Boligkreditt

Annual Report 2019

Building Insight:
Norway's largest senior citizens village

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Statement of the Board of Directors

SpareBank 1 Boligkreditt's purpose

SpareBank 1 Boligkreditt AS ('Boligkreditt', 'SpaBol', or 'The Company') is a credit institution licensed by the Norwegian Financial Supervisory Authority (Finanstilsynet) and is operated according to the legislation for covered bond issuers in Norway which is included in the Financial Institutions Act ("Finansforetaksloven") chapter 11, section II and the detailed regulations thereof.

The purpose of the Company is solely to provide funding for its owner banks by buying qualifying residential mortgage loans from them with a loan-to-value ("LTV") of up to 75 per cent and financing these through the issuance of covered bonds[1].

The Company, which is based in Stavanger, is owned by banks which are all members of the SpareBank 1 Alliance. A comprehensive agreement with each of these banks regulates the mortgage purchasing process and the obligations which the banks owe the Company and its mortgage customers ("Transfer and Servicing Agreement"). The Company pays out the interest margin earned to its owner banks, with deductions for estimated operating and financial expenses. This margin is accounted for as commissions to owner banks.

The Company's issuances of covered bonds mainly take place under the EUR 25,000,000,000 Global Medium Term Covered Note Programme (GMTCN Programme). This Programme was updated on April 10, 2019 and is available on the Company's home page: https://spabol.sparebank1.no.

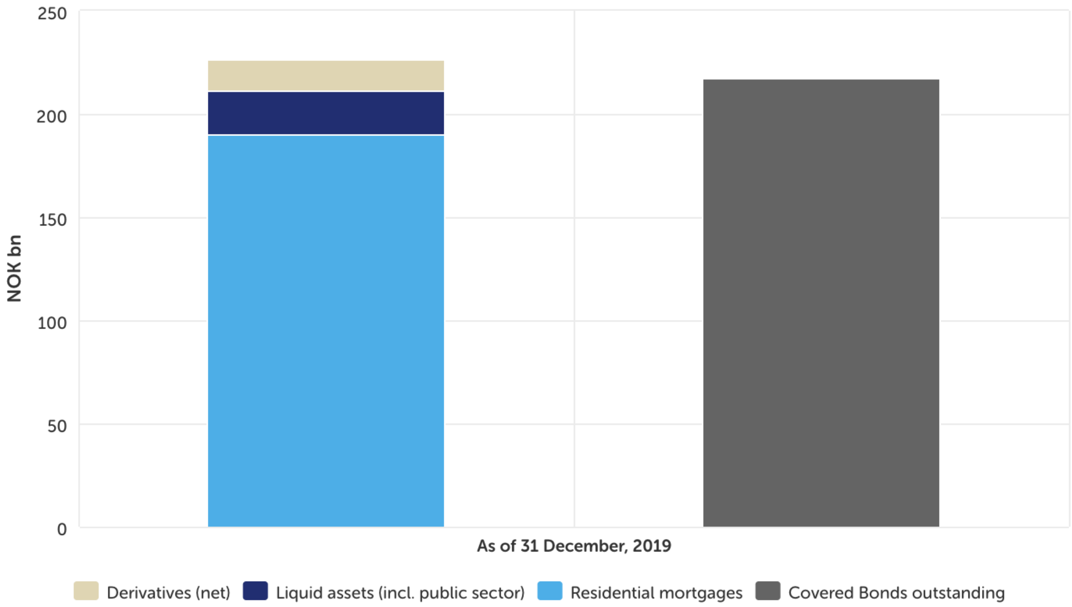
The Company has procured the services of Moody's Ratings Service to evaluate the credit quality of the issuances under the GMTCN Programme. The covered bonds rating is Aaa.

Cover pool and outstanding covered bonds[1]

SpareBank 1 Boligkreditt's cover pool consists of residential mortgages and liquid, highly rated assets as well as derivatives hedging liabilities in a foreign currency and/or at fixed rates. The chart below illustrates the balances as of the end of the fourth quarter 2019:

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

[2] The source is the balance sheet figures as of 31 December 2019 and the cover pool asset liability test for overcollateralization (see notes to the financial statements). Norwegian covered bond issuers are required by law to group derivatives as part of cover pool assets, and not together with the issued covered bonds that they hedge. This is reflected in the chart and figures above. This may not be identical to the Moodys overcollateralization calculation, which in an economic sense provides a better illustration by grouping derivatives with the bonds they hedge.



The amount of **liquid assets** varies over time and the variation is solely a result of the Issuer's liquidity risk management (and regulatory requirements), whereby upcoming redemptions are refinanced prior to the maturity of outstanding bonds (minimum 180 days) with bond proceeds invested as liquid assets. Liquid assets are covered bonds with a triple-A rating, SSA or government bonds with a triple-A rating or short term cash deposits and repos (please see the cover pool statistical reports for details on the composition of liquid assets).

Derivatives are used solely to hedge currency and interest rate risk. They are tailored to exactly match the cash flows related to the bonds they hedge, for the full duration of the bond. Swap counterparties are subject to certain rating criteria and are in all cases banks other than the Company's owner banks

The table below provide an overview of the residential mortgages in the cover pool, as well as the overcollateralization.

Residential mortgages key figures

	Q4 2019	Q3 2019	Q2 2019	Q1 2019	Q4 2018
Weighted Average Current LTV (%)	53.6 %	52.1 %	52.1 %	53.1 %	52.7 %
Weighted Average Original LTV (%)	59.7 %	59.6 %	59.6 %	59.6 %	59.6 %
Average Loan Balance (NOK)	1,443,119	1,440,088	1,436,755	1,430,260	1,422,929
Number of Mortgages in Pool	132,358	131,564	132,483	131,375	129,209
Pct. of non first-lien mortgages	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Overcollateralization	4.1 %	5.9 %	6.0 %	6.5 %	6.5 %

Key developments in 2019

SpaBol issued a total of 43.5 billion Norwegian kroner of covered bonds during 2019, in EUR and NOK, at hedged exchange rates at the time of issuance. The year was slightly unusual in that three benchmark EUR covered bonds were issued, for a total EUR volume of 3.25 billion. Other non-domestic currencies were not utilized during the year. The NOK volume was in total 11.3 billion, with two new bonds issued in both fixed and FRN format, in addition to some taps in earlier issued series. It is issuance policy that NOK bonds all attain the LCR Level 1 size, if not immediately, then through subsequent increase of the series.

The residential mortgage lending volume at SpaBol has increased by 3.9 per cent during the year, as measured against the balance of loans as of December 31, 2018. The current mortgage balance is 191.1 billion kroner (equivalent to approximately EUR 20 billion).

With the full implementation of CRD IV in Norwegian law, the special or transitional minimum floor for the level of risk weighted assets was removed effective December 31, 2019. The capitalization ratios for Boligkreditt therefore increased as of year-end 2019, as expected. The requirement for the systemic risk buffer is planned to increase to 4.5 per cent (from 3 per cent), but this will first take effect from December 31, 2020. The anticyclical buffer increased to 2.5 per cent (from 2 per cent) as of 31.12.2019.

The Board of Directors views Boligkreditt as well capitalized with a capital coverage ratio of 25.7 per cent against a total requirement, including all buffers and the planned increase in the systemic buffer effective year-end, of 17.5 per cent (Pillar 1) plus 0.8 per cent (Pillar 2). Total equity Tier 1 capital is 22.9 per cent against a total requirement, including buffers, of 16.3 per cent. Common equity capital was 20.6 per cent against a requirement, including all buffers, of 14.8 per cent. It is the Company's policy to maintain capital ratios slightly above the regulatory requirements, though the expiration of the risk-weighting floor has increased the capitalization ratios as of 31.12.2019. When required, additional common equity is paid in by the owner banks in the regular course of business, usually in connection with increases in transferred mortgage volume. Additional Tier 1 and Tier 2 capital is raised in the Norwegian domestic market.

Moody's has increased the requirement for overcollateralization to 2.5 per cent in June 2019, from 0.5 per cent prior. This change results from the conclusion of a rating review process of the Company's owner banks. The ratings review was initiated by Moody's due to the introduction of BRRD in Norway, which reduces the likelihood of government support. The Company's owner banks counterparty risk rating was reduced by one notch, to A1. Boligkreditt's cover pool overcollateralization at December 31, 2019 was 4.1 per cent.

Covered bond issuers have also been included as contributors to the new Norwegian bank resolution fund, as mandated by the EUs BRRD. The charge for Boligkreditt was 42,9 million kroner for the full year 2019. This amount is more than the entire cost of operations for the Company in 2019, and reduces net income accordingly. For 2020 and subsequent years, this charge will reduce the commissions before paying these to Boligkreditt's owner banks, and thereby not materially influence net income. Since inception, net income, excluding temporary factors, is budgeted to be small for Boligkreditt, at or near the level of a risk-free rate over the core equity capital. This means that nearly all the interest margin earned is paid out as commission income to the owner banks, which is also in accordance with the inherent purpose of the Company.

Annual accounts

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

The Board views the accounts as presented to be a true representation of SpareBank 1 Boligkreditt's operations and financial position as of the end of 2019. Numbers in brackets refer to the corresponding period last year for comparison.

The total balance sheet at 31.12.19 amounted to 246 (246) billion kroner. The balance sheet increased primarily due to an increase in the value of derivatives hedging issued debt and increased mortgage loans. The Company had in 2019 net interest income of 1,876 (1,851) million kroner. Commissions paid to the owner banks were 1,444 (1,518) million and represent most of the margin between mortgage interest rates and the Company's funding costs. The cost of operations for 2019 was 36.1 (32.3) million kroner including depreciation and amortization. IFRS 9 expected loan losses decreased by 0.9 (increased by 0.8) million to 11.8 (12.7) million. No actual loan losses have occurred since the Company commenced operations. This produces an operating result of 225.2 (6.5) million kroner before tax. Changes in net gains/losses from financial instruments (valuation changes of bonds) was a major contributor to the change in results.

