareBank 1 Østlandet at 22 per cent of the pool, followed by SpareBank 1 SMN at 21 per cent and SpareBank 1 Nord Norge at 18.

Boligkreditt is well capitalized with a capital coverage ratio of 16.8 per cent. The capital requirement is 15.5 per cent (Pillar 1), in addition to the Pillar 2 requirement of 0.8 per cent common equity. Total Tier 1 capital is 14.7 and common equity capital 13.1 per cent, the latter against a requirement for common equity capital (incl. Pillar 2) of 12.8 per cent. It is the Company's policy to maintain a capital ratio slightly above the regulatory requirement. Additional common equity is injected by the owner banks when required, usually in connection with increases in transferred mortgage volume, while Additional Tier 1 and Tier 2 capital is issued in the Norwegian domestic market.

Boligkreditt has updated the Shareholders Agreement in 2018, reflecting the commitment of the shareholder banks (SpareBank 1 Alliance banks) to maintain the Tier 1 equity capital ratio at the current regulatory level in place from time to time, this was increased from the previous wording of 9 per cent. Shareholder banks contribute equity capital when sufficient additional volumes of mortgages are transferred to the cover pool. This Shareholder Agreement commitment, while never in practice applied, is a mechanism whereby the shareholders underline continued financial support for the issuer (details presented in the Programme Prospectus).

Nature and development of the Company's business

SpareBank 1 Boligkreditt AS is a credit institution licensed by the Norwegian Financial Supervisory Authority (Finanstilsynet) and is operated according to the legislation for covered bond issuers in Norway which is included in the law regarding financial enterprises ("Finansforetaksloven") chapter 11, section II and the detailed regulations thereof.

The purpose of the Company is to provide funding for the owners by buying residential mortgage loans with a loan-to-value ("LTV") of up to 75 and financing these primarily through the issuance of covered bonds. The Company which is based in Stavanger, is owned by banks which are members of the SpareBank 1 Alliance. A comprehensive agreement is signed with each of the banks in the SpareBank 1 Alliance which are selling mortgages to the Company regarding the purchasing process and the obligations which the banks owe the Company and its mortgage customers ("Transfer and Servicing Agreement", "TSA"). The Company pays out nearly the full margin earned to the owner banks which sell mortgages to the Company to obtain funding. This margin is accounted for as commissions due to owner banks and is included in the interest expense line of the Company's financial statements with additional detail in the notes.

The Company's issuances of covered bonds mainly take place under the EUR 25,000,000,000 Global Medium Term Covered Note Programme (GMTCN Programme). This Programme was updated on June 6, 2018 and is available on the Company's home page: https://spabol.sparebank1.no.

[3] The limit for instalment mortgages are 75 per cent, while mortgages which have no scheduled repayment structure are limited to 60 per cent (these are a smaller portion of the mortgage portfolio). All mortgages above 60 per cent must be amortizing by at least 2.5 per cent per year according to current mortgage market regulations.

One or more credit ratings from international rating agencies are important in order to be able to issue covered bonds. The Company have procured the services of Moody's Ratings Service to evaluate the credit quality of the issuances under the GMTCN Programme. The covered bonds rating is Aaa from Moody's.

Annual accounts

The quarterly accounts have been prepared in accordance with the International Reporting Standards (IFRS) as adopted by the EU and published by the International Reporting Standards Board (IASB).

The Board views the accounts as presented to be a true representation of SpareBank 1 Boligkreditt's operations and financial position as of the end of 2018. Numbers in brackets refer to the previous year same period for comparison.

The total balance sheet at 31.12.18 amounts to 246 (262) billion kroner. The balance sheet is decreased due to a smaller liquidity portfolio. The Company had in 2018 net interest income of 333 (426) million kroner, which also includes the deduction of commissions (the net interest margin on mortgages) paid to the owner banks. The cost of operations for 2018 was 32.2 (34.4) million kroner including depreciation and amortization. IFRS 9 expected losses increased by 0.8 million to 12.5 million. No actual loan losses have occurred since the Company commenced operations in 2007. This produces an operating result of 6.5 (-239) million kroner before tax. The result was negative last year due to the inclusion of basis swap valuation adjustments in 2017 (a non-cash accounting measure reflecting the changing market rate for entering into currency basis swaps). The basis swap valuation effect is from 2018 accounted for in other comprehensive income only.

Mortgage loans for residential properties amounted to 184 (178) billion kroner as of 31.12.18. The Company's own liquid assets as of 30.12.18 were approximately 20 (34) billion kroner.

Liquid assets are cash and highly rated, highly liquid bonds which are held as a function of refinancing early the Company's upcoming bond maturities up to six months ahead in time, or to comply with the Net Stable Funding Ratio as proposed. Liquid assets have been reduced during 2018 due to the proposed 180 day liquidity rule in the EU covered bond harmonization directive and by the inclusion of a lower than 100 per cent weighting assigned to mortgages when calculating their required long-term financing need, the minimum liquidity portfolio is managed to whichever of these measures requires the greatest amount.

Risk aspects

SpareBank 1 Boligkreditt as an issuer of covered bonds is subject to strict rules regarding its exposure to credit, market, and liquidity risks. This fact, and the aim of the maintenance of the Moody's Aaa rating, means that the Company is subject to low levels of risk and places strong emphasis on risk control.

Credit Risk is defined as the risk that losses can occur as a consequence of that customers and others do not have the ability or willingness to meet their obligations to SpareBank 1 Boligkreditt. Because the Company buys residential mortgages within 75% of the value of the objects on which the mortgages are secured, the Board of Directors concludes that the credit risk is lower than for banks in general[4].

Market risk is defined as the risk of losses due to changes in market rates, i.e. interest rates, exchange rates and the prices of financial instruments. At the end of the year SpareBank 1 Boligkreditt AS had issued bonds for approximately 130 billion kroner in EUR, 10.7 billion kroner in USD, 8.3 billion kroner in GBP and 0.2 billion kroner in Swedish

[4] See also footnote of this Board Statement

kroner, at exchange rates at the end of September. However, all borrowing and investments with a fixed rate and all borrowing and investments in a foreign currency, have been hedged by financial currency- and/or interest rate swap agreements or through natural hedges. The collective cash flow therefore matches borrowings in Norwegian kroner with floating rate conditions (NIBOR 3 months). The Company receives collateral from its counterparties in derivative agreements according to certain criteria.

SpareBank 1 Boligkreditt AS owns deposits, bills and bonds at quarter-end for a total of NOK 38 (57) billion kroner, whereof 18.7 (23.6) billion kroner is collateral received from counterparties in derivatives transactions, and are thus reserved for the return of such collateral. The bonds held are mainly Nordic covered bonds and German supra sovereign and agencies (German agencies guaranteed by the German government) with a triple-A rating from Fitch, Moody's or S&P. Deposits are placed in banks with a minimum rating of at least A/A2. Cash is also placed in reverse repos with approved counterparty banks, with AAA rated securities as collateral.

The Company had as of 31.12,2018 only moderate interest rate risk and immaterial amounts of currency risk.

Liquidity risk is defined as the risk that the Company is not able to meet its obligations at maturity or to be able to finance the purchase of loans at normal terms and conditions. Liquidity risk is managed based upon a liquidity strategy approved by the Board. According to the strategy, SpareBank 1 Boligkreditt AS shall maintain a material liquidity reserve with a minimum size of covering all maturities within 6 months or to comply with the NSFR requirement as proposed, whichever is higher. SpareBank 1 Boligkreditt AS's liquidity situation is good.

Operational risk is defined as risk of loss due to error or neglect in transaction execution, weakness in the internal control, or information technology systems breakdowns or malfunction. Reputational, legal, ethical and competency risks are also elements of operational risk. The risk is assessed to be moderate.

The Company spends much time identifying, measuring, managing and following up central areas of risk in such a way that this contributes to meeting the strategic goals. The notes 23 to 27 in the 2018 annual accounts provides further information.

Employees and the working environment

SpareBank 1 Boligkreditt had seven employees as of 31.12,2018. The Company employs six males and one female. An incoming female risk manager will make the total five males and two females later in 2019. SpareBank 1 Boligkreditt AS has a Transfer and Servicing Agreement with each shareholder bank which is handling the customer contact and servicing the mortgage portfolio on behalf of the Company. In addition, the Company purchases a significant amount of its support functions from SpareBank 1 SR-Bank ASA, e.g. accounting, HR and IT functions as well as finance related back-office functions. This is related to the Company's physical co-location at the premises of SR-Bank. Several banks in the Alliance could also alternatively perform these services.

The working environment is characterised as good and there is no pollution of the physical environment. There has been 5.3 per cent employee absence recorded in 2018 due to sickness. No workplace accidents which might have resulted in property and/or damage to any persons have occurred or been reported during the year.

The Board consists of six persons of which four are male and two are female. SpareBank 1 Boligkreditt AS strives to achieve an even distribution between the genders in recruiting for the staff and the Board.

At the establishment of SpareBank 1 Næringskreditt AS which represents a similar type of business activity to that of SpareBank 1 Boligkreditt AS, it was decided that the two companies will have identical staffing. Of the seven full time employees employed at year-end in both SpareBank 1 Boligkreditt and Næringskreditt AS, 1.4 full time equivalents have been allocated to SpareBank 1 Næringskreditt AS. The Boards of the two companies have joint meetings, where the members associated with one of the companies take the role of observers when matters of the other Company are discussed.

Corporate governance

SpareBank 1 Boligkreditt's principles for corporate governance is based on the Norwegian accounting law and regulations and the Norwegian practice for corporate governance. The Board of Directors has appointed an audit committee which evaluates the Accounts inclusive of the Notes to the Accounts. The Board of Directors reviews the financial reporting processes in order to contribute to a culture which maintains a focus on quality and accuracy of this work. Boligkreditt seeks to deliver through its financial accounting relevant and timely information which can be compared over time to constituents in the SpareBank 1 Alliance, regulatory authorities and participants in the capital markets. The Board evaluates and approves Management's proposed annual and quarterly financial accounts.

Boligkreditt maintains an administration which is suitable for the purposes, activities and extent of the business. The Management routinely evaluates internal procedures and policies for risk and financial reporting including measuring the results and effectiveness of the procedures and policies. Any breaches in the policy and procedures are reported continuously to the Board of Directors. Management is also responsible for following up and implementing actions, recommendations and new rules from the regulatory authorities.

The Company publishes its Corporate Governance policies in a document available on the Company's website **www.spabol.no** ("Eierstyring og selskapsledelse" – available in Norwegian language only). With regards to that the Company has a single purpose and that the shares are not freely tradeable nor listed on an exchange it is the Company's opinion that any deviations to the policies are immaterial.

Shareholders

According to the Articles of Association 2 "The shares can only be owned by banks under contract with the Company for managing the Company's lending funds." Entering into such agreements is decided by the Board or the General Meeting.

Neither the Company nor employees own shares in the company. A shareholders agreement which all shareholders and the Company are parties to, stipulates that the Company's shares will be re-allocated at least annually and in relation to the mortgage volume transferred to the Company by each shareholder. The shareholders are obliged to vote for any possibly private placements to new banks that have transferred mortgages to the Company. In case of a rights issue, the shareholders are obliged to subscribe shares according to its current share of the shareholdings. The Company is not party to agreements which come into force, are amended or are terminated as a result of a takeover bid.

Social responsibility

SpareBank 1 Boligkreditt is a specialized issuer of covered bonds and has, despite the size of its balance sheet, a very limited activity with only eight full time employees. The nature of the business consists solely of buying residential mortgage loans from its shareholder banks in the SpareBank 1 Alliance, and to finance this activity by issuing covered bonds. The banks in the SpareBank 1 Alliance operate as universal banks in the Norwegian market with an array of activities, including lending to businesses and households. The parent banks set lending policies, service and handle all customer activity (including the customers whose mortgage loans have qualified for and been sold to the Company). While the Company is legally entitled to set its own terms for the mortgages it owns, these are in practice set by the parent banks, who, in conjunction with the Company have agreed a set of specific qualifying criteria for which loans may be sold to the Company (in addition to the regulatory and legal requirements for such loans to become cover pool assets). Because all customer facing activity, including lending policies are set by the parent banks we make a reference to the annual accounts and the websites of the banks for a closer description of the social responsibility and the broader spectrum of ESG in SpareBank 1 banks.

The Company supports and encourages increased ESG disclosures and initiatives within SpareBank 1 and has been an active part of the overall development of the strategy by issuing a green covered bond in January 2018. In addition to this, the Company adopts the same set of ESG values and goals as the parent banks (see in particular the document "ESG policy in SpareBank 1 Boligkreditt" under the Green Bonds section of the spabol.no website). In the area of mortgage finance in general the originating banks are obligated by Norwegian regulation (boliglånsforskriften) to analyse the sustainability of mortgage debt that borrowers are seeking and both to not approve and provide advice to customers who are seeking debt levels which may be or become unsustainable.

Macroeconomic development and outlook[5]

The Norwegian mainland economy expanded by 2.0 per cent over 2017 and 2018 (expected), with a better outlook for 2019 as of December 2018 (see table below). The Norwegian business cycle is in a moderate growth phase. The oil price induced growth decline in 2015-2016 was mitigated by low interest rates and an expansive fiscal policy, while the Norwegian krone weakened and contributed to a recovery in competitiveness. Oil sector investments are again now growing, and Statistics Norway expects them to increase by 10 per cent in 2019. These investments have taken over as an engine for growth. Interest rates are now expected to increase (the central bank increased rates once during 2018), the NOK to strengthen and the fiscal policy has already turned neutral. There are also risks to the downside, which could impact Norway, with an international expected slowdown of growth due to both political and economic issues. The Norwegian krone has thus far been unexpectantly weak, and continued weakness would help protect the Norwegian export sector and activity.

The housing market displayed relative stability over 2018. Overall, the real estate price index increased slightly less than general consumer price inflation for the year, and decreased some in the fourth quarter of 2018. Assessing the national housing market, the Company's analysis show that household income is the main driver for the price increases seen in the previous several years. In the next few years, Statistics Norway does not expect as much real income increases for households, which should help keep house prices stable. Interest increases (one in 2018 by the central bank, which the banking sector followed through with by increasing mortgage rates) and balanced population growth vs. housebuilding is also likely to keep valuations stable. The micro-prudential regulations on the mortgage market, which were last tightened in January 2017 and renewed in June 2018, have an effect calming and balancing the real estate market in the capital of Oslo and other large cities.

[5] Macroeconomic projections have been sourced from Statistics Norway as of December 4, 2018.

Summarized the forecast for the next few years are as follows for a few key macroeconomic indicators: :

Recent data and forecast (per cent)	2017	2018	2019	2020	2021
Mainland GDP growth	2,0	2,0	2,7	2,4	2,0
Unemployment rate	4,2	3,9	3,8	3,8	3,7
CPI growth	1,8	2,7	1,8	1,6	1,9
Annual wage growth	2,3	2,8	3,2	3,6	4,1
Current account surplus to GDP	5,7	9,2	8,4	8,9	9,2

Source: Statistics Norway (SSB) December 4, 2018

Future prospects of the Company

The Company has a portfolio of residential mortgage lending with an average loan to value (LTV) of 52.7 per cent as of year-end nd no loans are in default. The maximum allowable level for a mortgage in a cover pool is 75 per cent LTV, with amounts above that level not being eligible as a cover pool asset. LTVs increased slightly with about a 2.2 per cent decline in real estate prices (index) over the fourth quarter of 2018. Overall, growth for 2018 was 2.8 per cent. Residential real estate prices in Norway, and especially in the capital of Oslo, have seen strong growth over 2015-16 and a correction in 2017. The main reasons for the 2017 correction (decline of 4.1 per cent nationally) may have been the tightening mortgage market regulations as well as significant building starts, especially in Oslo where prices increased the most over 2015-16 when demand was high.

SpareBank 1 Boligkreditt's portfolio is well diversified throughout the major city regions in all of Norway. In addition, mortgage loans in the cover pool are very granular (average size of 1.4 million kroner). The banks in the SpareBank 1 Alliance must keep reserves of eligible (i.e. cover pool qualified) mortgages in order to provide replacement assets should this become necessary in the future (if residential price declines increase LTVs above the eligibility limit for mortgages in the pool). The minimum reserves for each bank is calculated as that mortgage volume which is needed to cover the necessary replacement volume in the cover pool which would be needed should residential real estate prices decline of up to 30 per cent.

Due to the restrictions for loans to become part of the cover pool (bank lending practices, mortgage regulations and cover pool qualification requirements), high degree of diversification of the mortgages in the pool and the continued strength of the Norwegian economy, the prospects for the Company are continuing to be good and stable. The Board of Directors affirm its conviction that the financial accounts present a correct and complete picture of the Company's operations and financial position at the end of 2018. The financial accounts including notes are produced under the assumption of a going concern.

There have been no incidents of a material nature after year-end which are expected to impact the accounts for 2018.

With a small net profit after tax for 2018 of 4.9 million, no dividend distribution is made and the profit is contributed to equity.

Stavanger, 4 February 2019
The Board of Directors of SpareBank 1 Boligkreditt AS

/s/ Kjell Fordal
Chairman of the Board

/s/ Rolf Eigil Bygdnes

/s/ Merete N. Kristiansen

/s/ Knut Oscar Fleten

/s/ Geir-Egil Bolstad

/s/ Inger M.S. Eriksen

/s/ Arve Austestad
CEO

SpareBank 1 Boligkreditt AS
- Statement of the members of the board and the chief executive officer

The Board and the chief executive officer have today reviewed and approved the financial accounts for 2018 for SpareBank 1 Boligkreditt AS. The quarterly accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU.

To the best knowledge of the board and the chief executive officer the accounts have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company taken as a whole as of 31.12.18.

The board of directors and the chief executive officer declare to the best of their knowledge that the quarterly report gives a true and fair view of the development and performance of the business of the Company, as well as a description of the principal risks and uncertainties facing the Company.

Stavanger, 4 February 2019
The Board of Directors of SpareBank 1 Boligkreditt AS

/s/ Kjell Fordal
Chairman of the Board

/s/ Rolf Eigil Bygdnes

/s/ Merete N. Kristiansen

/s/ Knut Oscar Fleten

/s/ Geir-Egil Bolstad

/s/ Inger M.S. Eriksen

/s/ Arve Austestad
CEO

Management's Statement 2018

Issuances in 2018

During 2018 we issued two EUR denominated benchmark transactions for a total of EUR 2.0 billion and approximately NOK 8.4 billion of covered bonds in the Norwegian market (denominated in NOK). A second visit to the GBP market also took place with a 5.75 year £250 million fixed rate issuance. The issuing activity was very similar to the previous year, 2017, in volumes in the three currencies.

With regards to future GBP issuance, the Company will look at the potential to convert to Sterling Overnight Interbank Average Rate (SONIA) as the basis for any FRNs issued in GBP (while extendable maturities for fixed rate covered bonds also require a floating rate reference in the terms for any extension period). This will require an update to the Issuing Programme at the next juncture addressing SONIA.

The first EUR issuance of the year, in January 2018, was SpaBol's inaugural green bond. This bond was issued with reference to the energy efficient housing units which have been financed. A definition was developed for these with the help of technical consultants, and this became the Norwegian baseline for green residential covered bonds with the Climate Bond initiative (CBI). Other Norwegian issuers followed by using the same baseline later in the year, which uses the most recent building codes to determine the green standard. The building codes in Norway have undergone significant and increasing requirments with regards to insulation, materials and energy use. At the time of issuance in January 2018, approximately 8 per cent of the Norwegian building stock had been constructed according to the recent building codes, while the CBI rule for green mortgages is the top 15 per cent in a market. At a future point, when the housing unit under the current definition approaches the 15 per cent limit, the definition will be amended (it may be amended for other criteria earlier).

The green bond was well received with an order book peaking at nearly EUR 2 bn and remaining at between EUR 1.7 and 1.8 billion at re-offer. Nearly ¼ of allocated investors were specialist, dedicated green investors.

The green mortgage loan volume has continued to grow through 2018 and a second green bond is therefore possible. SpaBol would apply for any subsequent green bonds to also be certified by the CBI, as was the case with the inaugural green bond in January 2018.

SpaBol has since the start in 2007 been and continues to be the strategic and preferred vehicle for covered bonds issuance on behalf of the SpareBank 1 Alliance banks. One Alliance bank however, SpareBank 1 SR-Bank, has chosen to issue own label covered bonds and therefore SR-Bank's relative share of mortgages of the SpaBol cover pool has reduced over the last few years. SR-Bank's share of the SpaBol pool was at year-end 2018 less than 5 per cent or approximately NOK 8.9 billion out of a total of 184 billion. The bank may further reduce its mortgages in the SpaBol cover pool at those point in time when outstanding bonds mature. There are no consequences of this development, other than a more slowly growing cover pool. Mortgages in the cover pool grew by 3.4 per cent over 2018. We do not expect that any further stand-alone covered bond issuers will emerge from within the Alliance.

