annual report 2018

helgeland boligkreditt

REPORT FROM THE BOARD OF DIRECTORS

Helgeland Boligkreditt AS,
Annual Report 2018

General information

Enterprise
Helgeland Boligkreditt AS was established in 2008 and is a fully-owned subsidiary of Helgeland Sparebank. The company is located at the bank's head office in Mo I Rana.

The company is licensed to operate as a mortgage company, issuing covered bonds. The cover pool is primarily made up of residential mortgages granted by Helgeland Sparebank.
Helgeland Sparebank provides services such as following up customers, management of loans, as well as a number of administrative services.

Accounting standards
The accounts have been prepared in accordance with international financial reporting standards (IFRS). All numerical quantities are given in thousands if not otherwise stated. Helgeland Boligkreditt AS is listed on the Oslo Stock Exchange as a bond issuer.

Rating
Bonds issued by Helgeland Boligkreditt AS are rated 'Aaa' by Moody's.

Result
Profit before tax was MNOK 68.4 (64.3). This is MNOK 4.1 higher than the same period last year. Net interest rate has increased by MNOK 3.6. The company has higher lending volume and interest income on lending has increased by MNOK 20.5, while interest expenses on funding has increased by MNOK 16.9. Increased activity capital has resulted in higher management fees and total operating costs were MNOK 10.3 and has increased by MNOK 1.

Net profit was MNOK 52.7 (48.9) which gives a return on equity of 9.0 (11.1) %. New equity added in Q4 2017 has given lower ROE in 2018.

The company is well capitalized with Core tier one Capital ratio of 18.6 (19.9) %.

Key figures per 30.12.18 (31.12.17)

- Result MNOK 52.7 (48.1)
- Net interest MNOK 77.9 (74.3)
- Operation costs MNOK 10.3 (9.3)
- Return on equity 9.0 (11.1) %
- CET1 capital ratio 18.6 (19.9) %
- Cover pool ratio of fullness 19 (28) %
- Indexed LTV 56 (52) %

Disposal of result
The Board of Directors proposes that the profit for 2018 of MNOK 52.7 be given in group contribution to Helgeland Sparebank. The size of the group contribution is considered justifiable based on the company's position.

Balance development
Combined assets in Helgeland Boligkreditt AS constituted MNOK 7 823 per 30.12.18. Of this, 94% of the assets are mortgages.

Cover pool
By the end of the quarter the mortgage company had mortgages of MNOK 7 384 (6 634). 78.2 (78.3) % of the mortgages are lent to customers in the Helgeland region. All the mortgages have floating interest rates, and 11 (14) % of the lending volume are flexi loans.
The lending has increased by MNOK 1 004.
The lending portfolio is considered to be of good quality. Loans qualified for the cover pool amounts to MNOK 7 325 (6 581). Loans in the cover pool meet the requirements of the Financial Institutions Act, and are secured by residential mortgages within 75 % of appraised value.
By the end of the quarter, Helgeland Boligkreditt AS had substitute assets of MNOK 414 (431) as per 30.12.18 is fully included in the supplementary security.
Statutory bill of MNOK 25 (50) is included in the LCR calculation.

Funding
The lending portfolio is funded by issuing covered bonds totalling MNOK 6 498 (5 476), as well as long term credit from Helgeland Sparebank. None of the covered bonds is in the parent company's ownership.
The company's debt in finance institutions amounts to MNOK 709 (1 042) by the end of the quarter. The debt is linked to credit lines in the parent bank.
The value of the cover pool is well above the volume of loans and there is good security in the portfolio. The OC level (in relation to outstanding bonds) was 19 (28) %.

Cash-flow
The cash flow statement shows how Helgeland Boligkreditt AS has received liquid funds and how these have been used. It has been prepared based on gross cash flows from operating, investing and financing activities. Lending in 2018 increased by MNOK 751. Liabilities to credit institutions decreased MNOK 315 and Covered Bonds increased MNOK 1.022.

Risk conditions and capital ratio

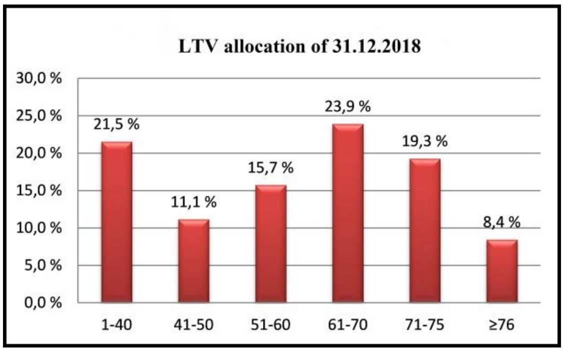
Laws and regulations for companies licensed to issue covered bonds instruct that the risk levels should be low. The company has established guidelines and frames for governing and control of various forms of risk. There is a corporate agreement between Helgeland Boligkreditt AS and Helgeland Sparebank that ensures and maintains frames, proxies, capital management and risk conditions. The Board of Directors considers the company's combined risk to be low.

Credit risk

The company's credit strategy is approved by the Board of Directors and determines the framework for management objectives and risk profile. The company had no individual write-downs or write-offs. Total write-downs of loans by IFRS 9 amount to MNOK 1.0, or 0.02% of gross lending.,

The Board of Directors assesses the quality of the loan portfolio to be very good.
A potential decrease in housing prices will reduce the net value of the cover pool. Quarterly stress tests are therefore carried out to calculate the effects of any negative development in the housing prices. The Board considers the results of these stress tests satisfactory.

The average LTV (Loan-to-value) ratio was per 31.12.18 56 (52) %. The diagram below shows the distribution of the LTVs for the mortgages in the cover pool.



Liquidity risk

Liquidity risk is the risk that the company will be unable to fulfil its payment obligations. The Board of Directors determines the framework for risk management in the company on an annual basis. This includes determining frames for liquidity risk management, organization and responsibilities, stress tests, routines for monitoring the utilization of frameworks and compliance with guidelines, board- and management reporting as well as independent control of systems for governing and control.

By the end of the year the share of funding with maturity exceeding 1 year was 95.5 (98.7) %.This is well above the target figure of 70 %.
Helgeland Boligkreditt AS has established committed credit lines in the parent bank that guarantees repayment of covered bonds maturing the next 12 months on a revolving basis. The company further seeks to reduce the liquidity risk associated with grater maturities by re-purchasing its own bonds. The company's liquidity risk is considered low.

Market risk

The company has little exposure in stocks or securities, and only owns a treasury bill. All funding carry floating interest rates. There are no fixed rate loans in the portfolio, and no loans in foreign currency. Interest rate risk is within the company's governing framework.

Operating risk

The transfer- and service agreement between Helgeland Boligkreditt AS and Helgeland Sparebank ensures and maintains the operational risk. The agreement includes administration, customer care, IT-management, finance- and risk management.

Capital ratio

The capital ratio per 31.12.18 was 18.6 (19.9) % and consists solely of MNOK 543.8 CET1 capital. The standard formula is used to calculate the capital requirements, and the basic indicator approach is used to calculate operating risk. The company's goal for CET 1 capital is 13.0 % and total capital ratio of over 16.5 %.

Corporate responsibility

Large companies are required to prepare a statement about how they exercise CSR, cf. the Accounting Act §3-3C. The parent bank, Helgeland Sparebank, prepares such a statement for the Group that also covers subsidiaries. Reference is therefore made to our parent bank's annual report for further information.

Staff

Helgeland Boligkreditt AS has no employees. An agreement has been made with Helgeland Sparebank regarding the provision of services relating to loan servicing and administration of the company.
Helgeland Boligkreditt AS is committed to gender equality. The Board has 4 members; 2 woman and 2 men.

Prospects ahead

The unemployment rate remains low within the region with a total unemployment rate in Helgeland by the end of the quarter of 1.6 %. Nordland County had an unemployment rate of 2.0 % and the national average was 2.3 %. It is expected that the low level of unemployment will persist.

12 months credit growth in Norway for the retail market as of November was 5.5 %. The growth in Helgeland Boligkreditt AS is adapted to the parent bank's borrowing requirements and will continue to be at a higher level than the credit growth in Norway and Helgeland. Continuous efforts are being made to facilitate further purchases of mortgage loans from the parent bank, as well as the issuance of covered bonds.

The turnover of housing in Helgeland has for the 4th quarter of 2018 been somewhat higher than in the 4th quarter of 2017. With regard to the price trend for resold homes, this has fallen somewhat. For the largest cities in Helgeland, Rana and Mosjøen, prices have fallen by respectively -1.3 % in Rana and -2.6 % in Mosjøen. If you see this over 12 months, the prices have increased for these places with respectively 4.9 % in Rana and 2.6 % in Mosjøen. The average for Norway has been a price increase over 12 months of 2.8 %.

The lending margins are under pressure, interest rate changes with increased lending rates as a result of the interest rate hike, which had a full effect on earnings in December, the net interest rate has increased in the last quarter.

