Annual report

2018

OBOS Boligkreditt AS
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Report from the Board of Directors

OBOS Boligkreditt AS' registered office is in Oslo, and it is a wholly owned subsidiary of OBOS-banken. OBOS Boligkreditt started operations in 2016, and 2017 was the first full year. OBOS Boligkreditt is licensed to operate as a mortgage company and to issue covered bonds, and is OBOS-banken's most important source of long term market funding and an important part of the parent bank's funding strategy. The assets consists of home mortgage loans and housing co-operative loans originally underwritten by OBOS-banken.

At year-end 2018, the company's lending to customers totalled NOK 16 990 million, an increase of 36% during the year. The full net growth is related to acquired loans from OBOS-banken, and all loans are at the time of acquisition within 75% of the property's estimated value.

In 2018, OBOS Boligkreditt drew a total of NOK 4 000 million through tap issues on two existing NOK denominated floating rate bond loans. No bond loans matured during 2018. Liabilities in the form of covered bonds amounted to NOK 15 063 million at year-end 2018, compared with NOK 11 016 million at the turn of the previous year.

Rating

Moody's has given all covered bonds issued by OBOS Boligkreditt AS Aaa-rating.

Annual Financial Statements

The company recorded operating profit before write-downs and tax of NOK 101.7 million for the financial year 2018 (69.2). Profit after write-downs and provision for tax amounted to NOK 77.5 million in 2018 (52.6).

The company's net interest income amounted to NOK 108.5 million in 2018 (75.5). Total operating expenses amounted to NOK 6.5 million (6.3). Cooperation with OBOS-banken AS is formalised in various agreements to ensure that the company has the required expertise and capacities in operational areas, while at the same time facilitating cost-efficient operation. OBOS Boligkreditt had no losses and allocated no provisions for individual impairment in 2018. The calculation of expected credit loss (ECL) related to IFRS 9 resulted in an increase of impairments of NOK 1.1 million in 2018. Write-downs and losses in 2017 was NOK 0 million. Profit after tax amounted to NOK 77.5 million in 2018 (52.6).

Total assets at the end of 2018 amounted to NOK 17 024 million compared with NOK 12 560 million at the end of 2017.

Over-collateralisation, calculated as the value of the cover pool relative to the value of outstanding covered bond loan debt was 112.8 % as at 31 December 2018 (113.4). No substitute assets form part of the cover pool, and the cover pool as such consists exclusively of loans to customers.

OBOS Boligkreditt's liquidity portfolio consisting of Liquidity Coverage Ratio (LCR) eligible assets amounted to NOK 33.0 million as at 31 December 2018 (56.1).

It is the opinion of the Board of Directors that the presented financial statements provide correct and adequate information about the company's operations and status as at 31 December 2018.

Capital adequacy

OBOS Boligkreditt uses the standard method to calculate capital adequacy. The capital adequacy ratio was 18.86 % as at 31 December 2018 (17.70).

OBOS Boligkreditt is required to have a capital adequacy ratio of at least 15.5 %, of which core tier 1 capital must amount to at least 12.0 % of risk weighted assets. The countercyclical buffer is currently 2 %. The Ministry of Finance has decided for the countercyclical buffer to increase with 0.5 % as from 31 December 2019. OBOS Boligkreditt is well capitalized, and the Board also assumes that the parent bank will continue to be ready to increase the company's capital base if this should be necessary.

Employees and the working environment

The company had no employees in 2018. The managing director as well as other services are formally employed by the parent bank and hired to carry out work for OBOS Boligkreditt. Other resources required to run the company are provided by the relevant departments in OBOS-banken based on SLA-agreements between the company and the parent bank. No serious work accidents or incidents occurred or was reported during the year. The working environment in an around the company is deemed to be good, and the company does not pollute the environment.

OBOS Boligkreditt, like all other companies in the OBOS group, must follow the personnel policy for gender equality, and commits itself to:

- Provide conditions for all employees and their opportunities for job development
- Stimulate to get more women in senior positions
- Ensure equal opportunities and rights and prevent discrimination due to ethnicity, complexion, language, religion, gender, sexual orientation, age or disability

This also applies to hired employees.

Tore Weldingh was appointed new CEO of OBOS Boligkreditt in December 2018.

Risk factors

During the start-up phase, OBOS Boligkreditt has focused on establishing the frameworks and routines that are essential for the company's operations. OBOS Boligkreditt is subject to strict regulations and requirements. A fundamental element of the business is to take risks, and the company's Board has a conscious attitude towards management, control and follow-up of the company's overall risk profile. The Board notes that OBOS Boligkreditt has not had significant deviations, losses or events, and considers that prudent risk management and internal control measures are in place. The Board is of the opinion that the company's overall risk exposure is within the target profile.

The Board reviews the overall framework for risk management annually, in connection with the revision of the strategy. The frameworks are defined through own risk strategies for each significant risk area. The separate strategies are reviewed by the Board at least annually. The various strategies form the framework for the company's ICAAP, which is part of the banking group's ICAAP.

OBOS Boligkreditt’s risk exposure and risk development are followed up by periodic reports to the administration and the Board. In addition to review in its own Board, it is natural for the company's business to be discussed in the banking group's Board, in light of being the parent banks most important source of long term market funding.

Credit risk

Credit risk is the risk that a borrower or counterparty will be unable to meet its obligations to OBOS Boligkreditt. The company’s credit approval framework contains requirements stipulating which loans may be included in the company’s loan portfolio. There were no significant changes in the credit risk policy in 2018. Credit risk is the company's most significant risk area. The credit institution has defined low appetite for credit risk. The company has Board-approved frameworks and procedures for buying and selling loans between the parent bank and OBOS Boligkreditt. The company's current credit practice is managed by the parent bank through Service Level Agreements, and is operationalised in the bank's credit policy, as well as established procedures in OBOS Boligkreditt.

OBOS Boligkreditt’s assets exclusively consist of home mortgage loans and housing cooperatives where the outstanding balance on the loan does not exceed 75 % of an appropriate value assessment of the mortgaged property. Retail mortgage loans primarily consist of members of OBOS. Housing cooperative mortgage loans are mostly related to cooperatives where OBOS is the business manager. There was no loans in default at the turn of the year. The Board regards the quality of the lending portfolio as very good.

Liquidity risk

Liquidity risk is the risk that OBOS Boligkreditt will not be able either to refinance its commitments upon maturity or to finance an increase in assets on market terms. Norwegian covered bond companies must meet the liquidity requirements introduced for European banks by 100 %. The liquidity coverage ratio (LCR) was 147,8 % as at 31 December 2018 (552,9 %).

OBOS Boligkreditt has entered into a Revolving Credit Facility agreement with the parent bank in which the bank will provide liquidity support in order to ensure payments related to issued covered bonds. Bonds issued by OBOS Boligkreditt have a soft bullet structure in which the company has the opportunity to extend the term of its borrowing by up to 12 months. This right will only be exercised in an event where the company were to experience refinancing problems and if the parent bank would be unable to provide liquidity support.

The Board considers the company's liquidity risk as low.

Market risk

Market risk is defined as the risk of financial loss as the result of changes in observable market variables such as interest and exchange rates and the price of financial instruments.

OBOS Boligkreditt has low market risk. All loans are at variable interest rate terms that can be adjusted without notice for housing cooperatives and within six weeks notice for retail mortgages. The company's covered bonds are all on floating rate terms.

To the extent that OBOS Boligkreditt in the future would borrow at fixed rate and/or bonds are issued in foreign currency, interest rate risk and currency risk will be eliminated by entering into swap agreements concurrently with the bonds being issued.

Liquidity portfolio assets are at floating interest rates and market risk related to these is therefore low.

Operational risk

Operational risk is the risk of losses due to inadequate or failing internal processes, human error, system failures or external events. Services covered by the SLA-agreement include administration, IT operations, and financial and risk management. Although the operational risk of OBOS Boligkreditt is dependent of the parent bank's ability to manage this type of risk, OBOS Boligkreditt independently bear risk associated with errors in the deliveries and services provided by the parent bank.

Operational risk is identified through assessments and management confirmations that are part of the company's internal control and operational risk is assessed on an ongoing basis. Management considers the company's IT systems as central to operations, accounting and reporting of completed transactions, as well as obtaining the basis for important estimates and calculations. OBOS Boligkreditt uses BDO as its internal auditor, and any non-conformities are reported to the Board.

Business risk / strategic risk

The company is exposed to business risk and strategic risk based on changes in the business cycle or through other major changes in the financial markets, the competitive situation or the economy.

Compliance risk

As a licensed entity, OBOS Boligkreditt is highly exposed to compliance risk. Compliance with laws and regulations has the highest attention, at department, management and Board levels. During the start-up phase, the company has had a strong focus on putting in place all necessary strategies, management documents and procedures that are expected by such a company.

Accounting policies

The annual accounts have been prepared in accordance with simplified IFRS (International Financial Reporting Standards) in accordance with section 3-9 of the Norwegian Accounting Act and the regulations on annual accounts for Banks and Financing Companies § 1-5.

Going concern

In the Board's view, prerequisites for the going concern assumption exist, and the Board confirms that the 2018 financial statements is prepared on the basis of the going concern assumption.