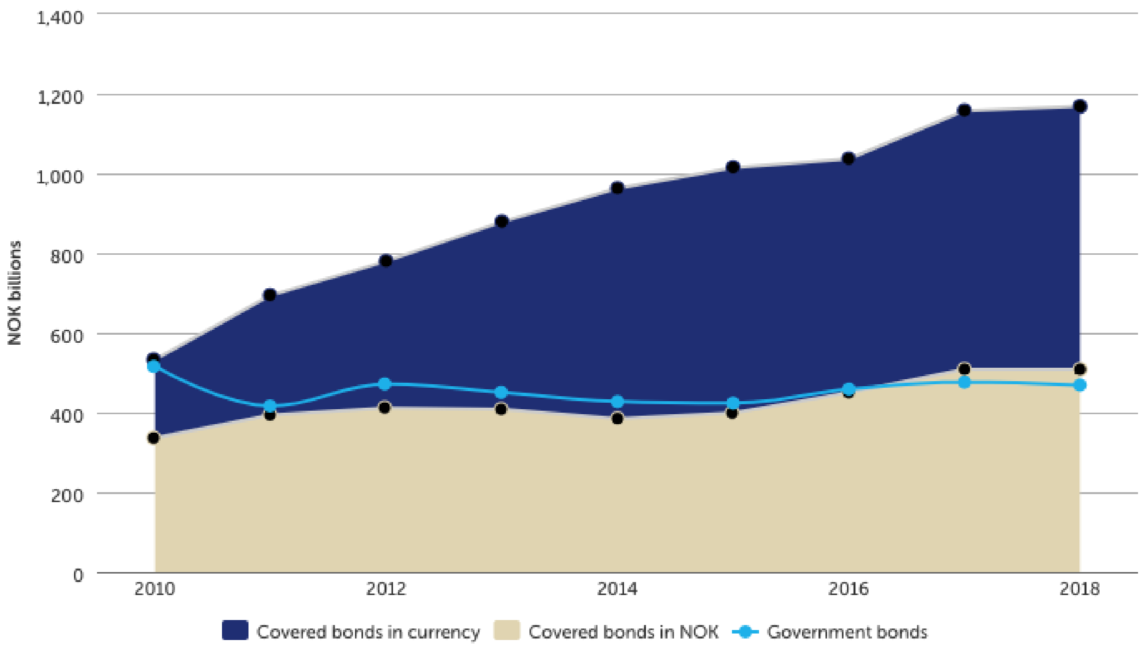
Domestic and foreign currency issuance

SpareBank 1 Boligkreditt AS has for many years relied on an Issuer rating from Moody's which is derived from the majority stakeholders, but the rating has not been published. The Issuer rating is the starting point for the Aaa covered bond rating from the agency. The Company has now requested from Moody's to have the Issuer rating made public. This should take place during the first quarter of 2019.

Domestic and foreign currency issuance

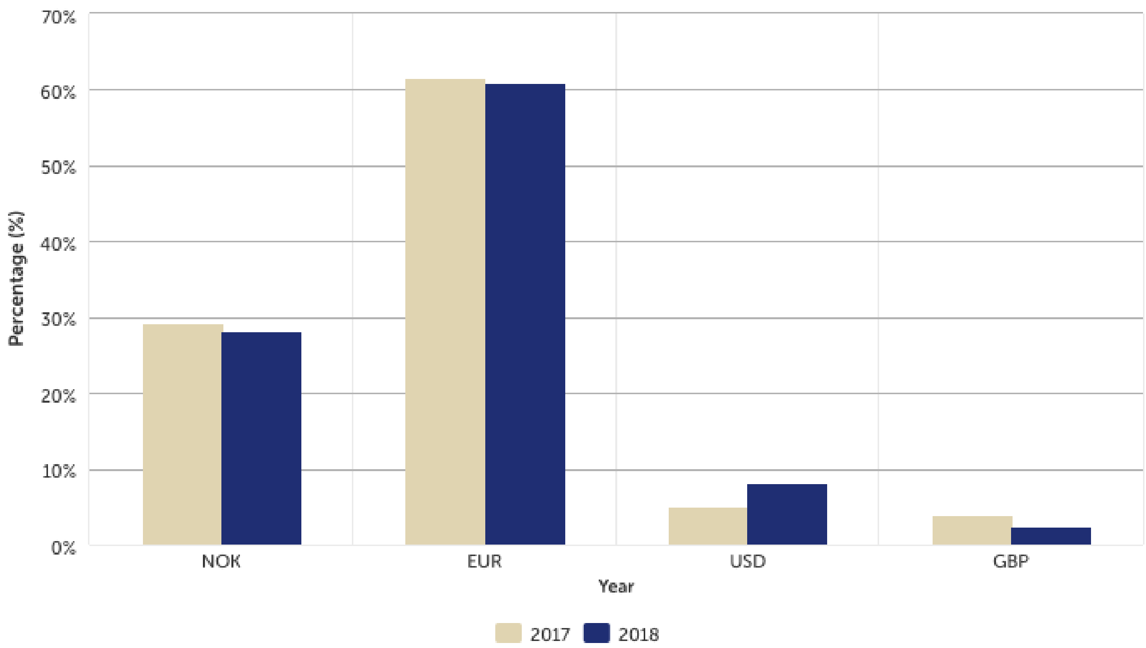
The domestic NOK market for covered bonds have developed strongly over the years since inception in 2007, and is in magnitude approximately equal to all government securities outstanding. The total volume of Norwegian covered bonds issued in currencies is however larger, at 56 per cent of total covered bond volume, including NOK. For SpareBank 1 Boligkreditt the situation is similar to the national picture, though somewhat more weighted towards foreign currency and EUR. The overall covered bonds outstanding is approximately 41 % of Norwegian mainland GDP.

Chart 1: Outstanding Norwegian covered bonds and government bonds:



Source: SSB, FNO (2018 as of Q3)

Chart 2: Relative share of outstanding SpareBank 1 Boligkreditt covered bonds as of year-end, by currency:



All foreign currency issuance is fully hedged using swaps.

Regulations mortgage market

The latest amendments to the regulatory framework on the mortgage market took effect from January 1, 2017, and was seen as a key driver for the correction in real estate prices which unfolded from the spring of 2017. The rules were reviewed in June 2018 and were not changed. The next review is due at year-end 2019. Mortgage market regulations in place are:

- Loan to value: maximum 85 per cent for all mortgages and maximum 60 per cent for loans without instalments (revolving credit line mortgage loans); for a property located in Oslo, which is not a borrower's primary residence, the maximum is 60 per cent.
- Repayment: minimum 2.5 per cent per annum for loan to value mortgages at or above 60 per cent LTV
- Income limitation: total debt maximum is 5x a borrower's before-tax income
- Stress test: applications must pass an affordability test of a 5 per cent increase in the prevailing (offered) mortgage rate
- Flexibility: 10 per cent of each lender's mortgage lending contracts per quarter may be in breach with one or more of the limitations (8 per cent in Oslo), and must be reported

The Norwegian residential real estate market

After a correction in 2017 (of 4.1 per cent in the national index), which was seen as largely due to the regulations referenced above, as well as high housing production, the growth in the price index was 2.8 per cent for 2018. This is below the consumer price inflation of 3.5 per cent for the year (consumer prices were impacted by higher energy and a weak currency). In 2018 the Norwegian central bank raised its policy rate for the first time since 2007 and by 0.25 per cent. There is an expectation of further interest rate increases. This as well as the overall high price level drove the development in the real estate index in 2018. Building activity has also abated some in 2018 (lower level of building starts compared to 2017).

Chart 3: Residential real estate price index for Norway:

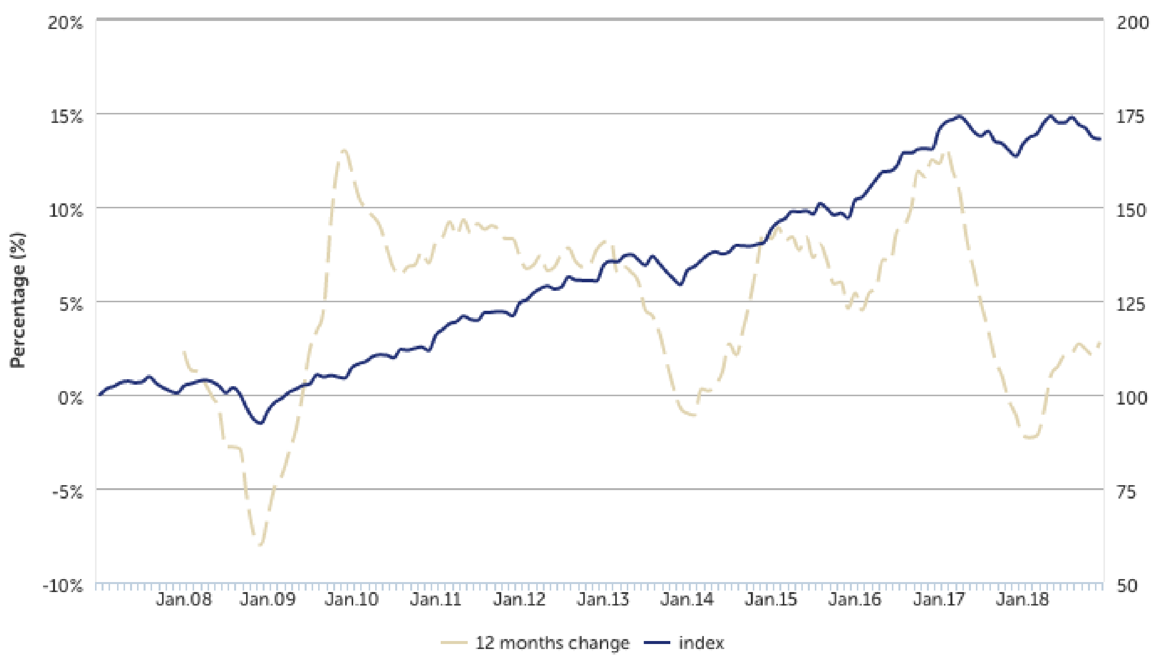
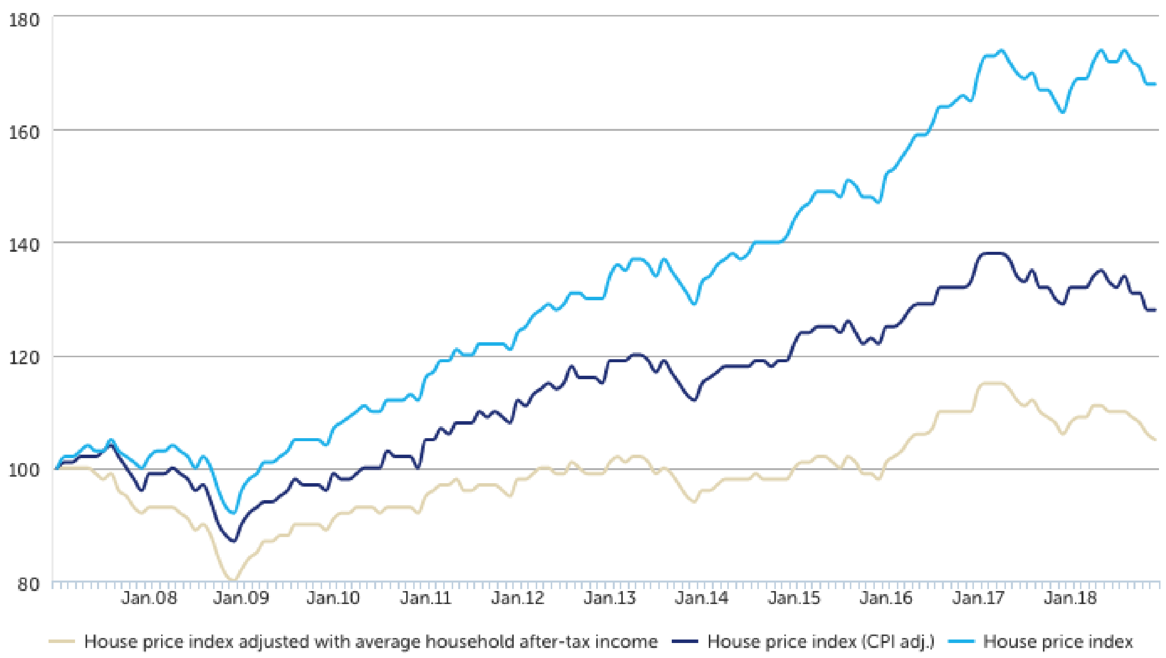


Chart 4: National house price index adjusted for inflation and after-tax household income (Jan. 2007=100)



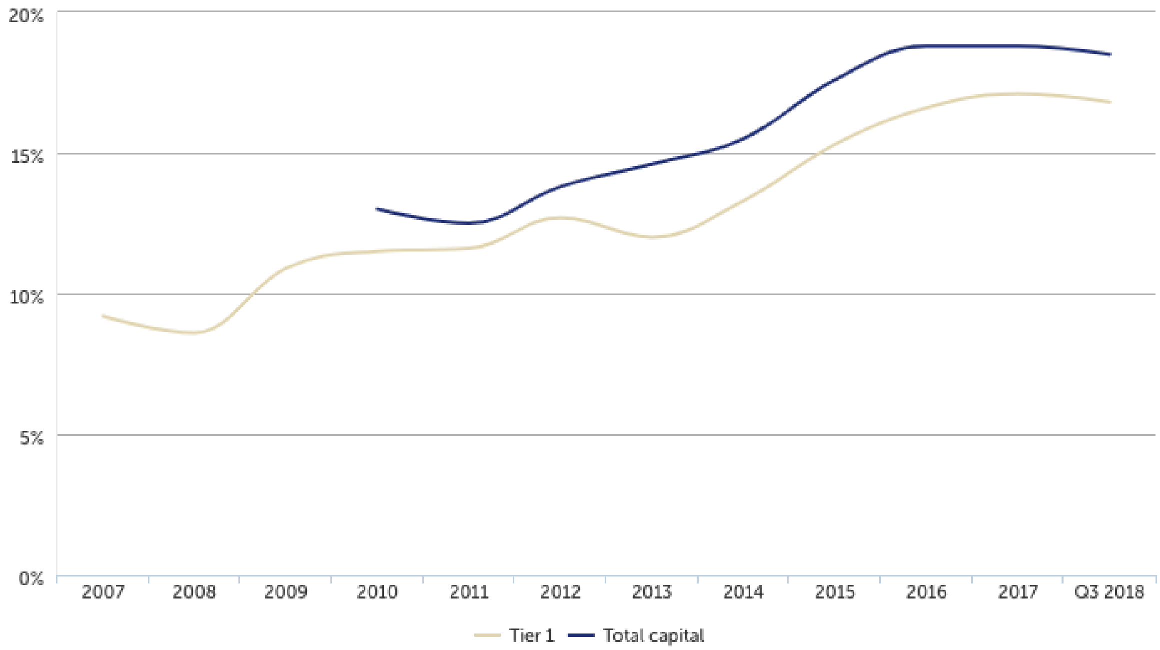
Adjusted for income and inflation, Norwegian house prices look more balanced (especially as adjusted for the after-tax growth in household income)

Capital requirements

Norwegian capital requirements have continued to increase for banks and covered bond issuer for some time and the overall capitalization requirement for significant financial institutions (SIFIs) is 17.5 per cent of risk weighted assets as of December 31, 2018. This includes a countercyclical buffer of now 2 per cent, which is scheduled to increase to 2.5 per cent on December 31, 2019. It was proposed during 2018 that the large regional SpareBank 1 banks should become SIFI banks during 2018. The countercyclical buffer also represents a tool for the authorities to increase lending capacity for banks should credit growth turn negative or be too low to sustain economic expansion.

The expectation for 2019 is for a change in the application of the Basel I floor for Norwegian banks, reducing the effective overall risk weight for the balance sheet and thereby increasing capital ratios. Banks expect a mitigating factor to be introduced (higher requirements). SpareBank Boligkreditt's total capital coverage at year-end 2018 was 16.8 per cent, which meets the total requirements for the Company which is 15.5 per cent in Pillar I and an additional 0.8 per cent in Pillar II (no SIFI buffer applies for covered bond issuers). Boligkreditt calls on its owner banks for capital contributions as and when needed, and especially in connection with larger transfers of mortgages.

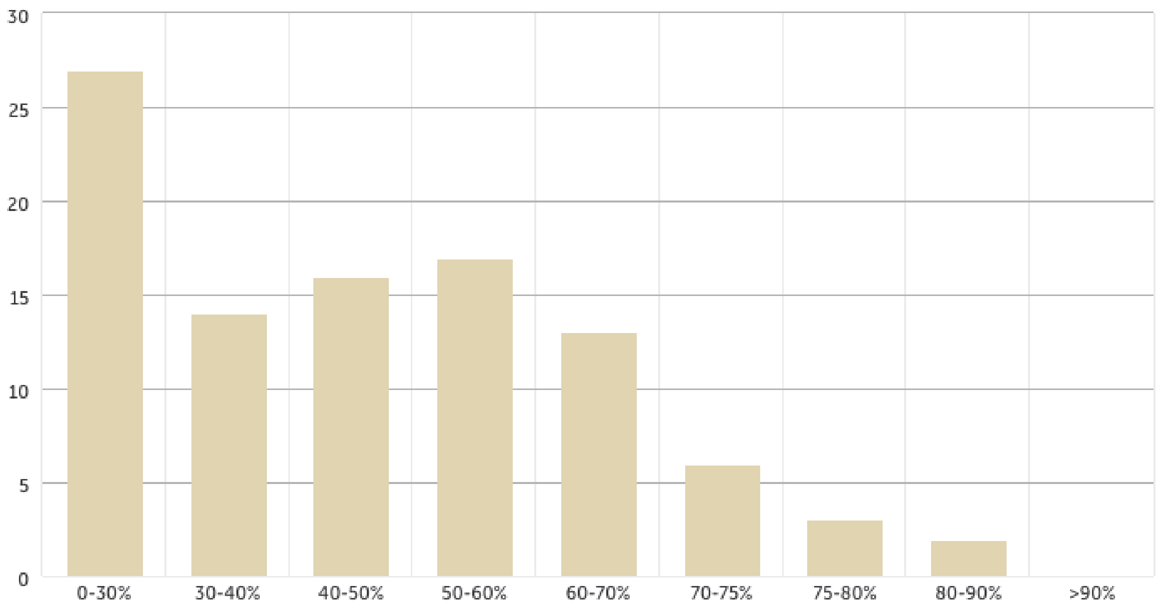
Chart 5: Capital in the four largest SpareBank 1 banks (weighted average)



Cover Pool

The cover pool metrics continue to exhibit a robust pool profile with an average weighted LTV in the cover pool of 52.7 per cent as of December 31, 2018. The real estate values are updated for the entire cover pool each quarter based on an automated valuation model (AVM) from the Norwegian company Eiendomsverdi, used by most Norwegian banks. The model is independently tested and validated and has certain parameters built into its valuation settings which allow for a cautious treatment of potential upside valuation outcomes for individual houses. During the 4th quarter 2018, the residential real estate index declined by 2.2 per cent and this reflected to increase of the cover pool LTV from September's 51.7 to December's 52.7 per cent.

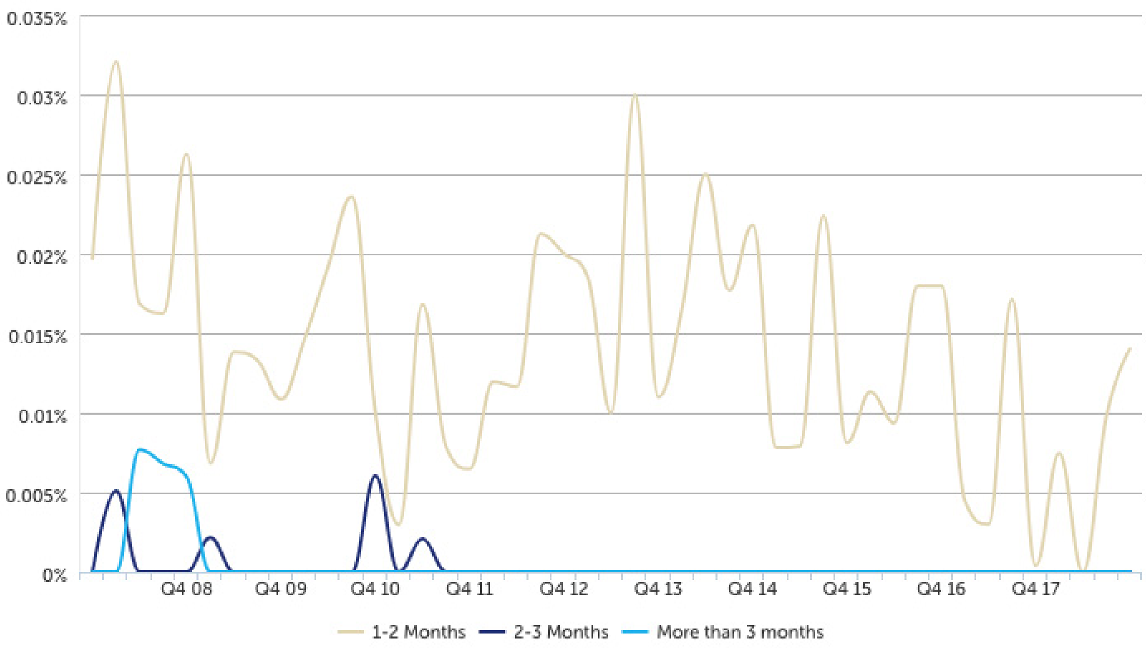
Chart 6: SpareBank 1 Boligkreditt cover pool: number of loans by LTV interval



SpareBank 1 Boligkreditt continues to have no arrears beyond 90 days in the cover pool and has never experienced a credit event with regards to any of the mortgage loans in the pool. We stress test the portfolio regularly for potential sharp house price declines, which provides comfort with regards to the robustness of the pool, even in a scenario where house prices drop by 30 per cent quickly, the mortgage assets are sufficient to cover the preferred obligations within the 75 per cent legal limit for LTVs. The owner banks are required to maintain loan reserves, which are pre-qualified for the cover pool. Mortgage loans in the pool at over 75% LTV means some migration has taken place since transfer of the loan to the cover pool, though the parts of these loans representing higher than 75% LTV may not be counted as cover assets.