Mo i Rana, 26 February 2019

Hanne Nordgaard *Chairman*	Dag-Hugo Heimstad *Vice-Chairman*	Håkon Stanghelle
Ranveig Kråkstad		Lena Båtstrand *General Manager*

Corporate Governance

The company's policy for corporate governance shall ensure that governance of the company's activities is in line with general and recognized perceptions and standards, in addition to laws and regulations.
The policy describes values, goals and general principles. The objective is to ensure a good interaction between the company's various interests under which the company is governed and controlled, so as to safeguard the interests of the owners and other groups in the company.

The company's policy is laid down in various governing documents for the activities of Helgeland Boligkreditt AS. These include the company's articles of association, strategy document, policy documents, budget, mandates and frameworks, descriptions of procedures, framework for governance and control, guidelines for systems and processes that focus on risk management and internal control in the company.
These documents are based on the Norwegian Code of Corporate Governance and the Committee of European Banking Supervisors' principles for overall governance and control.

It is Helgeland Boligkreditt AS' ambition to follow the above recommendations as appropriate.

In accordance with point one in the Norwegian Code of Practice for Corporate Governance, follows an account of the company's compliance with the provisions of the Code.

The General Meeting is the company's highest body and is exercised by the CEO of Helgeland Sparebank.

The General Meeting shall consider:

- Approval of the company's annual report and accounts
- Allocation of profit or covering of deficit, and distribution of dividends/corporate contributions
- Determine the remuneration for company representatives and the auditor.
- Electing board members in accordance with article 3 of the articles of association and the Companies Act.
- Other matters which by law belongs to the General Meetings responsibilities.

A new Financial Institutions Act entered into force on 1 January 2016. The General Meeting adapted to the new act by, among other things, dissolving its Supervisory Board and Control Committee in March 2016.
The General Meeting also amended the company's Articles of Association to meet the new requirements of the new act.

Operations
Helgeland Boligkreditt AS was established to be the bank's company for issuing covered bonds.
The mortgage company acquires residential mortgages which are secured within 75% of appraised property value. The mortgage loans are purchased from Helgeland Sparebank.

The mortgages are granted through the bank's distribution channels and the bank is responsible for customer relations, customer contact and marketing.

The company's strategic platform is summarized in strategic and financial goals that are updated at least annually.

Company capital

The company's equity consists of share capital, share premium reserve and retained earnings.
The company's goal for tier one capital adequacy is 13.0 %. Internal target requirements were last revised in accordance with CRD IV requirements in connection with the company's strategy process in 2018.
The statutory minimum requirement is 12.0 % from 31.12.18 (12.5 % from 31.12.19).

The company aims to achieve a return on equity which is competitive in the market compared to the company's risk profile.

Elections
The general meeting elects the Board of Directors.

The Board's composition and independence
The Board of Directors consists of 4 permanent members and one alternate. Two of the permanent members are women.
Important criteria for the Board members and composition of the Board are qualifications, gender, capacity and independence.
In its activity plan the Board has assumed an annual evaluation of the independence of its members and the Board's overall competence.

The Board meets at least once every quarter and works according to a set schedule for the year. In addition to the elected members, the general manager also attends the Board meetings. The Board of Directors has overall responsibility for the administration of Helgeland Boligkreditt AS and to oversee the daily management and operations.
The Board's management responsibilities includes responsibility for organizing the company in a proper manner, the responsibility to draw up plans and budgets for the company, for keeping itself informed about the company's financial position and the company's activities, asset management and accounts are subject to adequate controls.
The annual strategy process/rollover of the strategic plans is a priority. Overall goals and strategies are determined, and on the basis of those action plans and budgets are drawn up.
The general manager prepares matters to be considered by the board, together with the chairman.

Risk management and internal control

Good risk and capital management is essential to the long-term value creation of Helgeland Boligkreditt AS. Risk management is linked to four risk areas:

- Credit risk
- Market risk
- Liquidity risk
- Operational risk, including HSE, IT, communications, market, compliance and anti-money laundering (AHV) and terrorist financing.

The choice of method for risk assessment should be based on the company's complexity and the scope of the various business areas.
The Board of Directors of Helgeland Boligkreditt AS assumes that the company shall be well capitalized. Capital assessments (ICAAP) are included in the Helgeland Sparebank Group and are completed at least once a year. The company's capital strategy will be based on real risk in the activities, supplemented by the effect of various stress scenarios.

The responsibility for implementation of the company's risk and capital management is divided between the Board of Directors, the General Manager and the operational units of the parent bank; Helgeland Sparebank. The Board is responsible for ensuring that the company has sufficient capital, based on the desired risk and the company's activities. The General Manager is responsible for the company's overall risk management, including the development of effective models and framework for management and control.

Helgeland Boligkreditt AS has adopted a policy for risk management and internal control that determines objectives for and the organization and implementation of internal control activities (including through agreements with the parent bank). This also includes requirements for reporting the status of the company's risk profile and the quality of internal control, as well as monitoring risk reducing measures.

The Internal auditor is participating in all board meetings.

Remuneration to the Board

The General Meeting determines remuneration rates for the Board.

Management remuneration
The company has no employees. An agreement has been made with Helgeland Sparebank regarding the provision of services related to management and operation of the company.
The company has no option- or bonus agreements.

Information and communication

Helgeland Boligkreditt AS is listed on the Oslo Stock Exchange (ABM) as an issuer of covered bonds and reports dates of major events such as the publication of financial information in the form of interim reports and annual reports. Corresponding information is published on the parent bank's website.

Auditor

The General Meeting has appointed PricewaterhouseCoopers as external auditor and approves the auditor's fees.

Investigator

On 27 February 2009, PricewaterhouseCoopers was appointed by the Financial Supervisory Authority of Norway as an independent investigator of Helgeland Boligkreditt AS.

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PROFIT AND LOSS ACCOUNT (amounts in NOK 1.000)

	Note	31.12.18	31.12.17
Interest receivable and similar income	4,23	190 718	170 182
Interest payable and similar costs	4,23	112 802	95 860
Net interest- and credit commission income		**77 916**	**74 322**
Commissions receivable and income from banking services		18	14
Commissions payable and costs relating to banking services		0	0
Net commission income		**18**	**14**
Gains/losses on financial assets available for sale	5	650	152
Operating costs	6,22,23	10 313	9 301
Losses on loans, guarantees etc.	2	-124	900
Operating profit		**68 395**	**64 287**
Result before tax		**68 395**	**64 287**
Tax payable on ordinary result	7	15 726	15 416
Result from ordinary operations after tax		**52 669**	**48 871**
Yield per equity capital certificate	24	98	91
Diluted result per ECC in Norwegian currency	24	98	91
Extended Income Statement		**31.12.18**	**31.12.16**
Result from ordinary operations after tax		**52 669**	**48 871**
Net extended profit or loss items	6	0	0
Total result for the period		**52 669**	**48 871**

BLANCE SHEET

BALANCE SHEET (amounts in NOK 1.000)

	Note	31.12.18	31.12.17
ASSETS			
Loans to and claims on credit institutions	2,3,9,10,11,17,23	414 457	430 762
Loans to and claims on customers	2,9,11,12,13,17	7 383 826	6 628 775
Certificates	2.2.2,2.3.1,9	24 957	49 968
Other assets			0
Total assets		**7 823 240**	**7 109 505**
LIABILITIES AND EQUITY CAPITAL			
Liabilities to credit institutions	2,9,17,23	708 965	1 024 389
Borrowings through the issuance of securities	2,9,10,15,16,17,23	6 497 568	5 476 143
Other liabilities	8,14	15 978	16 071
Total liabilities		**7 222 511**	**6 516 603**
Paid-in equity capital	19,20,23,24	540 010	540 010
Accrued equity capital/retained earnings	19,20	60 719	52 892
Total equity capital		**600 729**	**592 902**
Total liabilities and equity capital		**7 823 240**	**7 109 505**

Mo i Rana, 26 February 2019

Hanne Nordgaard
Chairman

Dag-Hugo Heimstad
Vice-Chairman

Håkon Stanghelle

Ranveig Kråkstad

Lena Båtstrand
General Manager

EQUITY

CHANGE IN EQUITY CAPITAL DURING THE YEAR

	ECC capital	Premium fund	Fund unr. gains	Other ecc	Sum
Equity capital 01.01.18	540 000	10	197	52 695	592 902
Issued new share capital				-48 871	-48 871
Group contribution				4 226	4 226
Profit				52 669	52 669
Value change securities			-198		-198
Equity capital as at 31.12.18	**540 000**	**10**	**-198**	**60 719**	600 728

	ECC capital	Premium fund	Fund unr. gains	Other ecc	Sum
Equity capital 01.01.17	390 000	10	66	36 925	427 001
Issued new share capital	150 000				150 000
Group contribution				-33 101	-33 101
Result				48 871	48 871
Value change securities			131		131
Equity capital as at 31.12.17	**540 000**	**10**	**197**	**52 695**	**592 902**