Future prospects

There has been good growth in the Norwegian economy since autumn 2016 and the labour market has improved. The international upswing, higher oil prices and low interest rates have pushed growth. There are indications that the upswing in the Norwegian economy will continue. However, slowing growth in the rest of the world and a levelling out of investments on the Norwegian continental shelf may curb the growth. Development of house prices, together with growth in debt is the most important risk factors to Norwegian households and housing prices will probably continue to move sideways. The value of the Norwegian krone fell broadly this autumn which is positive for the competitiveness of the export and tourist industry. This was driven by the falling oil price, but the growing unrest in the market has also contributed. The krone is expected to climb during spring. It is expected that Norges Bank will raise the key policy rate in March.

Annual retail lending growth in OBOS-banken was high in 2018, but are expected to be more moderate in 2019. The lending growth however, combined with low level of unemployment, low interest rates and high disposable income will contribute to further mortgage loan growth in the parent bank. This will position OBOS Boligkreditt to aquire further mortgages from the parent bank, but it is expected that lending growth in OBOS Boligkreditt to be far more moderate in 2019 than during the startup phase in 2016-2018.

Allocations

The profit after tax amounted to NOK 77.5 million for 2018. The recommendation from the Board of Directors is to allocate the profit to other equity.

Composition of the Board and Corporate Governance

The company's Board consist of the following members:

Chairman of the Board:	*Marit Midttun*
Member of the Board:	*Martin H. Arnholdt*
Member of the Board:	*Svein Haugsvold*

During 2018, the Board held eight meetings. The topic of the meetings has been the company's status and financial development, risk management and internal control, business strategy process and approval of guidelines, procedures and instructions.

The Board of Directors consists of one women and two men. Marit Midttun is CEO of the parent bank and Martin Arnholdt holds an executive position in OBOS BBL.

OBOS BBL is in line with the «Norwegian Code of Practice for Corporate Governance" (NUES). OBOS Boligkreditt refers to the OBOS Group's statement in its own annual report. The Board has decided guidelines and strategies to promote the goal of effective management of the company's business relationship. These clarifies the role between the Board and daily management beyond what is provided by the law, and provide the basis for how the enterprise's goals are set, achieved and monitored. The Board evaluates annually its work and its form of work. For statement of the corporate social responsibility (jf. lov om årsregnskap m.v. § 3-3 c), OBOS Boligkreditt refers to the annual report of the OBOS group, which will be published on www.obos.no.

Oslo, 14 March 2019

The Board in OBOS Boligkreditt AS

Marit Midttun
Chairman

Martin H. Arnholdt
Board member

Svein Haugsvold
Board member

Tore Weldingh
CEO

Income statement

(Figures in NOK 1000)

	NOTE	2018	2017
Interest income calculated using the effective interest method		314 653	208 560
Interest income from instrumets using fair value		255	-
Interest expenses		-206 416	-133 021
Net interest income	**5,24**	**108 492**	**75 539**
Commission and banking service expenses		-269	-205
Net commission expenses		**-269**	**-205**
Net gain/(loss) and change in value of fin. instruments	**6**	**22**	**214**
Net operating income		**108 244**	**75 548**
Salaries and other administration cost	7	-418	-339
Other operating expenses	24	-6 125	-5 961
Total operating expenses		**-6 543**	**-6 300**
Profit before loan losses and taxes		**101 701**	**69 248**
Net loan losses	8	-1 083	-
Profit before tax		**100 618**	**69 248**
Income tax expense	25	-23 143	-16 622
Profit after tax	**26**	**77 475**	**52 626**
Attributable to			
Retained earnings		77 475	160
Group contribution paid		-	52 466
Total	**26**	**77 475**	**52 626**

Statement of comprehensive income

Profit after tax	**26**	**77 475**	**52 626**
Items that can be reclassified to profit or loss			
Losses on loans and guarantees (step 1), fair value		852	-
Income tax expense		-196	-
Net loss on financial assets measures at FVOCI reclassified to profit or loss on disposal		**656**	**-**
Total comprehensive income after tax	**26**	**78 131**	**52 626**
Attributable to			
Retained earnings		78 131	160
Group contribution		-	52 466
Total	**26**	**78 131**	**52 626**

Balance sheet

(Figures in NOK 1000)

	NOTE	2018	2017
ASSETS			
Loans to and receivables from credit institutions	15,17	2 159	25 960
Loans to and receivables from customers	8,9,10,15,17	16 990 450	12 503 446
Certificates and bonds	6,11,15,16	30 820	30 184
Deferred tax asset	25	166	6
Other assets	24	316	-
TOTAL ASSETS		**17 023 910**	**12 559 596**

		2018	2017
LIABILITIES AND EQUITY			
Loans from credit institutions	12,13,15	760 137	674 217
Debt securities issued	12,13,15	15 063 309	11 016 146
Other liabilities	14	185	69 035
Tax payable	14,25	23 142	-
TOTAL LIABILITIES		**15 846 773**	**11 759 398**
Share capital		111 000	101 000
Share premium		989 039	699 039
Retained earnings		77 099	160
TOTAL EQUITY	**26**	**1 177 137**	**800 198**
TOTAL LIABILITIES AND EQUITY		**17 023 910**	**12 559 596**

Oslo, 14 March 2019

The Board in OBOS Boligkreditt AS

Marit Midttun
Chairman

Martin H. Arnholdt
Board member

Svein Haugsvold
Board member

Tore Weldingh
CEO

Cash flow

(Figures in NOK 1000)

	NOTE	31.12.2018	31.12.2017
Profit after tax		100 618	69 248
Interest income calculated using the effective interest method	5	-314 908	-208 399
Interest payments from customers and credit institutions		323 186	192 468
Loans to customers transferred from parent company		-4 487 004	-7 364 039
Interest from certificates and bonds/bond funds	6	-22	214
Payment for other assets		-316	-
Payment for other debt		-69 035	-52 466
Net gain/(loss) in value of bonds	6	27	-214
Net loan losses		-1 083	-
Income tax paid		-	-60
Change in accrued interests		9 767	5 376
Change in other accruals		-921	64 799
Net new lines of credit	24	85 920	149 914
(A) Net cash flow from operating activities		**-4 353 771**	**-7 143 160**
Payments related to acquisition of shares and securities		-	-
(B) Net cash flow from investment activities		**-**	**-**
Issuance of covered bonds	12	4 029 970	6 398 648
Issue of share capital	26	300 000	400 000
(C) Net cash flow from financing activities		**4 329 970**	**6 798 648**
(A) + (B) + (C) Net cash flow for the period		**-23 801**	**-344 512**
Cash and cash equivalents at beginning of period		25 960	370 472
Cash and cash equivalents at end of period		2 159	25 960
Net change in cash and cash equivalents		**-23 801**	**-344 512**
Liquidity reserves specified			
Loans to and receivables from credit institutions 1)		2 159	25 960
Cash and cash equivalents		**2 159**	**25 960**

1) Hereof 0,0 TNOK in restricted deposits.

Note 1 – Introduction

OBOS Boligkreditt AS is a fully owned subsidiary of OBOS-banken AS. The company was formally founded 13. May 2016, with the sole purpose of acquiring mortgages from OBOS-Banken AS. The company will finance the business through the issuance of covered bonds. OBOS Boligkreditt received the required permit for operation from the Norwegian Financial Supervision 15 August 2016. OBOS Boligkreditt is registered and domiciled in Norway. The bank has business- and visiting address at Hammersborg Torg 1, 0129 Oslo.

The company is included in the consolidation of the OBOS Group and the sub-group OBOS-banken. The annual accounts for 2018 were approved by the Board on March 14, 2019 and published the same day. The consolidated accounts can be obtained at Hammersborg Torg 1.

Note 2 – Accounting principles

2.1 General

The financial statements of the Company are prepared in accordance with simplified IFRS pursuant to the Norwegian Accounting Act §3-9 and regulations regarding simplified application of IFRS issued by the Norwegian Ministry of Finance on 3 November 2014.

The following simplification from IFRS has been applied:

- IAS 10 no. 12 and 13 and IAS 18 no. 30: dividends and group contributions are accounted for in accordance with the provisions of the Norwegian Accounting law (NGAAP).

2.2 Currency

All amounts in the accounts and notes are stated in Norwegian kroner (NOK) unless otherwise specified. The company`s functional currency is NOK.

Foreign currency monetary items are converted at the balance sheet date exchange rate. The effect of changes in exchange rates is recognised on the income statement. Foreign currency transactions are recorded initially at the rate of exchange at the date of the transaction.

2.3 Financial instruments

Financial assets and liabilities are recognised in the balance sheet on the date when OBOS Boligkreditt becomes a party to the contractual provisions of the instrument. Purchase of financial instruments are recognised at the trade date.

Financial assets are derecognised at the time the actual risk related to the assets has been transferred and the control of the rights to the asset has ended or expired.

Financial liabilities are derecognised when the obligation under the liability is settled, cancelled or expired. Upon repurchase of own bonds, the repurchased bonds are derecognised with the result of difference between the consideration and the book value of the bond.

2.3.1 Classifications

IFRS 9 was implemented at 1 January 2018. The standard concerns recognition, classification, measurement and derecognition of financial assets and liabilities as well as hedge accounting.

The implementation of IFRS 9 did not result in any significant changes in the classification and measurement of financial instruments for OBOS Boligkreditt. The comparative information for the period beginning 1 January 2017 has not been adjusted.