Under the IFRS 9 rules for mortgage loans expected losses the Company has shown that approximately 12,5 million of expected losses would be booked as a consequence of the macroeconomic scenarios developed and the definitions and requirements of the new accounting rule. The amount is small seen against the balance of mortgage loans, including fully drawn revolving loans on which it is based of 196 billion kroner. No losses have been realized in the Company since inception in 2005.

Chart 7: SpareBank 1 Boligkreditt cover pool: loans in arrears history



Liquid assets in the cover pool

Liquid assets are also included in the cover pool along with residential mortgages- These are cash deposits, government or government guaranteed bonds (Nordic and German) and covered bonds from Nordic issuers. The minimum level of liquid assets has been re-defined during 2018 and is now compliant with the larger of 6 months of coverage for upcoming redemptions (as proposed in the EU harmonization Directive for covered bonds) and the NSFR rule as proposed, where mortgages are weighted 85 per cent when determining the amount of required long term funding. The actual level of liquid assets may also be higher than the minimum, depending mainly on the timing of new bond issuances. Liquid assets cannot be additional mortgages as this would not be prudent as mortgages are less effortlessly liquidated when funds are needed (for repayments), under certain circumstances. A complete list of liquid assets is presented in every quarterly cover pool reporting. Due to past issuance patterns, redemptions in any one year will typically include two benchmark bonds in EUR and so the liquid assets buffer is sizable. At year-end 2018 it was 20 billion kroner compared to 34 billion at the end of 2017 (including the effect of the new definition of the minimum size of liquid assets).

Outlook 2019

Robust markets for covered bond issuance were the reason for a 10 year covered bond issued on January 23, 2019. The robustness was reflected in the order book peaked at above EUR 2.8 bn and was above EUR 2.5 billion at the re-offer spread of 23 bps above swaps. The EUR 1.25 final size was slightly more than the usual size of EUR 1 bn. For the remainder of the year, SpaBol is likely, following the pattern of previous years, to return once more in 2019 to the EUR benchmark covered bond market. Other currencies are also considered for issuance in 2019, in addition to regular NOK issuance activities.

Real estate prices increased moderately in 2018 and are likely to remain relatively stable in 2019 as well. Real wage growth is probably on a path to be more modest than in the years leading up to the decline in oil prices in 2014-15 and the expectation of higher mortgages rates are factors which are likely to contribute to this development. Mortgages across the Norwegian banking sector continue to be a low risk asset class with benign levels of non-performing loan levels.

The SpaBol cover pool continues to be geographically well diversified across the country, and the weighted average current LTV in the cover pool is low. Banks remain subject to reserve assets requirements for the cover pool, calculated by looking at hypothetical steep declines in valuations in the housing market. Mortgages must qualify on both legal and customer credit quality criteria in order to be eligible or qualified for the cover pool. Credit risk is therefore extremely low and liquidity risks mitigated very well through liquidity reserves and a liquidity facility with the owner banks.

Financial statements 2018

Income statement

NOK 1 000	Note	4. quarter 2018	4. quarter 2017	2018	2017
Total interest income	5	933,812	809,548	3,577,766	3,470,270
Total interest expenses	5	-856,896	-701,413	-3,244,627	-3,044,417
Net interest income		**76,917**	**108,134**	**333,139**	**425,852**
Net gains/losses from financial instruments	6	-113,543	-153,411	-293,531	-630,361
Net other operating income		**-113,543**	**-153,411**	**-293,531**	**-630,361**
Total operating income		**-36,626**	**-45,277**	**39,608**	**-204,508**
Salaries and other ordinary personnel expenses	7,8,9	-2,527	-3,081	-11,766	-12,017
Other operating expenses	10	-6,145	-6,679	-20,490	-22,389
Total operating expenses		-8,672	-9,760	-32,256	-34,406
Operating result before losses		**-45,299**	**-55,037**	**7,352**	**-238,914**
Write-downs on loans and guarantees	13	-520		-849	-
Pre-tax operating result		**-45,819**	**-55,037**	**6,503**	**-238,914**
Taxes	11	**11,453**	**13,750**	**-1,627**	**59,720**
Profit/loss for the year		**-34,365**	**-41,286**	**4,876**	**-179,194**
Portion attributable to shareholders		**-45,188**	**-50,516**	**-36,928**	**-216,321**
Portion attributable to additional Tier 1 capital holders		**10,823**	**9,230**	**41,804**	**37,127**
Profit/loss for the period		**-34,365**	**-41,286**	**4,876**	**-179,194**

Statement of comprehensive income 2018

NOK 1 000	4. quarter 2018	4. quarter 2017	2018	2017
Profit/loss for the year	-34,365	-41,286	4,876	-179,194
Items which will not impact the income statement in future periods:				
Change due to basis swap spread adjustment	-144,411	-	-280,245	-
Tax effect of basis swap spread adjustment	36,103	-	70,061	-
Change in pensions for a previous period				
Estimate deviation for pensions	5,468	-347	5,468	-347
Tax effect of the estimate deviation	-1,367	87	-1,367	87
Total profit/loss accounted for in equity	**-104,207**	**-260**	**-206,083**	**-260**
Total profit/loss	**-138,572**	**-41,546**	**-201,207**	**-179,454**

Balance sheet

NOK 1 000	Note	2018	2017
Assets			
Lending to and deposits with credit institutions	20,23	12,990,004	3,044,644
Certificates and bonds	20,21,23	25,271,910	54,318,384
Lending to customers	13,20,23	184,073,918	177,675,130
Financial derivatives	19,20,21,23	23,183,793	27,144,125
Defered tax asset		-	-
Other assets	12,20,23	1,750	1,188
Total assets		**245,521,375**	**262,183,472**
Liabilities and equity			
Liabilities			
Debt incurred by issuing securities	16,18,20,21	212,351,045	224,462,981
Collateral received under derivatives contracts	18,20,23,31	18,733,053	23,628,253
Financial derivatives	18,19,20,21	1,042,108	898,292
Deferred tax	11,20	39,377	136,634
Tax payable	11,20	15,503	-
Subordinated debt	17,18,20	1,606,160	1,603,356
Other Liabilities	9,20,22	150,763	182,231
Total Liabilities		**233,938,009**	**250,911,747**
Equity			
Paid-in equity	15	10,788,470	9,858,470
Other paid-in equity (not yet registered)		-	300,000
Hybrid capital	15,18	1,180,000	1,180,000
Accrued equity		-389,980	-139,022
Net profit		4,876	-
Declared dividends		-	72,276
Total equity		**11,583,366**	**11,271,724**
Total liabilities and equity		**245,521,375**	**262,183,472**

Stavanger, 04.02,2019

/s/ Kjell Fordal
Chairman of the Board

/s/ Rolf Eigil Bygdnes

/s/ Merete N. Kristiansen

/s/ Knut Oscar Fleten

/s/ Geir-Egil Bolstad

/s/ Inger M.S. Eriksen

/s/ Arve Austestad
CEO

Changes in equity

NOK 1 000	Share capital	Additional paid in equity	Dividend	Other paid-in equity (not yet registered)	Other Equity	Interest on hybrid capital	Hybrid capital	Total Equity
Balance as of 31 December 2016	**6,330,548**	**3,167,922**	**113,950**	**210,000**	**149,836**	**-**	**1,081,034**	**11,053,290**
Registration of share increase (from 28 December 2016)	140,000	70,000	-	-210,000	-	-	-	-
Share increase 28 September 2017	100,000	50,000	-	-	-	-	-	150,000
Dividend 2016	-	-	-113,950	-	-	-	-	-113,950
Net income for the period	-	-	-	-	-179,194	-	-	-179,194
New hybrid capital	-	-	-	-	-	-	100,000	100,000
Paid interest on hybrid capital - directly against equity	-	-	-	-	-	-37,127	-1,034	-38,161
Share increase December 27 (not yet registered)	-	-	-	300,000	-	-	-	300,000
Proposed dividend for 2017	-	-	72,276	-	-72,276	-	-	-
OCI - pension - annual estimate deviation	-	-	-	-	-260	-	-	-260
Balance as of 31 December 2017	**6,570,548**	**3,287,922**	**72,276**	**300,000**	**-101,894**	**-37,127**	**1,180,000**	**11,271,724**
Change in losses due to new IFRS 9 measurment	-	-	-	-	-3,071	-	-	-3,071
Registration of share increase (from 27 December 2017)	200,000	100,000	-	-300,000	-	-	-	-
Share increase 28 February 2018	160,000	80,000	-	-	-	-	-	240,000
Share increase 11 May 2018	160,000	80,000	-	-	-	-	-	240,000
Dividend 2017	-	-	-72,276	-	-	-	-	-72,276
Share increase September 27	100,000	50,000	-	-	-	-	-	150,000
Net income for the period	-	-	-	-	4,876	-	-	4,876
Paid interest on hybrid capital - directly against equity	-	-	-	-	-	-41,804	-	-41,804
OCI -basisswapspread	-	-	-	-	-210,184	-	-	-210,184
Proposed dividend for 2018	-	-	-	-	-	-	-	-
OCI - pension - annual estimate deviation	-	-	-	-	4,101	-	-	4,101
Balance as of 31 December 2018	**7,190,548**	**3,597,922**	**0**	**-**	**-306,173**	**-78,932**	**1,180,000**	**11,583,366**

Equity is paid in by the Company's parent banks when a requirement arises. The requirement arises regularly when the Company acquires larger portfolios of mortgage loans, and otherwise according to changes in capitalization rules because SpareBank 1 Boligkreditt is subject to the same capital adequacy rules under Pillar 1 as banks in general. Each parent bank has also signed a Shareholders agreement with the Company, which amongst other things stipulates when additional capital must be contributed.

All hybrid instruments have been reclassified to equity from 31.12,2016. This is according to the definition of a financial liability under IAS 32.

Cash flow statement

NOK 1 000	**2018**	**2017**
Cash flows from operations		
Interest received	3,787,762	3,552,215
Paid expenses, operations	-59,111	-34,718
Paid tax	0	-124,898
Net cash flow relating to operations	**3,728,652**	**3,392,598**
Cash flows from investments		
Net purchase of loan portfolio	-6,392,387	-3,187,555
Net payments on the acquisition of government bills	1,163,310	552,662
Net payments on the acquisition of /sale of bonds	27,522,971	-11,142,971
Net investments in intangible assets	-897	-214
Net cash flows relating to investments	**22,292,996**	**-13,778,078**
Cash flows from funding activities		
Net receipt/payment from the issuance of certificates	-120,999	-828,967
Net receipt/payment from the issuance of bonds	-8,347,785	10,266,970
Net receipt/payment from the issuance of subordinated debt	0	100,000
Net receipt/payment of loans to credit institutions	-4,901,801	-1,413,538
Equity capital subscription	630,000	450,000
Paid dividend	-72,276	-113,950
Net interest payments on funding activity	-3,267,854	-3,234,635
Net cash flow relating to funding activities	**-16,080,715**	**5,225,880**
Net cash flow in the period	**9,940,933**	**-5,159,599**
Balance of cash and cash equivalents at beginning of period	3,044,644	8,129,097
Net receipt/payments on cash	9,940,933	-5,159,599
Exchange rate difference	4,427	75,147
Balance of cash and cash equivalents at end of period	12,990,004	3,044,644

Quarterly income statements and balance sheets

These quarterly statements are not individually audited and are included as additional information to these accounts.

Income statement

NOK 1 000	4th Quarter 2018	3th Quarter 2018	2th Quarter 2018	1th Quarter 2018	4th Quarter 2017
Total interest income	933,812	925,159	913,860	804,935	809,548
Total interest expenses	-856,896	-845,254	-821,721	-720,757	-701,413
Net interest income	**76,917**	**79,905**	**92,139**	**84,178**	**108,134**
Net gains/losses from financial instruments	-113,543	-13,427	-125,375	-41,185	-153,411
Net other operating income	**-113,543**	**-13,427**	**-125,375**	**-41,185**	**-153,411**
Total operating income	**-36,626**	**66,478**	**-33,236**	**42,993**	**-45,277**
Salaries and other ordinary personnel expenses	-2,527	-3,100	-2,860	-3,279	-3,081
Other operating expenses	-6,145	-4,406	-4,901	-5,037	-6,679
Total operating expenses	-8,672	-7,507	-7,761	-8,316	-9,760
Operating result before losses	-45,299	58,971	-40,997	34,677	-55,037
Write-downs on loans and guarantees	**-520**	**272**	**-665**	**64**	**-**
Pre-tax operating result	**-45,819**	**59,243**	**-41,662**	**34,740**	**-55,037**
Taxes	11,453	-14,811	10,416	-8,685	13,750
Profit/loss for the year	**-34,365**	**44,433**	**-31,247**	**26,055**	**-41,286**
Other income and expense	-104,207	-30,680	-81,450	10,254	-260
Total Profit/Loss	**-138,572**	**13,752**	**-112,696**	**36,309**	**-41,546**

Balance sheets

NOK 1 000	31.12.2018	30.09.2018	30.06.2018	31.03.2018	31.12.2017
Assets					
Lending to and deposits with credit institutions	12,990,004	11,411,753	9,270,163	6,778,074	3,044,644
Certificates and bonds	25,271,910	35,032,317	43,651,308	44,775,172	54,318,384
Lending to customers	184,073,918	183,811,362	182,852,976	181,205,294	177,675,130
Financial derivatives	23,183,793	15,982,953	17,220,292	20,488,383	27,144,125
Defered tax asset	-	10,055	6,573	2,968	-
Other assets	1,750	1,507	1,897	1,281	1,188
Total assets	**245,521,375**	**246,249,947**	**253,003,210**	**253,251,172**	**262,183,472**
Liabilities and equity					
Liabilities					
Debt incurred by issuing securities	212,351,045	217,814,578	225,077,253	223,053,410	224,462,981
Collateral received under derivatives contracts	18,733,053	13,370,235	13,203,305	15,716,295	23,628,253
Financial derivatives	1,042,108	1,479,191	1,225,000	1,010,264	898,292
Deferred tax	39,377	102,675	112,902	140,052	136,634
Tax payable	15,503	-	-	-	-
Subordinated debt	1,606,160	1,603,108	1,603,084	1,603,656	1,603,356
Other Liabilities	150,763	148,423	130,959	193,433	182,231
Total Liabilities	**233,938,009**	**234,518,210**	**241,352,503**	**241,717,109**	**250,911,747**
Equity					
Contributed equity	10,788,470	10,638,470	10,398,470	10,158,470	9,858,470
Other paid in equity (not yet registered)	-	150,000	240,000	240,000	300,000
Hybrid capital	1,180,000	1,180,000	1,180,000	1,180,000	1,180,000
Accrued equity	-389,980	-275,974	-234,848	-142,738	-139,022
Net profit	4,876	39,241	-5,191	26,055	-
Declared dividends	-	-	72,276	72,276	72,276
Total equity	**11,583,366**	**11,731,737**	**11,650,707**	**11,534,063**	**11,271,724**
Total liabilities and equity	**245,521,375**	**246,249,947**	**253,003,210**	**253,251,173**	**262,183,472**

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of SpareBank 1 Boligkreditt AS

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of SpareBank 1 Boligkreditt AS which comprise the balance sheet as at 31 December 2018, income statement, overview of comprehensive income, statement of changes in equity and statement of cash flows 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 present fairly, in all material respects, 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, included 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 basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for 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.

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Organisasjonsnummer: 980 211 282

Key audit matter	How the matter was addressed in the audit
IT SYSTEMS AND INTERNAL CONTROLS RELEVANT FOR FINANCIAL REPORTING	
The IT systems within SpareBank 1 Boligkreditt AS are essential to the accounting and reporting of completed transactions, in obtaining the basis for key estimates and calculations, and in obtaining relevant information to be disclosed in the notes to the financial statements. The IT systems are standardized, and the management and operation of the systems are to a great extent outsourced to external service providers. Proper management and control of these IT systems both from SpareBank 1 Boligkreditt AS and their service providers are of high importance in order to ensure accurate, complete and reliable financial reporting, and this area is therefore a key audit matter.	SpareBank 1 Boligkreditt AS has established a general governance model for management and control of their IT systems. We have obtained an understanding of this general governance model at SpareBank 1 Boligkreditt AS and their IT environment relevant to financial reporting. We assessed and tested the design of the control activities related to the IT systems which are relevant for financial reporting, including selected controls related to operations, change management and information security. For a sample of these control activities, we tested if they operated effectively in the reporting period. We assessed and tested the design of automated controls related to among others calculations, reconciliations and transaction settlements. For a sample of these control activities, we tested if they operated effectively in the reporting period. We assessed the ISAE 3402 reports issued by the independent auditors of service providers to the Company to assess if such service providers had adequate internal controls in areas important to the Company's financial reporting. We engaged our internal IT experts in the work related to understanding the general governance model on IT, and in assessing and testing the internal control activities related to IT.
NOTE DISCLOSURES ON CAPITAL ADEQUACY	
SpareBank 1 Boligkreditt AS is required to comply with the regulations on capital adequacy as set forth in the Financial Institutions Act ("Finansforetaksloven") and related regulations. Regulations on financial statements for banks («Forskrift om årsregnskap for banker») requires disclosure of capital adequacy in the notes to the financial statements. See note 28 to the financial	SpareBank 1 Boligkreditt AS has established control activities related to the calculations of total capital, minimum requirement for capital and actual capital coverage. We assessed and tested the design of the control activities we considered to be of highest relevance, including internal controls on risk weighted balance sheet items and off-balance sheet items, calculation of

statement as to information with respect to the applied methods for calculating capital adequacy, total capital, total basis for calculation of minimum requirement for capital and actual capital coverage for the Company. SpareBank 1 Boligkreditt AS is required to comply with the minimum requirement for capital on an ongoing basis. Due to the importance of capital adequacy compliance, this is a key audit matter.	required capital for operational risk and calculation of risk adjusted basis for calculations. We assessed SpareBank 1 Boligkreditt AS' interpretations of the capital adequacy regulations in selected areas against the capital adequacy regulations and industry practice. We tested the accuracy of the calculated minimum requirement for capital on a sample of balance sheet items and off-balance sheet items. We also tested the accuracy of the calculation of selected items in total capital.
FINANCIAL INSTRUMENTS – VALUATION OF CROSS CURRENCY BASIS SWAPS	
The carrying amount of the Company's financial derivatives liability amounts to 1042 mNOK as per December 31, 2018, whereof net loss on valuation adjustment of cross currency basis swaps (basis swaps) amounts to 470 mNOK as per December 31, 2018. The estimates and judgmental assessments concerning the valuation of these financial instruments are described in note 6, 18 and 19 to the financial statements. The risk on valuation of financial instruments is related to instruments that are not traded in an active market. At SpareBank 1 Boligkreditt AS, this is the case for their basis swaps used to hedge exchange and interest risk on their funding. These instruments are valued using valuation models where certain assumptions (the basis spread and the credit charge) could not be obtained from other comparable instruments («non-observable assumptions»). The valuation of the change in the basis spread and credit charge to enter into these basis swaps with counterparties change from time to time. Net gain and loss following this change in basis spread and credit charge results in annual net gain and loss in comprehensive income as there is no corresponding change in fair value on the hedged item. Valuation of these basis swaps are therefore considered a key audit matter in our audit.	SpareBank 1 Boligkreditt AS has established certain control activities related to the valuation of basis swaps. We assessed and tested the design and implementation of the key internal controls we considered to be of highest relevance related to valuation of such financial instruments. We assessed and challenged the Company's model for valuating basis swaps, considering if these were in line with renowned valuation models and industry practice, and whether the model is consistently applied over time. We challenged the assumptions used by management in the valuation, by benchmarking them with recognized valuation methods and practices. For a sample of basis swaps, we reconciled the input in the model to external sources and based on the company's own assumptions, we also re-performed the calculation of gains and loss reported in comprehensive income on the valuation adjustment of basis swaps. In addition we tested the mathematically accuracy of the model. Furthermore, we have considered the appropriateness of the disclosures related to basis swaps.

Other information
Management is responsible for the other information. Other information comprises the annual report for 2018 and the statement on corporate governance, which is expected to be available to us after the date of this report, but does not include the financial statements and the report on the audit of the financial statements that was available to us before the date of this report.

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.

If, in our reading of the annual report for 2018 and the statement on corporate governance, we conclude that these contain material misstatements, we are required to report in this regard to those in charge of governance.

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 and fair presentation of the financial statements of the Company in accordance with International Financial Reporting Standards as adopted by EU. Management is also responsible for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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

Auditor's responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit

procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the 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 concerning the financial statements, the going concern assumption, and the proposal for the coverage of the loss 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.

Stavanger, February 4, 2019
Deloitte AS

Bjarte M. Jonassen
State Authorized Public Accountant in Norway

At Tyinkrysset, Filefjell, on a beautiful site bordering Jotunheimen National Park, a chalet is perfectly placed to harmonise with the astonishing nature surrounding it.

Natural resources for homes of the future

When Norwegian architects work on homes for the future, they focus on choice of materials and sustainability. While buildings in city centres are built high using natural materials, the modern country-house encapsulates nature with the least impact on its surroundings.

Norwegian architect company Helen & Hard has carried out several projects lately where the minimum impact on surrounding nature has been vital. At Tyinkrysset, Filefjell, on a beautiful site bordering Jotunheimen National Park, a chalet is perfectly placed to harmonise with the astonishing nature surrounding it.

“Our main approach was to make as little impact on the site as possible. The weather can be quite severe with heavy snowfall, so it was important to shelter the chalet from wind and snow”, Randi Augenstein, manager and architect in Helen & Hard tells us, while showing us on her PC screen how the cabin has been judiciously placed to meet the rigours of nature.