CASH FLOW STATEMENT

	31.12.18	31.12.17
Change in lending to customers	-750 688	-1 005 251
Interest income lending to custumers	188 416	170 180
Change deposits from customers	-315 423	44 277
Interest cost deposit from customers	-17 108	-17 663
Change sertificates and bonds	25 012	-24 994
Interest income sertificates and bonds	0	1
Comission income	11	14
Payments relating to operations	-10 313	-9 301
Paid tax	-11 608	-12 700
Other cutoffs	-3 039	3 645
A Net liquidity change from operating activities	**-894 740**	**-851 792**
Long-term investments in shares	0	0
Income sale of long-term investments in shares	0	0
Dividend from long-term investments in shares	0	0
B Liquidity change from financial activities		**0**
New borrowing through issuanse of securities	2 447 000	3 195 000
Repayments - issued securities	-1 424 000	-2 244 000
Interest payments borrowing through issuance of securities	-95 694	-78 197
New share capital	0	150000
Dividend to share owners	-48 871	-33 102
C Net liquidity change financing	**878 435**	**989 701**
A+B+C Net liquidity change in the period	-16 305	137 909
Liquid funds at the start of the period	430 762	292 853
Liquid funds at the end of the period	414 457	430 762
Liquid funds specified	**-16 305**	**137 909**
Balances with credit institutions without notice periods	414 457	430 762

NOTE 1. ACCOUNTING PRINCIPLES

General background

Helgeland Boligkreditt AS obtained its license as a finance institution in February 2009. The company is a fully owned subsidiary of Helgeland Sparebank and was established to be the parent bank's enterprise for issuance of covered bonds. The company is headquartered in Mo i Rana, with address Jernbanegata 15, 8622 Mo i Rana,

Presentation currency
All amounts are stated in NOK thousand unless otherwise specified. Presentation currency and functional currency are both NOK.

Basis of preparation of financial statements
The accounts have been prepared in accordance to international accounting rules (IFRS). The company is a part of the Helgeland Sparebank Group, who implemented IFRS in the consolidated accounts from 1 January 2005. The company uses the same principles of measurement, classification and presentation as the consolidated accounts for Helgeland Sparebank.
The annual accounts have been prepared on a going concern basis.

Presentation in the balance sheet and profit and loss account
<u>Loans</u>
Loans are recognised in the balance sheet depending on the counterparty, either as loans to and claims on credit institutions or as loans to customers

Interest income on loans is included in the line for "net interest income".
Changes in value that can be linked to identify objective evidence of impairment on the balance-sheet date for loans carried at amortised cost and for the portfolios of loans at fixed interest rates that are carried at fair value are included in "write-downs of loans and guarantees".

<u>Liabilities to credit institutions</u>
Liabilities to financial institutions are recognised as liabilities to credit institutions regardless of the measurement principle. Interest expense on the instruments is included in net interest income based on the internal rate of return method.
Other changes in value are included in "net gains on financial instruments at fair value".

Segment reporting
The company's operations involve only one strategic business area, which is organised and managed on a total basis. The company's business area is the retail market. Lending to the corporate market is mortgages to sole proprietorships and represents a smaller share of total lending. The company does not report this as a separate segment.

Changes in accounting principles and information

(a) New and amended standards adopted

IFRS 9 financial instruments
On 1st January 2018, the company changed its accounting policy for recognition, de-recognition, classification and measurement of financial assets and liabilities and hedge accounting from previous IAS 39 to IFRS 9.

IFRS 15 Income from contracts with customers
The standard introduces a new model for recognizing revenue from customer contracts. IFRS 15 replaces IAS 11 Construction Contracts and IAS 18 Operating costs. The standard does not affect the group (effective 1st January 2018

(b) New standards and interpretations not yet adopted

A number of new standards, changes to the standards and interpretations are required for future annual accounts. Among those that the group has chosen not to use early, the most important information is stated below.

IFRS 16 Leases
The standard presupposes that there is no longer a distinction between operational and financial leasing, because both types of agreements transfer the right of use to specific asset from the lessor to the lessee for a specific period. For the lessor, the regulations from IAS 18 are mainly continued. The standard applies to annual accounts that start on 1st January 2019. The company has no lease agreements and the standard has no effect.

There are no other standards or interpretations that have not come into force that are expected to have significant impact on the group's accounts.

<u>Financial instruments</u>
IFRS 9 has a more principle-based approach than IAS 39 to whether financial assets should measure at amortized cost or at fair value. The measurement categories for financial assets in IAS 39 (fair value through profit, available-for-sale, held-to-maturity and amortized cost) have been replaced by the following three categories in IFRS 9; fair value with changes in value through profit or loss, fair value through change (OCI) and amortized cost.

Initial recognition of the asset determines the measurement of the financial asset. The business model for keeping the financial instruments will be crucial for choosing the category. The principles of financial liabilities are essentially the same as in IAS 39, with some exceptions. This relates, among other things, to changes in value from own credit risk, where the liability is measured using the fair value option and is recognized in the comprehensive income (OCI).

Financial instruments held to receive contractual cash flows shall, in principle, measure at amortized cost.

Financial assets, which are both kept to receive contractual cash flows and for resale shall in principle measure at fair value with changes in value over extended earnings (OCI).

Financial instruments at amortized cost

Debt instruments that have cash flows that only represent the payment of interest and installments, and where the purpose is only to keep the instrument to receive contractual cash flow, shall be carried at amortized cost. In the Group, all loans and loans with floating interest rates are classified at amortized cost.

Assets and liabilities:

- Lending at floating interest rate
- Debt to credit institutions and deposits from customers
- Debt securities at floating interest rate

Lending to customers

Loans to and receivables from customers are initially measured at fair value with the addition of the direct transaction costs. During periods after the first measurement, loans at amortized cost are valued according to the effective interest method. The loans are written down in accordance with IFRS 9.

Impairment amounts are calculated as the difference between the carrying amount and the present value of future cash flows, calculated over the expected useful life of the loan. For the present value calculation, the last fixed effective interest rate on the loan or loans is written down.

Potential exposure

Unused credits, non-discounted loans and guarantees granted are off balance sheet items presented in notes. Revenue is presented in commission income and income from banking services. Off balance sheet items included in the calculation of expected losses are presented in the balance sheet under other liabilities.

Write-downs on loans

The rules in IFRS 9 for impairment of financial assets apply to commitments measured at amortized cost (commitments with floating interest rates are defined under this category). The standard entails requirements for loss provisions also on new commitments, by making a write down for expected credit losses as a result of expected default in the next twelve months. Expected losses for all customers at the account level are calculated. The calculation includes loans, guarantees, unutilized credit and loan commitment. For loans where the credit risk has increased substantially after initial recognition, write-downs shall be made for the expected credit loss over the maturity of the loans. The bank has developed a model in collaboration with several other banks. The model contains macro-scenarios according to IFRS 9 (3 scenarios).

According to previous rules, write-downs for losses should only occur when there was objective evidence that a loss event has occurred after the initial recognition. According to IFRS 9, loss provisions are recognized based on expected credit loss.

Expected losses for all accounts are calculated. All account commitments are entered into one of the three "steps" in the loss model, based on their risk change since granting (change in credit risk). For a description of the individual "steps", see explanations below. All commitments that do not already have objective evidence of loss at the time of recognition are placed at the time of recognition in step 1, and are later moved to step 2; in cases where there has been a significant increase in credit risk, or step 3; in cases where there is objective evidence of loss.

Step 1: 12 months expected loss

This includes most cases of financial assets that are covered by the general loss model. Financial instruments that have similar credit risk (or better) to what it was at initial recognition, and which are therefore not classified under steps 2 and 3, are included in this step. The estimated expected loss attributable to the accounts corresponds to expected losses from default in the next 12 months.

Step 2: Expected loss of life.

In step 2, financial assets that have had a significant increase in credit risk are placed since initial recognition. If an account commitment is significantly worsened or not, it is defined as a function of probability of default (PD) at the time of calculation and the time of grant. The company has chosen to define that assets with low credit risk (operationalized as assets with PD not exceeding 0.75%) remain in step 1. Expected loss for assets in step 2 is calculated over the residual maturity of the asset. The following events are always considered to have resulted in a significant increase in credit risk:

- Commitment where there is a 30 day cover. This applies to coverings from the first crown, but older than 30 days.
- Commitment where there is greater cover. This applies to overdrafts from the first day, where the balance is considerably larger than the grant.
- Commitment with changed payment obligations or refinancing (forbearance).

Step 3: Expected loss of life

In step 3 of the loss model, assets that have had significant increase in credit risk since initial recognition and where there is objective evidence of loss at the reporting date. Expected loss for assets in step 3 is

calculated over the remaining maturity of the asset. Interest income is calculated on the assets' net book value.
The company has defined that there is objective evidence of loss in a commitment in which bankruptcy, piecework proceedings have been opened or individually assessed provisions have been made

Total commitment from a customer is considered defaults when overdue installments or interest are not paid 90 days after maturity, or framework credits are overdrawn for 90 days or more. This is in accordance with the bank's routines.