According to IFRS 9 financial instruments are to be classified into the following categories:

Financial assets:

- fair value through profit or loss
- amortised cost
- fair value through other comprehensive income (OCI)

Financial liabilities:

- amortised cost
- fair value through profit or loss

The classification of the financial asset depends on how the assets are managed and whether contractual cash flow are solely payments of principal and interest.

Under IAS 39 the measurements of the financial instruments were:

- at fair value through profit or loss
- loans and receivables
- amortised cost

The effect of the transition to IFRS 9 was booked toward retained earnings 1 January 2018.

Note 15 provides an overview of the classification of the financial instruments in OBOS Boligkreditt.

2.3.1.1 Financial assets and liabilities at fair value through profit of loss

Financial assets and liabilities classified for recognition at fair value through profit or loss are recognised at fair value in the balance sheet at the time of the transaction. Transaction cost are recognised in the income statement.

OBOS Boligkreditt has the company's bond funds in this category. The company has a liquidity portfolio invested in interest-bearing bond funds, in addition to deposits. Investments in interest-bearing securities are valued on a fair value basis and is managed in accordance to the investment strategy. A description of the financial instruments recognised at fair value is presented in note 16.

2.3.1.2 Loans and Receivables valued at amortised cost

Loans and receivables valued at amortised cost are initially recognised on the balance sheet at fair value, including transaction cost. Subsequently to initial recognition, the instruments are measured at amortised cost where the difference between acquisition cost and redemption value is amortised in the income statement over the remaining term using the effective interest rate method.

A description of the financial instruments recognised at amortised cost is presented in note 17.

2.3.1.3 Loans and Receivables valued at fair value through OCI

According to IFRS 9, loans and receivables from customers have been classified at fair value in the balance sheet, and changes in value are recognised in comprehensive income (OCI). The reason for the change in classification, compared to IAS 39, is that the assessment of cash flow characteristics and assessment of underlying business model governs the classification of assets and liabilities under IFRS 9. The company has a business model where lending is mainly held to recover contractual obligations, but some loans are transferred to the parent company OBOS-banken AS. According to IFRS 9, this is considered a "hold for sale"."

2.3.2 Measurement

2.3.2.1 Measurement to fair value

Fair value of financial instruments traded in active markets is determined at the end of the reporting period with reference to market prices or rates from traders of financial instruments, without deduction of transaction costs. The market is active if it is possible to obtain external observable prices, rates or interest levels, and these prices represent actual and frequent market transactions. When measuring interest on items classified at fair value, contractual interest is applied.

For financial instruments not traded on an active market, fair value is determined applying a suitable valuation method. Such valuation methods include:

- Recent market transactions at arm's length between well-informed and voluntary parties, if available
- Reference to current fair value for another instrument that is practically identical
- Discounted cash flow calculation or other valuation models

OBOS Boligkreditt AS apply the following classification of levels when assessing fair value (see note 16).

Level 1: Market price (not adjusted) listed in an active market for identical assets or liabilities. OBOS Boligkreditt has no instruments at level 1 as of 31.12.2018.

Level 2: Market price (not listed), observable for assets or liabilities, either directly or indirectly. Fair value of bond funds/bonds is based on net asset value obtained from relevant providers in the market.

Level 3: The credit institution has no financial instruments at level 3.

2.3.2.2. Measurement at amortised cost

Financial instruments not measured at fair value are measured at amortised cost. Financial assets and liabilities measured at amortised cost are initially recognised on the balance sheet at fair value, including transaction costs. Subsequent to initial recognition, the instruments within this category are measured at amortised cost. In an amortised cost measurement, the difference between acquisition cost and redemption value is amortised in the income statement over the remaining term using the effective interest rate method. Interest on assets and liabilities classified at amortised cost is recognised in the income statement.

2.3.2.3 Impairment of financial assets

The method for measurement on write-downs for expected loss on financial assets in IFRS 9 depends on credit risk increase since initial recognition, instead of an incurred loss model as in IAS 39. The assets are divided into three stages, based on the credit impairment degree. At initial recognition, and if credit risk has not increased significantly, provision will be made for 12 month expected loss (stage 1). If the credit risk had increased significantly after initial recognition, but there is no objective evidence for loss, provision will be made for total lifetime (stage 2). If credit risk has increased significantly and there is objective evidence for loss (stage 3) In addition the interest income for the financial assets under step 3 will be calculated on net balance value of the loan, after deduction of write-downs on expected loss over total lifetime. This is different from step 1 and 2 where the interest income is calculated on gross balance value.

The balance sheet item "loans to and receivables from credit institutions" consists of deposits in DNB and the parent company. ECL for such balance sheet items is estimated to zero.

2.3.2.4 Grouping of financial assets

OBOS Boligkreditt has grouped instruments with corresponding credit risk characteristics in two portfolios;

1. Mortgage loans to the private market. Calculation of provision in this portfolio is based on probability of default (PD) multiplied by loss given default (LGD) multiplied by exposure at default (EAD).
2. Secured loans to housing co-operatives. Calculation of provision in this portfolio is based on a simplified loss ratio approach.

For assets in Step 1, the calculations are based on the next 12 months, while assets in Step 2 and Step 3 are based on the expected lifetime of the asset.

2.3.2.5 Significant increase in credit risk

An important factor for the size of the impairments after IFRS 9 is the incident(s) leading to the transition of an asset from step 1 to step 2. OBOS Boligkreditt has identified such incidents that significantly increases credit risk as follows;

1. A 2.5 factor increase in PD since the last period of measurement, given that the PD at the time of reporting is over 0.6%
2. Assets on “watch list”
3. Number of days in arrears exceeding 30 days

Loans in arrears over 90 days will be transferred to step 3. The company has maintained the presumption in the standard that there is a significant increase in credit risk if the contractual cash flows are more than 30 days overdue and that there is a default in contractual cash flows when they are more than 90 days overdue.

The company defines low risk assets as mortgage loans to the private market with a PD lower than 0.6 %. Provisions for assets with a lower PD than 0.6 % is calculated for 12 months expected loss (step 1) regardless if the increase in PD is 2.5.

Assets in step 2, where the PD decreases back to a level consistent with 12 month provisions, are subject to a cure period of three months.

2.3.2.6 Incorporation of forward-looking information

The company incorporates forward-looking information into measurement of ECL. OBOS Boligkreditt assess development in macroeconomic variables across three scenarios; base, lower and upper. The variables are BNP for mainland Norway, employment growth, wage increase, disposable real income, unemployment, three months NIBOR, mortgage rate on credit lines, the development in housing prices, new housing investments, debt growth, and population growth.

The following factors for outcome and probabilities have been used for both portfolios per 31 December 2018:

	Factor	Probability
Base scenario	100 %	80 %
Lower scenario	200 %	10 %
Upper scenario	50 %	10 %

2.3.3 Presentation of financial assets and liabilities

2.3.3.1 Loans and receivables

All loans to and receivables from customers is presented in the balance sheet as “Loans to and receivables from customers”. Changes in value attributable to write-downs of loans are included in “Net loan losses”.

2.3.3.2 Certificates and bonds

This category includes certificate- and bond funds recognised at fair value. Interest income is included in “Interest income, fair value”. Other value changes is a part of “Net gain/(loss) on change in value of financial instruments”.

2.3.3.3 Debt securities issued

This category includes bond debt that initially were recognised on the balance sheet at fair value, and later to amortised cost calculated with effective interest rate. The difference between the securities debt cost price (-transaction cost) and market value is recognised over the securities’ time to maturity.

2.3.3.4 Net presentation of assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet if the instruments have a legally enforceable right to be offset at their recognised amounts, and intends to be settled on a net basis or realised and settled simultaneously.

2.4 Revenue recognition / expense

Interest income and interest expense

Interest income- and expenses from assets and liabilities measured at amortised cost are recognised using the effective interest rate method. All fees connected to interest bearing loans are included in the calculations of effective interest rate and is subject to amortisation over the expected lifetime of the asset or liability. Effective interest income method is applied for interest income stemming from impaired assets. In case of buyback of issued bonds that are measured at amortised cost, profit / loss is recorded at the transaction date.

Interest income on loans at amortised cost and FVOCI, and interest expense on financial liabilities held at amortised cost are calculated using the effective interest method. This implies that interest is recorded when incurred, with the addition of amortized fees which are regarded as an integral part of the effective interest rate. The effective interest rate is set by discounting contractual cash flows based on the expected life of the asset.

Commissions and fees

Commissions are recorded in accordance with the matching principle. Fees related to interest bearing instruments are not recorded as commissions, but are included in the calculation of effective interest and booked accordingly.

Net gain/(loss) and change in value of financial Instruments

Changes in value of bond funds and bonds are accounted for in this category.

Other operating expenses

Operating expenses are accrued and expensed within the accounting period. Operating expenses includes administration cost, group overhead and other operating expenses.

2.5 Loans from credit institutions

Loans from credit institutions are carried at amortised cost. Interest expense is included in “Interest expenses”.

2.7 Taxes

Taxes in the income statement includes both tax payable for the period and net change in deferred tax. Deferred tax in the balance sheet is net differences between accounting and tax values on assets and liabilities. Tax-reducing temporary differences are reversed against tax-increasing temporary differences in the same period.

The deferred tax asset is capitalised based on expectations of taxable income through future earnings.