Based on the result of extensive wind studies, the roof is shaped like the surrounding landscape, integrated into the terrain, making it easier for both wind and snow to drift over. The windows are inspired by the shapes of the amazing landscape surrounding the mountain retreat.

Approximately 400 kilometres (250 miles) from Filefjell, you will find Finnøy in Rogaland. An island characterized by its typical Norwegian fjord landscape. Here lies a summer house, also judiciously placed to be in perfect harmony with its surroundings.

“There is a terracing of levels within the house – adapted to the steep landscape of the plot. Each level steps down towards the private quay. Here you live on four levels – and move through an inner landscape that is connected to the exterior landscape on every level. In this way the house is organically adapted to the unique context”, tells Augenstein.

A floating roof covers the whole structure, only held up by the facades and ridge beam. From the entrance on the highest level you get an overview of the whole house down to the quay. The large roof creates a generous common (living-?)space where everything is shared. From here there are views in every direction.

Sustainability and integrated approach

Augenstein tells how the architects in Helen & Hard start every project by considering the impact on the existing environment, the sustainability of building whilst at the same time taking an integrated approach to the project.

"In Helen & Hard we work with an integral approach rather than focusing on energy-saving alone, for example. We see a growing awareness in our customers. They ask for quality, want to know everything about the materials and want the materials they choose to stand the test of time.

Wood is one of the most environmentally friendly materials. It stores CO2, can be recycled and has a positive influence on our health and mind. Moreover, it has a rich history in Scandinavia and great esthetic and structural quality. Aesthetics are important, too, in regard to sustainability. Something beautiful will be cared for and looked after. We in Helen & Hard were early in using wood as a main material and have been doing so since 2005. We work a lot with how to further industrialise the building process, but also how to create forms more freely."

A floating roof covers the whole structure, only held up by the facades and ridge beam.

The Economist wrote in a 2015 article how world leaders meeting in Paris agreed to move towards zero net greenhouse-gas emissions in the second half of this century. Cement-making alone produces 6 percent of the world's carbon emissions. Steel, half of which goes into buildings, accounts for another 8 percent. Governments in the rich world are now trying to promote greener behaviour by obliging developers to build new projects towards "zero carbon" standards. From January 1st 2019 all new public-sector buildings in the European Union must be built to "nearly zero-energy" standards. All other types of buildings will need to follow the same standard in January 2021.

However, the construction of buildings is responsible for carbon emissions, and this is thought to account for between 30 to 60 percent of the total over a structure's lifetime. In making buildings greener, no other building material has environmental credentials so overlooked as wood. The energy required to produce a laminated wooden beam is one-sixth of that required for a steel one of comparable strength. As trees take carbon out of the atmosphere when growing, wooden buildings contribute to negative emissions by storing it. When a mature tree is cut down, a new one can be planted to replace it, capturing more carbon. After buildings are demolished, old beams and panels are easy to recycle into new structures. When retrofitting older buildings to be more energy-efficient, wood is a good insulator. A softwood window frame provides nearly 400 times as much insulation as one made of plain steel of the same thickness, and over a thousand times as much as an aluminium equivalent.

Among Europe's biggest buildings made of wood

Helen & Hard often get inquiries from architect colleagues outside Norway who are interested in learning more about the use of wood. Augenstein proudly starts to talk about SpareBank 1 (SR-Bank) new headquarters "Financial Park" which is in the process of being built in Bjergsted, just outside Stavanger city centre. The main structure of the 13,500 m2 above ground is made of timber rising 7 floors up. This rests on a 9000 m2 underground structure.

"The idea of the building is simple, to reflect the vison of SR Bank and offer the best given its surroundings and users of the building. This will be one of the biggest commercial buildings made of wood in Europe. Wood offers benefits not only for the external environment, but also health benefits for the environment indoors.

Randi Augenstein, Helen&Hard

Early on, the clients were clear in their wish to use timber for the main structure, mainly due to its positive effects on the users: the experiential and health-bringing qualities of the future workspaces. This was further backed by timber's intrinsic sustainable aspects, providing grounds for a BREEAM Nor 'Excellent' certification.

Environmental requirements forcing a new standard

Gisle Løkken, president of the National Association of Norwegian Architects, says that integrating buildings with nature is an interesting approach to creating beautiful buildings and safeguarding their impact on their surroundings, but states that most of us will notice other changes in the construction industry of the future. From where he sits, he can clearly see that architects and the construction industry are changing.

"The new climate goals are setting a new standard and are moving all of us in the same direction. We need awareness of how we build, the materials we use and how we live. The industry is facing a paradigm shift", Løkken says.

"Even if the construction industry is lagging behind a little, a lot of resources are going into research, and new standards are emerging. One example is that we are taking greater account of the total CO2 emissions throughout the life-cycle of the building than previously.

The calculations that need to be done in order to meet the new requirements for zero emissions are complicated. Emissions from materials, the production of materials, transportation of materials, and emissions from construction machinery whilst building are just some of the variables that need to go into the calculations. Previously, the life-cycle of a building was considered to be 20 to 30 years. Now a building has a life expectancy of at least 100 to 150 years", says Løkken.

Homes of the future

Løkken finds the development in the construction industry exciting. He sees the outlines of urban neighbourhoods of the future:

"We will see neighbourhoods where the buildings will be built in closer proximity to each other, they will also be higher. This is because we need to be more efficient in how we utilise space. Efficient infrastructure will be a requisite, and short distances between where we live, work and go to school, etc. It is self-explanatory that building villas is not a sustainable choice", Løkken says.

"Detached houses take up a lot of space, require a lot of driving, and consequently infrastructure needs to be built. It is much more rational and environmentally friendly to build centralised and be aware of such issues. If we build in a more concentrated way it opens up for keeping nature and woods available for everyone as recreational and green areas. This is important in cities and for the preservation of wildlife. A private garden as a consequence of the urban spread of villas is not a human right, and belongs most likely to conceptions from the past", he points out.

Gisle Løkken. Foto: Eirik Burås / STUDIO B13

Notes to the Accounts

Note 1 General information

SpareBank 1 Boligkreditt AS is the SpareBank 1 Alliance's separate legal vehicle established according to the specialist banking principle within the Norwegian legislation for covered bonds. The Company's purpose is to acquire residential mortgages from its ownership banks organised in the SpareBank 1 Alliance and finance these by issuing covered bonds.

SpareBank1 Boligkreditt main office is located in Stavanger, visiting address Bjergsted Terrasse 1.

The accounts are prepared in accordance with "International Financial Reporting Standards" (IFRS), as determined by the EU and published by "International Accounting Standards Board" (IASB).

The Financial Statements for 2018 is approved by the Board of Directors on February 4, 2019.

Note 2 Summary of significant accounting policies

Presentation Currency

The presentation currency is Norwegian Kroner (NOK), which is also the Company's functional currency. All amounts are given in NOK thousand unless otherwise stated.

Recognition and De-recognition of Assets and Liabilities on the Balance Sheet

Assets and liabilities are recognised on the balance sheet at the point in time when the Company establishes real control over the rights of ownership to assets and becomes effectively responsible for the discharge of liabilities.

Assets are de-recognised at the point in time when the real risk of the assets has been transferred and control over the rights to the assets has been terminated or expired. Liabilities are de-recognised when they have been effectively discharged.

Lending

Lending is measured at amortised cost. Amortised cost is the acquisition cost less any scheduled or unscheduled repayments of principal, less any loss of value or estimated risk of loss. Each of the Company's mortgage loans is made at a variable rate, which may be changed by the Company at any time, with a regulatory mandated notification time of six weeks before such changes can become effective. Risk of loss is calculated according to IFRS 9, which was implemented Jan 1, 2018 (see below for a description of the application of IFRS 9).

Risk of loss on mortgage loans; evaluation of impairments (write downs)

IFRS 9 was implemented effective January 1, 2018. The initial calculation for expected cumulative losses (ECL) was 11.8 million for the balance or mortgage loans at January 1, 2018. This ECL has remained largely stable. According to IFRS 9, mortgage loans which have a negative risk class migration after the loan has been extended are classified in either Category 2 or 3, while Category 1 mortgage loans are those which have not experienced a sufficiently large negative risk class migration since being entered into. Category 1 loans have an estimated cumulative loss (ECL) write down estimated over the next 12 months time frame, while those in Category 2 or 3 have a lifetime horizon when estimating ECLs. The limits which determine when a mortgage loan is moved from Category 1 to Category 2 are:

- Payment delayed by 30 days or more
- Probability of default has increased by 150% (or two classes in the internal model estimating PD)
- A minimum PD of above 0.6%

The Company has no mortgage loans in Category 3, which contains loans in default (90 days or more of missed payments).

The IFRS 9 model for estimating ECL was developed centrally by the SpareBank 1 Alliance and is in use by all Alliance banks as well the Company and other covered bond issuers in the Alliance. The model is built in accordance with the rules detailed in the IFRS 9 rule and is tested, adjusted, calibrated and maintained by the centre for credit modelling in the SpareBank 1 Alliance. It is the Issuer's responsibility to develop scenarios which express future PD (probability of default) and LGD (loss given default) under these scenarios. Three scenarios are developed: base case, upside case and downside case and these are intended to reflect three different states the economic cycle can take. The scenarios are weighted, with the most weight assigned to the base case. The base case PD is intended to reflect the level of PD for mortgage loans which have been and can be transferred to the Company from the SpareBank 1 banks, with the starting point being the long running actually measured level of PD for such loans.

There have however in practice never been any mortgages in default in the Company's portfolio. LGDs are set to reflect the fact that for a cover bond issuer the law stipulates a maximum loan to value criteria of 75 per cent. This level will typically result in the likelihood of low loan losses if loans which the Company owns should go into default. The level of PD and LGD has been adjusted somewhat from the general SpareBank 1 Alliance model level to reflect the nature of the Company's portfolio where only such loans of a PD below 2,5 per cent and LTV up to 75 per cent can be transferred.

IFRS 9 ECLs are updated quarterly based on a rescoring of the entire mortgage portfolio. Changes in the ECL is a charge or an income in the income statement for that period and is reflected on the balance sheet against the portfolio of mortgage loans.

According to Transfer and Servicing Agreement which the SpareBank 1 banks have entered into with the Company, SpareBank 1 Boligkreditt has the right to off-set any losses incurred on individual mortgage loans against the commissions due to all banks for the remainder of the calendar year. The Company has not since the commencement of its operations had any instances of off-sets against the commissions due to its owner banks.

Segment

Segments are organised by business activities and the Company has only one segment, mortgage lending to private individuals. All of the mortgages have been acquired from the SpareBank 1 Alliance banks. The Company's results therefore largely represents the result of the mortgage lending to private customers segment, in addition to the income effects from the liquidity portfolio. The net interest income margin (customer interest income less funding costs) for the mortgages are paid out to the SpareBank 1 Alliance banks. The net result of the Company is therefore naturally small in comparison to the overall portfolio of mortgage loans.

Securities

Securities consists of certificates and bonds. These are carried at fair value. Securities will either be part of a liquidity portfolio with a narrow mandate (highly rated, highly liquid securities and cash, including repos) or a collateral portfolio, which reflect the funds received from counterparties in swaps. All securities classified and recorded at fair value will have changes in value from the opening balance recorded in the income statement as income from other financial investments.

Hedge Accounting

The company has implemented fair value hedge accounting for bonds with fixed rates and bonds in foreign currencies. These bonds are entered into a hedging relationship with individually tailored interest swaps and currency swaps. The company values and documents the efficacy of the hedge both at first entry and consecutively. In fair value hedging both the hedging instrument and the hedged object are entered into the accounts at fair value with respect to the relevant interest rate curve and currency, and changes in these values from the opening balance are recorded in net income. The cash flow is therefore known for the entire contractual duration after the hedging relationship has been established. The value of the hedged instrument is recorded at the balance sheet date as a function of changes in currency (if a foreign currency obligation or asset), changes in interest rates and other changes which are amortized over the life of the hedged instrument (which will typically be fees and transaction costs associated by issuing the hedged instrument (bond) in the market). The hedging instrument's (swap) value is subject to the same foreign currency element and interest rate curve changes, but not to the amortized costs of the hedged instrument in the period. Furthermore, there is an accounting effect for the basis swap (cost of entering into the foreign currency swap). The basis swap valuation charge is however, since the introduction of IFRS 9 on January 1, 2018, only recorded in other comprehensive income (OCI) and directly against other equity on the balance sheet.

The introduction of IFRS 9 did not have any practical impact on the Company's hedge accounting. All hedges are deployed to exactly offset a cash flow for the duration of the hedged instrument, thus bringing financial liabilities (bonds outstanding) in fixed rate and/or foreign currency into a NOK 3 month NIBOR basis, while financial assets at fixed rates and/or foreign currency are transformed to a floating rate 3 month NIBOR asset through the derivative. Derivatives used are only swaps.

Valuation of Derivatives and Other Financial Instruments

The Issuer uses financial derivatives to manage essentially all market risk on balance-sheet items. Interest rate risk is hedged to a NIBOR 3 months floating rate basis and currency risk is hedged mostly by derivatives and in some cases by natural asset liabilities hedges.

<u>Liabilities:</u>

- The Issuer applies fair value hedge accounting under IFRS for fixed rate issued debt (covered bonds) utilizing derivatives (swaps) which hedge the fixed interest rate and currency elements of the issued bonds.
- There is also an element of amortized costs in issued fixed rate debt; where the issue price is different to par or 100 per cent, this difference is amortized over the life of the bond which is repayable at 100 per cent of par
- The interest rate curve used to discount cash flows in NOK is determined by NIBOR for various maturities less than 12 months and the swap rate curve in NOK for longer maturities.
- The interest rate curve used to discount cash flows in EUR is determined by EURIBOR for various maturities less than 12 months and the swap rate curve in EUR for longer maturities.
- Issued floating rate debt in NOK (which do not have any associated hedging swaps) are accounted for at amortized cost.

<u>Assets:</u>

- For liquidity management purposes the issuer maintains a portfolio of liquid assets (including bonds) which is valued at fair value at observable market prices
- Funds received for the purpose of collateralization of swap exposures which counterparties have to the Company may also be invested in bonds of a high rating, high liquidity and short maturities, in addition to cash and reverse repos. Such bond investments are held at fair value according to observable market prices

- Swaps which hedge liquidity assets denominated in non- NOK currencies or hedge interest rates from fixed to floating are valued at fair value according to changes in foreign currency rates and interest rates.

Though the issuer hedges all material interest rate and currency risk on its balance sheet, net unrealized gains (losses) from financial instruments may occur for the following reasons:

- Temporary mark-to-market differences in the value of an interest rate swap may occur depending on the difference between the level at which the 3 months floating rate leg in the swap was last fixed and the 3 months interest rate level at the financial reporting date.
- There is a credit risk element which forms a part of the fair value of the assets in the trading portfolio, which is not reflected in the value of the associated interest and/or currency swaps hedging the trading portfolio assets.
- There may be floating rate assets (bonds) denominated in foreign currency which are hedged via a corresponding foreign exchange liability (issued debt) also on an effective floating rate basis. In such natural asset liability hedges there may be a small element of foreign currency risk which may impact the P&L in that the floating rate coupons on the asset and the liability are not reset on the same dates and/or may be of different magnitude. Also, a change in a market credit spread element would impact the price of some of the foreign currency assets held (bonds), though not the liability.
- Temporary differences will result from basis swaps. Boligkreditt uses basis swaps in order to swap cash flows from floating interest rate foreign currency liabilities and assets into floating interest rate in Norwegian kroner. The valuation of the change in the cost element to enter into these swaps with counterparties change from time to time. The valuation change will only occur on the derivatives (hedging instrument) and not on the hedged instruments and thus can not be mitigated. The impact in net income from this valuation element may be large and volatile. All gains and losses from basis swaps reverse over time when basis swap prices and costs change from the point in time when a derivative was entered into and reduce over time as the derivatives remaining maturity decreases. Under IFRS 9 changes in basis swap spreads are no longer included in the profit and loss account but only under other comprehensive income (OCI). This is due to that changes in fair value for liabilities must be reported in OCI unless the fair value option is elected, which is not the case for changes in the fair value of basis swaps, which are thus reported in OCI.

Intangible Assets

Purchased IT-systems and software are carried on the balance sheet at acquisition cost (including expenses incurred by making the systems operational) and will be assumed to amortise on a linear basis over the expected life span of the asset. Expenses related to development or maintenance are expensed as incurred.

Cash and Cash Equivalents

Cash and cash equivalents includes cash and deposits, other short term available funds and investments with a maturity of less than three months.

Taxes

Tax in the income statement consists of tax payable on the annual taxable result before tax and deferred tax. Deferred tax is calculated in accordance with the liability method complying with IAS 12. With deferred taxes the liability or asset is calculated based on temporary differences, which is the difference between tax due according to the statutory tax calculations and tax calculated according to the financial accounts, as long as it is probable that there will be a future taxable income and that any temporary differences may be deducted from this income.

The statutory tax rate for financial services companies is 25 per cent.

In terms of deferred taxes, assets will only be included if there is an expectation that a future taxable result makes it possible to utilise the tax relief. The assessment of this probability will be based on historic earnings and the future expectations regarding margins.

Pensions

SpareBank 1 Boligkreditt AS has a defined contribution pension plan. A defined benefits plan was closed to new members in 2011. All employees were migrated to the defined contribution plan from January 1, 2016.

<u>Defined Contribution Plan</u>

In a defined contribution plan the company pays a defined contribution into the pension scheme. The Company has no further obligations beyond the defined contributions. The contributions are recorded as salary expense in the accounts. Any prepaid contributions are recorded as assets in the balance sheet (pension assets) to the extent that the asset will reduce future payments when due.

The Company has seven employees as of year-end 2018. All employees are included in SpareBank 1 SR-Bank ASAs pension scheme and accrue the same benefits as the other membership in that scheme which are employees of SpareBank 1 SR-Bank ASA.

In addition to the defined contribution plan, the Company has other uncovered pension obligations accounted for directly in the profit and loss statement. These obligations exist for early pensions according to AFP ("Avtalefestet pensjon") and other family pension benefits in conjunction with a previous Chief Executive Officer. For the current Chief Executive Officer of SpareBank 1 Boligkreditt future pension obligations for remuneration above the limit of 12 times the basic allowance or limit (12G) as formulated by the national pension scheme are also accounted for in the Company's accounts.

Cash Flow Statement

The cash flow statement has been presented according to the direct method, the cash flows are grouped by sources and uses. The cash flow statement is divided into cash flow from operational, investment and finance activities.

Reserves

The Company will create reserves when there is a legal or self-administered liability following previous events, it is likely that this liability will be of a financial character, and it can be estimated sufficiently accurately. Reserves will be assessed on every accounting day and subsequently adjusted to reflect the most accurate estimate. Reserves are measured at the present value of the expected future payments required to meet the obligation. An estimated interest rate which reflects the risk free rate of interest in addition to a specific risk element associated with this obligation will be used as the pre-tax rate of discount.

Supplier Debt and other Short Term Liabilities

Supplier debt is initially booked at fair value. Any subsequent calculations will be at amortised cost, determined by using the effective rate of interest method. Supplier debt and other short term liabilities where the effect of amortising is negligible, will be recorded at cost.

Interest Income and Expense

Interest income and expense associated with assets and liabilities are recorded according to the effective rate of interest method. Any fees in connection with interest bearing deposits and loans will enter into the calculation of an effective rate of interest, and as such will be amortised over the expected maturity.

Commission Expense

Commissions are paid by the Company to its parents banks and represent most of the net interest margin earned in Boligkreditt.

Dividends

Proposed dividends are recorded as equity during the period up until they have been approved for distribution by the Company's general assembly.

Events after the Balance Sheet Date

The annual accounts are deemed to be approved for publication when the Board of Directors have discussed and approved them. The General Meeting and any regulatory authorities may subsequently refuse to approve the annual accounts, but they cannot change them. Events up until the annual accounts are deemed to be approved for publication and that concern issues already known on the accounting day, will be part of the information that the determination of accounting estimates have been based on, and as such will be fully reflected in the accounts. Events that concern issues not known on the accounting day, will be commented upon, provided that they are of relevance.

The annual accounts have been presented under the assumption of continuing operations. This assumption was, in the opinion of the Board of Directors, justified at the time when the accounts were presented to the Board of Directors for approval.

Share Capital and Premium

Ordinary shares are classified as equity capital. Expenses directly related to the issuing of new shares or options with tax relief, will be recorded in the accounts as a reduction in the proceeds received.

Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purpose of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

Adoption of New and Revised International Financial Reporting Standards (IFRSs)

IFRS 16 for lease accounting has been assessed. The Company has no long-term leases which cannot be cancelled within 12 months. The only significant lease contract at present is for office space, which can be cancelled within a three months notice.

Note 3 Risk management

SpareBank 1 Boligkreditt AS is an institution which acquires residential mortgages from banks in the SpareBank 1 Alliance. This activity is predominantly financed by the issuance of covered bonds. The Company is therefore subject to the Norwegian legislation for covered bonds and the demands this imply for exposure to risk. In addition, the Company wishes to maintain the Aaa rating from Moody's, with regards to the covered bonds, which also requires a high degree of attention to risk management and a low risk exposure profile.

The purpose with the risk and capital adequacy management within SpareBank 1 Boligkreditt AS is to ensure a satisfactory level of capital and a responsible management of assets in accordance with the Company's statutes and risk profile. This is ensured through an adequate process for risk management and planning and implementation of the Company's equity capital funding and capital adequacy.

The Company's risk- and capital management are aiming to be in accordance to best practices - and this is ensured through:

- A risk culture characterised through high awareness about types of risk and the management thereof
- A competent risk analysis and control environment
- A good understanding of which material risks the Company is exposed to

Organisation and organisational culture

SpareBank 1 Boligkreditt AS is focused on maintaining a strong and alert organisational culture characterised by high awareness about risk management.