The same model is used for the group, parent bank and wholly-owned mortgage companies, but with different data definition when it comes to initial recognition. For the group and the parent bank, the account's grant date must be used, while for the mortgage company the score is used at the transfer date.

The company has internal routines for marking and identifying customers who have received payment delay. A customer who has been granted payment facilitation which is covered by FT's guidelines for reporting will be marked for a minimum of 2 years

Securities with floating interest rates
At initial recognition, the debt is measures at fair value with the addition of direct transaction costs. In periods after the first measurement, the debt is valued at amortized cost using the effective interest method.

Financial instruments at fair value through profit or loss
Assets: Certificates, bonds (interest-bearing securities)

Interest income and interest cost
Interest income and interest costs relating to assets and liabilities measured at amortised cost are recognised in the profit and loss account on an ongoing basis through the use of the effective interest method. Interest income on loans which have been written down is calculated by using the same effective rate of interest as the one applied when discounting the original cash flow. Interest income on fixed-interest loans is recognised at fair value. Changes in the fair value of fixed-interest loans are recognised in the profit and loss account as a change in the value of financial instruments.

Commission income and expenses
In general, commission income and expenses are accrued as a service is provided. Fees related to interest bearing instruments are not accounted as commission, but is included in the calculation of effective interest and recognized equivalent.

Cash and cash equivalents
Cash and cash equivalents are consist of cash, bank deposits, other short-term highly liquid investments with maturities of three months or less and company overdrafts.
Provisions
A provision is recognized when the company has a current obligation (legal or presumed) as a result of events that have occurred, there is a likelihood of a financial settlement resulting from the liability and the amount of the amount can be reliably calculated. Provisions are reviewed at each balance sheet date and the level reflects the best estimate of the obligation.

Tax
Deferred tax is calculated on all temporary differences between accounts-related and tax-related balance sheet values according to the currently applicable tax rate at the end of the period (the liabilities method). Tax-increasing temporary differences include a deferred tax liability, and tax-reducing, temporary differences, together with any loss to be carried forward, include a possible deferred tax benefit. Deferred tax benefit is shown in the balance sheet when it is likely that in the future there will be taxable income against which the deferred tax benefit can be used.
The tax cost in the profit and loss account comprises both the period's payable tax and any change in deferred tax. The change in deferred tax reflects future payable taxes which are incurred as a result of the operations during the year.

Share capital
Provision for dividends and group contributions are classified as equity capital in the period until the dividend is decided by the company's supervisory board. Provisions are not included in the calculation of capital adequacy. When the dividend or group contribution is decided by the General Assembly, it will be removed from the equity capital and classified as short-term liability until payment is made.

Cash flows
The cash flow statement (IAS 17) shows payments and payouts of cash and cash equivalents throughout the year. Cash and cash equivalents are defined as cash and receivables from central banks.

Comparability
Comparative figures have been adjusted where it is considered necessary for them to be in accordance with the presentation for the current year.

NOTE 2 CAPITAL MANAGEMENT AND RISK CONDITIONS

Risk and capital management

Risk and capital management supports the company's strategic development and ambitions. The main objective is to ensure the realization of the Group's financial and operational goals. No matter how good the risk management is, there may be unexpected losses that require the Group to have sufficient equity. As part of the risk management work, there is a need for additional capital for the various risk areas. The assessments are supported by various internal assessments and calculation models. This is summarized in the bank's internal capital requirement assessment process (ICAAP).

Risk categories and definitions:
• Credit risk: the risk of loss as a result of customers or counterparties not being able to fulfill their obligations
• Liquidity risk: the risk that the Group will not be able to fulfill its obligations at maturity.
• Market risk: the risk of losses as a result of changes in market prices related to activities and positions in securities (interest rates).
• Operational risk: risk of direct or indirect loss due to failure of internal routines, systems and processes, insufficient expertise, damage to assets, interruptions, system errors, internal or external fraud.

Risk management is central to the day-to-day operations and to the board's ongoing work. The risk is primarily governed by policy and guidelines, frameworks, authorizations, reporting requirements and requirements for competence.

The Board determines the Group's credit strategy that covers credit risk, and the Group's financial strategy that covers liquidity risk and market risk. The bank has a credit committee and a finance committee for the management and follow-up of risk in line with the management framework and authorizations granted by the board.

The Main Agreement and the Transfer- and service agreement between Helgeland Boligkreditt AS and Helgeland Sparebank ensures and maintains the operational risk. The agreements include administration, customer care, IT-management, finance- and risk management.
The company has no currency exposure.

NOTE 2.1 CREDIT RISK

Overall, the credit risk of the company is characterized low; WA LTV per 31.12.18 was 56 % (52 %).

NOTE 2.1.1 CREDIT EXPOSURE

Balance items	31.12.17	31.12.16
Loans to and claims on credit institutions	414 457	430 762
Loans to and claims on customers	7 384 962	6 628 775
Lending to and claims on customers, to amortized cost	7 799 419	7 059 537
Leding to customers at fair value	0	0
Lending to and claims on customers, at fair value	0	0
Potetntial exposure to credit lines	474 048	449 481
Total credit exposure, balance items	474 048	449 481
Unallocated credit limit	3 000 000	3 000 000
Total credit exposure, off-balance sheet	3 474 048	3 449 481
Total credit exposure	11 273 467	10 509 018

1) The credit exposure by IFRS is the amount that best represents the maximum exposure to credit risk. For a financial asset this is the gross carrying value and any potential exposure.

NOTE 2.1..2 COMMITMENTS AND LOSSES AND RISK CLASSES

	Step 1	Step 2	Step 3		
	Expected loss over 12 months	Expected loss over the instruments life time	Expected loss over the instruments life time	With individual write-downs	Total
Gross lending pr. 01.01.18	**6.390.501**	**242.278**	**1.497**	**0**	**6.634.275**
New loans / credits / guarantees	2.959.408	76.848	0	0	3.036.256
Transfers from step 1 to step 2	-153.397	148.700	0	0	-4.697
Transfers from step 1 to step 3	0	0	0	0	0
Transfers from step 2 to step 3	0	0	0	0	0
	0	0	0	0	0
Transfers from step 3 to step 2	0	0	0	0	0
Transfers from step 3 to step 3	0	0	0	0	0
Transfers from step 2 to step 1	94.040	-101.519	0	0	-7.479
Reduced portfolio	-1.983.267	-77.935	-1.497	0	-2.062.699
	0	0	0	0	0
Other adjustments	-209.145	-1.550	0	0	-210.695
Gross lending pr. 31.12.18	**7.098.140**	**286.822**	**0**		**7.384.962**
Unused drafts, guarantees etc.	471.326	6.562	0		477.888

Transition between steps includes changes in lending from the beginning to the end of the period.

	Trinn 1	Trinn 2	Trinn 3		
Tapsavsetninger	Forventet tap over 12 måneder	Forventet tap over levetiden til instrumentet	Forventet tap over levetiden til instrumentet	Individuelle nedskrivninger	Totalt
Tapavsetning pr. 01.01.18	**456**	**762**	**82**	**0**	**1 300**
Nye lån/kreditter/garantier	170	225	0	0	395
Overgang fra steg 1 til steg 2	-16	278	0	0	262
Overgang fra steg 1 til steg 3	0	0	0	0	0
Overgang fra steg 2 til steg 3	0	0	0	0	0
	0	0	0	0	
Overgang fra steg 3 til steg 2	0	0	0	0	0
Overgang fra steg 3 til steg 1	0	0	0	0	0
Overgang fra steg 2 til steg 1	9	-240	0	0	-232
Redusert portefølje (salg/konstatering/mv)	-173	-194	-82	0	-450
	0	0	0	0	
Andre endringer i perioden	-24	-115	0	0	-139
Tapsavsetninger pr. 31.12.18	**421**	**716**	**0**	**0**	**1 136**

Write-downs for losses on loans and off-balance sheet items in accordance with IFRS 9
See description Note 1 accounting principles

Prerequisites in the calculation model
If an engagement is «significantly worsened», it is decided by comparing the probability of default (PD) at the time of grant with PD at the time of calculation.
Assessment of significant deterioration is based on both a relative increase in PD and the absolute change. The level is set so that both the relative change is significant and that the level itself is not insignificant compared to what is considered low risk. In addition, it is envisaged that if there is a major absolute change, it should in any case be regarded as significantly worse.
An engagement that at the time of calculation has a PD higher than 0.75 % and at the same time has either twice as high PD, or has received a PD which is at least 5 %-points higher, is considered to be significantly worse.

Periodically expected losses are calculated as the product of probability of default (PD), exposure in the vent of default (EAD) and loss given default (LGD), and shall be unbiased. The PD-model has been in use and validated by the bank since 2009, while the LGD model has been developed from 2017.
The bank's PD-model gives PD (probability of default), at customer level, one year ahead. The PD-model gives the likelihood that the customer will default and will default on all their commitments. The customer's PD can therefore be used at the account level.
The bank (The company) has not developed models to calculate lifetime PD. The bank therefore uses models that calculate the probability of default in the next 12 months (12 months PD). The bank (The company) has carried out analyzes of the observed default rate (default rate, DR) as a function of the age of the loan at the time of default. The analyzes show that DR increases somewhat in the early years after granting, and then decreasing. The variation in DR is considered to be at such a level that 12 months PD is a reasonable substitute for lifetime PD. The bank has relatively little data, and there is thus some uncertainty associated with the analyzes.
There have been minor adjustments in the calculation model during the reporting period, this has not produced any significant effect.