Mortgage loans for residential properties amounted to 191.3 (184.1) billion kroner as of the end of 2019. The Company's own liquid assets were approximately 25 (20) billion kroner.

Liquid assets are cash and highly rated, highly liquid bonds are held as a function of refinancing early the Company's upcoming bond maturities at least six months ahead of expected maturities. Liquid assets are managed to meet the 180 day minimum liquidity rule in the EU covered bond harmonization directive and the NSFR rule.

Risk aspects

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

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

Market risk is defined as the risk of losses due to changes in market rates, i.e. interest rates, exchange rates and the prices of financial instruments. At the end of the year SpareBank 1 Boligkreditt AS had issued bonds for approximately 149 billion kroner in EUR, 8.7 billion kroner in GBP and 0.3 billion kroner in Swedish kroner, based on exchange rates at December 31, 2019. However, all borrowing and investments with a fixed rate and all borrowing and investments in a foreign currency, have been hedged by financial currency- and/or interest rate swap agreements or through natural hedges. The collective cash flow therefore matches borrowing in Norwegian kroner with floating rate conditions (NIBOR 3 months). The Company receives collateral from its counterparties in derivative agreements according to certain criteria.

The bonds held in the Company's liquidity portfolio are mainly Nordic covered bonds and German supra sovereign and agencies (agencies guaranteed by the German government) with a triple-A rating from Fitch, Moody's or S&P. Deposits are placed in banks with a minimum rating of A/A2. Cash is also placed in reverse repos with approved counterparty banks, with AAA rated securities as collateral.

The Company had as of December 31, 2019 only moderate interest rate risk and immaterial amounts of currency risk.

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

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

The Company spends much time identifying, measuring, managing and following up on central areas of risk in such a way that this contributes to meeting its strategic goals. The notes 23 to 27 in the 2019 annual accounts provides further information.

Employees and the working environment

SpareBank 1 Boligkreditt had seven employees as of 31.12.2019. The Company employs five males and two females. SpareBank 1 Boligkreditt AS has a Transfer and Servicing Agreement with each shareholder bank which is handling the customer contact and servicing the mortgage portfolio on behalf of the Company. In addition, the Company purchases a significant amount of its support functions from SpareBank 1 SMN, e.g. accounting, HR and finance related back-office functions from 2020. These services were purchased from SpareBank 1 SR-Bank through 2019. Boligkreditt is served by a central SpareBank 1 Alliance unit for IT specific needs.

The working environment is characterised as good, and there is no pollution of the physical environment. There has been zero per cent employee absence recorded in 2019 due to sickness. No workplace accidents which might have resulted in property and/or damage to any persons have occurred or been reported during the year.

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

At the establishment of SpareBank 1 Næringskreditt AS, which represents a similar type of business activity to that of SpareBank 1 Boligkreditt AS, it was decided that the two companies will have identical staffing. Of the seven full time employees employed at year-end in both SpareBank 1 Boligkreditt and Næringskreditt AS, 1.4 full time equivalents have been allocated to SpareBank 1 Næringskreditt AS. The Boards of the two companies have almost an identical composition.

Corporate Governance

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

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

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

Shareholders

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

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

Social responsibility

SpareBank 1 Boligkreditt is a specialized issuer of covered bonds, set up according to Norwegian law requirements for issuers of covered bonds. Despite the relatively large size of its balance sheet, Boligkreditt has strict limitations on its activities and has only seven full time employees. The nature of the business consists solely of buying residential mortgage loans from its shareholder banks in the SpareBank 1 Alliance, and to finance these by issuing covered bonds. Every other activity, such as entering into derivatives agreements, receiving collateral related to those and maintaining and investing own liquid assets, follow from this single business purpose.

The banks in the SpareBank 1 Alliance operate as universal banks in the Norwegian market with an array of activities, including lending to businesses and households. These banks in total have around 6,000 employees and are together Norway's second largest financial group. Boligkreditt's parent banks set lending policies, service and handle all mortgage customer activity (including the customers whose mortgage loans have qualified for and been sold to the Company). Because of this, the ESG policy of the Company is aligned with its parent banks within the relevant areas for the Company. The SpareBank 1 banks present their ESG reports and further material on their websites and/or annual reports. The ESG reports, including GHG emissions reporting, of the main shareholder banks can be found here:

- For SpareBank 1 Ostlandet; https://www.sparebank1.no/en/ostlandet/about-us/sustainability/sustainability-in-everything-we-do.html#par_title
- For SpareBank 1 SMN: https://www.sparebank1.no/en/smn/about-us/sustainability.html
- For SpareBank 1 SNN: https://www.sparebank1.no/en/nord-norge/about-us/about-us/sustainability.html

SpareBank 1 Boligkreditt supports, encourages and to some extent coordinates increased ESG disclosures and initiatives within SpareBank 1. Through the issuing of green covered bonds, where proceeds are earmarked for mortgages financing energy efficient housing, the ESG policies of the mortgage originating banks come into focus. The Company adopts the same set of ESG values and goals as the parent banks (see in particular the document "ESG policy in SpareBank 1 Boligkreditt" under the Green Bonds section of the spabol.no website).

A few of the owner banks offer 'environmental mortgages', where a discounted rate is offered to consumers planning to build to a higher than mandatory energy efficiency standard, as well as for substantial energy efficiency upgrades. These loans will also, included in a broader set based on the top 15 per cent of energy efficient housing, qualify for green bond issuance at SpareBank 1 Boligkreditt. In the area of mortgage finance in general the originating banks are obligated by Norwegian mortgage market regulation to analyse the sustainability of mortgage debt that borrowers are seeking and both to not approve and provide advice to customers who are seeking debt levels which may be or become unsustainable.

Macroeconomic development and outlook[3]

The Norwegian mainland economy expanded by 2.2 per cent over 2018 and 2.5 per cent is expected in 2019. The economic cycle has been through a moderate, but broad growth phase, with increases across several segments of the economy. Over the next 12 months there is now an expectation of a moderate slow-down, which materialises in a below 2 per cent GDP growth rate in 2021. That would mean the weakest growth rate in 2021 since 2016.

The oil sector investments, a volatile component through the years, provided a material GDP growth contribution in 2019. Now, the growth rate in oil sector investments is expected to level off as large investment projects have been completed. With still some expansion left into 2020, a material decline in these investments are expected over 2021. Overall business investments on the Norwegian mainland have also been strong in 2019 and the prior years, but are now also expected to reduce, still exhibiting modest growth in 2020.

Housing investments have delivered positive contributions to growth in 2019 and house prices have appreciated moderately. The housing market, with a high activity level (the number of transactions taking place) is largely seen as balanced between supply and demand. Housing investments are continuing at a relatively high level, but without a noticeable change in the years ahead. That means that housing construction is not a driver for GDP growth. With the unemployment rate at 3.7 per cent and wages growing, consumption is a GDP growth driver, as is public sector demand, both around 2 per cent annual growth. A weak NOK can boost the mainland export sector, depending on international trade and economic growth, especially in Europe. Overall, Norway is likely to increase its oil and gas exports with robust oil prices and new field production.

The specific regulations of the mortgage market, which were last tightened in January 2017 and renewed unchanged in June 2019, are believed to have had the desired effect, namely targeting a balancing of supply and demand, and limiting excessive debt build-up (the growth rate in household indebtedness has been reduced). Unsecured lending by consumer banks with an unsecured lending business model have been curtailed by regulations from 2019, and a public debt registry for household unsecured debt has come into effect from July 2019. This registry will provide mortgage and other banks with a better insight into all aspects of a loan applicant's finances. Residential real estate prices through December 2019 have increased moderately, they are up 2.6 per cent in 2019, after a 2.8 per cent increase in 2018, and a 1.1 per cent decline in 2017.

Summarized for a few macroeconomic indicators, the recent data and forecast for the next few years are as follows:

Recent data and forecast (per cent)	**2017**	**2018**	**2019**	**2020**	**2021**
Mainland GDP growth	2.0	2.2	2.5	2.4	1.9
Unemployment rate	4.2	3.8	3.7	3.7	3.7
CPI growth	1.8	2.7	2.3	2.1	1.9
Annual wage growth	2.3	2.8	3.5	3.6	3.6
Current account surplus to GDP	4.6	7.1	3.3	6.0	8.0

Source: Statistics Norway (SSB) Dec 5, 2019

[3] Macroeconomic projections have been sourced from Statistics Norway as of December 5, 2019.

Future prospects of the Company

The Company has a portfolio of residential mortgage loans with an average loan to value (LTV) slightly above 50 per cent and no loans are in default. The maximum allowable level for a mortgage in a cover pool is 75 per cent LTV, with amounts above that level not being eligible as a cover pool asset.

SpareBank 1 Boligkreditt's residential mortgage portfolio is well diversified, albeit weighted towards the eastern, central and northern regions in Norway (with little exposure in the southwest oil-dominated area of Norway). Mortgage loans in the cover pool are very granular (average size of 1.4 million kroner). The banks in the SpareBank 1 Alliance are required to keep reserves of eligible (i.e. cover pool pre-qualified) mortgages in order to provide replacement assets should this become necessary, i.e. if residential price declines increase LTVs above the eligibility limit for mortgages in the pool. Such reserves in the banks are robust, making the covered bond funding function in SpareBank 1 very resilient to material downward shifts in real estate prices.

Due to a strict qualifying process for loans to become part of the cover pool (bank lending practices, mortgage regulations and cover pool qualification requirements), a high degree of diversification of the mortgages in the pool and the continued strength of the Norwegian economy, the Board of Directors views prospects for the Company to continue to be good and stable. The Board also bases this conclusion on the low average LTV of the mortgage portfolio, no defaults or loans in arrears, a strong history and institutional framework in Norway for loan performance, as well as the low unemployment environment.