Deferred tax and deferred tax assets are presented as net values in the balance sheet.

2.8 Other liabilities

Accounts payable and other short-term liabilities in the balance sheet are reported at nominal value on the date of establishment and are not subject to changes in value stemming from interest rate changes.

2.9 Other commitments

OBOS Boligkreditt will establish an allowance for any legal requirements, improvements or restructuring if the three following criterias are met:

1. There is an obligation arising from past events
2. It is probable that the commitment will be settled
3. A reliable estimate of the commitment amount can be made

Allowances are calculated as the present value of expected payments required to meet the obligation.

2.10 Changes in standards used from 2018

2.10.1 IFRS 9 Financial instruments

IFRS 9 Financial instruments replaced IAS 39. The new standard included classification, recognition and measurement of financial assets and liabilities, and hedge accounting. The standard also describes impairment standards based on expected credit loss, representing a change from IAS 39 where the loss provisions was based on incurred losses. For a description of the measurement of impairment for expected losses, see 2.3.2 above.

The table below shows the transition effects from 1 January 2018. Comparable figures are not changed for previous periods.

(Figures in NOK 1 000)

Changes in balance items: classification and measurement

The implemention of the new standard 1 January 2018 had the following effect in the companys balance items and measurement categories:

	Measurement category IAS39	Balance values IAS 39	Measurement category IFRS 9	Balance values IFRS 9	Change
FINANCIAL ASSETS					
Loans to and receivable from credit institutions	Amortised cost	25 960	Amortised cost	25 960	-
Loans to and receivable from customers	Amortised cost	12 503 446	Fair value though OCI	12 501 897	-1 548
Bond funds	Fair value options	30 184	Fair value options	30 184	-
Total financial assets		**12 559 590**		**12 558 041**	**- 1 548**
FINANCIAL LIABILITIES					
Loans to and receivable from credit institutions	Amortised cost	674 217	Amortised cost	674 217	-
Debt establiched by issuing securities	Amortised cost	11 016 146	Amortised cost	11 016 146	-
Total financial liabilities		**11 690 363**		**11 690 363**	**-**

According to IFRS 9, loans and receivables from customers have been classified at fair value in the balance sheet, and changes in value are recognised in comprehensive income (OCI). The reason for the change in classification, compared to IAS 39, is that the assessment of cash flow characteristics and assessment of underlying business model governs the classification of assets and liabilities under IFRS 9. The company has a business model where lending is mainly held to recover contractual obligations, but some loans are transferred to the parent company OBOS-banken AS. According to IFRS 9, this is considered a "hold for sale".

The companys equity where reduced by 1,2 mill. NOK after tax after the transition to IFRS 9 1 January 2018.

Allocation of loss provision per segment and step (1 January 2018)

The table shows loss allocation broken down by the various segments and steps in the transition to IFRS 9.

	Loss provision according to IAS 39	Reclassi-fication	Change in measuring new losses	Loss provision according to IFRS 9
Segment	**Stage 1**	**Stage 2**	**Stage 3**	**Total loss**
Residential mortages	346	-	-	346
Housing co-operatives	2 178	1 548	-	3 727
Total loans and customer receivables	**2 525**	**1 548**	**-**	**4 073**

Distribution of loans per steps, gross sizes

Segment	**Stage 1**	**Stage 2**	**Stage 3**	**Borrowing total**
Residential mortages	6 746 703	-	-	6 746 703
Housing co-operatives	5 662 695	90 934	3 114	5 756 743
Total	**12 409 398**	**90 934**	**3 114**	**12 503 446**

Reconciliation of capitalised loss provision from IAS 39 to IFRS 9

	Loss provision according to IAS 39	Reclassi-fication	Change in measuring new losses	Loss provision according to IFRS 9
Loans and receivables (IAS 39) / Financial assets measure to amortised cost (IFRS 9)				
Loans to and receivable from credit institutions	-	-	-	-
Total		**-**	**-**	**-**
Loans and receivables (IAS 39) / Financial assets measured to fair value (OCI) IFRS 9				
Net loans to and receivables from customers				
Loan with floating rate	-	-	1 548	1 548
Total	**-**	**-**	**1 548**	**1 548**
Gurantees and financial commitments (IFRS 9)				
Guarantees and financial commitments	-	-	-	-
Total	**-**	**-**	**-**	**-**
Total	**-**	**-**	**1 548**	**1 548**

2.10.2 IFRS 15 Revenues from contracts with customers

IFRS 15 applies to accounting years beginning 1 January, 2018 or later, and comprises all contracts with customers. IFRS 15 establishes a framework for recognition and measurement of revenue. The standard had no effect on the accounts.

2.11 Approved standards and interpretations that are not yet in use

2.11.1 IFRS 16 Leases

According to IRFS 16 all leases should be reported on the balance sheet as assets and liabilities. Previous classification of leases as either operational or financial leases have been removed. All leases will be treated as financial leasing. Short-term leases (less than 12 months) and leasing of assets of low value are exempted from the requirements. IFRS 16 will be implemented from 1 January, 2019. The implementation will not have any effect on the accounts.

2.12 Group contribution and dividends

Group contributions and dividends paid to the parent company are reported as allocation of profit. Group contributions do not affect reported tax expense, unless the Group contribution results in a change of the profit of the year. Allowance of group contribution to the parent company is capitalised in the balance sheet as a liability.

Note 3 – Accounting estimates and discretionary Assessments

OBOS Boligkreditt prepares accounting estimates and makes discretionary assessments based on historical experience, assumptions about the future and other factors. The accounting estimates are evaluated continuously and may deviate from the results achieved. However, they are based on the best estimate available at the time of the financial reporting. Below are the most important areas where accounting estimates and discretionary assessments are used and these may be subject to changes in capitalized values in future periods.

Value measurement at fair value:

OBOS Boligkreditt estimates the fair value of their financial instruments, which are not listed in an active market, using valuation methods described in note 15 and the accounting principles. The credit institution's choice of method and associated assumptions are based on market conditions at the balance sheet date. Financial instruments comprise the credit institutions holdings of bond funds.

Write-down of financial assets

According to IFRS 9 one should measure the expected loss for financial assets. In according to IAS 39 write downs where made if objective evidence existed that losses had occurred. The method after IFRS 9 for measuring expected losses for financial instruments depends on whether the credit risk has increased significantly since initial recognition. At initial recognition and if the credit risk has not increased after initial recognition, 12 months expected losses are set aside (step 1). This means that judgements are made to determine among other things, whether the credit risk has increased. The model for measuring expected losses, is described in the policy note.

Note 4 – Risk management and internal control

4.1 Guidelines and basis for risk management in OBOS Boligkreditt

OBOS Boligkreditt's risk management includes identification, measurement and assessment of all risks that may affect the company's objectives. The overall purpose of risk management is to ensure that the company achieves the stated goals, ensure efficient operations, managing risks that can hinder achievement of business goals, ensure internal and external reporting of high quality, and ensure that the company operates in accordance with current laws, rules and internal guidelines.

The Board of OBOS-Banken has defined the overall risk management and internal control guidelines applicable to the entire group, including OBOS Boligkreditt. The Board of OBOS Boligkreditt has also defined its own strategies and guidelines. The company shall have a low risk in its operations. This means undertaking risks that are understood, can be monitored, and that will not harm the Group's reputation. Earnings should be a result of the company's lending business and financing in the covered bonds market. The risk profile is an expression of how much risk the company is willing to undertake and thus lay the foundation for its operations.

The Board of OBOS Boligkreditt shall ensure that risks are kept within the agreed risk profile, and in accordance with decided strategies and guidelines. The Board has the overall responsibility to ensure that the company has sufficient capital adequacy based on its risk exposure, and ensure that the company is capitalised in terms of regulatory requirements. The Board will further ensure that risk management and internal control are sufficiently robust and in compliance with laws and regulations, statutes, orders, external and internal guidelines. Further, the Board determines strategies and guidelines for risk management within defined risk areas. The Board revises the strategies regularly, at least annually.

The administration's task is to adapt the business to the risk profile decided by the Board and facilitate a result that corresponds to the Board's performance targets. The CEO is responsible for the establishment of sound risk management and internal control based on strategies and guidelines established by the Board. Further, the CEO is responsible for establishing a robust control environment, to continuous follow-up of changes in the company's risks, and to see that these are properly taken care of in accordance with the Board's guidelines. The CEO also ensures that risk management and internal control are documented in accordance with laws, rules, regulations and statues. This includes an annual review of the overall risk situation, which is presented the Board. The CEO is outsourced from OBOS-Banken AS.

The risk management function is independent and shall not be involved in the performance of services and activities being controlled. The risk management function is responsible for monitoring the overall risk situation and the framework for risk management, including internal control and aggregation of risk. Risk management is furthermore responsible for controlling the risk strategy and other risk management guidelines, further developing methods and tools associated with risk management, as well as responsibility for ICAAP. ICAAP is implemented as part of the banking group's process.