Sensitivity assessment of key assumptions
The model is influenced by several parameters, and has a sensitivity up to 35 % against individual variables, if we adjust the parameter for BM and PM simultaneously. If we look at only one of the segments separately, the sensitivity is mostly about 20 %. The sensitivities above are calculated for that part of the portfolio, where the model has a direct impact on earnings, ie. excluding individually written down commitments.
Key parameters with high sensitivity will be closely followed up and validated, as it is important that these are as accurate as possible. The model is most sensitive to parameters for LGD.

Scenarios
The data base contains historical data on the observed probability of default (PD) and loss given default (LGD).
This will form the basis for validation of model LGD when the data basis is sufficient. Three different scenarios, affecting projected LGD and PD, have been developed based on historical data and macro variables.
The validity of all scenarios is that they apply from the calculation date, that is, we are in the first scenario period at the time of calculation. This is done so that the scenarios will have an effect on the entire calculation, also steps 1 and 3.
Description of scenarios
The Background for determining the scenarios is an overall assessment of several macro variables and other factors of effects on the total level of PD which is the basis for any adjustments of scenarios. There are 3 scenarios defined:
Realistic scenario is a macroeconomic scenario that represents expected future economic growth over the next 5 years. Realistic scenario is a scenario comparable to the ICAAP scenario Base case.
Optimistic scenario is a macroeconomic scenario that represents a boom with strong economic growth. In year 5, the scenario converges towards an equilibrium with realistic scenario.
Pessimistic scenario is a macroeconomic scenario that represents a downturn with weak economic growth. Pessimistic scenario could represent a downturn based on a 25-year cycle, but that will be a good deal milder than the credit crisis in the early 1990s. In year 5, the scenario converges towards an equilibrium with realistic scenario.

Realistic scenario
Global economy: Stable and moderate global economic growth is expected over the next 5 years.
National economy: Stable growth is expected in the Norwegian economy over the next 5 years.
Regional economy: The regional economic growth over the next 5 years is expected to be on par with the rest of the country.

Optimistic scenario
Global economy: Positive development and strong economic growth are expected over the next 5 years.
National economy: Oil prices will rise and the Norwegian economy will experience strong economic growth.
Regional economy: The regional economic growth is expected to be on par with the rest of the country.

Pessimistic scenario
Global economy: Growth in emerging markets is expected to decline. Increased protectionism will create trade barriers and global economic growth will slow down.
National economy: Oil prices are falling and, together with weak economic development among our most important trading partners, this will lead to weak development and growth in the Norwegian economy.
Regional economy: The regional economic growth is expected to be on par with the rest of the country.

			31.12.18
Effect of Macro Scenarios on Calculated Loss	**Loss provisions on loans in steps 1 and 2**	**Base senario**	**Effect of Scenarios**
Loss provisions under IFRS 9	1 137	998	140

Risk classifications loans
Risk classification is an integral part of the Group's administrative system. The system permits risk development in the Company's loan portfolio to be monitored. The risk classification model used for both retail and corporate customers has been developed in cooperation with a number of other banks. The classification system has been adopted for the entire customer base from 31.05.09.
Retail customers are awarded a Probability of Default (PD)/score based on payment reminders, overdrawn ratio of loans/deposits etc. The loan portfolio is classified monthly and customers are awarded a score from A to K, where A is the lowest risk and K the highest risk. Retail customers are also subject to an application score in connection with new loan applications. The actual change in risk allocations from 2016 is marginal.
Risk classification is based on economics only - collateral is not taken into account.

				31.12.18
	Gross lending	**Guarantees**	**Potential exposure**	**Total exposure**
	Behavior score			
Personal customers retail				
Low risk	6 226 146		457 598	6 683 744
Medium risk	954 542		8 177	962 719
High risk	63 757		456	64 213
Total personal customers retail	**7 244 445**	**0**	**466 231**	**7 710 676**
Corporate retail				
Low risk	108 520		7 817	116 337
Medium risk	28 430			28 430
High risk	3 567			3 567
Total corporate retail 1)	**140 517**	**0**	**7 817**	**148 334**
Total	**7 384 962**	**0**	**474 048**	**7 859 010**

Lending by risk class	**Step 1**	**Step 2**	**Step 3**	**31.12.18**
Low risk	6.334.666	0	0	6.334.666
Medium risk	744.568	238.404	0	982.972
High risk	18.906	48.418	0	67.324
Total lending	**7.098.140**	**286.822**	**0**	**7.384.962**

	Gross lending	Guarantees	Potential exposure	Total exposure
				31.12.17
	Behavior score			
Personal customers retail				
Low risk	5 742 356		437 906	6 180 262
Medium risk	735 738		4 133	739 871
High risk	19 564			19 564
Not classified	1 316			
Total personal customers retail	**6 498 974**	**0**	**442 039**	**6 939 697**
Corporate retail				
Low risk	115 631		6 628	122 259
Medium risk	11 215		646	11 861
High risk	8 455		168	8 623
Total corporate retail	**135 301**	**0**	**7 442**	**142 743**
Total	**6 634 275**	**0**	**449 481**	**7 082 440**

Secured; LTV distribution	31.12.18	31.12.17
1-40	21,5 %	33,5 %
41-50	11,1 %	9,9 %
51-60	15,7 %	12,8 %
61-70	23,9 %	18,1 %
71-75	19,3 %	14,2 %
>76	8,4 %	11,6 %
Total LTV	**56 %**	**52 %**

Credit institutions

For the balance sheet item loans and receivables from credit institutions, the company has made use of the exception for low credit risk. The company's "Loans and receivables from credit institutions" are exclusively against the parent bank with credit ratings and which meet the standard's presumption of low credit risk and the bank has considered that this compared to LGD and low exposure to provide material loss provisions. Consequently, the company has not made any loss provisions related to this balance sheet item.

Loans and receivables from credit institutions by external rating

	31.12.18	31.12.17
Rating Moodys A3	414.457	430.762
Total	**414.457**	**430.762**

Certificates: classification of issuers by sector

	31.12.18	31.12.17
State	24.957	49.968
Total	**24.957**	**49.968**

Certificates: classification of issuers by rating

	31.12.18	31.12.17
AAA	24.957	49.968
Total	**24.957**	**49.968**

NOTE 2.1.3 DOUBTFUL LOANS AND COMMITMENTS

Defaulted commitments	31.12.18	31.12.17
Gross defaulted commitments over 90 days	0	0
Individual write-downs of defaulted loans	0	0
Net defaulted commitments	**0**	**0**

The table shows the amounts due on loans by number of days past due which is not due to delays in the payment system. Past due loans are continuously monitored. Commitments where there is identified a probable deterioration in customer solvency, are assessed for impairment.

Overdrawn - number of days	31.12.17	31.12.17
1-29 days	0	0
30-59 days	2 691	931
60-89 days	0	0
> 90 days	0	0
Total disordered loans without impairments	**2 691**	**931**

NOTE 2.2 MARKET RISK

Helgeland Boligkreditt AS is through its operations exposed to interest rate risk. The company has no fixed rate loans and no fixed rate funding; hence there are no derivative agreements in the company.
The Board sets limits for interest rate risk and the positions are monitored continuously. The prepared reports showing exposure are reported monthly to the finance committee of the parent bank and to the CEO, and quarterly to the Board of Directors.

The sensitivity analysis (lending and borrowing) shows the expected result reflected by 1 percentage point's parallel shift in the entire interest rate curve.

Interest rate risk at 31.12.18 is MNOK -0.5 (MNOK -1.5) and is well within the company's target of < MNOK 10 with 1 % parallel shift in the interest rate curve.

Helgeland Boligkreditt AS is not exposed to market risk related to foreign currency and equity instruments.