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The Board of Directors affirms its conviction that the financial accounts present a correct and complete picture of the Company's operations and financial position at the end of 2019. The financial accounts including notes are produced under the assumption of a going concern.

There have been no incidents of a material nature after year-end which are expected to impact the accounts for 2019.

Of the after-tax result for 2019 of 168.9 million kroner, a dividend of 91.5 million kroner is proposed, this represents 1,19 kroner per share.

Stavanger, February 4, 2020
The Board of Directors of SpareBank 1 Boligkreditt AS


/s/ Kjell Fordal
Chairman of the Board


/s/ Bengt Olsen


/s/ Merete N. Kristiansen


/s/ Knut Oscar Fleten


/s/ Geir-Egil Bolstad


/s/ Inger M.S. Eriksen


/s/ Arve Austestad
CEO

SpareBank 1 Boligkreditt AS

- Statement of the members of the board and the chief executive officer

The Board and the chief executive officer have today reviewed and approved the financial accounts for 2019 for SpareBank 1 Boligkreditt AS. The accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU.

To the best knowledge of the Board and the chief executive officer the accounts have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company taken as a whole as of 31.12.2019.

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

Stavanger, February 4, 2020
The Board of Directors of SpareBank 1 Boligkreditt AS

/s/ Kjell Fordal
Chairman of the Board

/s/ Bengt Olsen

/s/ Merete N. Kristiansen

/s/ Geir-Egil Bolstad

/s/ Inger M.S. Eriksen

/s/ Knut Oscar Fleten

/s/ Arve Austestad
CEO

Management's Statement 2019

Issuances in 2019

During 2019 we issued three EUR denominated benchmark transactions for a total of EUR 3.25 billion and approximately NOK 11.3 billion of covered bonds in the Norwegian market (denominated in NOK). Growth in the mortgage book and refinancing of maturities coming due are the driving factors for issuance.

When it comes to the growth, each of SpaBol's owner banks provide running estimates of their plans to transfer (sell) mortgages through to the cover pool. This volume can change from bank to bank (14 banks are transferring mortgages) and will depend on factors ranging from the development of their own lending and balance sheet through to deposit levels and the cost of alternative sources of financing, such as senior bonds. Regulatory requirements have meant increased retained earnings (equity) over the past several years, and MREL requirements from 2020 onwards. These are all in the end alternative sources of funding loans, and may therefore impact covered bond issuance from SpaBol.

Regarding refinancing of our existing bond portfolio, each maturity is refinanced ahead of its expected maturity (bonds are soft-bullet bonds), with the aim to at a minimum comply with internal rules for when an outstanding bond has to be refinanced. The EU commission has proposed that covered bond cover pools contain a minimum 180 day liquidity, which we believe is sensible and matches our internal minimal rule. As an issuer we see this minimum liquidity and its basis in the expected maturity of the covered bonds as a prudent measure, and we do not agree with arguments that the soft-bullet period, i.e. the final maturity, should be used in managing liquidity with the aim of fulfilling the 180 days requirement.

With regards to future GBP issuance, this is a market we are keen to maintain active issuance in. We have prepared Sterling Overnight Interbank Average Rate (SONIA) as the basis for any FRNs issued in GBP in our GMTCN programme. However, we are working with our technical systems provider for booking trades to also incorporate this new reference rate and feel it is prudent to await this capability before accessing the market. We expect this to be in place by the 2nd half of 2020. We will at that time also seek to convert the reference rate to SONIA from LIBOR on our outstanding GBP FRN, which matures in November 2022.

Green bonds were not issued during 2019. SpaBol has ample assets to continue issuing green covered bonds. At the same time we are working to capture better data with regards to energy certificates of the housing stock we finance. The inaugural green covered bond issuance took place in 2018. A green covered bond may be issued in SEK, as well as in EUR.

SpareBank 1 Boligkreditt has a Aaa covered bond rating from Moody's Investor Service. In the first quarter of 2019 SpaBol also requested a public Issuer rating from the same agency. The Issuer rating is A2. This rating is derived from the rating of our owner banks, which are rated A1. There is not a fully comprehensive guarantee in place for the benefit of SpaBol, from its owner banks. There are however very strong operating links, and in reality SpaBol is solely a funding unit for its banks. What is in place, since 2010, is a Shareholder's Agreement whereby the banks are committed to maintaining SpaBol's CET1 ratio at the minimum regulatory level and a Noteholder's Purchase Agreement whereby the banks are committed to buying covered bonds (which may be used in repos with the central bank) under certain circumstances, i.e. closed markets. These formal agreements lay the foundation for the one-notch differential in the Issuer rating between owner banks and SpaBol.

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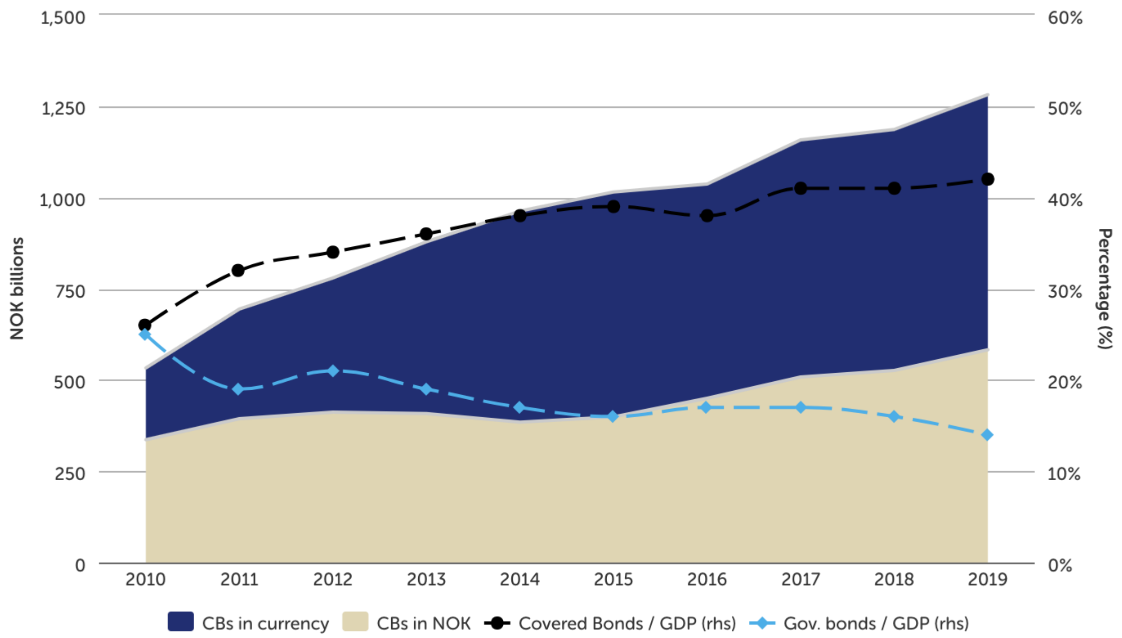
Domestic and foreign currency issuance

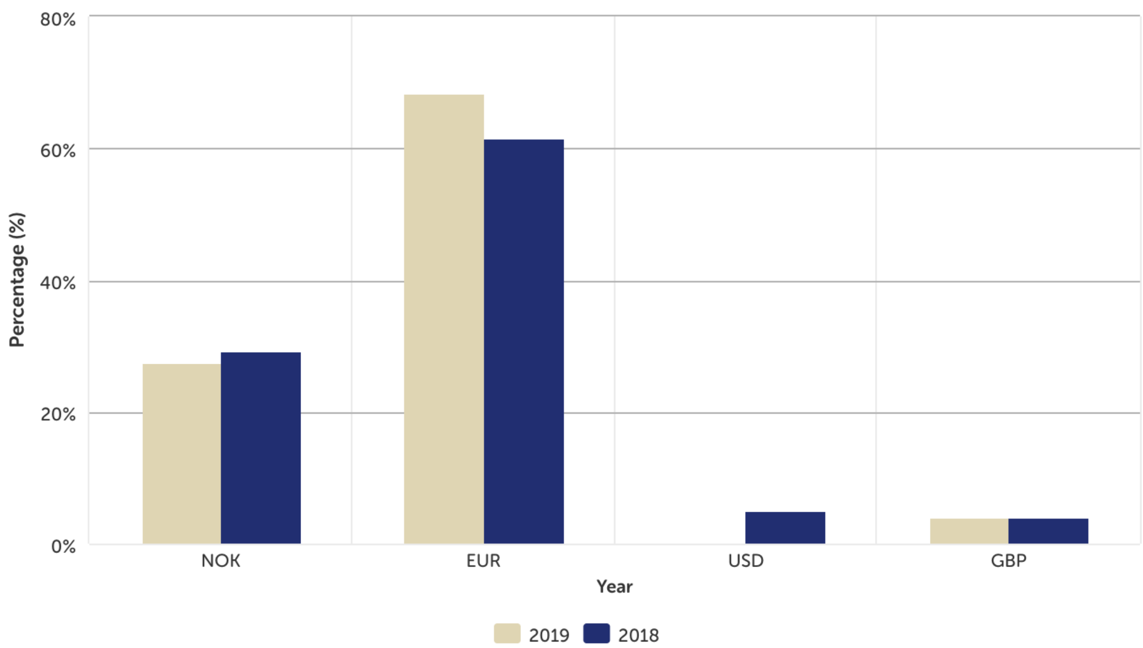
The domestic NOK market for covered bonds have developed strongly over the years since inception in 2007, and is in magnitude approximately equal to all government securities outstanding. The total volume of Norwegian covered bonds issued in currencies is however larger, at 56 per cent of total covered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

Chart 1: Outstanding Norwegian covered bonds and government bonds:



Source: SSB, Finance Norway (2019 as of Q3)

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



All foreign currency issuance is fully hedged using swaps. SpaBol repaid the last USD covered bond outstanding in late 2019. With the EUR market efficient and cost-competitive, swapped levels from USD funding have on average been materially more expensive in the last several years.