SpareBank 1 Boligkreditt AS is focused on independence and control, and the responsibilities are divided between different roles within the organisation:

- The Board of Directors determines the main principles for risk management, including determining the risk profile, limits and guidelines. The Board also carries the responsibility to review capital levels in accordance with the risk profile and the requirements of the regulatory authorities.
- The Chief Executive Officer is responsible for the day to day administration of the Company's business and operations according to laws, statutes, powers of attorney and instructions from the Board. Strategic items or operational items of an unusual nature or importance are discussed with and presented to the Board of Directors. The CEO may however decide a matter in accordance with a power of attorney from the Board. The CEO is responsible for implementing the Company's strategy and in cooperation with the Board to also develop and evolve the strategy.
- The risk manager reports both to both the CEO and to the Board, but is employed directly by the board and not the CEO. The risk manager is tasked with developing the framework for risk management including risk models and risk management systems. The position is further responsible for the independent evaluation and reporting of risk exposure in addition to maintain all relevant laws and regulations.
- The balance sheet committee is headed by the CEO and consists of the CFOs of the largest banks in the SpareBank 1 Alliance in addition to one representative from the smaller Alliance banks (Samspar). The balance sheet committee is an advisory group for the operational management of the Company's balance sheet within the framework determined by the Board of Directors. The committee is an important component of Boligkreditt's operative management of liquidity risks. The investment committee is an advisory council for the evaluation of counterparty exposure limits and for the composition of the liquidity portfolio. The committee is headed by the

CEO and consists of Boligkreditt's financial director and director for asset liability management. The committee advises on credit limits for counterparties and the composition of the liquidity portfolio. The CEO has been tasked by the Board to make decisions regarding credit limits for counterparties and individual investments. "

Risk Categories:

In its risk management the Company's differentiates amongst the following categories of risk:

- Credit Risk: The risk of loss as a result of that counterparties are unwilling and/or unable to meet their obligations to the Company. Credit risk management is detailed in the Company's credit risk policy and this policy is approved by the Board of Directors annually.
- Liquidity Risk: The risk that the Company is unable to meet its obligations and/or finance its assets
- Market Risks: The risk of loss as a result of changes in observable market variables such as interest rates, foreign exchange rates and securities.

Further details about risk categories are discussed in later Notes

Note 4 Important estimates and considerations regarding application of accounting policies

TThe presentation of financial information in accordance with IFRS results in that management uses estimates and makes assumptions which affect the outcome of certain accounting principles, including the amounts accounted for assets, liabilities, income and cost.

Loss on loans and guarantees

Estimates are made regarding the future path of probability of default rates and loss given default rates under different economic scenarios. Starting with actually observed PD rates for residential mortgages that have or can be transferred to the Company as a proxy for the actual expected PD rates, these scenarios are developed within a base, downside and upside case for the economic development (interest rates and unemployment being important and driving factors). Each quarter the entire portfolio of mortgage loans are run through the Company's IFRS 9 loan loss model and the cumulative expected loss is a function of the current portfolio's risk classification, migration of the mortgage loans on the Company's risk scale since granting the loans and these scenarios for the future. See also the description above under Note 2 "Risk of loss on mortgage loans; evaluation of impairments (write downs) "

Fair value of financial instruments

The fair value of financial instruments which are not traded in a liquid market are determined using valuation techniques. The Company utilises methods and assumptions which are as far as possible based on observable market data and which represent market conditions as of the date of the financial accounts. When valuing financial instruments where no observable market data are available, the Company estimates values based on what it is reasonable to expect that market participants would use as a basis for valuation of financial instruments.

Pensions

The Company's regular pension scheme is a defined contribution plan under which once the contribution is made for the period, which is recorded in compensation expense for that period, no further liability arises. However, there are certain other pension elements for which the Company records a pension liability (see above under Note 2

“Pensions”). Net pension obligations are based on a number of estimates including future investment returns, future interest rate and inflation levels, developments in compensation, turnover, development in the "G" amount (the basic level of pension as determined by the public pension system and used as a yardstick in several calculations nationally) and the general development in the number of disabled persons and life expectancy are of significant importance. The uncertainty is primarily related to the gross obligation for pensions and not the net amount which is recorded in the financial accounts (balance sheet). Changes in pension obligation estimates which may result from changes in the factors mentioned above will be charged directly against the Company's recorded equity.

Income Taxation

The calculation of the income tax also incorporates material estimates. For some transactions and calculations there will be a degree of uncertainty related to the final tax obligation. SpareBank 1 Boligkreditt AS records tax obligations based upon whether future income tax obligations are expected to materialise. If the final outcome of a particular case deviate from the original accrued amount for tax, the difference will affect the profit and loss account for tax expense. The recognised amounts for deferred taxation in the period where the difference is established will also be affected. Differences between tax estimates and actual taxation is typically not a material number for the Company.

Note 5 Net interest income

NOK 1 000	2018	2017
Interest income		
Interest income from, certificates, bonds and deposits	380,228	453,891
Interest income from residential mortgage loans	4,715,801	4,599,141
Commission expense (payable to shareholder banks) *	-1,518,263	-1,582,762
Total interest income	**3,577,766**	**3,470,270**
Interest expense		
Interest expense and similar expenses to credit institutions	-25,036	-15,755
Interest expense and similar expenses on issued bonds	3,211,071	3,000,407
Interest expense and similar expenses on subordinated debt	50,836	51,641
Other interest expenses	7,757	8,124
Total interest expense	**3,244,627**	**3,044,417**
Net interest income	**333,139**	**425,852**

*Commissions to our parent banks are calculated daily for each mortgage loan transferred, whereby the commission equals the customer loan rate less a rate which incorporates the Company's average cost of funding and operational costs. The operational add-on element is expressed through an average rate which is from time to time decided by the Company's Board of Directors.

Note 6 Net gains from financial instruments

NOK 1 000	2018	2017
Net gains (losses) from financial liabilities (1)	-4,904,674	-3,819,661
Net gains (losses) from financial derivatives, hedging liabilities, at fair value, hedging instrument (1,3)	4,849,334	3,006,425
Net gains (losses) from financial assets (2)	-234,796	517,587
Net gains (losses) from financial derivatives, hedging assets, at fair value, hedging instrument (2,3)	-3,394	54,560
Net gains (losses) due to changes in basisswapspreads (4)	-	-389,271
Net gains (losses)	**-293,531**	**-630,361**

(1) The Company utilizes hedge accounting as defined in IFRS for issued fixed rate bonds (covered bonds) with derivatives (swaps) which hedges fixed rates to floating and foreign currencies to Norwegian kroner. The hedges are individually tailored to each issued bond and exactly matches the cash flows and duration of the issued bonds. Some liabilities in foreign currency are hedged with natural hedges (corresponding assets in the same currency and will cause the valuation change of the liabilities to be different to the valuation changes in the derivatives hedging the liabilities (there will also be valuation differences due to the the amortization of issuance costs and when the bonds are issued at prices different from par value.)

(2) SpareBank 1 Boligkreditt AS manages its liquidity risk by refinancing its outstanding bonds ahead of expected maturities and keeping proceeds as a liquidity portfolio. The majority of this portfolio is valued according to observed market values (fair value). Fixed rate bonds and bonds in other currencies than Norwegian kroner are hedged using swaps. The latter are valued according to interest rate and foreign exchange rates and are also valued at fair value (though differences may occur because the valuation of the bonds include a credit risk/spread element which the swaps do not contain). A smaller part of the portfolio is classified as hold-to-maturity and consist of bonds in Norwegian kroner at floating rates. Included in assets in the table are also investments which are hedged with natural currency hedges, as well as investments in short term, highly rated bonds from funds received from swap counterparties for collateral purposes. Such investments do not have a corresponding value change in the financial derivatives hedging the assets (and are also not included in the liabilities in line 1 in the table above as this contains only the Company's issued debt securities).

(3) All derivatives are valued at fair value according to changes in market interest rates and foreign exchange rates. Changes in valuations from the previous period is accounted for in profit and loss.

(4) The Company utilizes basis swaps, which is the foreign exchange swap that changes foreign currency exposure into Norwegian kroner exposure, and this is entered into at a certain cost expressed in bps per annum. The change in this cost is used to adjust the valuation of all of the outstanding basis swaps each quarter, along with the change in other transaction charges to enter into the swaps. An increase in the costs for basis swaps results in a positive adjustment (gain), while a reduction in basis swap costs lead to a negative adjustment (loss). The effect of the basis swap valuation adjustments can be material from quarter to quarter because the Company's portfolio of swaps is extensive. All basis swap valuation adjustments will reverse in line the with the passage of time and will become zero at the latest at the point of the scheduled swap termination date. IFRS 9 allows the company to present the changes in basisswapspreads below other comprehensive income. As of 01.01,2018 it will no longer be presented below the income statement. It will be presented in other comprehensive income.

Note 7 Salaries and remuneration

NOK 1 000	2018	2017
Salary	10,201	10,486
Salaries reinvoiced to SpareBank1 Næringskreditt*	-2,870	-2,945
Pension expenses	2,055	2,002
Social insurance fees	2,146	2,251
Other personnel expenses	234	221
Total salary expenses	**11,766**	**12,017**
Average number of full time equivalents (FTEs)	7	8

Note 8 Salaries and other remuneration of management

Paid in 2018

NOK 1 000	Wage compensation	Bonus	Other compensation	Pension cost	Accrued Pensions	Employee mortgage loan
Management						
Chief Executive Office - Arve Austestad	2 205	-	183	658	5 345	3 124
Chief Operating Officer - Henning Nilsen	1 503	-	87	155	852	7 233
Chief Financial Officer - Eivind Hegelstad	1 513	-	64	158	-	4 093
Total for Management	**5 221**	**-**	**334**	**971**	**6 197**	**14 450**

Paid in 2017

NOK 1 000	Total compensation	Bonus	Other compensation	Pension cost	Accrued Pensions	Employee mortgage loan
Management						
Chief Executive Office - Arve Austestad	2 170	-	185	630	5 467	3 427
Chief Operating Officer - Henning Nilsen	1 466	-	88	-	1 197	6 708
Chief Financial Officer - Eivind Hegelstad	1 474	-	62	-	-	4 271
Total for Management	**5 110**	**-**	**335**	**-**	**-**	**14 406**

All employees have an offer of an employee mortgage loan from SpareBank 1 SR-Bank. The terms and conditions for this include an interest rate one percentage point below the standard rate as determined by the Norwegian Treasury Department from time to time.

The Board of Directors	Paid in 2018	Paid in 2017
Kjell Fordal	108	105
Inge Reinertsen	87	85
Tore Anstein Dobloug	-	85
Merete N. Kristiansen	87	85
Inger Marie Stordal Eriksen	87	85
Geir-Egil Bolstad	87	23
Trond Sørås (Observer)	23	23
Total for the Board of Directors	**479**	**490**

Payments for the Board of Directors take place in the year following their year of service. The amount paid and the composition of the Board reflects that of the period prior to the periods listed under the column headings "Paid in"

Note 9 Pensions

SpareBank 1 Boligkreditt employees (eight in total) are all at a defined contribution pension scheme. The Company pays the agreed contribution into the pension scheme and has no further obligations. For the Company's CEO the Company has future pension obligations for salary above 12G (the cap for contributions according to the defined contribution scheme) and these liabilities are accounted for in the Company's accounts.

	2018	**2017**
Net pension obligations on the balance sheet		
Present value pension obligation as of Dec 31	12,955	17,093
Pension assets as of Dec 31	4,172	4,321
Net pension obligation as of Dec 31	8,783	12,772
Employer payroll tax	1,678	2,439
Net pension obligation recorded as of Dec 31	**10,461**	**15,211**

	2018	2017
Pension expense in the period		
Defined benefit pension accrued in the period	965	1,002
Defined contribution plan pension costs including AFP	1,133	1,043
Pension expense accounted for in the income statement	**2,097**	**2,045**

The following economic assumptions have been made when calculating the value of the pension obligations which are not related to the defined contribution plan:

	2018	**2017**
Discount rate	2.60 %	2.40 %
Expected return on pension assets	2.60 %	2.40 %
Future annual compensation increases	2.75 %	2.50 %
Regulatory cap change	2.50 %	2.25 %
Pensions regulation amount	1.60%/2.00%	1.60%/2.00%
Employer payroll taxes	14.10 %	14.10 %

Note 10 Other operating expenses

NOK 1 000	2018	2017
IT and IT operations	9,565	9,143
Purchased services other than IT	8,310	10,290
Other Operating Expenses	1,987	1,934
Depreciation on fixed assets and other intangible assets	628	1,021
Total	**20,490**	**22,389**

Auditing

Remuneration to Deloitte AS and cooperating companies is allocated as follows:

NOK 1 000	2018	2017
Legally required audit	578	575
Other attestation services, incl. examination services, loan documents sample testing, comfort letters	730	682
Other services outside auditing	153	130
Total (incl VAT)	**1,461**	**1,387**

Note 11 Taxes

NOK 1 000	2018	2017
Pre-tax profit	6,503	-238,914
Permanent differences	-54,646	-49,469
Change in temporary differences	627,381	50,377
Temporary differences from basis swap spread adjustment, shown in other comprehensive income	-280,245	-
Temporary differences from pension estimate deviation, shown in other comprehensive income	5,468	-347
Temporary differences from implementing IFRS 9 ECL model, recorded directly in equity	-4,095	-
Change in temporary differences due to use of previously tax deficit	-238,353	-
Tax base/taxable income for year	**62,013**	**-238,353**

Tax payable for the year	15,503	-
Tax effect of change in temporary differences recorded in OCI / Equity	69,718	87
Tax effect of interest on hybrid capital, recorded directly in equity	13,663	12,376
Change in deferred tax	-97,257	-72,182
Tax expense for the year	**1,627**	**-59,720**

The charge for the year can be reconciled to the profit before tax as follows::

Profit before tax on continuing operations	6,503	-238,914
Expected tax expense - tax rate 25 %	**1,626**	**-59,729**

Deferred tax		
Financial instruments	43,016	200,025
Pension liability	-2,615	-3,803
Tax losses to be carried forward	-	-59,588
Effect of implementing IFRS 9 ECL model	-1,024	-
Net deferred tax benefit (-) / deferred tax (+)	**39,377**	**136,634**

Taxrate applied	25 %	25 %
Taxrate applied for temporary differences	25 %	25 %

Note 12 Other assets

NOK 1 000	2018	2017
Intangible assets *	707	438
Account receivables from SpareBank 1 Næringskreditt AS	1,043	750
Total	**1,750**	**1,188**

* Intangible assets

NOK 1 000	
Acquisition cost 01.01,2017	34,091
Acquisitions	214
Disposals	
Acquisition cost 31.12,2017	**34,305**
Accumulated depreciation and write-downs 01.01,2017	32,846
Periodical depreciation	1,021
Periodical write-down	-
Disposal ordinary depreciation	-
Accumulated depreciation and write-downs 31.12,2017	33,867
Book value as of 31.12,2017	**438**
Acquisition cost 01.01,2018	34,305
Acquisitions	897
Disposals	
Acquisition cost 31.12,2018	**35,202**
Accumulated depreciation and write-downs 01.01,2018	33,867
Periodical depreciation	628
Periodical write-down	-
Disposal ordinary depreciation	-
Accumulated depreciation and write-downs 31.12,2018	34,495
Book value as of 31.12,2018	**707**
Financial lifespan	3 years
Depreciation schedule	linear

Note 13 Lending to customers

Lending to customers are residential mortgages only. The mortgages generally have a low loan-to-value and losses have been very low. The total amount of lending to customers at the end of 31.12,2018 were NOK 184 billion. All mortgages carry a variable interest rate.

NOK 1 000	**2018**	**2017**
Revolving loans - retail market	45,484,285	49,192,170
Amortising loans - retail market	138,418,290	128,318,018
Accrued interest	183,912	172,650
Total loans before specified and unspecified loss provisions	**184,086,488**	**177,682,838**
		-
IFRS 9 mesuarment		
Stage 1	177,082,658	N/A
Stage 2	7,003,830	N/A
Stage 3	-	N/A
Gross loans	**184,086,488**	**177,682,838**
Individual impairments	-	7,708
Impairments on groups of loans	-	-
Expected credit loss, stage 1	3,905	N/A
Expected credit loss, stage 2, no objective proof of loss	8,665	N/A
Expected credit loss, stage 3, objective proof of loss	-	N/A
Total net loans and claims with customers	**184,073,918**	**177,675,130**
Liability		
Unused balances under customer revolving credit lines (flexible loans)	12,304,082	12,431,823
Total	**12,304,082**	**12,431,823**
Defaulted loans		
Defaults*	0.0 %	0.0 %
Specified loan loss provisions	0.0 %	0.0 %
Net defaulted loans	**0.0 %**	**0.0 %**
Loans at risk of loss		
Loans not defaulted but at risk of loss	0.0 %	0.0 %
- Write downs on loans at risk of loss	0.0 %	0.0 %
Net other loans at risk of loss	**0.0 %**	**0.0 %**

*The entire customer loan balance is considered to be in default and will be included in overviews of defaulted loans when overdue instalments and interest payments are not received within 90 days or if credit limits on revolving loans are exceeded for 90 days or more.

Loans sorted according to geography (Norwegian counties)

NOK 1 000		Lending 2018	Lending 2018 %	Lending 2017	Lending 2017 %
NO01	**Østfold**	-7,079,758	3.85 %	-6,880,200	3.87 %
NO02	**Akershus**	-22,273,568	12.10 %	-20,936,360	11.78 %
NO03	**Oslo**	-23,312,977	12.67 %	-19,905,974	11.20 %
NO04	**Hedmark**	-13,322,545	7.24 %	-13,975,457	7.87 %
NO05	**Oppland**	-6,503,295	3.53 %	-6,134,660	3.45 %
NO06	**Buskerud**	-12,457,779	6.77 %	-11,352,675	6.39 %
NO07	**Vestfold**	-8,003,910	4.35 %	-7,593,287	4.27 %
NO08	**Telemark**	-7,111,149	3.86 %	-6,776,593	3.81 %
NO09	**Aust Agder**	-275,254	0.15 %	-385,354	0.22 %
NO10	**Vest Agder**	-833,060	0.45 %	-1,236,810	0.70 %
NO11	**Rogaland**	-8,298,260	4.51 %	-12,545,415	7.06 %
NO12	**Hordaland**	-2,266,310	1.23 %	-2,737,304	1.54 %
NO14	**Sogn og Fjordane**	-383,303	0.21 %	-374,850	0.21 %
NO15	**Møre og Romsdal**	-10,918,164	5.93 %	-10,813,146	6.09 %
NO18	**Nordland**	-13,286,543	7.22 %	-12,121,195	6.82 %
NO19	**Troms**	-11,791,342	6.41 %	-11,517,284	6.48 %
NO20	**Finnmark**	-5,620,549	3.05 %	-4,985,577	2.81 %
NO21	**Svalbard**	-147,649	0.08 %	-103,153	0.06 %
NO23	**Trøndelag**	-30,188,501	16.40 %	-27,299,837	15.37 %
SUM		-184,073,918	100.0 %	-177,675,130	100.0 %
SUM		**-177 675 130**	**100.0 %**	**174 463 203**	**100.0 %**

Note 14 Amounts arising from ECL

The following table show reconciliations from the opening to the closing balance of the loss allowance. Explanation of the terms 12-month ECL and lifetime ECL (stage 1-3) are included in note 33.3 in the annual account 2018.