The compliance function is also independent and not involved in the performance of services and activities being controlled. The compliance function controls that the company fulfil its obligations in accordance with the regulations, conducts regular checks that internal guidelines, procedures and measures are sufficiently effective, consider any measures that must be implemented to remedy non compliance with the regulations, ensure that relevant changes in the regulations are captured and that the changes within reasonable time before they come into force, is known. The compliance function provides further advice and guidance on obligations under the regulations. When introducing new products or significant changes in organization, routines and similar events, the compliance function considers the changes in the light of the regulations. The risk management function and the Compliance function are also outsourced from OBOS-Banken AS

The Internal Audit performs systematic risk assessments and inspections of the internal controlsystem to ensure that it works in an appropriate and satisfactory manner, and that it operates independently of the administration. Internal auditor has the right to attend Board meetings. Internal auditors prepare annual plans based on their own risk assessment and carry out projects that are regularly reported to the Board. Internal audit is outsourced to BDO AS.

4.2 Identified risk areas

OBOS Boligkreditt has decided an overall risk strategy that provides a description of the entire company's risk management and risk profile. For the most important risk areas, individual strategy papers have been created. In addition it is implemented an overall management and control strategy.

4.2.1 Credit risk

Credit risk is defined as the risk of loss originated from OBOS Boligkreditt’s customers and other counterparties' inability or willingness to fulfil their obligations. The credit risk area includes counterparty risk, impairment risk and concentration risk. These risks are considered both at a portfolio level and at an individual level. OBOS Boligkreditt has defined low appetite for credit risk and has a conservative lending policy, which is based on OBOS-Bankens lending policy. The Board approves the credit strategy, and this is assessed annually.

The company has Board-approved frameworks and procedures for buying and selling loans between the parent bank and the company. The company's current credit practices are managed by the parent bank through a SLA agreement, and are operationalized in the bank's credit manual, as well as in established procedures in the company. Specific limits on the debt-serving ability and debt-serving will are established in the credit manual. Loans are granted only to customers with proven ability and willingness to pay. The customer shall be able to service his debt with current income / earnings. Loans must have satisfactory security and be within an approved internal framework.

OBOS Boligkreditt uses the standard method for calculating the required capital adequacy for the credit risk. In addition to regulatory minimum targets, the company's capital adequacy must include a buffer that corresponds to the company's accepted risk tolerance and is in line with the supervisory practices defined by the Norwegian Financial Supervisory Authority. OBOS Boligkreditt offers mortgage loans to the private market and housing cooperatives. A restrictive lending policy and thorough knowledge of the customers and their businesses contribute to low credit risk for OBOS Boligkreditt.

4.2.2 Liquidity risk

Liquidity risk is the risk that OBOS Boligkreditt is unable to meet its maturing obligations and the risk that the company cannot meet its liquidity obligations without increasing its cost dramatically. Liquidity is crucial for financial activities, but this risk category will often be conditional upon other events, internal or external, causing concern for the company's ability to meet its obligations.

The liquidity risk framework is included in OBOS Boligkreditt's Liquidity and Financing Strategy, which is revised as needed and at least annually. OBOS Boligkreditt's liquidity risk must be low. The CEO has an executive role in liquidity management.

To ensure timely payment to covered bonds owners, a revolving credit facility has been established between OBOS-Banken AS and OBOS Boligkreditt AS. OBOS-Banken AS guarantees for OBOS Boligkreditt's payment obligations over the next 12 months. Issued covered bonds also have 12 months soft bullet that provides a one-sided right to extend the agreed maturity. This right could be used if the company would have difficulty refinancing itself at ordinary maturity and if the parent bank is unable to provide liquidity support. Loans purchased from OBOS-Banken AS, which are not yet included in a portfolio funded by covered bonds issued, and loans that serve as over-indebtedness, are funded through a revolving credit facility in OBOS-Banken by equity. The long-term overdraft facility was NOK 3.00 billion at the end of 2018.

4.2.3 Market risk

Market risk is the risk of loss or reduced future earnings due to changes in market prices or market rates. The risk arises mainly in connection with investments in securities and because of lending activities through the issuance of securities.

OBOS Boligkreditt has defined low appetite for market risk in the business. OBOS Boligkreditt does not take currency risk and equity risk. The market risk strategy contains defined frames. The strategy is decided by the Board and gives the overall direction of the activity in the capital market.

4.2.4. Operational risk

Operational risk is the risk of loss due to insufficient or failing internal processes or systems, human errors, or external events. Operational risk also includes compliance risk, which is the risk of loss caused by breach of laws and regulations or equivalent obligations, as well as legal risk. This is a risk that often arises from issues relating to documentation and interpretation of contracts.

OBOS Boligkreditt has defined low appetite for operational risk in the business. Measures that are of a preventive and risk-reducing nature are central and help reduce the risk either by reducing the number of events with a loss or by reducing loss per. event.

4.2.5 Business risk / strategic risk

Business risk is the risk associated with fluctuations in earnings due to changes in external conditions such as the market condition, changes in regulations or loss of revenue due to impaired reputation. The handling of OBOS Boligkreditt's business risk is primarily through the strategy process and ongoing work to preserve and improve the company's reputation.

Note 5 – Net interest and credit commission income

(Figures in NOK 1000)

	2018	2017
Interest and similar income from loans to credit institutions, amortised cost	42	161
Interest and similar income from loans to customers, amortised cost	314 603	208 399
Other interest and similar income, amortised cost	8	-
Total Interest income calculated using the effective interest method	**314 654**	**208 560**
Interest and similar income from certificates and bonds, fair value	255	-
Total Interest income, fair value	**255**	**-**
Interest and similar expenses from loans to credit institutions, amortised cost	-12 357	-11 857
Interest and similar expenses of issued securities, amortised cost	-194 059	-121 164
Total Interest expenses	**-206 416**	**-133 021**
Net interest and credit commission income	**108 492**	**75 539**

Note 6 – Net gain/(loss) and change in value of financial instruments

(Figures in NOK 1000)

	2018	2017
Net gain/(loss) and change in value on certificates and bonds	-23	0
Net gain/(loss) and change in value on bond funds	45	214
Net gain/(loss) and change in value of financial instruments	**22**	**214**

Note 7a – Personnel

The company had no employees in 2018. The managing director as well as other services are formally employed by the parent bank and hired to carry out work for OBOS Boligkreditt.

Note 7b – Remuneration to executive personnel, the Board and auditors

(Figures in NOK 1000)

Remuneration to executive personnel

The company's general manager is hired from OBOS-banken AS (equivalent to a 50% position). Salary for management have been invoiced from the parent company OBOS-banken AS to Obos Boligkreditt AS amounting to NOK 0.8 million for the fiscal year 2018.

Fees to the Board	**2018**	**2017**
Marit Sigrid Midttun	-	-
Ove Brudløs Haupberg - until February 2018	-	-
Martin H. Arnholdt - from February 2018	-	-
Svein Haugsvold	160	160
Total Fees	**160**	**160**

Remuneration to the auditor	**2018**	**2017**
Statutory audit	141	104
Remuneration for other services	93	123
Total Remunerations	**235**	**226**

Note 8 – Impairment and losses

(Figures in NOK 1000)

Provisions for losses are calculated based on the expected credit loss (ECL) using the 3-step method in IFRS 9, as described in Note 3.

Changes in gross carrying amount

The table below shows changes in gross carrying amount to explain the significance of changes in loan provisions

	Classification at first-time capitalisation and fresh loans	Significant increase in credit risk since the time of the first capitalisation	Significant increase in credit risk since the time of the first capitalisation and objective evidence of loss	
	Expected loss over 12 months	Expected loss over the lifetime of the instrument	Expected loss over the lifetime of the instrument	
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount 1.1.2018 according to IFRS 9	**12 409 398**	**90 934**	**3 014**	**12 503 346**
Migration to Stage 1	45 623	-42 609	-3 014	-
Migration to Stage 2	-73 418	73 418	-	-
Migration to Stage 3	-	-	-	-
Changes in ECL in the period for loans which have not migrated	-481 084	-4 504	-	-485 588
New loans	6 909 048	15 727	-	6 924 775
Disposal of loans	-1 933 107	-18 976	-	-1 952 083
Confirmed losses	-	-	-	-
Included in previously confirmed losses	-	-	-	-
Change in risk model / parameters	-	-	-	-
Other changes	-	-	-	-
Gross carrying amount 31.12.2018 according to IFRS 9	**16 876 460**	**113 990**	**-**	**16 990 450**

Movements in provisions and write-downs

The table below shows the loss provisions broken down by the various steps of the transition to IFRS 9 as of 01.01.2018 and as of 31.12.2018.

	Classification at first-time capitalisation and fresh loans	Significant increase in credit risk since the time of the first capitalisation	Significant increase in credit risk since the time of the first capitalisation and objective evidence of loss	
	Expected loss over 12 months	Expected loss over the lifetime of the instrument	Expected loss over the lifetime of the instrument	
	Stage 1	**Stage 2**	**Stage 3**	**Total**
ECL 01.01.2018 according to IFRS 9	**2 525**	**1 548**	**-**	**4 073**
Migration to Stage 1	783	-783	-	-
Migration to Stage 2	-54	54	-	-
Migration to Stage 3	-	-	-	-
Changes in ECL in the period for loans which have not migrated	-874	1 122	-	248
New loans	1 641	162	-	1 803
Disposal of loans	-645	-324	-	-969
Confirmed losses	-	-	-	-
Included in previously confirmed losses	-	-	-	-
Change in risk model / parameters	-	-	-	-
Other changes	-	-	-	-
ECL 31.12.2018	**3 377**	**1 779**	**-**	**5 156**
Provisions (%) of gross capitalised values	0,02 %	1,56 %		0,03 %
Net change (1.1.2018-31.12.2018)	**852**	**231**	**-**	**1 083**

Breakdown of loan provisions per. segment and stage

The table below shows the provisions broken down by the various segments and the stages of transition to IFRS 9 as at 01.01.2018 and as at 31.12.2018, as well as net change in loan provisions during the period.