Regulations mortgage market

The latest amendments to the regulatory framework on the mortgage market took effect from January 1, 2017, and was seen as a key driver for the correction in real estate prices which unfolded from the spring of 2017. The rules were reviewed in June 2018 and were not changed. They were reviewed again in June 2019 and again left unchanged. The residential real estate market is viewed to be in balance at the end of 2019. The next scheduled review is due in late December 2020. During 2019, specific rules were also made effective in Norway for unsecured consumer lending and a new public register for unsecured loans started operating. These measures materially tightened conditions for unsecured borrowing and increasing transparency further with regards to both consumer and mortgage finance.

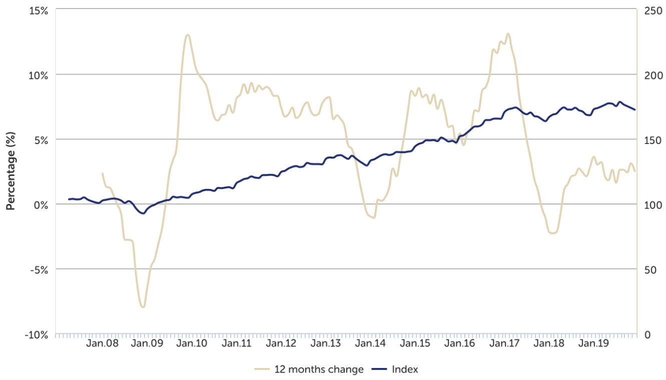
The mortgage lending rules are:

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

The Norwegian residential real estate market

After a correction in 2017, which was seen as largely due to the regulations referenced above, as well as high housing production, the growth in the price index was 2.8 per cent for 2018 and 2.5 per cent for 2019. Consumer inflation was 3.2 and 1.8 for 2018 and 2019, respectively. This means that in real terms housing has been approximately flat for two years, as measured on a national scale (there are regional differences). In 2018 the Norwegian central bank raised its policy rate for the first time since 2007 and by 0.25 per cent. The rate was increased another three times to 1.5 per cent, where it is in January 2020. This has fed into higher mortgages rates and may also have had a cooling effect on the residential real estate market. Building activity has remained robust, supplying the market and meeting demand, which probably is another factor that keeps price appreciation in check (see right hand side of chart below for housing starts)

Chart 3: Residential real estate price index for Norway (left) and housing starts (in units, right):



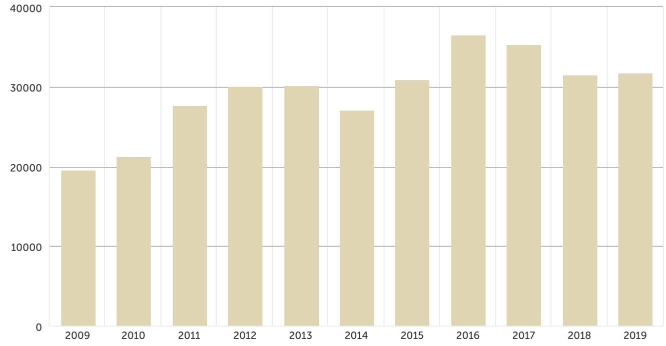
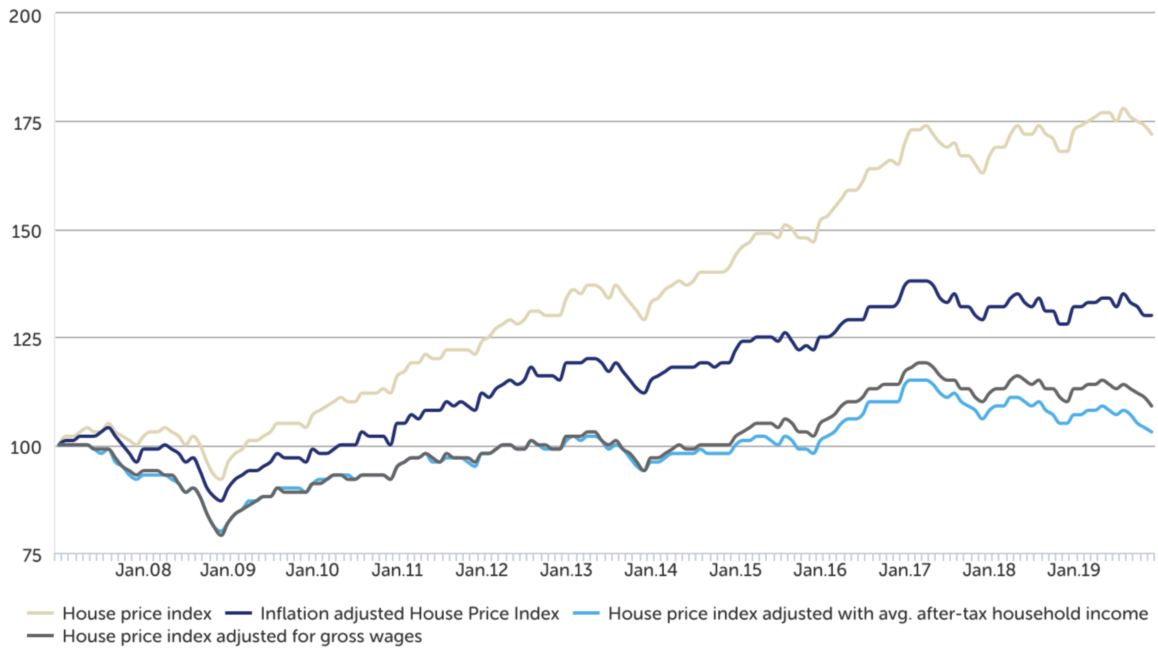


Chart 4: National house price index adjusted for inflation and after-tax household income (Jan. 2007=100)

Adjusted for income and inflation, Norwegian house prices look balanced. Especially as adjusted for development in income, house prices as represented by the index have not increased by more than



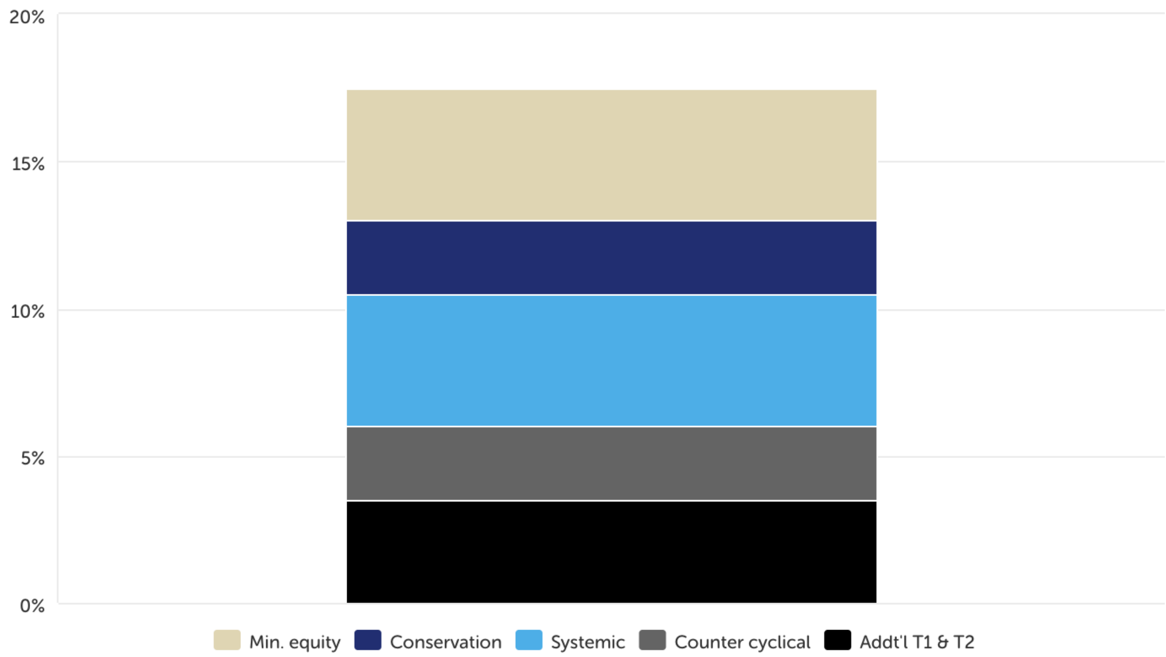
Source: SSB, Eiendomsverdi, SpareBank 1 Boligkreditt's calculations

Capital requirements

Norwegian capital requirements have continued to increase for banks and covered bond issuer for some time and the overall capitalization requirement for SpareBank 1 Boligkreditt is 18.3 per cent of risk weighted assets (including new Pilar 1 buffers and Pillar 2 of 0,8 per cent core capital). This includes a countercyclical buffer of now 2.5 per cent and an increased systemic buffer of 4.5 per cent, the latter which is formally applicable from the end of 2020. The increasing buffer requirements should be seen in the context of the removal of the risk-weight floor in Norway, which was a Norwegian interpretation of the Basel I floor and capped the risk weighted assets at Boligkreditt of close to 80 per cent of risk assets as calculated under the older Basel I standard.