	2018			
Loans and advances to customers at amortized cost		**Stage 2**	**Stage 3**	**Total**
Balance sheet on 1 January 2018	**3,843**	**7,960**	**-**	**11,803**
Transfer to 12 month ECL	-	-	-	-
Transfer to lifetime ECL - No objective evidence of loss	-	-	-	-
Transfer to lifetime ECL - objective proof of loss	-	-		-
Net remeasurement of loss allowance	-	-	-	-
New financial assets originated or purchased	1,503	2,553	-	4,056
Change due to reduced portifolio	-1,584	-2,262	-	-3,846
Other movements	213	427	-	640
Balance sheet on 31 December 2018	**3,975**	**8,678**	**-**	**12,652**

Note 15 Share capital and shareholder information

List of shareholders as of 31.12,2018

	No of Shares	in per cent	Share of votes
SpareBank 1 Østlandet	15,539,102	21.61 %	21.61 %
SpareBank 1 SMN	14,879,609	20.69 %	20.69 %
SpareBank 1 Nord-Norge	12,810,567	17.82 %	17.82 %
BN Bank ASA	4,698,769	6.53 %	6.53 %
SpareBank 1 BV	4,624,963	6.43 %	6.43 %
SpareBank 1 SR-Bank ASA	3,461,175	4.81 %	4.81 %
Sparebanken Telemark	3,305,204	4.60 %	4.60 %
SpareBank 1 Ringerike Hadeland	3,231,669	4.49 %	4.49 %
SpareBank 1 Østfold Akershus	3,134,912	4.36 %	4.36 %
SpareBank 1 Nordvest	1,567,456	2.18 %	2.18 %
SpareBank 1 Modum	1,373,943	1.91 %	1.91 %
SpareBank 1 Hallingdal Valdres	928,863	1.29 %	1.29 %
SpareBank 1 Søre Sunnmøre	892,095	1.24 %	1.24 %
SpareBank 1 Gudbrandsdal	880,485	1.22 %	1.22 %
SpareBank 1 Lom og Skjåk	576,670	0.80 %	0.80 %
Total	71,905,482	100 %	100 %

The share capital consists of 71 905 482 shares with a nominal value of NOK 100

Hybrid capital

NOK 1000	ISIN	Interest rate	Issued year	Call option	2018	2017
Perpetual						
Hybrid (Tier 1 capital instrument)	NO0010713746	3M Nibor + 310 bp	2014	09.05.2019	350,000	350,000
Hybrid (Tier 1 capital instrument)	NO0010745920	3M Nibor + 360 bp	2015	23.09.2020	300,000	300,000
Hybrid (Tier 1 capital instrument)	NO0010746191	3M Nibor + 360 bp	2015	29.09.2020	180,000	180,000
Hybrid (Tier 1 capital instrument)	NO0010767643	3M Nibor + 360 bp	2016	22.06.2021	250,000	250,000
Hybrid (Tier 1 capital instrument)	NO0010811318	3M Nibor + 310 bp	2017	01.12.2022	100,000	100,000
Book value					1,180,000	1,180,000

Note 16 Liabilities incurred by issuing securities

	Nominal value*	Nominal value*
NOK 1 000	**2018**	**2017**
Short term notes, unsecured	-	121,000
Repurchased short term notes, unsecured	-	-
Senior unsecured bonds	1,047,000	2,747,000
Repurchased senior unsecured bonds	-	-
Covered bonds	188,169,679	195,440,860
Repurchased Covered bonds	-	-679,000
Total debt incurred by issuing securities	189,216,679	197,629,860

* Nominal value is incurred debt at exchange rates (EUR/NOK and USD/NOK) at the time of issuance

	Book value	Book value
NOK 1 000	**2018**	**2017**
Short term notes, unsecured	-	120,999
Repurchased short term notes, unsecured	-	-
Senior unsecured bonds	1,046,990	2,747,224
Repurchased senior unsecured bonds	-	-
Covered bonds	209,973,603	220,881,928
Repurchased covered bonds	-	-690,258
Activated costs incurred by issuing debt	-165,808	-165,460
Accrued interest	1,496,260	1,568,549
Total debt incurred by issuing securities	**212,351,045**	**224,462,981**

Liabilities categorized by debt instrument and year of maturity (nominal value*, net of repurchased bonds) NOK 1,000:

Senior Unsecured Bonds and notes

Due in	2018	2017
2017	-	-
2018	1,047,000	1,312,000
2019	-	1,556,000
Total	**1,047,000**	**2,868,000**

Covered bonds

Due in	2018	2017
2017	-	-
2018	-	33,624,750
2019	24,954,124	27,580,116
2020	24,963,500	24,963,500
2021	28,894,098	28,877,278
2022	38,749,200	38,749,200
2023	30,378,725	14,624,800
2024	13,916,174	11,191,944
2025	10,648,750	1,010,000
2026	12,185,000	12,185,000
2027	674,808	672,472
2028	2,562,800	1,282,800
2038	242,500	-
Total	**188,169,679**	**194,761,860**

* Nominal value is incurred debt at exchange rates (EUR/NOK and USD/NOK) at the time of issuance

Debt incurred by currency (book values at the end of the period)

NOK 1 000	2018	2017
NOK	62,711,262	65,008,436
EUR	130,285,193	135,362,358
USD	10,707,438	18,270,303
GBP	8,382,733	5,546,052
SEK	264,420	275,832
Total	**212,351,045**	**224,462,981**

Note 17 Subordinated debt

NOK 1000	ISIN	Interest rate	Issued year	Call option from	Maturity	Nominal amount	2018	2017
With maturity								
Subordinated debt (Tier 2 capital instrument)	NO0010704109	3M Nibor + 225 bp	2014	07.03,2019	07.03,2024	475,000	475,000	1,600,000
Subordinated debt (Tier 2 capital instrument)	NO0010826696	3M Nibor + 153 bp	2018	22.06,2023	22.06,2028	250,000	250,000	–
Subordinated debt (Tier 2 capital instrument)	NO0010833908	3M Nibor + 180 bp	2018	08.10,2025	08.10,2030	400,000	400,000	–
Subordinated debt (Tier 2 capital instrument)	NO0010835408	3M Nibor + 167 bp	2018	02.11,2023	02.11,2028	475,000	475,000	–
Accrued interest							6,160	3,356
Book value							**1,606,160**	**1,603,356**

Note 18 Reconciliation of liabilities arising from financing activities

The table below details changes in liabilities arising from financing activities, including both cash and non-cash changes.

			Non-cash changes		
NOK 1 000	**2017**	**Financing cash flows**	**Adjustments**	**Other changes**	**2018**
Liabilities					
Debt incurred by issuing certificates	122,705	-120,999	-	-1,706	0
Debt incurred by issuing bonds	224,340,276	-8,347,785	-3,288,572	-352,875	212,351,045
Collateral received in relation to financial derivatives	23,628,253	-4,901,801	-	6,601	18,733,053
Financial derivatives	898,292	-	-136,429	280,245	1,042,108
Subordinated dept	1,603,356	-	-	2,804	1,606,160
Hybrid capital	1,180,000	-	-	-	1,180,000
	251,772,882	-13,370,585	-3,425,001	-64,930	234,912,367

Note 19 Financial Derivatives

NOK 1 000	2018	2017
Interest rate derivative contracts		
Interest rate swaps		
Nominal amount	68,401,281	74,269,883
Asset	2,918,190	3,661,041
Liability	-514,399	-655,346
Currency derivative contracts		
Currency swaps		
Nominal amount	140,302,215	145,676,227
Asset	20,265,604	23,483,084
Liability	-56,996	-52,478
Total financial derivative contracts		
Nominal amount	208,703,496	219,946,110
Asset	23,183,793	27,144,125
Liability	-571,395	-707,824

All derivative contracts exist for the purpose of hedging changes in interest rates and currency exchange rates.

* Change due to basis swap spread adjustment	Liability	Liability
Asset/Liability	-571,395	-707,824
Net gain (loss) on valuation adjustment of basisswap spreads	-470,713	-190,468
Net asset/liability derivatives	**-1,042,108**	**-898,292**

Basis swaps are currency swaps and are entered into at a certain cost (spread) between SpareBank 1 Boligkreditt and banks which offer such swaps and which have signed an ISDA agreement with the Company. Changes in the cost are valued eachquarter across all of the Company's swaps in accordance with the IFRS rules. An increase in the cost would result in an increase in the value of the basisswaps while a cost decrease would reduce the value of the basis swaps. The effect may be material from quarter to quarter because the Company's portfolio of swaps is extensive. All basisswap value changes will reverse overtime towards the point of termination of the swaps. IFRS 9 allows the company to present the changes in basisswapspreads below other comprehensive income. As of 01.01,2018 it will no longer be presented below the income statement. It will be presented in other comprehensive income.

Note 20 Classification of Financial Instruments

NOK 1 000	Financial instruments accounted for at fair value *	Financial assets and debt accounted for at amortised cost	Financial assets held to maturity	Non-financial assets and liabilities	**2018**
Assets					
Lending to and deposits with credit institutions	-	12,990,004	-	-	12,990,004
Certificates and bonds	25,271,910	-	-	-	25,271,910
Residential mortgage loans	-	184,073,918	-	-	184,073,918
Financial derivatives	23,183,793	-	-	-	23,183,793
Defered tax asset	-	-	-	-	-
Other assets	-	-	-	1,750	1,750
Total Assets	**48,455,704**	**197,063,922**	**-**	**1,750**	**245,521,375**
Liabilities					
Debt incurred by issuing securities	167,495,967	44,855,078	-	-	212,351,045
Collateral received in relation to financial derivatives	-	18,733,053	-	-	18,733,053
Financial derivatives	1,042,108	-	-	-	1,042,108
Deferred taxes	-	-	-	39,377	39,377
Taxes payable	-	-	-	15,503	15,503
Subordinated dept	-	1,606,160	-	-	1,606,160
Other liabilities	-	-	-	150,763	150,763
Total Liabilities	**168,538,075**	**65,194,291**	**-**	**205,643**	**233,938,009**
Total Equity	**-**	**1,180,000**	-	**10,403,366**	**11,583,366**
Total Liabilities and Equity	**168,538,075**	**66,374,291**	**-**	**10,609,009**	**245,521,375**

*Fair value calculation according to changes in market interest rates and currencies exchange rates

NOK 1 000	Financial instruments accounted for at fair value *	Financial assets and debt accounted for at amortised cost	Financial assets held to maturity	Non-financial assets and liabilities	2017
Assets					
Lending to and deposits with credit institutions	-	3,044,644	-	-	3,044,644
Certificates and bonds	54,318,384	-	-	-	54,318,384
Lending to customers	-	177,675,130	-	-	177,675,130
Financial derivatives	27,144,125	-	-	-	27,144,125
Defered tax asset	-	-	-	-	-
Other assets	-	-	-	1,188	1,188
Total Assets	**81,462,509**	**180,719,774**	**-**	**1,188**	**262,183,472**
Liabilities					
Debt incurred by issuing securities	176,536,265	47,926,716	-	-	224,462,981
Collateral received in relation to financial derivatives	-	23,628,253	-	-	23,628,253
Financial derivatives	898,292	-	-	-	898,292
Deferred taxes	-	-	-	136,634	136,634
Taxes payable	-	-	-	-	-
Subordinated dept	-	1,603,356	-	-	1,603,356
Other liabilities	-	-	-	182,231	182,231
Total Liabilities	**177,434,557**	**73,158,325**	**-**	**318,865**	**250,911,747**
Total Equity	**-**	**1,180,000**	**-**	**10,091,724**	**11,271,724**
Total Liabilities and Equity	**177,434,557**	**74,338,325**	**-**	**10,410,589**	**262,183,472**

*Fair value calculation according to changes in market interest rates and currencies exchange rates

Note 21 Financial instruments at fair value

Methods in order to determine fair value

General

The interest rate curve that is used as input for fair value valuations of hedging instruments and hedging objects consists of the NIBOR-curve for maturities less than one year. The swap-curve is used for maturities exceeding one year.

Interest rate and currency swaps

Valuation of interest rate swaps at fair value is done through discounting future cash flows to their present values. Valuation of currency swaps will also include the element of foreign exchange rates.

Bonds

Valuation of bonds at fair value is done through discounting future cash flows to present value.

With effect from 2009 SpareBank 1 Boligkreditt AS has implemented the changes in IFRS 7 in relation to the valuation of financial instruments as of the date of the financial accounts. The changes require a presentation of the fair value measurement for each Level. We have the following three Levels for the fair value measurement:

Level 1: Quoted price in an active market. Fair value of financial instruments which are traded in active markets are based on the market price at the balance sheet date. A market is considered to be active if the market prices are easily and readily available from an exchange, dealer, broker, industry group, pricing service or regulating authority and that these prices represent actual and regular market transactions on an arm's length basis.

Level 2: Valuation based on observable factors. Level 2 consist of instruments which are not valued based on listed prices, but where prices are indirectly observable for assets or liabilities, but also includes listed prices in not active markets.

Level 3: The valuation is based on factors that are not found in observable markets (non-observable assumptions). If valuations according to Level 1 or Level 2 are not available, valuations are based on not-observable information. The Company has a matter of principle neither assets nor liabilities which are valued at this level.

The following table presents the company's assets and liabilities at fair value as of 31.12.2018

NOK 1 000

	Level 1	Level 2	Level 3	Total
Bonds and bills	22,844,167	2,427,743	-	25,271,910
Financial Derivatives	-	23,183,793	-	23,183,793
Total Assets	22,844,167	25,611,536	-	48,455,703
Bonds	-	167,495,967	-	167,495,967
Financial Derivatives	-	1,042,108	-	1,042,108
Total Liabilities	**-**	**168,538,075**	**-**	**168,538,075**

The following table presents the company's assets and liabilities at fair value as of 31.12,2017

NOK 1 000

	Level 1	Level 2	Level 3	Total
Bonds and bills	34,388,921	19,929,463	-	54,318,384
Financial Derivatives	-	27,144,125	-	27,144,125
Total Assets	**34,388,921**	**47,073,589**	**-**	**81,462,509**
Bonds	-	176,536,265	-	176,536,265
Financial Derivatives	-	898,292	-	898,292
Total Liabilities	**-**	**177,434,557**	**-**	**177,434,557**

Note 22 Other liabilities

NOK 1 000	**2018**	**2017**
Employees tax deductions and other deductions	623	911
Employers national insurance contribution	708	627
Accrued holiday allowance	946	1,038
Commission payable to shareholder banks	132,512	155,832
Deposits*	525	771
Pension liabilities	10,461	15,211
Other accrued costs	4,988	7,840
Total	**150,763**	**182,231**

The Company does not have an overdraft facility or a revolving credit facility as of 31.12,2018

* Deposits represents temporary balances paid in by customers in excess of the original loan amount

Note 23 Credit risk

Credit risk is defined as the risk that losses can occur as a consequence of that customers and others do not have the ability or willingness to meet their obligations to SpareBank 1 Boligkreditt as and when agreed. Credit risk mainly includes loans to customers which are collateralised by private residences (residential mortgage loans), but also includes credit risk in derivatives contracts (counterparty credit risk) and investment in bonds within the Company's liquidity portfolio. SpareBank 1 Boligkreditt AS maintains a credit policy and limits in order to manage and closely monitor all credit risk the company is exposed to.

According to the Transfer and Servicing agreement between SpareBank 1 Boligkreditt and each parent bank, the Company has the right to reduce commissions payable for the remainder of the current calendar year to all of its parents banks by an amount equal to any incurred losses on individual mortgage loans. The Company has not since the commencement of its operations had any instances of off-set against the commissions due to its parent banks.

Credit Exposure

NOK 1 000	2018	2017
Loans to customers	184,073,918	177,675,130
Loans to and deposits with credit institutions	12,990,004	3,044,644
Government certificates	299,520	1,457,489
Bonds	24,972,390	52,860,895
Financial derivatives	23,183,793	27,144,125
Total assets	**245,521,375**	**262,182,284**
Unused credit on flexible loans	12,303,478	12,430,867
Received collateral in relation to derivative contracts	-18,733,053	-23,628,253
Total credit exposure	**239,091,800**	**250,984,897**

Lending to customers (residential mortgage loans)

The risk classification of the Company's lending is conducted on the basis of an evaluation of the exposures. The evaluation is based on the following main criteria:

- Ability of the customer to pay (income and debt)
- Willingness to pay (payment remarks)
- Size of the loan
- Loan to value (maximum loan to collateral value is 75% and the collateral must be valued by an independent source, Valuations are updated quarterly for the whole loan portfolio)
- Location

SpareBank 1 Boligkreditt AS utilizes the SpareBank 1 Alliance's IT platform and custom developed IT systems for the acquisition of loans from the banks in the SpareBank 1 Alliance. Credit risk is monitored by measuring the development of the mortgage portfolio's credit quality, details about missed payments, defaults and over the limit withdrawals. For defaults and losses in the portfolio the Company has set the following limits:

- Maximum probability of default for the portfolio: 0.75 %
- Expected loss in the portfolio: < 0.05 % of the loan volume
- Unexpected loss in the portfolio (at a 99.97% confidence level): < 0,5 % of the loan volume

The following risk classification, step 1 to 3 is executed monthly based on objective data

1.Probability of default (PD): The customers are classified in PD classes depending on the likelihood for default within the next 12 months based on a long average (through cycle). The PD is calculated on the basis of historical dataseries for financial key numbers tied to income and source of income, as well as on the basis of non-financial criteria such as age and behaviour. In order to group the customers according to PD, nine classes of probability of default are used (A to I). In addition the Company has to default classes (J and K) for customers with defaulted and/or written down exposures.

2. Exposure at default: This is a calculated number which provides the exposure with a customer at the point of default. This exposure is usually of lending volume and the approved but not utilized credit lines. Customers approved but not utilized credit lines are multiplied with a 100 per cent conversion factor.

3. Loss given default (LGD): This is a calculated number which expresses how much the Company potentially stands to lose if a customer defaults on his or her obligations. The assessment takes into consideration the collateral and the cost the Company could incur by foreclosing and collecting on the defaulted exposure. The Company determines the realizable value on the collateral based on the experience of the SpareBank 1 banks over time, and so that the values reflect a cautious assessment in the lower point of an economic cycle. Seven classes (1 to 7) are used to classify the exposures according to LGD.

SpareBank 1 Boligkreditt AS will only purchase loans from the shareholder banks that have a high servicing capacity and low loan to value. This implies that the loans bought by the Company are in lower risk groups. The Company utilizes the same risk classification as the other banks in the SpareBank 1 Alliance. Presented below is an overview that shows how loans are allocated over the risk groups. The allocation in risk groups is based on expected loss (PD multiplied by LGD for each individual loan). .

Definition of risk groups - based on probability of default

			Distribution in %		Total lending *	
Risk group	**Lower limit**	**Upper limit**	**2018**	**2017**	**2018**	**2017**
Lowest	0.00 %	0.01 %	85.37 %	84.97 %	156,868,512	150,705,579
Low	0.01 %	0.05 %	10.96 %	11.45 %	20,142,820	20,315,920
Medium	0.05 %	0.20 %	2.35 %	2.40 %	4,325,581	4,247,925
High	0.20 %	0.50 %	0.68 %	0.62 %	1,246,661	1,092,737
Highest	0.50 %	100 %	0.63 %	0.56 %	1,166,695	994,165
Total			**100.00 %**	**100.00 %**	**183,750,269**	**177,356,326**

* Total exposures are presented as exposure at default exclusive of accrued interest and before group loan loss provisions.

Loans to and deposits with credit institutions

SpareBank 1 Boligkreditt only has deposits with financial institutions rated A-/A2 or higher as of 31.12.2018

Bonds and certificates

Rating class		2018	2017
AAA/Aaa	Covered Bonds	15,181,397	33,109,780
	Norw. Government bills	299,520	1,146,945
	Other government or gov guaranteed bonds	9,522,626	18,772,424
	Financial institutions		
	Total	25,003,543	53,029,149
AA+/Aa1 to AA-/Aa3	Other government bonds	268,368	1,289,235
	Covered Bonds	-	-
	Financial institutions	11,671,094	1,389,231
	Total	11,939,462	2,678,466
A+/A1 - A/A2	Financial institutions	1,318,910	1,655,413
	Total	1,318,910	1,655,413
Total		**38,261,914**	**57,363,028**

Fitch/Moody's/S&P rating classes are used. If the ratings differ, the lowest counts. All bonds are publicly listed.

Financial derivatives

Derivative contracts are only entered into with counterparties with a certain minimum rating by Fitch Ratings and Moody's Ratings. Service. If the value of the derivative exceeds the credit limits held by SpareBank 1 Boligkreditt for counterparty risk in derivative contracts the counterparty must post cash collateral in either NOK or EUR. SpareBank 1 Boligkreditt is not required to post collateral if the value of the contract should be in favour of the counterparty. Collateral received is included in the balance sheet under receivables with and debt to credit institutions.

Note 24 Liquidity risk

Liquidity risk is defined as the risk that the business is not able to meet its obligations at maturity. SpareBank 1 Boligkreditt AS issues covered bonds at shorter maturities than the residential mortgages which make up the largest portion of assets on the Company's balance sheet. The Liquidity risk which arises is closely monitored and is in compliance with the Norwegian covered bond legislation which amongst other things requires that the cash flow from the cover pool is sufficient to cover outgoing cash flows for holders of preferential claims on the cover pool (holders of covered bonds and counterparties in associated hedging contracts (swaps). In order to manage the liquidity risk certain limits and liquidity reserves have been approved by the Board of Directors. SpareBank 1 Boligkreditt AS maintains a liquidity reserve which will cover bond maturities for the next six months according to the proposed Harmonized Legislation for Covere Bonds Liquidity risk is monitored on a regular basis and weekly reports are presented to the management and monthly reports to the Board.

Boligkreditt's shareholder banks have committed themselves to buying covered bonds in a situation where the primary market for issuance of covered bonds is not functioning. This commitment has no liquidity effects on the SpareBank 1 banks because the covered bonds can be deposited with the central bank at any time. The Company may require its shareholder banks to acquire covered bonds from it in an amount which is capped at the amount of the next 12 months upcoming maturities less what the Company holds as its own liquidity reserve. Each shareholder bank's responsibility is pro rata in accordance with its ownership stake in the Company and secondary up to a level of twice its pro rata stake if other banks are unable or unwilling to meet their commitment.   Each bank may make a deduction in its commitment for bonds already purchased under this commitment.