				ECL 31.12.2018
Segment	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Housing co-operatives	522	-	-	522
Retail	2 855	1 779	-	4 634
Total loans and customer receivables	**3 377**	**1 779**	**-**	**5 156**

				ECL 01.01.2018
Segment	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Housing co-operatives	346	-	-	346
Retail	2 178	1 548	-	3 727
Total loans and customer receivables	**2 525**	**1 548**	**-**	**4 073**

	Change in ECL entered in the income statement 01.01.2018-31.12.2018			
Segment	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Housing co-operatives	176	-	-	176
Retail	677	231	-	907
Total change provisions	**852**	**231**	**-**	**1 083**

Estimated Stage 1 losses on assets measured at fair value

The tables below show changes in fair value and expected losses on loans to customers measured at fair value through profit or loss, which are reversed over extended earnings.

	Stage 1	Stage 2	Stage 3	Total
Opening balance	**3 377**	**-**	**-**	**3 377**
Net change in expected losses	-852	-	-	-852
Closing balance	**2 525**	**-**	**-**	**2 525**

Net change in losses on stage 1 on loans measured at fair value, is reversed over extended earnings for OBOS Boligkreditt AS.

				Housing co-operatives
Changes in ECL in the period (NOK thousand)	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
ECL 01.01.2018 according to IFRS 9	**346**	**0**	**0**	**346**
Migration to Stage 1	-	-	-	-
Migration to Stage 2	-	-	-	-
Migration to Stage 3	-	-	-	-
Changes in ECL in the period for loans which have not migrated	- 15	-	-	- 15
New loans	206	-	-	206
Disposal of loans	- 16	-	-	- 16
Confirmed losses	-	-	-	-
Included in previously confirmed losses	-	-	-	-
Change in risk model / parameters	-	-	-	-
Other changes	-	-	-	-
ECL 31.12.2018	**522**	**-**	**-**	**522**
Net change (1.1.2018-31.12.2018)	**176**	**0**	**0**	**176**

Changes in ECL in the period (NOK thousand)	Stage 1	Stage 2	Stage 3	Retail Total
ECL 01.01.2018 according to IFRS 9	**2 178**	**1 548**	**0**	**3 727**
Migration to Stage 1	783	-783	-	-
Migration to Stage 2	-54	54	-	-
Migration to Stage 3	-	-	-	-
Changes in ECL in the period for loans which have not migrated	-859	1 122	-	263
New loans	1 434	162	-	1 597
Disposal of loans	-629	-324	-	-952
Confirmed losses	-	-	-	-
Included in previously confirmed losses	-	-	-	-
Change in risk model / parameters	-	-	-	-
Other changes	-	-	-	-
ECL 31.12.2018	**2 855**	**1 779**	**-**	**4 634**
Net change (1.1.2018-31.12.2018)	**677**	**231**	**-**	**907**

Commitments broken down by risk groups based on probability of default and loss, and by stage (NOK million)

	Stage 1	Stage 2	Stage 3	Total
1 – Low risk	16 846 361	18 614	-	16 864 975
2 – Medium risk	33 476	75 505	-	108 981
3 – High risk	-	21 650	-	21 650
4 – Default	-	-	-	-
Total before write-down	16 879 837	115 769	-	16 995 606
- Write - downs	-3 377	-1 779		-5 156
Net loans and receivables at 31.12.18*	**16 876 460**	**113 990**	**-**	**16 990 450**

* Table shows exposures at reporting date and can not be reconciled against carrying amount

Effects of forward-looking macro information on loss provisions

The table below show the effect of forward-looking macro information on calculated loan loss provision.
The base scenario shows loss provision before recognition of forward-looking macro information.

	Expected loss total	Base scenario	Effect of forward-looking macro information
Provisions pr. 31.12.208	**5 156**	**4 910**	**246**

Note 9 – Risk classification of loans and guarantees

(Figures in NOK 1000)

Credit risk represents the most significant area of risk and is defined as the risk of losses associated with customers being unable to fulfil their obligations at the agreed time and pursuant to written agreements, and the received collateral not covering outstanding claims. The company's credit risk strategy is revised and approved annually by the Board and sets forth the company's risk profile in the area of credit.

The risk classification systems are used as decision support, monitoring and reporting. The risk parameters used in the classification systems are an integral part of the credit process and ongoing risk monitoring, including the follow-up of credit strategies. Probability of default, PD, is used to measure quality for private customers. The risk classification system is based on the probability of default which is an estimate of the likelihood of a counterparty defaulting on its contractual obligations within the next 12 months. For housing cooperatives, a simplified ECL-approach is used.

In the table below, all loans to customers are presented according to risk groups. The amounts are based on the nominal amounts before adjustments for impairment. Loans for which payments are overdue with more than 90 days are considered non-performing and transferred to “Default”.

31.12.2018

Commitments broken down by risk groups based on probability of defult and loss	**Loans**	**Guarantees**	**Unused credit**	**Total**
1 – Low risk	16 864 975	0	0	16 864 975
2 – Medium risk	108 981	0	0	108 981
3 – High risk	21 650	0	0	21 650
4 – Default	0	0	0	0
Total before write-down	16 995 606	-	-	16 995 606
- Write - downs	-5 156	-	-	-5 156
Net loans and receivables from customers at 31.12.18	**16 990 450**	**-**	**-**	**16 990 450**

31.12.2017

Commitments broken down by risk groups based on probability for defult and loss.	**Loans**	**Guarantees**	**Unused credit**	**Total**
1 – Low risk	12 354 720	0	0	12 354 720
2 – Medium risk	126 169	0	0	126 169
3 – High risk	21 301	0	0	21 301
4 – Default	1 256	0	0	1 256
Total before write-down	12 503 446	-	-	12 503 446
- Write - downs	-	-	-	-
Net loans and receivables from customers at 31.12.17	**12 503 446**	**-**	**-**	**12 503 446**

Note 10 – Loans to customers divided in main segments

(Figures in NOK 1000)

As at 31.12.2018	Loans	Unused credit	Guarantees	ECL	Total	o/w non-perf.
Retail	6 821 620	-	-	-4 634	**6 816 986**	-
Housing co-operatives	10 173 986	-	-	-522	**10 173 464**	-
Total	**16 995 606**	**-**	**-**	**-5 156**	**16 990 450**	**-**
Members of OBOS	5 973 539	-	-	-4 321	**5 969 218**	-
Employees of the OBOS group	697 639	-	-	-188	**697 450**	-
Non-members	150 442	-	-	-124	**150 317**	-
Total retail	**6 821 620**	**-**	**-**	**-4 634**	**6 816 986**	**-**
Co-operatives managed by OBC	9 826 800	-	-	-504	**9 826 295**	-
Other housing co-operatives	347 187	-	-	-18	**347 169**	-
Total housing co-operatives	**10 173 986**	**-**	**-**	**-522**	**10 173 464**	**-**

As at 31.12.2017	Loans	Unused credit	Guarantees	Write-downs	Total	o/w non-perf.
Retail	5 750 360	-	-	-	**5 750 360**	1 256
Housing co-operatives	6 753 086	-	-	-	**6 753 086**	-
Total	**12 503 446**	**-**	**-**	**-**	**12 503 446**	**1 256**
Members of OBOS	4 877 917	-	-	-	**4 877 917**	1 256
Employees of the OBOS group	658 711	-	-	-	**658 711**	-
Non-members	213 731	-	-	-	**213 731**	-
Total retail	**5 750 360**	**-**	**-**	**-**	**5 750 360**	**1 256**
Co-operatives managed by OBC	6 559 935	-	-	-	**6 559 935**	-
Other housing co-operatives	193 151	-	-	-	**193 151**	-
Total housing co-operatives	**6 753 086**	**-**	**-**	**-**	**6 753 086**	**-**

Note 11 – Financial assets measured at fair value

(Figures in NOK 1000)

As at 31.12.2018

Sector	Risk class	Aquisition Cost	Book value	Market value	Unrealised change in value
Certificates and bonds	0 %	30 755	30 820	30 820	65
Total		**30 755**	**30 820**	**30 820**	**65**

Financial assets at fair value over profit	
Balance sheet value as at 31.12.2017	30 184
Additions	30 755
Sales	- 30 228
Realised profit (loss)	45
Change in unrealised change in value	- 24
Accrued interest	88
Balance sheet value as at 31.12.2018	**30 820**

As at 31.12.2017

Sector	Risk class	Aquisition Cost	Book value	Market value	Unrealised change in value
Bond funds	0 %	30 000	30 184	30 184	184
Total		**30 000**	**30 184**	**30 184**	**184**

Financial assets atfair value over profit	
Balance sheet value as at 31.12.2016	29 970
Additions	-
Sales	-
Realised profit (loss)	-
Change in unrealised change in value	214
Accrued interest	-
Balance sheet value as at 31.12.2017	**30 184**

Average interest rate when calculating time-weighted return according to Newtons methode "Current yield" give 1,04**%** per 31.12.2018. (1,18% per 31.12.2017)

All certificates and bonds owned as at 31.12.2018 qualify as Level 1A under the LCR regulations.