Boligkreditt calls on its owner banks for capital contributions as and when needed, and especially in connection with larger transfers of mortgages (mortgage loan growth). There is also formal agreement in place between Boligkreditt and the owner banks, whereby the banks are required to maintain Boligkreditt's equity capitalization at the regulatory requirement as a minimum. This agreement is not actively referred to in operating practice, as capital is added by the banks regularly and as needed, including additional management buffers. But it is of formal importance, particularly with regards to the starting point for the covered bond rating, which is derived from the owner banks' issuer ratings. Covered bond issuers in Norway are not subject to MREL requirements and have to meet a Leverage Ratio of 3 per cent, rather than 5 per cent for banks in general.

Chart 5: Pillar 1 capital requirements for Norwegian banks and covered bond issuers

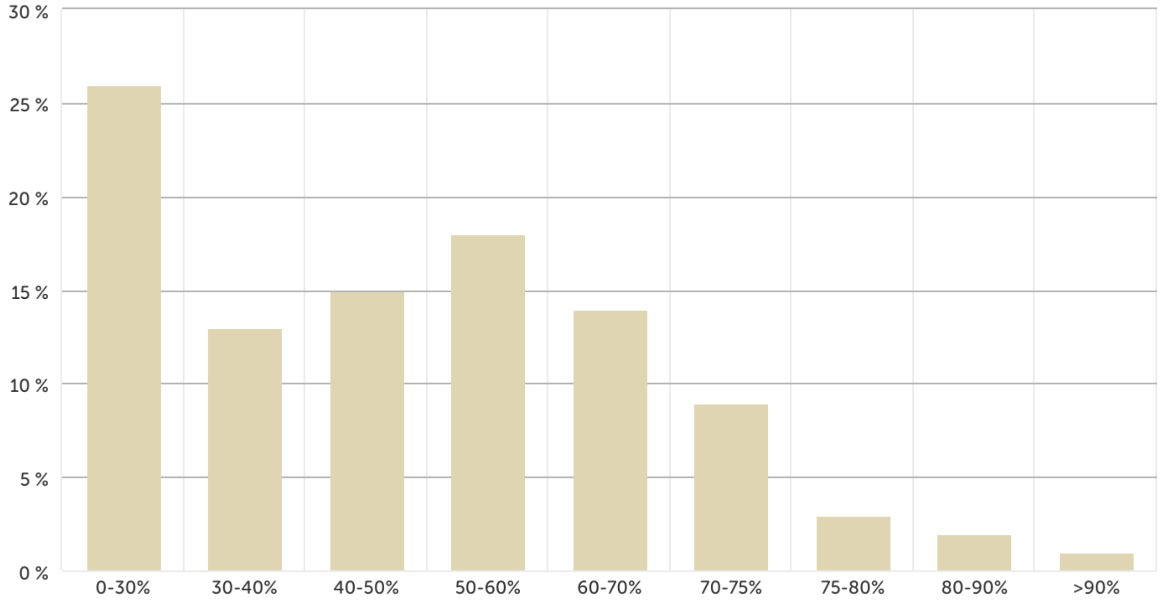


The increase in the systemic buffer to 4.5 per cent is included in the chart, but becomes effective at year-end 2020, and is 3 per cent until then. Banks that are systemically important receives another buffer of 1 to 2 per cent. There are only two systemically important banks in Norway and no SpareBank 1 banks are categorized as such. In addition to the above illustration there are Pillar 2 requirements, which for Boligkreditt is currently 0.8 per cent.

Cover Pool

The cover pool metrics continue to exhibit a robust pool profile with an average weighted LTV in the cover pool of 53.6 per cent as of December 31, 2019. The real estate values are updated for the entire cover pool each quarter based on an automated valuation model (AVM) from the Norwegian company Eiendomsverdi, used by most Norwegian banks. The model is independently tested and validated and has certain parameters built into its valuation settings which allow for a cautious treatment of potential upside valuation outcomes for individual houses. There was an increase of one percentage point in the average weighted LTV over 2019. The chart below shows the mortgage loans in the cover pool by LTV interval at year-end 2019.

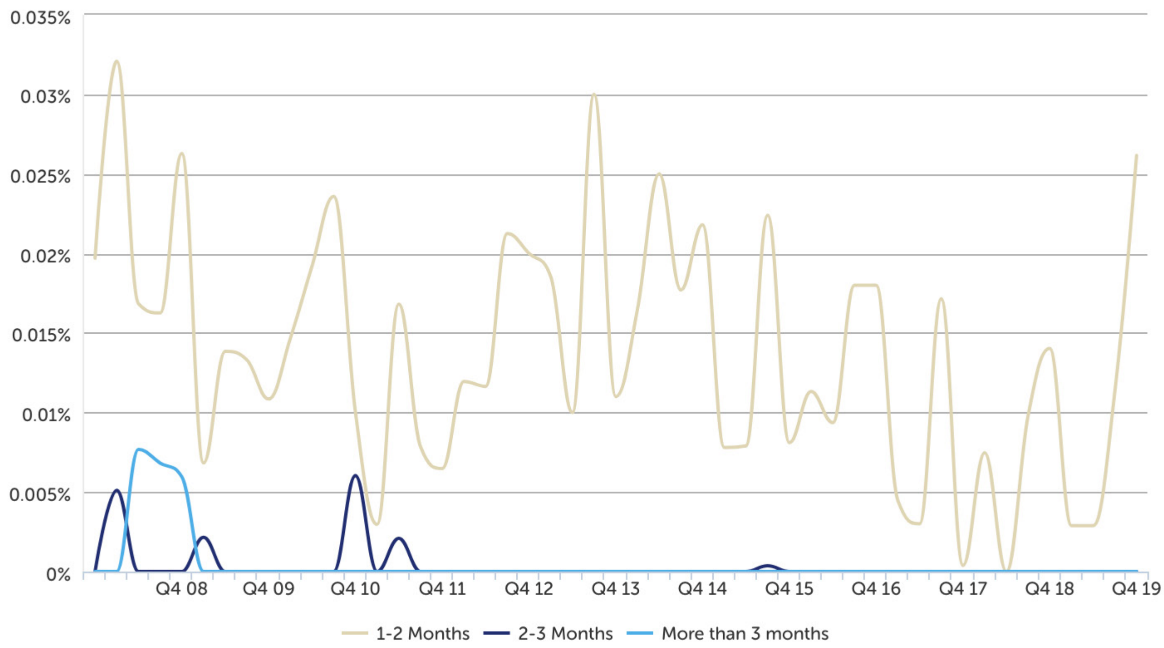
Chart 6: SpareBank 1 Boligkreditt cover pool: number of loans by LTV interval



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

According to the IFRS 9 rules for mortgage loans, expected losses the Company are approximately 11 to 12 million. The amount is small vs. the balance of mortgage loans, including fully drawn revolving loans on which it is based of 204 billion kroner. No losses have been realized in the Company since inception in 2005.

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



Liquid assets in the cover pool

Liquid assets are also included in the cover pool along with residential mortgages. These are cash deposits, government or government guaranteed bonds (Nordic and German) and covered bonds from Nordic issuers. Repos and reverse repos are also tools deployed for liquidity. The minimum level of liquid assets is the larger of 180 days of coverage for upcoming redemptions (expected maturities for soft bullet bonds). The actual level of liquid assets may also be higher than the minimum, depending mainly on the timing of new bond issuances. Liquid assets cannot be additional mortgages as this would not be prudent as mortgages are less effortlessly liquidated when funds are needed (for repayments), under certain circumstances. A complete list of liquid assets is presented in every quarterly cover pool reporting on our website. There are limitations with regards to credit rating (Aaa/AAA except for deposits), issuers, concentrations in internal policies, and more broadly in the Norwegian covered bond law. Internal policies also dictate that near term outflows are covered by cash, deposits or zero risk weighted assets only.

Outlook 2020

Issuance in the calendar year 2019 was a robust EUR 3.25 billion, in addition to over NOK 11 billion domestically. The mortgage volume that Boligkreditt funds is expected to increase by 5 per cent over 2020. In addition to upcoming maturities, this determines the funding volume. Boligkreditt will return to the benchmark EUR market in 2020 with likely two benchmarks. GBP is another developing topic, where the new SONIA reference rate should be implemented in our technical trade booking systems prior to accessing the market in that format.

There is some expected softness ahead for the Norwegian economy, and this could feed into expectations in the real estate market, along with the regulatory, mortgage interest rates and housing supply picture mentioned above. While it may start to look like interest rates could come down, starting with the policy rate in 2020, overall the residential real estate market is not expected to show a significant departure from the last two years in terms of trend of price appreciation. Mortgages across the Norwegian banking sector continue to be a low risk asset class with benign levels of non-performing loan levels.

The SpaBol cover pool continues to be geographically well diversified across the country, and the weighted average current LTV in the cover pool is low. SpareBank 1 banks remain subject to reserve assets requirements for the cover pool. Mortgages must qualify on both legal and customer credit quality criteria in order to be eligible or qualified for the cover pool. Credit risk is therefore extremely low and liquidity risks well mitigated through liquidity reserves.