NOTE 2.2.1 REMAINING TIME TO INTEREST RATE ADJUSTMENT

Renterisiko, gjenstående tid til matereguleringer							31.12.18
	Inntil 1 mnd.	Fra 1-3 mnd.	Fra 3 mnd	Fra 1-5 år	Over 5 år	Uten renteendring	Totalt
EIENDELER							
Utlån til og fordr. på kredittinst. u/avtalt løpetid		414.457					414.457
Netto utlån til og fordringer på kunder		7.383.826					7.383.826
Verdipapirer tilgjengelig for salg		24.957					24.957
Andre eiendeler, ikke rentebærende							0
Sum eiendeler	**0**	**7.823.240**	**0**	**0**	**0**	**0**	**7.823.240**
GJELD OG EGENKAPITAL							
Gjeld til kredittinstitusjoner uten avtalt løpetid				708.965			708.965
Lån opptatt ved utstedelse av verdipapirer	1.000.666	5.496.901					6.497.567
Annen gjeld, ikke rentebærende						15.978	15.978
Sum gjeld	**1.000.666**	**5.496.901**	**0**	**708.965**	**0**	**15.978**	**7.222.510**
Netto rente sensitivitetsgap	**-1.000.666**	**2.326.339**	**0**	**-708.965**	**0**	**-15.978**	**600.730**

Interest rate risk- remaining perionds until next interest rate re-fix							31.12.17
	Inntil 1 mnd.	Fra 1-3 mnd.	Fra 3 mnd	Fra 1-5 år	Over 5 år	Uten renteendring	Totalt
ASSETS							
Loans to and claims on credit inst with no a/maturity		430 762					430 762
Net loans to and claims on customers		6 628 775					6 628 775
Securities available for sale		49 968					49 968
Other non-int-bearing assets							
Total assets	**0**	**7 109 505**	**0**	**0**	**0**	**0**	**7 109 505**
Liabilities and EQ. CAP							
Liabilities to credit inst. With no agreed maturity				1 024 389			1 024 389
Borrowings through the issuance of securities	910 034	4 566 109					5 476 143
Other non-int-bearing liabilities						16 071	16 071
Total liabilities	**910 034**	**4 566 109**	**0**	**1 024 389**	**0**	**16 071**	**6 516 603**
Net int rate sensitivity gap	**-910 034**	**2 543 396**	**0**	**-1 024 389**	**0**	**-16 071**	**592 902**

NOTE 2.2.2 FINANCIAL DERIVATIVES

As of 31.12.18 (31.12.17), both customer loans and funding (CB) have been agreed at floating rates and we have not signed any swap-agreements.

NOTE 2.3 LIQUIDITY RISK

Liquidity risk is the risk that the company will be unable to fulfil its payment obligations.

The Board sets limits on an annual basis for the management of liquidity risk in the company. This involves determining the framework for liquidity risk management, organization and responsibilities, stress tests (both for the Group and for Helgeland Boligkreditt AS), routines for monitoring limit utilization and compliance of policies, board- and management reporting, and independent monitoring of the systems of governance.

According to the Financial Institutions Act § 11-12(1) "the credit institution must ensure that the cash flow from the cover pool at all times makes the mortgage company able to meet its payment obligations to holders of covered bonds and counterparties in derivative agreements." The company has established credit facilities in order to reduce liquidity risk.

Overall, Helgeland Boligkreditt AS's liquidity situation per 31.12.18 is considered good. Long-term funding with maturities over one year is 96.5 % (97.7 %).

NOTE 2.3.1 LIQUIDITY RISK, MATURITY

	Fra 0-3 mnd.	Fra 3 mnd til 1 år	Fra 1-3 år	Fra 3-5 år	Over 5 år	Uten resløpetid	31.12.18 Totalt
Gjeld til kredittinstitusjoner				726.073			726.073
Lån opptatt ved utstedelse av verdipapir	53.852	245.018	2.540.333	3.048.177	711.207		6.598.587
Gjeld uten restløpetid						15.978	15.978
Sum utbetalinger	**53.852**	**245.018**	**2.540.333**	**3.774.250**	**711.207**	**15.978**	**7.340.638**
Utlån og fordringer på kredittinstusjoner		416.759					416.759
Utlån og fordringer på kunder	202	5.724	910.676	89.277	6.579.056		7.584.935
Sertifikater og obligasjoner	24.957						24.957
Sum innbetalinger	**25.159**	**422.483**	**910.676**	**89.277**	**6.579.056**		**8.026.651**
Netto	28.693	-177.465	1.629.657	3.684.973	-5.867.849	15.978	-686.013

Funding risk. Remaing periods	0-3 months	3-12 months	1-3 years	3-5 years	Over 5 years	No Remaining	31.12.17 Totalt
Liabilities to credit institutions				1 041 389			1 041 389
Borrowings through the issuance of securiti	71 017		2 030 654	2 945 380	507 621		5 554 672
Financial derivatives gross settlement						16 071	16 071
Total payments	**71 017**	**0**	**2 030 654**	**3 986 769**	**507 621**	**16 071**	**6 612 132**
Loans to and claims on credit institutions		432 401					432 401
Loans to and claims on customers	57165	171 816	1 434 427	495 357	4 742 314		6 901 079
Sertificates and bonds	49 968						49 968
Total payments	**107 133**	**604 217**	**1 434 427**	**495 357**	**4 742 314**	**0**	**7 383 448**
Net	-36 116	-604 217	596 227	3 491 412	-4 234 693	16 071	-771 316

The company has an operating credit (with maturity> one year) of NOK 1 500 million as of 31.12.18, the vacant limit was NOK 792 million. In addition, the company has a revolving credit facility (with maturity> one year) that will cover payment obligations in the security pool for a rolling 12-month period.

NOTE 3. SEGMENT

The company operates at one strategic business area only.
The company’ s business area is the retail market. Lending to the corporate market is mortgages to sole proprietorships and represents a smaller share of total lending. The geographic segment is Helgeland. The company only reports one segment.

	31.12.18	31.12.17
Personal retail	7.244.445	6.498.975
Corporate retail	140.517	135.300
Total	**7.384.962**	**6.634.275**
Collective w rite-dow ns	-1.136	-5.500
Total	**7.383.826**	**6.628.775**

Geographical exposure within the loan portfolio	31.12.18	31.12.17
Helgeland	5.775.821	5.197.130
Areas other than Helgeland	1.590.532	1.427.054
International 1)	18.609	10.091
Total	**7.384.962**	**6.634.275**

1) Customers are living abroad - Helgeland Boligkreditt AS has collateral in Norwegian residential properties.

NOTE 4. NET INTEREST INCOME

Specifications of income:	31.12.18	31.12.17
Interest income of lending to and claims on credit institutions	2.302	1.639
Interest income of lending to and claims on customers	188.416	168.543
Total interest income	**190.718**	**170.182**
Interest expense on liabilities to credit institutions	17.108	17.663
Interest expense on issued securities	95.694	78.197
Other interest expenses	0	0
Total interest expenses	**112.802**	**95.860**
Net interest income	**77.916**	**74.322**

NOTE 5. NET CHANGE IN VALUE OF FINANCIAL INSTRUMENTS

Specification of costs	31.12.18	31.12.17
Unrealized change securities	651	152
Total value financial instruments	**651**	**152**

NOTE 6. OPERATING COSTS

Specification of costs:	31.12.18	31.12.17
Management fee and w age general manager	7.580	6.676
Other administration costs		0
Total wages and administration costs	**7.580**	**6.676**
Other operating costs	2.734	2.626
Total operating costs	**10.314**	**9.302**
Number of FTEs	**0**	**0**

Specification of costs auditing	31.12.18	31.12.17
Audit fees	82	138
Assistance audit	100	94
Total costs audition	**182**	**232**

NOTE 7. TAX

	31.12.18	31.12.17
Tax for the year:		
Tax payable	14.823	15.706
Insufficent provision previous year		1
Change in deferred tax (note 8)	903	-291
Tax cost for the year	**15.726**	**15.416**

Breakdown between accounts-related result before tax and the year's income liable to tax		
Accounts-related result before tax	68.394	64.287
Permanent differences	4	3
Change in temporary differences (note 8)	-3.949	1.142
Income subject to tax	**64.449**	**65.432**

NOTE 8. DEFERRED TAXES

Deferred tax / Deferred tax benefit	31.12.18	31.12.17
Positive temporary differences:		
Positive temporary differences:	0	0
Total positive temporary differences	**0**	**0**
Negative temporary differences		
Market value adjustment certifivates	27	197
Change in value of cover bonds at amortizied cost	4.453	334
Total negative temporary differences	**4 480**	**531**
Losses carried forward	0	0
Total negative temporary differences	**4 480**	**531**
Deferred tax asset		
Deferred tax	1 030	127

Reconciliation of tax	31.12.18	31.12.17
Accouting profit before tax	68 394	64 287
Tax calculated at the entity's weighted average tax	15 731	15 429
Tax effect of:		
Tax-free income	1	1
Effect change tax rate deferred tax	-5	-15
Adjustment from previous year	0	1
Taxes in the income statement	**15 726**	**15 416**

NOTE 9. CLASSIFICATION OF FINANCIAL INSTRUMENTS

Classification of financial instruments

		31.12.18
	Amortized cost	Total
Loans to and claims on credit institutions *)	414.457	414.457
Loans to and claims on customers	7.383.826	7.383.826
Certificates	24.957	24.957
Total assets	**7.823.240**	**7.823.240**

	Other fin. obligations	Total
Liabilities to credit institutions *)	708.965	708.965
Borrowings through the issuance of securities	6.497.568	6.497.568
Total liabilities	**7.206.533**	**7.206.533**

*) Entirely related to Helgeland Sparebank

The Company has a credit facility (with maturity> one year) of MNOK 1,500. Per 31.12.18 unused credit was MNOK 792.
In addition the company has a revolving credit facility of MNOK 1,500 (with maturity>one year). This credit facility shall cover payment obligations in the Cover Pool for a rolling 12-months period, and is entirely unused.
Treasure bill is valued at fair value.