Note 12 – Debt securities

(Figures in NOK 1000)

Changes in securities debt	Balance 31.12.2018	New issues 2018	Maturity/ buy backs 2018	Other changes 2018	Balance 31.12.2017
Debt securities issued	15 000 000	4 000 000	-	-	11 000 000
Amortisation	29 970	38 276	-	-880	-7 426
Accrued interest	33 339	8 875	-	892	23 572
Total securities debt	**15 063 309**	**4 047 151**	**-**	**12**	**11 016 146**

Method:

Securities debt is classified at amortised cost or to fair value by "fair value option". Book value at amortised cost corresponds to cost adjusted for amortisation.

Loans issued in NOK as at 31.12.2018

ISIN	Type	Due date	Face value	Book value	Accrued interest	Book value incl. Accrued interest	Maturity	interest rate
Bonds to amortised cost								
NO0010775570	FRN	07.10.2019	2 500 000	2 499 273	8 618	2 507 891	0,8	1,46 %
NO0010806870	FRN	05.10.2020	2 000 000	1 999 290	6 600	2 005 890	1,8	1,35 %
NO0010775588	FRN	07.10.2021	2 500 000	2 498 364	9 858	2 508 221	2,8	1,67 %
NO0010786494	FRN	15.06.2022	4 000 000	4 019 220	3 150	4 022 370	3,5	1,89 %
NO0010795487	FRN	06.06.2023	4 000 000	4 013 823	5 113	4 018 936	4,4	1,77 %
Total securities debt			**15 000 000**	**15 029 970**	**33 339**	**15 063 309**	**2,9**	**1,68 %**

All bond loans are listed on the Nordic ABM stock exchange. They have a bullet structure and fall due in their entirety on the maturity date. See obos.no for further information and agreements on each of the above-mentioned bond loans.

Note 13 – Weighted average effective interest rate on financial obligation

(Figures in NOK 1000)

	2018	2017
Issued securities	1,68 %	1,28 %

Weighted average effective interest rate is calculated by mulitplying the face value each issued security by its interest rate as at end of period to obtain per loan weight factor. The sum total of the per loan weight factor for all issued securities is then divided by the total face value av all securities issued and multiplied by 100 to calculate the weighted average.

Note 14 – Other liabilities, accrued costs, guarantees and other commitments

(Figures in NOK 1000)

Other liabilities and commitments	**2018**	**2017**
Liabilities to group companies[1)]	-	69 035
Other liabilities	185	-
Tax payable	23 142	-
Total liabilities and commitments	**23 327**	**69 035**

1) See note 24 for other commitments to the parent company.

			Not cash flow		
Commitments from financing activities	**31.12.2017**	**Cash flow**	**Change fair value**	**Other changes**	**31.12.2018**
Deposits and liabilities to credit institutions	674 217	85 920			760 137
Debt through the issuance of securities	11 016 146	4 047 151		12	15 063 309
Total commitments from financing activities	**11 690 363**	**4 133 070**	**-**	**12**	**15 823 445**

Note 15 – Classification of financial instruments

(Figures in NOK 1000)

As at 31.12.2018	**Financial instruments at fair value through profit and loss**	**Financial instruments at fair value through OCI**	**Financial instruments carried at amortised cost**	**Total**
Financial assets				
Loans to and receivables from credit institutions			2 159	2 159
Loans to customers		16 987 925	2 525	16 990 450
Certificates and bonds	30 820			30 820
Total financial assets	**30 820**	**16 987 925**	**4 683**	**17 023 428**
Financial liabilities				
Debt to credit institutions			760 137	760 137
Securitised debt			15 063 309	15 063 309
Total financial liabilitites	**-**	**-**	**15 823 445**	**15 823 445**

As at 31.12.2017	**Financial instruments at fair value through profit and loss**	**Financial instruments at fair value through OCI**	**Financial instruments carried at amortised cost**	**Total**
Financial assets				
Loans to and receivables from credit institutions			25 960	25 960
Loans to customers			12 503 446	12 503 446
Bond funds	30 184			30 184
Total financial assets	**30 184**	**-**	**12 529 406**	**12 559 590**
Finansielle liabilities				
Debt to credit institutions			674 217	674 217
Securitised debt			11 016 146	11 016 146
Total financial liabilitites	**-**	**-**	**11 690 363**	**11 690 363**

Note 16 – Assets and liabilities measured at fair value

(Figures in NOK 1000)

OBOS Boligkreditt uses the following valuation hierarchy for financial instruments measured at fair value:

Level 1:	Market price (non-adjusted) quoted in an active market for identical assets or liabilities.
Level 2:	Market price that is not listed, but is observable for assets or liabilities either directly (for example in the form of prices) or indirectly (for example derived from prices)
Level 3:	Information that is not based on observeable market data.

There was no movement between level 1 and 2 during the periods.

Method for calculating fair value of financial instruments measured at fair value:

Certificates, bonds and debt securities

The bank obtains market prices and credit spreads from independent brokers in major financial institutions in order to calculate fair value.

Bond funds

The bank obtains the market value of fund units from the individual fund manager.

See also the description provided in note 2: accounting policies.

As at 31.12.18	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Certificates and bonds		30 820		30 820
Total assets	**-**	**30 820**	**-**	**30 820**

As at 31.12.17	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Bond funds		30 184		30 184
Total assets	**-**	**30 184**	**-**	**30 184**

Note 17 – Assets and liabilities measured at amortised cost

For all items booked at amortised cost, the book value is approximately equal to the fair value. This applies to the following balance sheet items: Loans to and receivables from credit institutions, Loans to and receivables from customers and Debt to credit institutions and Debt established by issuing securities.

Note 18 – Capital adequacy

(Figures in NOK 1000)

Net own funds	31.12.2018	31.12.2017
Share capital	111 000	101 000
Share premium	989 039	699 039
Retained earnings	78 291	160
Qualifying equity from this years result	78 131	160
Total equity	**1 178 330**	**800 198**
Adjustments in core tier 1 capital ratio to regulatory adjustments	-18 218	-32
Core tier 1 capital ratio	**1 160 112**	**800 167**
Tier 1 capital ratio	**1 160 112**	**800 167**
Tier 2 capital ratio	**1 160 112**	**800 167**
Minimum requirement own funds		
Institutions	40	415
Mortgage collateral in real estate	478 081	353 075
Overdue commitments	4 300	
Credit risk	**482 421**	**353 490**
Operational risk	9 549	8 086
CVA-risk		-
Minimum requirement own funds	**491 970**	**361 577**
Calculation basis	6 149 623	4 519 708
Capital adequacy ratio		
Core tier 1 capital ratio	18,86 %	17,70 %
Tier 1 capital ratio	18,86 %	17,70 %
Capital adequacy ratio	**18,86 %**	**17,70 %**

Note 19 – Liquidity risk – financial obligations

(Figures in NOK 1000)

As at 31.12.2018	0-1 month	1-3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Deposit from and debt to credit institutions	-1 121	-2 242	-6 727	-760 137	-	-770 227
Debt securities	-26 830	-36 180	-2 704 697	-13 236 756	-	-16 004 463
Total liabilities	**-27 951**	**-38 422**	**-2 711 424**	**-13 996 893**	**-**	**-16 774 690**

As at 31.12.2017	0-1 month	1-3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
Deposit from and debt to credit institutions	-736	-1 472	-4 416	-674 217	-	-680 841
Debt securities	-21 836	-17 125	-121 583	-9 639 604	-2 031 515	-11 831 663
Total liabilities	**-22 572**	**-18 597**	**-125 999**	**-10 313 821**	**-2 031 515**	**-12 512 504**

See note 4: Risk management and interncontrol for statement of the company liquidity risk.

Note 20 – Interest rate risk – time to rate reset

(Figures in NOK 1000)

As at 31.12.2018	0-1 month	1-3 months	3 months to 1 year	1 to 5 years	Over 5 years	Without exposure	Total
Loans to and receivables from credit institutions	2 159	-	-	-	-	-	2 159
Loans to customers	-	16 990 450	-	-	-	-	16 990 450
Certificates and bonds	10 717	20 103	-	-	-	-	30 820
Total assets	**12 875**	**17 010 553**	**-**	**-**	**-**	**-**	**17 023 428**
Deposit from and debt to credit institutions	-760 137						-760 137
Debt securities	-7 022 003	-8 041 306	-	-	-	-	-15 063 309
Total liabilities	**-7 782 139**	**-8 041 306**	**-**	**-**	**-**	**-**	**-15 823 445**
Net interest rate exposure	-7 769 264	8 969 246	-	-	-	-	
Net interest rate exposure as percentage of total liabilities	**49,10 %**	**-56,68 %**	**0,00 %**	**0,00 %**	**0,00 %**	**0,00 %**	

OBOS Boligkreditt measures interest rate risk by a parallel shift of the yield curve by one percentage point, and consequently the result of all interest-sensitive items on and off the balance sheet.