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

Financial statements 2019

Income statement

NOK 1 000	Note	4. quarter 2019	4. quarter 2018	2019	2018
Total interest income	5	1,628,769	1,303,438	5,834,356	5,096,029
Total interest expenses	5	-1,146,064	-856,896	-3,958,307	-3,244,627
Net interest income		**482,705**	**446,542**	**1,876,048**	**1,851,402**
Commission expense		-374,357	-369,625	-1,444,292	-1,518,263
Net commission income		**-374,357**	**-369,625**	**-1,444,292**	**-1,518,263**
Net gains/losses from financial instruments	6	-81,025	-113,543	-171,295	-293,531
Net other operating income		**-81,025**	**-113,543**	**-171,295**	**-293,531**
Total operating income		**27,324**	**-36,626**	**260,462**	**39,608**
Salaries and other ordinary personnel expenses	7, 8, 9	-2,744	-2,527	-11,780	-11,766
Other operating expenses	10	-7,015	-6,145	-24,359	-20,490
Total operating expenses		-9,759	-8,672	-36,139	-32,256
Operating result before losses		**17,564**	**-45,299**	**224,323**	**7,352**
Write-downs on loans and guarantees	14	-1,148	-520	856	-849
Pre-tax operating result		**16,416**	**-45,819**	**225,179**	**6,503**
Taxes	11	**4,108**	**11,453**	**56,298**	**1,627**
Profit/loss for the year		**12,308**	**-34,365**	**168,880**	**4,876**
Portion attrubutable to shareholders		**206**	**-45,188**	**123,796**	**-36,928**
Portion attributable to additional Tier 1 capital holders		**12,102**	**10,823**	**45,084**	**41,804**
Profit/loss for the period		**12,308**	**-34,365**	**168,880**	**4,876**

Overview of Comprehensive Income

NOK 1 000	4. quarter 2019	4. quarter 2018	2019	2018
Profit/loss for the year	12,308	-34,365	168,880	4,876
Items which will not impact the income statement in future periods:				
Change due to basis swap spread adjustment	-2,983	-144,411	-74,707	-280,245
Tax effect of basis swap spread adjustment	746	36,103	18,677	70,061
Change in pensions for a previous period				
Estimate deviation for pensions	-353	5,468	-353	5,468
Tax effect of the estimate deviation	88	-1,367	88	-1,367
Total profit/loss accounted for in equity	**-2,502**	**-104,207**	**-56,294**	**-206,083**
Total profit/loss	**9,806**	**-138,572**	**112,586**	**-201,207**

Balance sheet

NOK 1 000	Note	2019	2018
Assets			
Lending to and deposits with credit institutions	20,23	9,801,250	12,990,004
Certificates and bonds	20,21,23	28,067,101	25,271,910
Residential mortage loans	13,20,23	191,309,342	184,073,918
Financial derivatives	19,20,21,23	16,254,454	23,183,793
Defered tax asset		188,308	-
Other assets	12,20,23	890	1,750
Total assets		**245,621,345**	**245,521,375**
Liabilities and equity			
Liabilities			
Debt incurred by issuing securities	16,18,20,21	217,670,078	212,351,045
Collateral received under derivatives contracts	18,19,20,23,31	12,418,140	18,733,053
Repurchase agreement		-	-
Financial derivatives	18,19,20,21	1,420,374	1,042,108
Deferred tax	11,20	-	39,377
Tax payable	11,20	250,190	15,503
Subordinated debt	17,18,20	1,433,439	1,606,160
Other Liabilities	9,20,22	148,256	150,763
Total Liabilities		**233,340,477**	**233,938,009**
Equity			
Paid-in equity	15	11,418,470	10,788,470
Other paid-in equity (not yet registered)		-	-
Hybrid capital	15,18	1,180,000	1,180,000
Accrued equity		-408,167	-385,104
Declared dividends		90,566	-
Total equity		**12,280,868**	**11,583,366**
Total liabilities and equity		**245,621,345**	**245,521,375**

Stavanger, 04.02.2020

/s/ Kjell Fordal
Chairman of the Board

/s/ Bengt Olsen

/s/ Merete N. Kristiansen

/s/ Geir-Egil Bolstad

/s/ Inger M.S. Eriksen

/s/ Knut Oscar Fleten

/s/ Arve Austestad
CEO

Changes in equity

NOK 1 000	Share capital	Additional paid in equity	Dividend	Other paid-in equity (not yet registered)	Other Equity	Interest on hybrid capital	Hybrid capital	Total Equity
Balance as of 31 December 2017	**6,570,548**	**3,287,922**	**72,276**	**300,000**	**-101,894**	**-37,127**	**1,180,000**	**11,271,724**
Change in losses due to new IFRS 9 measurment	-	-	-	-	-3,071	-	-	-3,071
Registration of share increase (from 27 December 2017)	200,000	100,000	-	-300,000	-	-	-	-
Share increase 28 February 2018	160,000	80,000	-	-	-	-	-	240,000
Share increase 11 May 2018	160,000	80,000	-	-	-	-	-	240,000
Dividend 2017	-	-	-72,276	-	-	-	-	-72,276
Share increase September 27	100,000	50,000	-	-	-	-	-	150,000
Net income for the period	-	-	-	-	4,876	-	-	4,876
Paid interest on hybrid capital - directly against equity	-	-	-	-	-	-41,804	-	-41,804
OCI -basisswapspread	-	-	-	-	-210,184	-	-	-210,184
Proposed dividend for 2018	-	-	-	-	-	-	-	-
OCI - pension - annual estimate deviation	-	-	-	-	4,101	-	-	4,101
Balance as of 31 December 2018	**7,190,548**	**3,597,922**	**-**	**-**	**-306,173**	**-78,932**	**1,180,000**	**11,583,366**
Change in presentation of interest on hybrid capital	-	-	-	-	-78,932	78,932		-
Share increase 27 February 2019	280,000	140,000	-	-	-	-	-	420,000
Share increase 22 May 2019	140,000	70,000	-	-	-	-	-	210,000
Net income for the period	-	-	-	-	33,231	45,084	-	78,315
Paid interest on hybrid capital - directly against equity	-	-	-	-	-	-45,084	-	-45,084
OCI -basisswapspread	-	-	-	-	-56,030	-	-	-56,030
Proposed dividend for 2019	-	-	-	-	90,566	-	-	90,566
OCI - pension - annual estimate deviation	-	-	-		-264	-	-	-264
Balance as of 31 December 2019	**7,610,548**	**3,807,922**	**-**	**-**	**-317,603**	**-**	**1,180,000**	**12,280,868**

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

Cash flow statement

NOK 1 000	**2019**	**2018**
Cash flows from operations		
Interest received	4,790,476	3,787,762
Paid expenses, operations	-39,009	-59,111
Paid tax	-15,503	0
Net cash flow relating to operations	**4,735,964**	**3,728,652**
Cash flows from investments		
Net purchase of loan portfolio	-7,189,127	-6,392,387
Net payments on the acquisition of government bills	-575,312	1,163,310
Net payments on the acquisition of bonds	-3,042,017	27,522,971
Net investments in intangible assets	153	-897
Net cash flows relating to investments	**-10,806,303**	**22,292,996**
Cash flows from funding activities		
Net receipt/payment from the issuance of securities	12,608,151	-8,468,784
Net receipt/payment from the issuance of subordinated debt	-175,000	0
Net receipt/payment of collateral received under derivatives contracts	-5,938,817	-4,901,801
Equity capital subscription	630,000	630,000
Paid dividend	0	-72,276
Net interest payments on funding activity	-4,241,013	-3,267,854
Net cash flow relating to funding activities	**2,883,320**	**-16,080,715**
Net cash flow in the period	**-3,187,019**	**9,940,933**
Balance of cash and cash equivalents at beginning of period	12,990,004	3,044,644
Net receipt/payments on cash	-3,187,019	9,940,933
Exchange rate difference	-1,735	4,427
Balance of cash and cash equivalents at end of period	**9,801,250**	**12,990,004**

To compare with the balance sheet see Note 18 Reconciliation of liabilities arising from financing activities.

Quarterly income statements and balance sheets

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

Income statement

NOK 1 000	4th Quarter 2019	3th Quarter 2019	2th Quarter 2019	1th Quarter 2019	4th Quarter 2018
Total interest income	1,628,769	1,521,528	1,396,122	1,287,936	1,303,438
Total interest expenses	-1,146,064	-1,054,143	-917,711	-840,389	-856,896
Net interest income	**482,705**	**467,385**	**478,411**	**447,547**	**446,542**
Commission and fee expensenes	-374,357	-370,367	-354,035	-345,532	-369,625
Net commission income	**-374,357**	**-370,367**	**-354,035**	**-345,532**	**-369,625**
Net gains/losses from financial instruments	-81,025	-55,735	-49,926	15,390	-113,543
Net other operating income	**-81,025**	**-55,735**	**-49,926**	**15,390**	**-113,543**
Total operating income	**27,324**	**41,283**	**74,450**	**117,405**	**-36,626**
Salaries and other ordinary personnel expenses	-2,744	-3,695	-2,506	-2,835	-2,527
Other operating expenses	-7,015	-6,181	-5,820	-5,344	-6,145
Total operating expenses	**-9,759**	**-9,876**	**-8,325**	**-8,178**	**-8,672**
Operating result before losses	**17,564**	**31,407**	**66,125**	**109,227**	**-45,299**
Write-downs on loans and guarantees	-1,148	4,102	136	-2,234	-520
Pre-tax operating result	**16,416**	**35,510**	**66,261**	**106,993**	**-45,819**
Taxes	108,489	-8,877	-16,565	-26,748	11,453
Profit/loss for the year	**12,308**	**26,632**	**49,695**	**80,245**	**-34,365**
Other income and expense	-2,502	-25,750	87,888	-115,930	-104,207
Total Profit/Loss	**9,806**	**882**	**137,583**	**-35,685**	**-138,572**