Liquidity Risk - all amounts in 1000 NOK

	31.12,2018	No set term	Maturity 0 to 1 month	Maturity 1 to 3 months	Maturity 3 to 12 months	Maturity 1 to 5 years	Maturity more than 5 years
Loans to credit institutions	37,962,394	3,484,993	3,918,388	5,316,166	4,563,771	20,065,992	613,083
Lending to customers	184,073,918		3,342	10,049	47,483	1,369,261	182,643,784
Derivatives	23,183,793		0	3,119,376	3,747,152	13,766,134	2,551,132
Treasury Bills	299,520			299,520			
Other assets with no set term	1,750	1,750					
Total Assets	245,521,375	3,486,743	3,921,730	8,745,110	8,358,406	35,201,387	185,807,999
Liabilities incurred when issuing securities	-212,351,045		0	-13,149,571	-19,628,724	-136,862,524	-42,710,225
Other liabilities with a set term	-18,733,053		-18,733,053				
Derivatives	-1,042,108		-6,613	-1,168,026	912,947	-302,491	-477,926
Liabilities with no set term	-205,643	-205,643					
Subordinated debt	-1,606,160						-1,606,160
Equity	-11,583,366	-11,583,366					
Total liabilities and equity	-245,521,375	-11,789,009	-18,739,666	-14,317,597	-18,715,777	-137,165,015	-44,794,310
Net total all items		-8,302,266	-14,817,936	-5,572,487	-10,357,371	-101,963,628	141,013,688

Interest Rate Risk - all amounts in 1000 NOK

	31.12,2017	No set term	Maturity 0 to 1 month	Maturity 1 to 3 months	Maturity 3 to 12 months	Maturity 1 to 5 years	Maturity more than 5 years
Loans to credit institutions	57,002,570	3,044,644	1,786,446	3,676,825	18,875,514	27,951,055	1,668,086
Lending to customers	177,675,130		1,806	6,710	34,579	1,359,146	176,272,889
Derivatives	27,144,125			2,618,827	3,642,042	19,301,624	1,581,632
Treasury Bills	360,459				360,459		
Other assets with no set term	1,188	1,188					
Total Assets	262,183,472	3,045,832	1,788,251	6,302,362	22,912,594	48,611,825	179,522,607
Liabilities incurred when issuing securities	-224,462,981		-122,705	-9,957,524	-31,044,197	-140,952,709	-42,385,846
Other liabilities with a set term	-23,628,253		-23,628,253				
Derivatives	-898,292			0	-42,365	-577,844	-278,083
Liabilities with no set term	-318,865	-318,865					
Subordinated debt	-1,603,356						-1,603,356
Equity	-11,271,724	-11,271,724					
Total liabilities and equity	-262,183,472	-11,590,589	-23,750,959	-9,957,524	-31,086,561	-141,530,553	-44,267,285
Net total all items		-8,544,757	-21,962,708	-3,655,162	-8,173,967	-92,918,728	135,255,322

Note 25 Interest rate risk

The interest rate risk is the risk of a negative profit effect due to rate changes. The balance sheet of SpareBank 1 Boligkreditt consists in all essence of loans to retail clients with a variable interest rate that can be changed after a 6 week notice period, floating rate current deposits, bonds and certificates in the Company's liquidity portfolio and of issued bonds and certificates. In accordance with the Norwegian legislation applicable to Covered Bonds and internal guidelines, SpareBank 1 Boligkreditt hedges all interest rate risk by utilising interest rate swaps. The Board approves limits for interest rate risk for different terms. Reports to the Board are presented on a monthly basis. The table below reports the effect on market value in NOK for one per cent change in interest rates for the Company's portfolios of mortgages, derivatives and issued bonds. The interest rate sensitivity shows the expected effect from a 100 basis points parallel shift in the interest rate curve:

Interest rate risk - all amounts in 1 000 NOK

	31.12,2018	**No set term**	**Maturity 0 to 1 month**	**Maturity 1 to 3 months**	**Maturity 3 to 12 months**	**Maturity 1 to 5 years**	**Maturity more than 5 years**
Loans to credit institutions	37,962,394		9,294,264	7,137,862	4,073,168	16,912,910	544,189
Lending to customers	184,073,918			184,073,918			
Treasury Bills	299,520			299,520	0		
Other assets with no set term	1,750	1,750					
Total Assets	222,337,582	1,750	9,294,264	191,511,300	4,073,168	16,912,910	544,189
Liabilities incurred when issuing securities	-212,351,045		-888,336	-62,440,753	-12,927,017	-93,747,896	-42,347,042
Other liabilities with a set term	-18,733,053	-18,733,053					
Liabilities with no set term	-205,643	-205,643					
Subordinated debt	-1,606,160						-1,606,160
Equity	-11,583,366	-11,583,366					
Total liabilities and equity	-244,479,267	-30,522,062	-888,336	-62,440,753	-12,927,017	-93,747,896	-43,953,201
Net interest rate risk before derivatives	-22,141,685	-30,520,312	8,405,928	129,070,547	-8,853,849	-76,834,986	-43,409,012
Derivatives	22,141,685	0	-30,812,303	-85,099,172	11,240,983	85,320,260	41,491,917
Net interest rate risk		-30,520,312	-22,406,374	43,971,375	2,387,134	8,485,273	-1,917,096
% of total assets		12 %	9 %	18 %	1 %	3 %	1 %

Interest Rate Risk - all amounts in 1000 NOK

	31.12,2017	No set term	Maturity 0 to 1 month	Maturity 1 to 3 months	Maturity 3 to 12 months	Maturity 1 to 5 years	Maturity more than 5 years
Loans to credit institutions	57,002,570		10,927,048	20,539,188	14,045,322	9,885,412	1,605,600
Lending to customers	177,675,130			177,675,130			
Treasury Bills	360,459			0	360,459		
Other assets with no set term	1,188	1,188					
Total Assets	235,039,347	1,188	10,927,048	198,214,318	14,405,781	9,885,412	1,605,600
Liabilities incurred when issuing securities	-224,462,981		-2,715,292	-62,534,873	-24,406,676	-97,778,557	-37,027,584
Other liabilities with a set term	-23,628,253	-23,628,253					
Liabilities with no set term	-318,865	-318,865					
Subordinated debt	-1,603,356						-1,603,356
Equity	-11,271,724	-11,271,724					
Total liabilities and equity	-261,285,180	-35,218,843	-2,715,292	-62,534,873	-24,406,676	-97,778,557	-38,630,939
Net interest rate risk before derivatives	-26,245,833	-35,217,654	8,211,756	135,679,445	-10,000,895	-87,893,145	-37,025,339
Derivatives	26,245,833	0	-18,090,116	-103,224,852	24,233,598	87,919,170	35,408,033
Net interest rate risk		-35,217,654	-9,878,361	32,454,594	14,232,703	26,025	-1,617,306
% of total assets		13 %	4 %	12 %	5 %	0 %	1 %

The table below presents a net change in market value in NOK for all the Company's asset and liabilities given a one per cent parallel move of the interest rate curve.

		Sensitivity of net interest rate expense in NOK 1000	
Currency	**Change in basis points**	**2018**	**2017**
NOK	100	74,394	51,373

Mortgage rates (variable) are set by SpareBank 1 Boligkreditt AS, but for all practical purposes follow the recommendations from the local originating banks. The mortgage interest rates are set dependent on collateral and LTV, customer risk category and the competitive mortgage lending landscape.

Note 26 Currency risk

The foreign exchange risk is the risk of a negative P&L impact as a result of changes in foreign currencies. SpareBank 1 Boligkreditt AS's balance sheet consists mainly of lending to private individuals in Norway and in NOK, current deposits in NOK and liabilities issued in the Norwegian or international capital markets. In accordance with the Norwegian covered bond legislation and its internal guidelines the Company hedges all currency risk, either by the utilisation of swaps or by way of asset liability management, i.e. maintaining exposures in assets and liabilities of the same currency. Weekly risk reports are created by the management team and reports to the Board of Directors have a monthly frequency. The currency risk (sensitivity to currency movements) are calculated by adding the exposure in the various currencies. No other currencies than the NOK had a material net position on the Company's balance sheet at the end of the year.

Net currency exposure in NOK 1000

Currency	2018	2017
EUR	**53,297**	**-53,851**
- Bank Deposits	73,092	12,650
- Issued Bonds	-130,451,000	-135,527,780
- Derivatives	123,042,469	123,802,194
- Bond investments	7,388,736	11,659,085
USD	**5,948**	**5,513**
- Bank Deposits	5,842	5,413
- Issued Bonds	-10,707,438	-18,270,303
- Derivatives	10,707,543	18,270,402
- Bond investments		
SEK	**-**	**-**
- Bank Deposits	**-**	**-**
- Issued Bonds	-264,420	-275,832
- Derivatives	264,420	275,832
- Bond investments	-	-
GBP	**1,280**	**-**
- Bank Deposits	1,139	-
- Issued Bonds	-8,382,733	-5,546,052
- Derivatives	8,382,874	5,546,052
- Bond investments	-	-
Total	**60,524**	**-48,338**

P&L effect before tax, in NOK 1000

Currency	Change in Exchange Rate (per cent)	2018	2017
EUR	+10	5,330	-5,385
USD	+10	595	551
SEK	+10	-	-
GBP	+10	14	-
Total		5,924	-4,834

Note 27 Operational Risk

Operational risk is defined as the risk of loss due to error or neglect in transaction execution, weakness in the internal control or information technology systems breakdowns. Reputational, legal, ethical and competency risks are also elements of operational risk. The operational risk in SpareBank 1 Boligkreditt AS is limited. The Company is only involved in lending for residential real estate purposes, the placement of liquid assets in highly rated and liquid bonds and the financing of these activities.

Several of the operational processes and systems are supplied by third parties and the Company uses standardized systems for its own operations, such as Simcorp Dimension, for portfolio registration and valuation functions for liquid assets and debt issuances. Several tasks have been outsources to SpareBank 1 SR-Bank, which is a larger organization with overlaps with the systems and tasks of the Company within several treasury functions. The Company also cooperates closely with its other larger parent banks. Evry is the provider of basic bank IT functions, as it is for most banks in Norway and all banks within the SpareBank 1 Alliance. The Evry systems manage the informational data with regards to each individual loan and calculates interest rate payments, installments due and in SpareBank 1 Boligkreditt's case also provisions due to parent banks on mortgage loans sold and transferred to the Company. Any potential changes and/or additions in the operations of the Company will be vetted thoroughly before implementation. The Company annually holds a risk-works shop to discuss and look for risks and improvements in any aspects of the operational systems. The Company's management and control of operational risks are satisfactory.

Based on these facts there are no reasons which would lead to a different conclusion than that the standard method for the calculation of capital for operational risks are required. The Company therefore applies the standard method under the capital adequacy rules (CRD IV, Pillar 1) as method to calculate the operational risk capital requirement. The capital so calculated amounts to 62.1 million for 31.12,2018 (see also the note for capital adequacy)

Note 28 Asset coverage test

The asset coverage is calculated according to the Financial Services Act § 2-31 (Covered Bond Legislation). There is a discrepancy between the asset coverage test and the amounts in the balance sheet because for the purposes of the test mortgage loans which may have migrated above the 75% loan to value level are reduced to reflect the decrease in the value of the underlying collateral so that only a maximum loan corresponding to a value of 75% of the collateral is considered. Market values are used for all substitute collateral in the test. In addition any defaulted loans, i.e. loans in arrears at or beyond 90 days, are excluded from the test (there have been no occurrences of any defaults starting with the commencement of operations through 2017).

- The derivatives values, which are fx and/or hedges corresponding to issued covered bonds have been moved to be included in the cover pool. They were previously shown with the covered bonds.
- Repurchased own bonds have been removed from the calculation.

NOK 1 000	2018	2017
Covered Bonds	211,466,729	222,444,844
Repurchased Bonds	-	-
Derivatives	-	-
Total Covered Bonds	**211,466,729**	**222,444,844**
Residential mortgage loans	182,916,170	176,832,108
Lending to the public sector (gov. bonds/ certificates or gov. guaranteed debt)	2,443,614	2,432,576
Reverse repo/ depo less than 100 days	4,584,178	-
Exposure to credit institutions (covered	12,582,637	30,750,021
Derivatives	22,612,398	26,599,558
Total Cover Pool	**225,138,997**	**236,614,263**
Asset-coverage	**106.5 %**	**106.4 %**

Liquid assets which are used for calculating the LCR ratio have been excluded from the asset coverage test and calculation for overcollateralization, due to the demands in the LCR regulation that all amounts there are "unencumbered". Until the relationship between LCR and overcollateralization has been solved by regulatory authorities, the amount used in LCR is deducted from the calculation for overcollateralization. As of December 31, 2018 the amount deducted from the overcollateralization calculation amounts to NOK 155,5mio which would otherwise have been included in lending to the public sector (NOK 100mio) and exposures to credit institutions (NOK 55,5mio)

Liquidity Coverage Ratio (LCR)	**2018**	**2017**
Liquid assets	10,054,367	510,729
Cash outflow next 30 days	1,061,996	491,758
LCR ratio	946.7 %	104 %

Net Stable Funding Ratio (NSFR)	**2018**	**2017**
Available amount of stable funding	202,019,676	185,243,178
Required amount of stable funding	191,375,955	181,490,902
NSFR ratio	105.6 %	102.1 %

Note 29 Capital adequacy

The primary goal for the Company's management of capital reserves is to ensure compliance with laws and regulatory requirements and maintain solid financial ratios and a high quality credit assessment in order to best support its business.

Transitional rules have been implemented by the FSA whereby regulated financial institutions with approved IRB models will not be able to fully benefit from the results of such models. Regulated entities are allowed to reduce by 20% the total sum of risk weighted assets which would otherwise have been in place under the previous Basel I framework.

The European Union has approved new regulatory requirements, CRD IV, which is implemented in Norway. The requirement of 16.3% total capital for SpareBank 1 Boligkreditt includes a 12.8% Core Tier 1 capital (including a 2.0% countercyclical buffer and 0,8% pilar 2 requirment) and 3.5% other capital.

The Company's parent banks have committed themselves to keep the Company's Equity Tier 1 capital at the minimum regulatory level (in the Shareholders Agreement). Primarily this commitment is pro rata according to the ownership stakes in the Company, but it is a joint and several undertaking if one or more ownership banks are unable to comply, up to the maximum of twice the initial pro rata amount.

Capital. NOK 1 000	2018	2017
Share capital	7,190,548	6,570,548
Premium share fund	3,597,922	3,287,922
Other equity capital	-385,104	233,254
Common equity	10,403,366	10,091,724
Intangible assets	-707	-438
Declared share dividend	-	-72,276
100% deduction of expected losses exceeding loss provisions IRB (CRD IV)	-363,428	-338,144
Prudent valuation adjustment (AVA)	-15,182	-32,770
Core equity capital	**10,024,049**	**9,648,096**
Hybrid bond	1,180,000	1,180,000
Tier 1 equity capital	**11,204,049**	**10,828,096**
Supplementary capital (Tier 2)	1,600,000	1,600,000
Total capital	**12,804,049**	**12,428,096**

Minimum requirements for capital. NOK 1 000	2018	2017
Credit risk	3,362,169	3,318,616
Market risk	-	-
Operational risk	62,185	58,661
Depreciation on groups of loans	-	-
CVA Risk	308,572	245,931
Difference in capital requirement resulting from transitional floor	2,378,276	2,337,486
Minimum requirement for capital	**6,111,202**	**5,960,695**

Capital Coverage

	2018	2017
Risk-weighted assets incl. transitional floor	76,390,017	74,508,686
Capital coverage (%)	16.76 %	16.68 %
Tier 1 capital coverage (%)	14.67 %	14.53 %
Core Tier 1 capital coverage (%)	13.12 %	12.95 %
Leverage ratio (%)	4.91 %	3.63 %

Note 30 Related parties

The Company has 184 074 MNOK loans to customers. These are loans acquired from shareholder banks at market values (i.e. nominal value).

SpareBank 1 SR-Bank ASA
The Company purchases a substantial amount of their support functions from SpareBank 1 SR-Bank ASA. A complete SLA is established between the Company and SpareBank 1 SR-Bank ASA

SpareBank 1 - Alliance
In addition the Company has a Transfer and Servicing agreement in place with each individual shareholder bank regulating amongst other things the servicing of mortgage loans.

SpareBank 1 Næringskreditt AS
All employees within SpareBank 1 Boligkreditt AS are also to various degrees working for SpareBank 1 Næringskreditt AS. Twenty percent of the administrative expenses in SpareBank 1 Boligkreditt AS to be charged to SpareBank 1 Næringskreditt AS. This division of administrative expenses between the two companies reflect the actual resources utilisation in SpareBank 1 Boligkreditt AS

Note 31 Collateral received

SpareBank 1 Boligkreditt has signed ISDA-agreements including CSAs (Credit Support Annexes) with a number of financial institutions that are counterparties in interest rate and currency swaps. These institutions post collateral in the form of cash deposits to SpareBank 1 Boligkreditt. At the end of the period 31.12,2018 this collateral amounted to NOK 18 733 million. This amount is included in the balance sheet, but represents restricted cash. According to signed ISDA and CSA agreement, it is not permitted for the parties in derivatives transactions to net amounts amongst various transactions.

Note 32 Contingencies and Events after the Balance Sheet Date

SpareBank 1 Boligkreditt AS is not a party to any ongoing legal proceedings.

No events have taken place after the balance sheet date which are expected to have any material impact on the financial statements as of the end of the year 2018.

Note 33.1 IFRS 9

The following table shows the effects of implementing IFRS 9

	Note	Balance sheet according to IAS 39, 31 December 2017	Change due to reclassification	Change due to new measurement	Balance sheet according to IFRS 9, January 1, 2018
Amortised cost					
Lending to and deposits with credit institutions		3,044,644	-	-	3,044,644
Lending to customers		177,675,130	-	-3,071	177,672,059
Other assets		1,188	-	-	1,188
Total effect amortized cost		**180,720,962**	**-**	**-3,071**	**180,717,891**
Fair value through profit or loss					
Certificates and bonds		54,318,384	-	-	54,318,384
Financial derivatives		27,144,125	-	-	27,144,125
Total fair value through profit or loss		81,462,509	-	-	81,462,509
Total assets		**262,183,472**	**-**	**-3,071**	**262,180,401**
Financial liabilities					
Amortised cost					
Collateral received in relation to financial derivatives		23,628,253	-	-	23,628,253
Debt incurred by issuing securities		47,926,716	-	-	47,926,716
Subordinated dept		1,603,356	-	-	1,603,356
Other liabilities		318,865	-	-	318,865
Total effect amortized cost		73,477,190	-	-	73,477,190
Fair value through profit or loss					
Debt incurred by issuing securities		176,536,265	-	-	176,536,265
Financial derivatives		898,292	-	-	898,292
Total fair value through profit or loss		**177,434,557**	**-**	**-**	**177,434,557**
Total Liabilities		**250,911,747**	**-**	**-**	**250,911,747**
Equity					
Equity		10,091,724	-	-3,071	10,088,653
Hybrid capital		1,180,000	-	-	1,180,000
Totale equity		**11,271,724**	**-**	**-3,071**	**11,268,653**
Total liabilities and equity		**262,183,472**	**-**	**-3,071**	**262,180,400**

Note 32.3 IFRS 9

The following table shows loss provisions when implementing IFRS 9

Change in loss provisions	Loss according to IAS 39, 31 December 2017	Change due to reclassification	Change due to new measurement	Losses according to IFRS 9 January 1, 2018
Loans under IAS 39 to be measured at amortized cost under IFRS 9	7,708		4,095	11,803
Total change loss provisions	**7,708**	**-**	**4,095**	**11,803**

	2018				2017		
Loans and advances to customers at amortized cost	Level 1	Level 2	Level 3	Total	Individual	Group	Total
Balance sheet on 31 December	**-**	**-**	**-**	**-**	**-**	**7,708**	**7,708**
Transferred to 12 month ECL	3,843	-	-	3,843	-	-	-
Transferred to lifetime ECL - No objective evidence of loss	-	7,960	-	7,960	-	-	-
Transferred to lifetime ECL - objective proof of loss	-	-	-	-	-	-	-
Balance sheet on 1 January	3,843	7,960	-	11,803	-	7,708	7,708

Note 33.3 IFRS 9 Review and implementation

IFRS 9 Financial instruments will replace today's IAS 39 Financial instruments – recognition and measurement. IFRS 9 concerns recognition, classification, measurement and derecognition of financial assets and liabilities as well as hedge accounting. IFRS 9 will be applicable from 1. January 2018 and has been approved by the EU. In 2015 the SpareBank 1 Gruppen has created a joint task team across several work disciplines with participants from all the banks which use IFRS to work on IFRS 9 implementation ('the Project'). The Project has a management group and the following sub-teams:

1. Models and methods
   Development of a calculation solutions and models in order to establish forward looking estimates for expected loss.
2. Strategy, organisation and processes
   Define how the ongoing accounting work according to IFRS 9 shall be organised between all the cooperating banks.
3. Accounts and reporting
   Specify the accounting and notes, including accounting principle note and templates
4. Classification and measurement
   Map the financial instruments in the group and classify these in various categories

A description of the new requirements in IFRS 9 and changes from earlier standards follows below. Furthermore a clarification of the choices which SpareBank 1 Boligkreditt (the 'Company') has taken and the status of the Project implementation

A. Classification and measurement

Financial assets

According to IFRS 9 financial assets are to be classified into three categories: fair value with changes in fair value over other income and expense (OCI), fair value with changes in fair value over the profit and loss and amortized cost. The measurement category is determined at the initial accounting for the asset. Within financial assets a differentiation is made between debt instruments, derivatives and equity instruments, where debt instruments are all instruments which are not derivatives or equity instruments. The classification of financial assets is determined based on the contractual terms and conditions for the assets and according to which business model is employed for the management of the portfolio which the assets are included in.

Financial assets which are debt instruments

Debt instruments with contractual cash flows which consists solely of interest rates and principal payments on specified dates and which are held for the purpose of receiving the contractual cash flows are measured at amortized cost. Instruments with contractual cash flows which consists solely of interest rates and principal payments on specified dates and which are held in order to both receive the contractual cash flows and in order to sell the instruments are measured at fair value with changes in fair value over OCI, but with interest income and any write downs included in the ordinary profit and loss statement. Changes to fair value recorded in OCI shall be reclassified to the profit and loss upon sale or upon any other derecognition of the asset.

Other debt instruments are measured at fair value with changes in fair value over profit and loss. These are instruments with cash flows which involve not just the payment of interest rate (which is payment for the time value of money, credit margin and other normal margins tied to lending and receivables) and principal amount, and instruments which are included in portfolios where the aim is not the receipt of contractual cash flows. Instruments which according to IFRS 9 should be accounted for at amortized cost or at fair value with changes in fair value over OCI may be measured at fair value with changes over profit and loss if this eliminates or materially reduces an accounting mismatch.