As at 31.12.2017	0-1 month	1-3 months	3 months to 1 year	1 to 5 years	Over 5 years	Without exposure	Total
Loans to and receivables from credit institutions	25 960	-	-	-	-	-	25 960
Loans to customers	-	12 503 446	-	-	-	-	12 503 446
Certificates and bonds	-	30 184	-	-	-		30 184
Total assets	**25 960**	**12 533 630**	**-**	**-**	**-**	**-**	**12 559 590**
Deposit from and debt to credit institutions	-674 217	-	-	-	-	-	-674 217
Debt securities	-7 015 337	-4 000 809	-	-	-	-	-11 016 146
Total liabilities	**-7 689 554**	**-4 000 809**	**-**	**-**	**-**	**-**	**-11 690 363**
Net interest rate exposure	-7 663 594	8 532 821	-	-	-	-	
Net interest rate exposure as percentage of total liabilities	**65,55 %**	**-72,99 %**	**0,00 %**	**0,00 %**	**0,00 %**	**0,00 %**	

OBOS Boligkreditt measures interest rate risk by a parallel shift of the yield curve by one percentage point, and consequently the result of all interest-sensitive items on and off the balance sheet.

OBOS-Banken AS measures intrest rate risk of a parallel increase of one percentage point.
All interest-sensitive items on and off the balance sheet are included in this calculation.

Note 21 – Market risk sensitivity by a parallel shift of the yield curve of 1 %

(Figures in NOK 1000)

Sensitivity	31.12.2018	31.12.2017
Assets		
Loans to customers, floating	-21 805	-14 295
Total assets	**-21 805**	**-14 295**
Liabilites		
Issued securities, floating	16 684	9 076
Other liabilities	8 514	773
Total liabilities	**25 197**	**9 848**
Net	**3 392**	**-4 446**

Assumptions made when calculating sensitivity:
Equal notification time for loans to and deposits from customers. All amounts before tax.

Note 22 – Maximum credit exposure, not taking collateral into account

(Figures in NOK 1000)

Assets	**31.12.2018**	**31.12.2017**
Cash and receivables from central banks	-	-
Loans to and receivables from credit institutions	2 159	25 960
Loans to and receivables from customers	16 990 450	12 503 446
Bond funds	30 820	30 184
Total credit exposure on balance sheet	**17 023 428**	**12 559 590**
Total credit exposure	**17 023 428**	**12 559 590**

The table shows maximum exposure against the credit risk in the balance, inlcuded derivatives. The exposure is gross before any plegdes.

Note 23 – Cover pool

(Figures in NOK 1000)

Cover pool	**31.12.2018**	**31.12.2017**
Loans secured by a home mortgage (housing mortgage loan) [1)]	16 990 450	12 503 446
Deducted the share of debt to assets ratios above 75%	-38 647	-32 646
Total Cover pool	**16 951 802**	**12 470 800**
Debt through the issuance of securities (excl. accrued interest)	**15 029 970**	**10 992 574**
The cover pool's overcollateralisation	112,8 %	113,4 %

1) The cover pools composition is defined in finansforetaksloven § 11-8 .

Note 24 – Related parties

(Figures in NOK 1000)

Transactions within the group

	31.12.2018	**31.12.2017**
Income Statement		
Other interest Income (OBOS-banken AS)	1	124
Other interest expense (OBOS-banken AS)	-15 986	-11 857
Other operating costs (OBOS-banken AS)	-4 667	-4 701
	-20 652	**-16 435**
Balance Sheet		
Deposits from and debt to credit institutions (OBOS-banken AS)	-760 137	-674 217
Other short-term assets	316	-
Provision for group contribution	-	-69 035
Debt through the issuance of securities	-701 920	-401 109
	-1 461 740	**-1 144 361**

OBOS Boligkreditt AS has ongoing transactions with related parties. All transactions are carried out as part of the ordinary business and at market terms. OBOS Boligkreditt buys management services from OBOS-banken AS and is charged through the parent company to a share of the OBOS Group's joint costs, which are settled at full cost after actual use. OBOS Boligkreditt has established a NOK 3.0 billion credit facility with the parent company OBOS-Banken AS for the coverage of current assets, including the transfer of the loan portfolio. The company is charged with the NIBOR + 50 bp. Collateral and a credit commission fee of 0.15% of the credit limit of NOK 3.0 billion. The company uses employees in OBOS-Banken AS and the OBOS Group, as well as payroll systems, invoice processing systems and banking / finance systems, and in this connection has an intermediary with OBOS-Banken AS to cover current operating payments. As at 31.12.18, this debt was at NOK 4.7 million, which is included in the drawn credit facility. All short-term deposits are settled on a continuous basis.

The credit institution entered into an agreement with OBOS-banken AS on a rolling liquidity facility, which at any time covers the expected liquidity that matures the coming 12 months. This liquidity facility is unused at 31.12.18

Note 25 – Tax

(Figures in NOK 1000)

	2018	2017
Profit before tax	100 618	69 248
Permanent differences	3	0
Change in temporary differences	-3	-214
Group contribution paid	-	-69 035
Basis for tax payable	**100 615**	**-**
Tax payable (23%) / (24%)	**23 141**	**-**
Overview of temporary differences	**2018**	**2017**
Shares, other securities etc.	-23	-27
Total temporary differences affecting the tax base	**-23**	**-27**
Deferred tax asset (22%) / (23%)	**5**	**6**
Tax effect of IFRS 9 booked towards equity 01.01.2018	356	
Deferred tax over OCI	-196	
Deferred tax asset (22%) / (23%)	**166**	**6**
Tax expense	**2018**	**2017**
Tax payable	23 141	-
Tax-effect of paid group contribution	-	16 568
Change in deferred taxes/deferred tax assets	1	54
Total taxes	**23 143**	**16 622**
Assesment of the year's tax expense		
Accounting profit before taxes	100 618	69 248
Tax (23%) / (24%)	23 143	16 620
Change in tax-rate from 23 to 22%	0	2
Acocunting tax expense	23 143	16 622
Difference	**-**	**-**

Note 26 – Statement if changes in equity

(Figures in NOK 1000)

	Share Capital	Share Premium	Retained earnings	Total equity
Equity as at 01.01.2017	**1 000**	**399 039**	**-**	**400 039**
Issue of share capital	100 000	300 000	-	400 000
Total comprehensive income 1.1 - 31.12.2017	-	-	52 626	52 626
Group contribution paid	-	-	-52 466	-52 466
Equity as at 31.12.2017	**101 000**	**699 039**	**160**	**800 199**
Issue of share capital	10 000	290 000	-	300 000
Result for the period 1.1.2018 - 31.12.2018	-	-	77 475	77 475
Losses on loans and garanties, fair value	-	-	852	852
Tax on items that are not reclassified to the result	-	-	-196	-196
Total comprehensive income 1.1.2018 - 31.12.2018	-	-	78 131	78 131
Effect of IFRS 9 implementation	-	-	-1 192	-1 192
Equity as at 31.12.2018	**111 000**	**989 039**	**77 099**	**1 177 138**

Note 27 – Share capital and shareholders information

OBOS Boligkreditt share capital at 31 December 2018 was 111 000 000 NOK. Total numbers of shares are 11 100 with par value of 10 000 NOK. All shares have equal voting rights.

OBOS-banken AS is the owner of 100% of the shares.

Key Figures

(Figures in NOK 1000)

		2018	2017
	Profitability		
1)	Net interest in % of average total assets	0,74 %	0,80 %
2)	Combined ratio	6,0 %	8,3 %
3)	Return on equity	7,2 %	7,6 %
	Main figures balance		
4)	Lending to customers	16 990	12 503
5)	Loss in % of gross loans	0,00 %	0,00 %
6)	Defaults in % of gross loans	0,00 %	0,01 %
7)	Total assets	17 024	12 560
8)	Average total assets	14 984	9 416
9)	Overcollateralisation	112,8 %	113,4 %
	Solidity		
10)	Core tier 1 capital ratio	18,9 %	17,7 %
11)	Tier 1 captial ratio	18,9 %	17,7 %
12)	Total capital ratio	18,9 %	17,7 %
13)	Equity in % of total assets	6,9 %	6,4 %
14)	Liquidity coverage ratio	147,8 %	552,9 %
	Employees		
15)	Number of permanent employees	0	0
16)	Number of full-time positions at end of period	0	0

Definitions

1) Net interest income in % of average total assets
2) Sum operating expenses before loss on loans in % of net income
3) Return on equity after tax in % of average equity
6) Defaulted commitment over 90 days in % of gross loans
8) Average total assets pr month
9) Cover pool in % of issuance of cover bonds
10) Core equity capital to its total risk- weighted assets
11) Equity capital to its total risk -weighted assets
12) Total capital to risk weighted assets
13) Equity in % of total assets
14) Liquidity coverage ratio
15) Number of permanent employees inc permanent vacancy
16) Number of FTEs inc permanent vacancy

Auditor's report

To the General Meeting of OBOS Boligkreditt AS

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of OBOS Boligkreditt AS, which comprise the balance sheet as at 31 December 2018, the income statement, statement of comprehensive income 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 are prepared in accordance with law and regulations and give a true and fair view of the financial position of the Company as at 31 December 2018, and its financial performance and its cash flows for the year then ended in accordance with simplified application of international accounting standards according to section 3-9 of the Norwegian Accounting Act.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

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

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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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 in accordance with simplified application of International Accounting Standards according to the Norwegian Accounting Act section 3-9, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

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

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

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 14 March 2019
PricewaterhouseCoopers AS

Anne Lene Stensholdt
State Authorised Public Accountant

(3)