Balance sheet

NOK 1 000	31.12.2019	30.09.2019	30.06.2019	31.03.2019	31.12.2018
Assets					
Lending to and deposits with credit institutions	9,801,250	4,564,258	4,519,102	5,111,110	12,990,004
Certificates and bonds	28,067,101	35,143,942	29,554,116	25,623,908	25,271,910
Residential mortage loans	191,309,342	189,763,221	190,606,858	188,171,797	184,073,918
Financial derivatives	16,254,454	22,386,673	17,829,896	17,447,357	23,183,793
Defered tax asset	188,308	10,994	7,110	3,484	-
Other assets	890	991	1,040	1,801	1,750
Total assets	**245,621,345**	**251,870,081**	**242,518,121**	**236,359,456**	**245,521,375**
Liabilities and equity					
Liabilities					
Debt incurred by issuing securities	217,670,078	220,220,804	214,370,809	207,447,274	212,351,045
Collateral received under derivatives contracts	12,418,140	16,783,630	12,625,416	12,784,877	18,733,053
Repurchase agreement	-	-	553,863	1,508,401	-
Financial derivatives	1,420,374	900,005	1,030,359	1,048,763	1,042,108
Deferred tax	-	21,446	30,029	733	39,377
Tax payable	250,190	52,191	-	15,503	15,503
Subordinated debt	1,433,439	1,432,972	1,432,458	1,431,965	1,606,160
Other Liabilities	148,256	175,870	181,253	164,711	150,763
Total Liabilities	**233,340,477**	**239,586,917**	**230,224,187**	**224,402,227**	**233,938,009**
Equity					
Contributed equity	11,418,470	11,418,470	11,418,470	11,208,470	10,788,470
Other paid in equity (not yet registered)	-	-	-	-	-
Hybrid capital	1,180,000	1,180,000	1,180,000	1,180,000	1,180,000
Accrued equity	-577,048	-471,879	-434,476	-511,486	-389,980
Net profit	168,880	156,572	129,940	80,245	4,876
Declared dividends	90,566	-	-	-	-
Total equity	**12,280,868**	**12,283,163**	**12,293,934**	**11,957,229**	**11,583,366**
Total liabilities and equity	**245,621,345**	**251,870,081**	**242,518,121**	**236,359,456**	**245,521,375**

To the General Meeting of Sparebank 1 Boligkreditt AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sparebank 1 Boligkreditt AS, which comprise the balance sheet as at 31 December 2019, the income statement, overview of comprehensive income, statement of changes in equity and cash flow statement 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 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by EU.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Loans to customers	
The mortgage company has loans to private individuals amounting to NOK 191 309 million with collateral in residential property and has issued covered bonds. Processes and controls have been established to ensure that the entity complies with the various requirements mortgage companies are subject to. The value of the collateral at any time should be above 75 % of the loan value and above 60 % of the loan value for vacation property. The company has realized only	In order to comply with the requirements in the regulations applicable to issuing covered bonds, the company had established controls in the process of granting and transferring loans. The process included formal controls and segregation of duties, directed at ensuring that the controls were performed before loan approval or transfer of loans from the owner banks to the mortgage company. Further, in accordance with applicable regulations the company had engaged us as Independent Inspector to control, on a quarterly basis that the company complied with the various requirements, including the required coverage over the loan portfolio of the value of the

limited losses on loans in 2019. As compliance with these requirements and the established processes and controls are fundamental to the company's operation, we have focused our attention on this subject.

We also refer to note 13, 20 and 23 in the annual report for a description of the company's loans to customers.

collateral.

Our work included obtaining documentation and examining whether the controls were conducted appropriately and timely. Our examination included an assessment of whether the underlying documentation the company had collected supported the conclusions drawn by the company regarding compliance with the requirements in legislation and regulation.

Further, our work included testing of the mortgage company's IT systems, supporting processes over financial reporting. The mortgage company used external service providers to operate the core IT systems. The auditor at the relevant service organisation evaluated the design and efficiency of the established control systems, and tested the controls designed to ensure the integrity of the IT system and cash handling that were relevant to financial reporting. The auditor issued an ISAE 3402 type 2 audit opinion over the core IT system which explained the testing that was performed and the results thereof. The auditor tested whether significant calculations modules within the core system was performed in accordance with expectations, hereunder interest calculation and amortization of loans.

We satisfied ourselves regarding the auditor's objectivity and competence and examined the reports and evaluated possible misstatement and improvements. Furthermore, our own IT specialists tested access controls to the IT systems and the segregation of duties where necessary for our audit.

Our work gave us sufficient evidence to enable us to rely on the operation of the Group's IT systems relevant for our audit.

Our work substantiated that the company's inspection and processes supported that the laws and regulations in this area were followed.

We evaluated the appropriateness of the related disclosures in the notes and found that they satisfied the requirements in IFRS.

Financial instruments – valuation of cross currency basis swaps

The carrying amount of the Company's financial derivatives liability amounts to NOK 1 420 million as per December 31, 2019, whereof net loss on valuation adjustment of cross currency basis swaps

The Company has established processes and controls to ensure accurate registration and measurement of the cross currency basis swap contracts.

We tested the bank's controls over the entering into and closing of derivative contracts, including the registration amounts to NOK 545 million as per December 31, 2019.

These instruments are valued using valuation models where some of the assumptions (basis spread and credit charge) can not be obtained from other comparable instruments. Thus, managements judgement is a necessary part of valuing these instruments. We have focuses on this are due to the inherent risk of error that is present when judgement is used in valuations.

These cross-currency basis swaps are used for hedging the currency and interest risk on funding. Net gain and loss of the basis swap are charged to the comprehensive income as there is no corresponding change in the fair value of the hedged underlying object.

The estimates and judgmental assessments of the valuation of these financial instruments are described in note 6, 19 and 21.

in the Company's systems. Our audit also includes tests to ensure that the Company reconciles transactions with counterparties. Furthermore, we have tested the Company's methodology and controls regarding pricing models. We concluded that we could rely on these controls in our audit.

Interest and exchange curves were on a daily basis fed into the Company's portfolio system as basis for pricing of derivatives. We tested the pricing by recalculating the pricing of different derivatives by using the same interest and exchange curves as the Company. We compared these prices to external sources. We challenged the assumptions used by management in the valuation of the cross currency basis swaps The result of our testing show that management used reasonable assumptions when calculating the fair value of the derivatives. We also tested the mathematically accuracy of the model

We satisfied ourselves that disclosures regarding derivatives were appropriate.

Other information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Stavanger, 4 February 2020

PricewaterhouseCoopers AS

Arne Birkeland

State Authorised Public Accountant

Randesund Hageby

Norway's largest senior citizens village

Since 2008, there has been a 47 per cent growth in the number of seniors in Norway aged 67-79. By 2040, one in four Norwegians will be over 65 years of age. This forecast demand is persuading residential developers to cater for the modern, social seniors of 2020.

The year is 2002. A small firm has made a major investment. On a plot extending over more than 8.5 hectares, our intrepid investors have visited, planned, conceptualised and decided. They intend to build Norway's largest residential complex for seniors – a garden village that is the envy of the land, and a perfect example of gracious communal living for seniors. Aimed at folks whose children have flown the nest or whose family home is now dauntingly large for a couple or an individual, it also attracts those who want to remain socially active and engaged during their senior years.

A deliberate focus

In the mild and convivial South, as Norwegians often imagine this corner of the country to be, right on the doorstep of the regional centre, Kristiansand, the expansive grounds are being prepared for future development.

"There are a number of reasons why we made this commitment, but first and foremost we wanted to address loneliness among the elderly. We knew there would be a need for communal residences, and we wanted to achieve something that would enhance the quality of life for this age group. We recognised that the civic authorities were struggling, and demand would continue to grow. Most of us enjoy socialising and not being alone. Of course, we also saw a business opportunity," concedes Per Håkon Hansen in HSH Utvikling, the far-sighted builder behind the Kristiansand development.

Today there are more than 900,000 citizens over the age of 65 living in Norway. Never have there been so many seniors in the country. At the national level, over-65's make up more than 17 per cent of the population - and both the absolute number and proportion are expected to grow as we approach 2040. By then, there will be more than 1.4 million seniors in this category in Norway, reports from Statistics Norway show, representing almost 25 per cent of the population.

"There is no doubt that there will be a large number of elderly people in the future. Today's 75-year-olds are much healthier than 20 years ago. More are surviving serious illness, and people live longer. In 2060, we anticipate that there will be four times as many over-90's as today," predicts Astri Syse, senior researcher at Statistics Norway.

"I want to applaud local councils who are already grasping this challenge. At the same time, many over-65's actually have the means to buy their own retirement nest. Even so, this change is easier to make in towns and conurbations – seniors living in rural districts face a tougher task to find a suitable flat. There are simply fewer available," she explains.

Energy economy and passive house design

In their search for inspiration for the senior village project, the investors toured like-minded developments in Denmark, where the idea of a residential community was even further refined.

"The Danes are good at this – they love to socialise. No doubt that is why they beat us to it! Our concept requires residents to be over 45 to buy a flat. In fact, most are over 60," says Hansen.

The project has adopted a concept known as Carré housing, where the residential units encircle a large communal area. This is typically a garden or park and whatever other functions residents prefer. The units are owner-occupier flats financed by private mortgage loans. Residents also pay monthly dues on behalf of the social functions.

Technically the units are thermally passive, which means low energy consumption. Newcomers used to traditional detached houses, will often find their electricity bills are significantly lower.

"Although our residents tend to worry very little about energy prices, everybody really loves our cosy, comfortable units. As professional builders, of course, we are also delighted that the best possible technologies are applied."

Imagination is the only limit

While planning is going on, developers are also looking at the communal calendar and social amenities. These arrangements are highly prized by residents, who speak warmly of their new home. Indoor walking and running track, car wash, computer and network support, handyman assistance, village intranet, postal collection and plant care when you are away, boccia, badminton, gym, Service Desk, guest room, private function rooms and cultivator frames are just some of the opportunities offered in the village.

"Gradually these activities have evolved and become the treasured and well-established attractions they are today. The entire motivation at Randesund Hageby is to dispel loneliness, and the policy works. An important way forward was to appoint our Social Coordinator, who is based in the Service Centre and organises events and initiatives. Residents can simply express their needs, and things will be taken care of!"

Stavanger next

Developer INEO Eiendom in Stavanger is also working on a senior citizens concept for its projects. Basically, the plan is to offer high-quality services. They also espouse the latest technology and have even written an 'app' allowing residents to book favourite activities.