The majority of Boligkreditts assets are lending to customers at variable rates. The business model is to receive contractual cash flows from interest and principal. These assets are held at amortized cost. All other financial assets (liquidity portfolio) are accounted for at fair (market value) with changes in fair value over profit and loss.

Derivatives

All derivatives are measured at fair value with changes in fair value over profit and loss, though derivatives which are designated as hedging instruments are to be accounted for according to the principles of hedge accounting. Boligkreditt accounts for derivatives at fair value based on the market elements of interest rates and foreign exchange rates, while the hedged instruments which are financial assets are held at market values.

Financial liabilities

The rules for financial liabilities are essentially unchanged compared to today's IAS 39. As a main rule financial liabilities are measured at amortized cost with the exception of financial derivative measured at fair value, financial instruments which are included in a trading portfolio and financial liabilities designated to be accounted for at fair value with changes in fair value over the profit and loss statement. A change compared to IAS 39 is that for financial liabilities which are accounted for at fair value over the profit and loss, the changes in fair value that are due to the company's own credit risk are included in OCI, and not in the regular profit and loss as today. Boligkreditt accounts for derivatives at fair value based on changes in interest and foreign exchange rates while liabilities that are hedged are also held at fair value for changes in these elements, in addition to an amortized cost element.

Hedge accounting

IFRS 9 simplifies the requirements for hedge accounting in that the hedge efficiency is tied to management's risk control and thereby more room for judgments is provided. The requirement of hedge efficiency within the 80 to 125 per cent range has been removed and replaced with more qualitative requirements, including an economic connection between the hedge instrument and the hedged instrument and that credit risk is not the dominating factor for changes in the value of the hedging instrument. According to IFRS 9 it is sufficient with a prospective test of efficiency, while the hedge efficiency according to IAS 39 has to be evaluated both prospectively and retrospectively. Hedge documentation is still required.

Hedges at SpareBank 1 Boligkreditt are always used to exactly off-set cash flows, meaning all hedges are tailored to a specific debt issuance or asset for the duration of the hedged instrument. Bonds issued in currency are thereby exactly matched to create an effective liability on a floating 3 months NIBOR basis. Fixed rate and/or currency assets held in the Company's liquidity portfolio have hedges that exactly match the return feature, creating 3 month NIBOR floating rate assets. Another minor feature in the Company's hedging activities is that natural liability-assets hedges may occur, whereby a liability in currency matches an investment in currency on a floating rate basis. In natural hedges, due to differences in tenor between floating rate assets and floating rate liabilities there may be credit spread risk which is not exactly offset, but this is a minor component of the overall hedging activities.

SpareBank 1 Boligkreditt has made the following choices for selected issues:

Lending

All loans the Company has made are at variable interest rates. The Company has the right to adjust the interest rate terms according to changes in market rates, in credit exposures, in the competitive landscape and so on. At the same time the debtor has the right to prepay the loan at par. The loans are made at standard terms and conditions for residential real estate mortgages in Norway, and the debtor's right to early prepayment and the competition between banks means that the cash flows of the loans do not materially deviate from what IFRS 9 defines as the payment of interest rates and principal at defined dates. In the Project team's assessment the nature of the loans are consistent with the requirement for measurement at amortized cost. The business model which the loans are included in is one where contractual cash flows are received, and therefore the conclusion is that the classification according to IFRS 9 is at amortized cost.

Lending at fixed interest rates and with a right to prepayment

Loans at fixed interest rates may be prepaid prior to maturity in exchange for the payment of an amount above or below par. Contractual terms which give a right to prepayment below par may result in that fixed rates loans have to be accounted for at fair value with changes in fair value in the profit and loss statement. This is due to that the nature of these cash flows are assessed not to be consistent with the receipt of only interest rate and principal payments. Rights which are provided by legal statutes as opposed to contracts may be disregarded in the assessment of classification. The Company's assessment is that these loans are measured at fair value with changes in fair value over profit and loss according to IFRS 9. The question of whether prepayment rights lead to a requirement that such instruments must be accounted for at fair value has been raised with the IASB and changes to the rules in this area can not be excluded. SpareBank 1 Boligkreditt bars the transfer of fixed rate loans to its cover pool at the present time, and it has never been possible for the SpareBank1 banks to sell fixed rate loans to the Company since the founding in 2005.

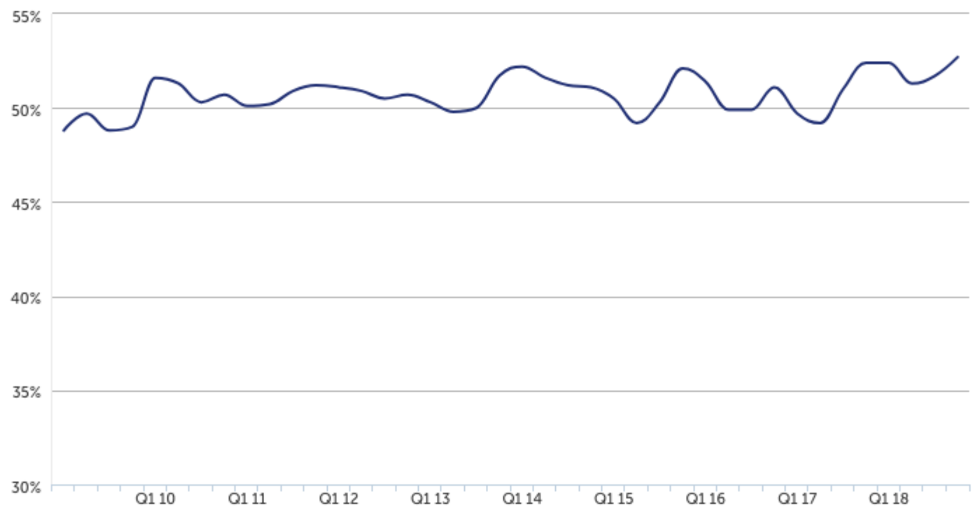
Liquidity portfolio

The Company maintains a liquidity portfolio which has a business model that is the receipt of contractual cash flows and sales and the assessment is that this portfolio is accounted for at fair value with changes in fair value over profit and loss.

Generally about the Boligkreditt mortgage loan portfolio:

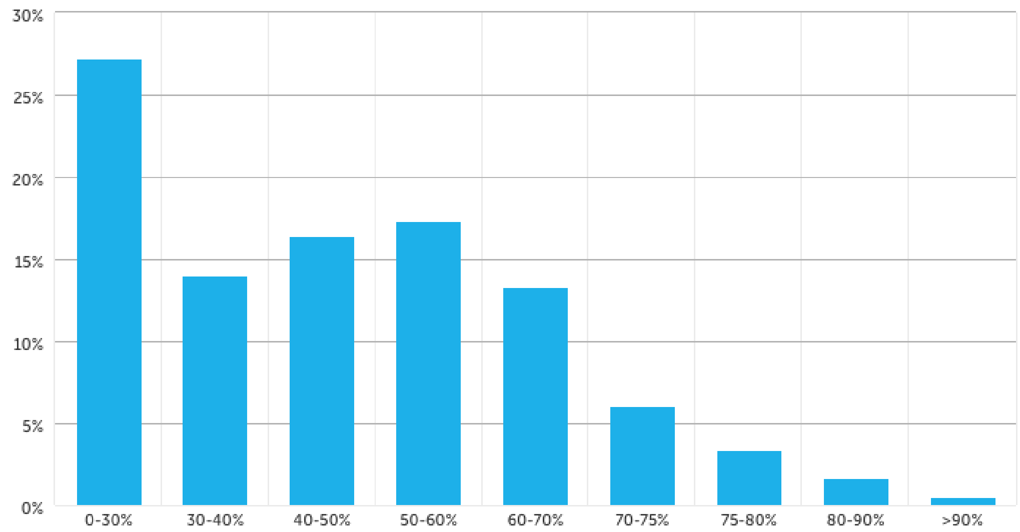
Boligkreditt has a granular and homogenous portfolio of loans originated and transferred to the Company by its parents' banks to obtain covered bond funding. The criteria that governs which loans qualify for the cover pool are several, both legal criteria for covered bond companies in Norway internal and rules selecting certain customers with a lower probability of default, as well as based on other customer quality characteristics and documentation criteria. The legal limit for loan to value is 75 per cent at the time of loan transfer (60 per cent for any mortgages without a specified repayment schedule) and the weighted current (updated quarterly) average loan to value in the cover pool has been around the 50 per cent level. The Company has, as a consequence for which mortgage loans can come into the cover pool, a better credit quality than a typical bank

Historical average weighted loan to value for the Boligkreditt cover pool, up to Q4 2018

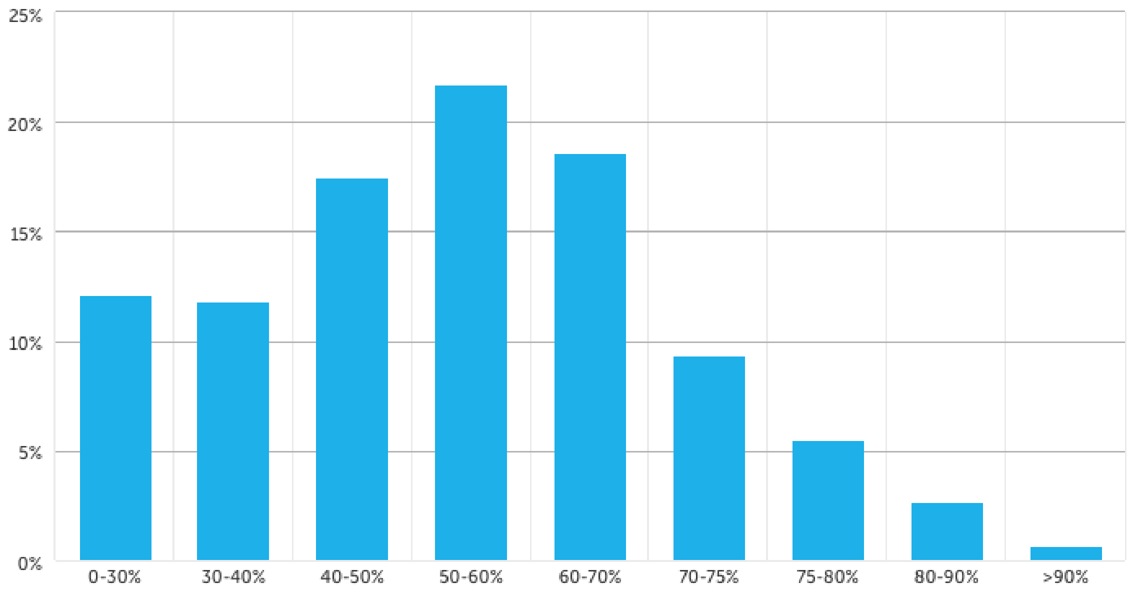


The mortgage loans are to a large degree in the lower loan to value intervals, with few loans over 75 per cent. The average mortgage loan size is 1.4 million kroner

Number of loans in each LTV interval, as of Q4 2018:



Share of loans (measured in NOK) in each LTV intervall as of Q4 2018:



B. Loan loss write downs

According to today's rules, write downs for loan losses are only to be made when objective evidence exists that a loss event has occurred. According to IFRS 9 the loan loss provisions shall be made based on expected loan losses (ECL). The general model for loan write downs of financial assets in IFRS 9 will be applicable to financial assets measured at amortized cost or at fair value with changes in fair value over OCI.

Individual loan loss write downs or actual loan losses have not been taken in the accounts at SpareBank 1 Boligkreditt in the past. The Company's parent banks (mortgage originators) have an incentive to take back loans which come into arrears beyond a certain point, and before a loan defaults at 90 days of arrears. This practice is expected to continue.

The measurement of the provision for expected losses in the general IFRS 9 model depends on whether the credit risk has materially changed since the assets was originally recorded. At the initial accounting for a new assets and when the credit risk has not increased materially thereafter a loan loss provision corresponding to a 12 months expected loss shall be made. The 12 months expected loss is the loss that can be expected to occur over the life time of the instrument, but which is tied to events that may occur in the first 12 months. If the credit risk has materially increased a loan loss provision for the entire life of the asset shall be made.

The management team of the Project has established a method to determine whether the credit risk since the first recognition of a loan has materially increased by calculating the change in the probability of default for the remaining life time of the loan. The expected credit loss is calculated based on the present value of all cash flows according to the contract and the cash flows the lender expects to receive, discounted by the effective interest rate for the loan.

The method in the IFRS 9 standard implies a somewhat increased volatility in loan write downs based on the economic outlook. It is to be expected that loan write downs will occur at an earlier date than according to todays practice. This will be especially noticeable at the downturn of the economic and business cycle.

The model for loan loss provisions

The assessment of loan losses will be made quarterly and will be based upon the existing database where all past history for all account- and customer data for the credit portfolio, lending and guarantees are included. The loan loss provisions will be calculated based on a customer's probability of default (PD), the loan loss given default (LGD) and loan exposure at default (EAD). The database contains historical data for PD and LGD observations. This will form the basis on which estimates for future values for PD and LGD are made. Based on IFRS 9, the Company will categorize its loans into three levels.

Level 1:

This is the starting point for all financial assets included in the general loan loss provision model. All assets which have no materially increased credit risk since the initial recognition will have a loan loss provisions corresponding to a 12 months expected loss. This level includes all assets not transferred to Level 2 or 3. The loss is calculated by the formula below under the Level 2 heading, but only one year is considered

Level 2:

In level 2 in the loan loss provision model are assets which have had a material increase in credit risk since the initial recognition, but where an objective evidence of a loan loss does not exist. For these assets a loan loss provision corresponding to an expected loss over the life time of the asset is made:

$Lifetime\ Expected\ Credit\ Loss = \sum_{t=1}^{T} \frac{PD_t \times LGD_t \times EAD_t \times (1-CPD_{t-1})}{(1+r)^t}$, where 1-CPD is the survival rate (r= discount rate, i.e. risk free rate plus the loan credit spread, t = year, T= years to maturity)

5 years are considered in the model by PD and LGD point in time estimates for each year, after which the year 5 value applies for the following years.

At this level there are accounts where a material degree of change with regards to adverse credit risk has taken place, but belong to customers which are classified as not in default, i.e. that have not been assigned to risk class J or K (default). The demarcation line between Level 2 and 3 is then clear. IFRS 9 does describe that a material increase in credit risk has taken place, unless it can be proven otherwise, when a payment is 30 or more days delayed.

SpareBank 1 has further defined that assets associated to customers which are on a watchlist shall be included in Level2 and that as a main rule there has been a material increase in credit risk when a loan has negatively migrated by two or more risk classes. Two risk classes translates into an increase in PD of approximately 150 per cent. A lower bound for PD has been set at 0.6 per cent in order that customers with a low PD are not included in Level 2.

The following criteria thereby must be met for a material adverse change in credit risk to have ocurred:

- Payment delayed by 30 or more days or
- The probability of default has increased by 150% and
- The PD is above 0.6%

Level 3:

At Level 3 in the loan loss provision model there are assets which have had a material increase in credit risk since initial recognition and where there are objective evidence of a loss in existence at the balance sheet date. The Company has defined objective evidence when customers are categorized in risk classes J or K. This definition matches the definition which applies for internal risk management and control procedures and for the regulatory capital requirement calculation for the IRB banks. Customers in risk class J or K are in default. Default is defined as:

- 90 days past due payment of an amount larger than 1,000 kroner.
- Loss occurred
- Bankruptcy / debt restructuring

The corresponding ECL is calculated as the EAD x expected LGD

ECL estimates and impact on the accounts

TThe basis of the model are a certain set of macro assumptions which impact the default rate and the loss given default for each loan. The Company use the same model as for the Company's Internal Capital Adequacy Assessment Process (ICAAP). The model estimates the default rate (PD) and the loss given based on two macro variables; the unemployment rate and the level of NIBOR. The documentation behind the Company's ICAAP model finds and discusses, and the models employs, the positive correlation between these variables and defaults for mortgage loans over the longer term, including also experience neighbouring Nordic countries. The LGD is derived from calculations based on the degree of collateral coverage of the loans, i.e. the loan-to-value, also taking in a broader dataset to build the link between price developments and estimated losses.

Mortgage loans which are renegotiated, where the terms are materially changed, are always removed from the Company's cover pool and transferred back the originating lender. All renegotiation of loans is outsourced to the Company's parent banks.

For mass market loans (residential mortgages), the Company assesses the development in PD for each loan over time and negative migrations in this is reflected in the IFRS 9 model. In addition the Company reviews mortgages that are in arrears from one or a few days and up to the point where loans in arrears are transferred back to the originating parent back. This transfer is not a strict requirement, but the banks are economically incentivized to take back loans in arrears. Consequently the Company does not have any loans in default and have not incurred any individual loan loss write downs since the commencement of operations in 2007.

When considering the impact of the macroeconomic variables to estimate point in time PD and LGD factors for loans in the IFRS 9 expected loss model, three scenarios are selected and these are a base case (weight 80%), a downside case (10% weight) and an upside case (10% weight). The three scenarios are deemed as sufficient to express the main directional views or outcomes over the next five years. The weighting of the base case reflects that this is what is considered the overall likely outcome with a symmetry around this to show the potential up- and downside. The macro scenarios are an input to the ICAAP model which produces the PD and LGD estimates as input to the IFRS 9 expected loss model and the calculated expected loss in each Level and for each scenario. A total ECL is created by adding the ECL at each loan Level 1, 2 and 3 and adding the weighted scenarios. The change in the total ECL from one period to the next will then be reflected in the Company's result presentation.

Macroeconomic scenarios

Below are the assumptions that constitutes the base case and the corresponding development in PD and LGD which the ICAAP model produces as inputs in the IFRS 9 ECL model. The results have also been calibrated in light of actual observed PDs for the portfolio over time in order to represent the best point-in-time estimates for the next 5 years.

	Base case				
	Year 1	Year 2	Year 3	Year 4	Year 5
Unemployment rate	4.00%	3.90%	3.80%	3.70%	3.70%
Residental real estate prices	0.00%	5.00%	10.00%	15.00%	20.00%
3 month NIBOR	1.00%	1.50%	1.75%	2.00%	2.00%

The base case considers the current situation and the view for the development for the years ahead. In developing this view we have taken several sources into account, including forecasts from Statistics Norway as well as from other market based organizations that perform and publish economic research.

- The unemployment rate is currently just below 4% in Norway and we see this heading slightly lower over the coming years alongside the growth in GDP in Norway
- Residential real estate prices are expected to remain flat in year 1, then grow 5% per year.
- Interest rates are on an upward trajectory due to economic performance and decline in unemployment

The upside and downside scenarios are considered as derivations on the base case.

	Upside case				
	Year 1	Year 2	Year 3	Year 4	Year 5
Unemployment rate	4.00%	3.50%	3.00%	2.80%	2.50%
Residental real estate prices	5.00%	10.00%	20.00%	30.00%	40.00%
3 month NIBOR	1.00%	1.50%	2.00%	2.50%	2.50%

	Downside case				
	Year 1	Year 2	Year 3	Year 4	Year 5
Unemployment rate	5.00%	5.50%	6.00%	6.00%	5.00%
Residental real estate prices	-10.00%	-20.00%	-20.00%	-20.00%	-10.00%
3 month NIBOR	1.00%	1.00%	0.50%	0.50%	0.50%

- In the downside scenario unemployment increases to 6% while house prices are assumed to drop 10% in the first and again in the second year, then level out (house prices are cumulative over the years in the tables above)
- This development clearly increase the PD and the LGD estimates in scenario 3 (downside) as rendered below

These inputs create the following PD and LGD estimates and ECL for the scenarios per Level of loan categorization. Scenario 1 is the base case, scenario 2 the upside case and scenario 3 the downside case. Boligkreditt does not have any loans in default, nor have any actual losses been observed since operations commenced. The observed default rate for mortgage loans including loans which have been transferred back to parent banks have been ca. 0,13%, which is an anchor point for the PD estimate in the base case.

Forecast weighted PD and LGD for Level 1 and 2

	Scenario	Year 1	Year 2	Year 3	Year 4	Year 5
Weighted PD	1	0.14%	0.13%	0.13%	0.12%	0.12%
Weighted PD	2	0.11%	0.11%	0.11%	0.10%	0.10%
Weighted PD	3	0.24%	0.24%	0.28%	0.27%	0.22%
	Weighted avg.	0.14%	0.14%	0.14%	0.14%	0.13%
Weighted LGD	1	1.00%	0.54%	0.09%	0.00%	0.00%
Weighted LGD	2	0.57%	0.09%	0.00%	0.00%	0.00%
Weighted LGD	3	8.58%	13.09%	13.09%	13.09%	8.66%
	Weighted avg.	1.71%	1.75%	1.38%	1.31%	0.87%

- The total ECL amount to 12.6 million kroner and the change based on the December 2018 portfolio data
- The downside scenario show expected losses of a total of 97 million kroner, the total Exposure at default (EAD) in Boligkreditt is 198 billion
- No mortgage loans are in default (Level 3)
- These expected losses according to IFRS 9 does not cause a deduction in core capital for expected losses as the regulatory deduction in capital is substantially higher.

ECL in NOK per Level and Total

	Scenario	Level 1	Level 2	Total
ECL	1	1,672,699	1,842,931	3,515,630
ECL	2	799,759	698,623	1,498,382
ECL	3	25,564,074	71,335,628	96,899,701
ECL	**Weighted avg.**	**3,974,543**	**8,677,770**	**12,652,312**
ECL/EAD	1	0.00%	0.00%	0.00%
ECL/EAD	2	0.00%	0.00%	0.00%
ECL/EAD	3	0.02%	0.04%	0.06%
ECL/EAD	**Kombi**	**0.00%**	**0.00%**	**0.01%**

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