Classification of financial instruments

		31.12.17
	Amortized cost	Total
Loans to and claims on credit institutions *)	430.762	430.762
Loans to and claims on customers	6.628.775	6.628.775
Certificates	49.968	49.968
Total assets	**7.109.505**	**7.109.505**

	Other fin. obligations	Total
Liabilities to credit institutions *)	1.024.389	1.024.389
Borrowings through the issuance of securities	5.476.143	5.476.143
Total liabilities	**6.500.532**	**6.500.532**

*) Entirely related to Helgeland Sparebank

NOTE 10. LOANS TO AND CLAIMS ON CREDIT INSTITUTIONS

	31.12.18	31.12.17
Liabilities to credit institutions without agreed maturity	414.457	430.762
Total loans to and liabilities to credit institutions	**414.457**	**430.762**

Geographic areas	31.12.18	%
Total Helgeland	414.457	100 %

Applies in its entirety bank deposits in Helgeland Sparebank.

NOTE 11. LOANS AND AMORTIZATION

Lending	**31.12.18**	**31.12.17**
Gross lending to customers	**7.384.962**	**6.634.275**
Individual write-downs on lending	0	0
Lending to customers after individual write-downs	**7.384.962**	**6.634.275**
Collective write-downs	1.136	5.500
Lending to and claims on customers, to amortized cost	**7.383.826**	**6.628.775**

NOTE 12. DISTRIBUTION LOANS

	31.12.18	**31.12.17**
Loans secured by residential property	7.375.970	6.626.264
Accrued interest	8.856	8.012
Total	**7.384.826**	**6.634.276**

Lending to amortized cost and fair value (OCI)

	Gross lending	**Forventet tap**			**Gross lending**	**Gross lending**	**Net lending**
	Amortized cost	Step 1	Step 2	Step 3	Fair value (FVOCI)	Fair value (FVOCI)	Total
Total corporate market	140.517	-27	-110	-	-	-	140.380
Total retail market	7.244.447	-394	-607	-	-	-	7.243.447
Total	7.384.964	-421	-716	-		-	7.383.826
Expected loss off balance RM		-8	-5	-			
Expected loss off balance CM		-1	-	-			
IB ubenyttet kreditt - beløp per trinn		441	8				449
IB ubenyttet kreditt - beløp per trinn		467	7				474

NOTE 13. WARRANTIES AND LIABILITIES

The company has no such obligations.

NOTE 14. LIABILITIES

	31.12.18	31.12.17
Loans and deposits at credit institutuons w ith afreed maturity")	708.965	1.024.389
Liabilities to credit institutions	**708.965**	**1.024.389**
Bond debt	6.497.568	5.476.143
Liabilities securities	**6.497.568**	**5.476.143**
Tax liabilities	14.813	15.706
Deferred tax	1.030	127
Other liabilities	135	114
Total ather liabilities	**15.978**	**15.947**
Total liabilities	**7.222.511**	**6.516.479**

*) The debt is entirely related to the parent bank Helgeland Sparebank.

NOTE 15. FINANCIAL LIABILITIES INCURRED THROUGH ISSUANCE OF SECURITIES (COVER BONDS)

Liabilities through issuance of securities are valued at amortized cost.

Covered bonds:

ISIN code	Currency	Par value	Own hold.		Interest	Admission	Maturity	Soft call	31.12.18
NO0010686710	NOK	53.000		Flytende	3mnd. Nibor+0,50	2013	2019	2020	53.048
NO0010709355	NOK	500.000		Flytende	3mnd. Nibor+0,40	2014	2020	2021	500.467
NO0010724065	NOK	500.000		Flytende	3mnd. Nibor+0,30	2014	2021	2022	500.162
NO0010748601	NOK	500.000	260.000	Flytende	3 mnd.Nibor+0,78	2015	2019	2020	240.656
NO0010740673	NOK	500.000		Flytende	3 mnd.Nibor+0,49	2015	2020	2021	500.657
NO0010764897	NOK	500.000		Flytende	3 mnd.Nibor+0,86	2016	2021	2022	500.632
NO0010769920	NOK	500.000		Flytende	3 mnd.Nibor+0,78	2016	2021	2022	501.686
NO0010782774	NOK	500.000		Flytende	3 mnd.Nibor+0,52	2017	2022	2023	500.228
NO0010804008	NOK	500.000		Flytende	3 mnd.Nibor+0,45	2017	2021	2022	500.444
NO0010810278	NOK	500.000		Flytende	3 mnd.Nibor+0,41	2017	2021	2022	500.443
NO0010785843	NOK	500.000		Flytende	3 mnd.Nibor+0,64	2017	2022	2023	500.486
NO0010819568	NOK	500.000		Flytende	3 mnd.Nibor+0,40	2018	2022	2023	498.468
NO0010826415	NOK	500.000		Flytende	3 mnd.Nibor+0,47	2018	2022	2023	500.746
NO0010831290	NOK	500.000		Flytende	3 mnd.Nibor+0,42	2018	2023	2024	500.414
NO00108394434	NOK	300.000	100.000	Flytende	3 mnd.Nibor+ 0,55	2018	2023	2024	199.030
Total listed covered bonds									**6.497.567**

All loans have soft call one year before maturity.

ISIN code	Currency	Par value	Own hold.		Interest	Admission	Maturity	Soft call	31.12.17
NO0010686710	NOK	500.000		Floating	3mnd. Nibor+0,50	2013	2019	2020	491.956
NO0010709355	NOK	500.000		Floating	3mnd. Nibor+0,40	2014	2020	2021	492.218
NO0010660640	NOK	70.000		Floating	3mnd. Nibor+0,85	2012	2018	2019	62.483
NO0010724065	NOK	500.000		Floating	3mnd. Nibor+0,30	2014	2021	2022	491.253
NO0010748601	NOK	500.000		Floating	3 mnd.Nibor+0,78	2015	2019	2020	491.486
NO0010740673	NOK	500.000		Floating	3 mnd.Nibor+0,49	2015	2020	2021	490.968
NO0010764897	NOK	500.000		Floating	3 mnd.Nibor+0,86	2016	2021	2022	492.326
NO0010769920	NOK	500.000		Floating	3 mnd.Nibor+0,78	2016	2021	2022	492.448
NO0010782774	NOK	500.000			3 mnd.Nibor+0,52	2017	2022	2023	492.921
NO0010804008	NOK	500.000		Floating	3 mnd.Nibor+0,45	2017	2021	2022	491.623
NO0010785843	NOK	500.000		Floating	3 mnd.Nibor+0,64	2017	2022	2023	493.564
NO0010810278	NOK	500.000	100.000	Floating	4 mnd.Nibor+0,41	2017	2021	2022	492.897
Total listed covered bonds									**5.476.143**

	31.12.18	31.12.17
Total listed bonds	**6.497.567**	**5.476.143**
Loans secured by property	7.325.150	6.580.923
Claims that constitutes cover pool (inc. Interests)	414.457	430.762
Total cover pool	**7.739.607**	**7.011.685**
Cover pool capacity utilization	1.242.040	1.535.542
Cover pool capacity utilization %	19 %	28 %
Cover pool capacity utilization %, own share covered bonds deducted	15 %	26 %

The composition of the cover pool is defined in the Financial Undertakings Act § 2.28.

*) Loans that are not qualified are not included in eligible cover pool.

NOTE 16. COVER POOL CAPACITY UTILIZATION

Assembly of the cover pool is defined in the Financial Undertakings Act § 11-8

LTV (loan to value) per 31.12.18 was 57 (52) %

NOTE 17. BALANCE SHEET DIVIDED IN SHORT AND LONG TERM

	31.12.18	31.12.17
ASSETS		
Loans to and claims on credit institutions	414.457	430.762
Loans to and claims on customers	5.926	228.981
Certificates	24.957	49.968
Total short term assets	**445.340**	**709.711**
Loans to and claims on customers	**7.377.899**	**6.399.794**
Total long term assets	**7.377.899**	**6.399.794**
Total Assets	**7.823.239**	**7.109.505**
LIABILITIES AND EQUITY CAPITAL		
Other liabilities	15.978	16.071
Borrowings through the issuance of securities	554.551	70.148
Total short term liabilities	**570.529**	**86.219**
Liabilities to credit institutions	708.965	1.024.389
Borrowings through the issuance of securities	5.943.017	5.405.995
Total long term liabilities	**6.651.982**	**6.430.384**
Total liabilities	**7.222.511**	**6.516.603**
Paid-in equity capital	540.010	540.010
Accrued equity capital/retained earnings	60.718	52.891
Total equity capital	**600.728**	**592.901**
Total liabilities and equity capital	**7.823.239**	**7.109.504**

NOTE 18. SUBORDINATED LOANS

The company has no subordinated loans per 31.12.18 or 31.12.17.

NOTE 19. CAPITAL ADEQUACY

Capital adequacy is prepared following regulatory framework CRD IV/Basel III (standard method credit risk).

	31.12.18	31.12.17
Total paid-in capital	**540.010**	**540.010**
Total accrued equity capital/retained earnings	**60.719**	**52.695**
Additional		
Deduction	-52.667	-48.921
Total core capital	**548.062**	**543.784**
Total net supplementary capital	**0**	**0**
Total net equity and related capital	**548.062**	**543.784**
Weighted asset calculation basis	2.945.460	2.736.285
Capital adequacy ratio	18,61 %	19,87 %
Of w hich core capital accounted for	18,61 %	19,87 %

Share capital amounts to MNOK 540. Helgeland Sparebank is the sole shareholder in the company.

NOTE 20. CAPITAL ADEQUACY REGULATIONS BASEL II

	31.12.18	31.12.17
States and central banks	0	0
Local and regional authorities (including municipalities)	0	0
Publicly ow ned enterprises	0	0
International organizations	0	0
Institutions	82.891	86.152
Enterprises	0	0
Mass market loans	0	225.058
Loans secured by real property	2.726.072	2.304.056
Loans overdue	15.387	0
Other loans and commitments	233	142
Capital requirement credit risk	**2.824.583**	**2.615.408**
Capital requirement operational risk	120.877	120.877
Deduction from capital requirement	0	0
Total capital requirement	**2.945.460**	**2.736.285**

NOTE 21. SHARE CAPITAL

The company has a share capital of MNOK 540, with shares par value NOK 1 000. Helgeland Sparebank owns all the shares.

NOTE 22. REMUNERATION AND LOANS FOR THE GENERAL MANAGER AND BOARD

		2018
	Payments	**Loans**
General manager, Lena Båtstrand from 30.06. 1)	0	1.312
General manager, Britt Søfting to 30.06. 1)	0	0
Total remuneration for management	**0**	**1.312**
Chairman of the board, Hanne J. Nordgaard	0	0
Dag Hugo Gangmark Heimstad	0	900
Håkon Stanghelle	25	0
Ranveig Kråkstad	0	0
Total boards of Directors	**25**	**900**
Grant Total	**25**	**2.212**

1) General manager is hired from Helgeland Sparebank and get her salary form the same company. It's paid NOK 226.000 to the parent bank for lending genral manager.

NOTE 23. TRANSACTIONS WITH RELATED PARTIES

Helgeland Boligkreditt AS is fully owned by Helgeland Sparebank. Transactions are entered between Helgeland Boligkreditt AS and Helgeland Sparebank as ordinary business transactions. This includes loans and financial derivatives as part of the foreign exchange- and rent risk management. Transactions enters in market terms and is regulated by

- Transfer and service agreement for the transfer of loans from Helgeland Sparebank to Helgeland Boligkreditt AS.
- Main Agreement on intra-group services and infrastructure

All loans in the balance sheet of Helgeland Boligkreditt AS are transferred from Helgeland Sparebank. These loans are well secured mortgages within a loan to value of 75% or less. From the transfer date, revenues and repayments are recorded in the mortgage company. The parent bank administers the loans and a separate transfer and service agreement between Helgeland Boligkreditt AS and Helgeland Sparebank is entered into. The transfer and service agreement regulates the transfer of loans qualifying as collateral for the issuance of Covered bonds. Helgeland Boligkreditt AS pays management fees to the bank per 2018 there were transferred loans totaling MNOK 7 385. The acquisition is based on market conditions.
Under the Main Agreement Helgeland Boligkreditt AS purchases services from the parent bank, including administration, banking, distribution, customer service, IT-services, financial and liquidity management. For these services Helgeland Boligkreditt AS pays an annual management fee based on the lending volume MNOK 7.5 (6.6), in addition to payment for hired staff.
Helgeland Sparebank has by the end of 2018 invested MNOK 0 (0) in Covered Bonds issued by Helgeland Boligkreditt AS. (Ref.Note 2.3.1 credit facilities from the parent bank).

Group contribution

Allocated group contribution in 2017 of MNOK 48.9 was paid in 2018 to Helgeland Sparebank. In allocation of profits per 31.12.18 MNOK 57. is allocated as group contribution to the parent bank.

Intragroup transactions	**31.12.18**	**31.12.17**
Profit and loss account		
Interest income and similar income	2.302	1.639
Interest expense and similar expense	17.108	17.663
Dividend	48.871	33.102
Management fee	7.548	6.646
Balance sheet		
Lending and claims on credit institutions	414.457	430.762
Liabilities to credit institutions	708.965	1.024.389
Liabilities from issue of securities	0	0

NOTE 24. RESULT PER SHARE

	31.12.18	**31.12.17**
Result this year	52.669	48.871
Number of shares	540.000	540.000
Average number og shares	540.000	403.562
Result per share in NOK	98	91
Diluted result per share in NOK	98	91

NOTE 25. EVENTS AFTER THE BALANCE SHEET DATE

The company is not aware of any post balance sheet events that will affect the financial statements.
Ongoing legal disputes: Helgeland Boligkreditt AS has not been involved in administrative matters, court proceedings or arbitration cases over the past 12 months, the company is not aware of any pending or threats which include such matters that may have or recently have had a significant impact on the company's financial position or profitability.

NOTE 26. RESULT IN PERCENT OF AVERAGE TOTAL ASSETS

	31.12.18	**31.12.17**
Interest receivable and similar income	2,57 %	2,67 %
Interest payable and similar costs	1,52 %	1,50 %
Net interest- and credit commission income	**1,05 %**	**1,16 %**
Commissions receivable and income from banking services	0,00 %	0,00 %
Commissions payable and costs relating to banking services	0,00 %	0,00 %
Net commission income	**0,00 %**	**0,00 %**
Operating costs	0,14 %	0,15 %
Losses on loans, guarantees etc.	0,00 %	0,00 %
Operating profit	**0,91 %**	**1,02 %**
Result before tax	0,92 %	1,01 %
Tax payable on ordinary result	0,21 %	0,24 %
Result from ordinary operations after tax	**0,71 %**	**0,77 %**

STATEMENT UNDER THE SECURITIES TRADING ACT § 5-6

We confirm to the best of our knowledge that the financial statements for the period 1 January to 31 December 2018 have been prepared in accordance with the applicable accounting standards, and that the information in the financial statements give true and fair view of the company's assets, liabilities, financial positions and result. We also declare that the annual report gives a fair review of the development, performance and position of the company, together with a description of the principal risks and uncertainties facing the company.

Mo i Rana, 26. February 2019

Hanne Nordgaard
Chairman

Dag-Hugo Heimstad
Vice-Chairman

Håkon Stanghelle

Ranveig Kråkstad

Brit Søfting
General Manager

OTHER KEY FIGURES

	31.12.18	31.12.17
Profit & Loss Account		
Gross profit (NOK 1.000)	52.669	48.871
Net interest as a % of average assets	1,05 %	1,16 %
Operation cost as a % of income	13,2 %	12,5 %
Net profit as a % of average assets	0,71 %	0,77 %
Balance sheet		
Gross lending (NOK 1.000)	7.384.962	6.634.275
Collective write-downs as a % of lending	0,00 %	0,10 %
12 months growth in customer lending	11,30 %	17,90 %
Total assets (NOK 1.000 kr)	7.823.240	7.109.505
Average total assets	7.434.347	6.381.718
Solidity		
Rate of return on equity capital	9,0 %	11,1 %
Core tier one Capital (NOK 1.000)	548.062	543.834
Core tier one Capital ratio	18,5 %	19,9 %
Leveral Ratio	6,8 %	7,4 %
Information on lending portfolio		
Surplus value of cover pool (NOK 1.000)	1.242.039	1.535.542
Surplus value of cover pool (%)	19 %	28 %
Indexed LTV	56 %	52 %
Propotion of variable-rate loans	100 %	100 %
Propotion of flexible mortgages*)	12,0 %	14,0 %
Average loan value (NOK 1.000)	1.138	1.032
Number of loans	686	6.421
Remaining maturity - weighted average (year)	22,3	19,1
Seasoning - weighted average (year)	2,5	2,8

Elected representatives and senior management in Helgeland Boligkreditt AS

The General Meeting:
Helgeland Sparebank through its CEO, Hanne Nordgaard

General Manager
Lena Båtstrand

Board of Directors:
Hanne Nordgaard, Chairman
Dag Hugo Heimstad, Vice Chairman
Ranveig Kråkstad
Helge Stanghelle

Contact information

Helgeland Sparebank
Address: PO Box 68, N-8601 Mo i Rana
Organization no.: 937 904 029
www.hsb.no

Helgeland Boligkreditt AS
Organization no.: 993 359 696
www.hsb.no

Investor Relations
Sverre Klausen, CFO, telephone +47 75 12 82 22
Tore Stamnes, Head of Treasury, telephone +47 75 11 90 91

Other sources:

Annual reports:
Helgeland Boligkreditt AS is part of the Helgeland Sparebank group. Annual reports are available under investor relations information at www.hsb.no

Interim reports
Quarterly reports are available at www.hsb.no