"We focus on a broad range of amenities, for instance vegetable gardens and greenhouses, guided nature walks, swimming, cinema, and other attractions. A spacious communal atrium is ideal for socialisin g, for bridge nights or Saturday sports. The precise content is up to the residents," says Roy Klungtvedt, head of marketing in INEO Eiendom.

"For these residences we have chosen innovative, smart solutions to ensure the best possible energy efficiency in the complex. We are in the process of developing a digital platform, allowing all residents to easily book slots for favourite activities, or even book one of the shared electric cars. The smart digital platform also means you can dim the lights, adjust the heating, manage the door locks and set the alarm, and so on," he adds enthusiastically.

At Vålandstunet, the communal living complex has set a lower age limit, so at least one member of the household must be 58 or over in order to live here.

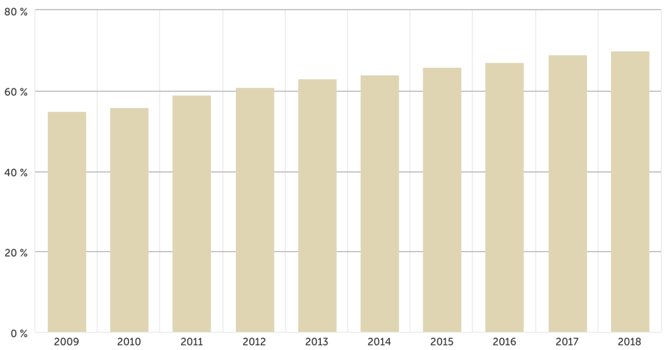
"The facility is not only for retirees, but we do want social seniors to be the main focus."

Mortgages for seniors

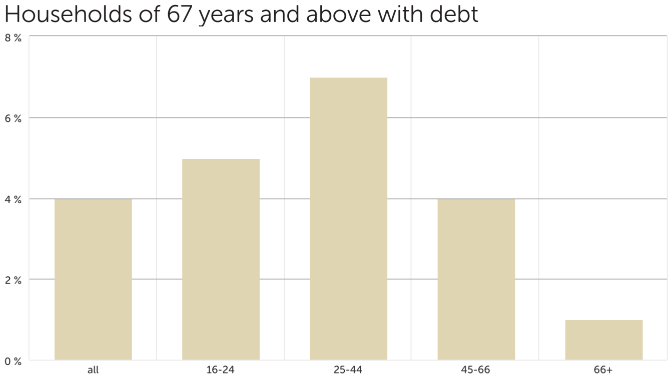
Over the past ten years, there has been a trend towards an increasing number of senior households, aged 67 and above, with mortgage debt. This may have several reasons, such as using home equity to add to income in retirement, but also the purchasing of a new, age-appropriate flat or house. The chart below illustrates the share of households at or above 67 years of age with debt of any kind (but typically a mortgage) or amount, a share which has increased to 70 per cent.

The second chart below presents the results of a Statistics Norway 2018 survey which shows households, by age group, that reported financial difficulties, in per cent of all households. These difficulties may range from the challenge of managing an unexpected expense to problems servicing debt. Of all households, the group of households above 67 years has the lowest share of reported financial difficulties (1 per cent) and no senior households reported any difficulties servicing a mortgage or other debt in the survey. The two highest scoring categories among older households were difficulties in managing an unexpected expense at 8 per cent and 7 per cent that reported high living expenses.

Households of 67 years and above with debt



Households of 67 years and above with debt



Source: Statistics Norway

Looking to the retirement village

As of January 2020, Randesund Hageby is an established, attractive senior citizens village in Kristiansand with more than 170 residents. As plans move forward for the next building phase, current owners are only too delighted to trumpet the benefits of convivial living, even acting as enthusiastic ambassadors for anyone visiting. Local councillors, government ministers and residential developers regularly visit this gracious communal living complex on the South Coast. Director Hansen is convinced such concepts will gradually also be adopted by municipalities, though the process may be long.

"What is more likely, I think, is that communal villages will be an added option for socially active seniors. It is exciting that so many people come to look, express an interest and learn more about the concept. Projects like these are the future, I believe, probably for all age groups, but not least for senior citizens."

Fact sheet Randesund Hageby

- Residential village for senior citizens on 8.5 hectares of parkland
- Total of 400 residential units
- Communal living featuring social calendar and events
- Set to be Norway's largest seniors village when completed.

Notes to the Accounts

Note 1 General information

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

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

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

The Financial Statements for 2019 is approved by the Board of Directors on February 4, 2020.

Note 2 Summary of significant accounting policies

Presentation Currency

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

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

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

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

Loans

Loans are measured at amortised cost. Amortised cost is the acquisition cost minus the principal payments, plus the cumulative amortisation using the effective interest rate method, adjusted for any loss allowance less write-off. Each of the Company's mortgage loans is made at a variable rate, which may be changed by the Company at any time, with a regulatory mandated notification time of six weeks before such changes can become effective. Expected credit loss (ECL) is calculated according to IFRS 9, which was implemented January 1, 2018 (see below for a description of the application of IFRS 9).

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

IFRS 9 was implemented effective January 1, 2018 . The initial calculation for ECL was 11.8 million for the balance of mortgage loans at January 1, 2018. This ECL has remained largely stable . For loans for which there has not been a significant increase in credit risk since initial recognition (loans in stage 1) ECL is measures as 12-mounth expected credit losses. For loans for which there has been a significant increase in credit risk since initial recognition (loans in stage 2 or 3) ECL is measured at lifetime expected credit losses. Loans in stage 3 are loans that are credit-impaired.

The limits which determine when a mortgage loan is moved from Stage 1 to Stage 2 are:

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

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

Model for loan loss provisioning

To consider the uncertainty of the future the model applied in estimating ECL three scenarios . . are developed .A base scenario, an upside scenario and a downside scenario and these are intended to reflect three different states the economic cycle can take . The scenarios are weighted, with the most weight assigned to the base scenario . The base scenario input variables are mostly derived from forecasts from Statistics Norway, while the downside scenario input variables are sourced from, but may not exactly replicate, the Financial Services Authority of Norway's stress case scenario included in its annual risk outlook reports.

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

Historically there has not been any mortgages in default in the Company's portfolio . LGDs are set to reflect the fact that for a cover bond issuer the law stipulates a maximum loan to value criteria of 75 per cent. The low loan to value ratio results in low expected loan losses if loans where to default . ECLs are updated quarterly based on a rescoring of the entire mortgage portfolio . Changes in the ECL is a charge or an income in the income statement for that period and is reflected on the balance sheet against the portfolio of mortgage loans.

According to the Transfer and Servicing Agreement which the SpareBank 1 banks each have entered into with the Company, SpareBank 1 Boligkreditt has the right to off-set any losses incurred on individual mortgage loans against the commissions due to all banks for the remainder of the calendar year . The Company has not since the commencement of its operations had any instances of off-sets against the commissions due to its owner banks. Mortgage loans which are renegotiated, where the terms are materially changed, are always removed from the Company's cover pool and transferred back the originating lender . All renegotiation of loans is outsourced to the banks from which the loans have been purchased.

Segment

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

Securities

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

Hedge Accounting

The company has implemented fair value hedge accounting for fixed rate bonds in NOK and in foreign currencies. These bonds are designated as hedged items in hedging relationships with individually tailored interest rate swaps and cross currency interest rate swaps. The company values and documents the hedge effectiveness of the hedge both at first entry and consecutively. The cash flow is therefore known for the entire contractual duration after the hedging relationship has been established. During the hedge relationship the measurement of the hedged item is adjusted for the change in fair value of the hedged risk which at the same time is recognised in profit or loss. The derivative hedging instruments is measured at fair value with changes in fair value recognised in profit or loss except for the change in fair value of the currency basis spread which is recognised in other comprehensive income. The initial measure of the basis spread is recognised in profit or loss over the life of the hedging relationship..

All hedges are deployed to exactly offset a cash flow for the duration of the hedged instrument, thus bringing financial liabilities (bonds outstanding) in fixed rate and/or foreign currency into a NOK 3 month NIBOR basis, while financial assets at fixed rates and/or foreign currency are transformed to a floating rate 3 month NIBOR asset through the derivative . Derivatives used are swap contracts only.

Valuation of Derivatives and Other Financial Instruments

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

<u>Liabilities:</u>

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

<u>Assets:</u>

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

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

- Temporary mark-to-market differences in the value of an interest rate swap may occur depending on the difference between the level at which the 3 months floating rate leg in the swap was last fixed and the 3 months interest rate level at the financial reporting date .
- There is a credit risk element which forms a part of the fair value of the assets in the trading portfolio, which is not reflected in the value of the associated interest and/or currency swaps hedging the trading portfolio assets .
- There may be floating rate assets (bonds) denominated in foreign currency which are hedged via a corresponding foreign exchange liability (issued debt) also on an effective floating rate basis. In such natural asset liability hedges there may be a small element of foreign currency risk which may impact the P&L in that the floating rate coupons on the asset and the liability are not reset on the same dates and/or may be of different magnitude. Also, a change in a market credit spread element would impact the price of some of the foreign currency assets held (bonds), though not the liability
  .

Temporary differences will result from changes in foreign currency basis spread in cross currency interest rate swaps . Boligkreditt uses cross currency interest rate swaps in order to swap cash flows from floating interest rate foreign currency liabilities and assets into floating interest rate in NOK. The valuation of the change in the cost element to enter into these swaps with counterparties change from time to time . The valuation change will only occur on the derivatives and not on the foreign currency liabilities and thus cannot be mitigated . The impact in net income from this valuation element may be large and volatile . All gains and losses from changes in foreign currency basis spread reverse over as the derivatives remaining maturity decreases.

Intangible Assets

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

Cash and Cash Equivalents

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

Taxes

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

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

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

Pensions

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

Defined Contribution Plan

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

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

Cash Flow Statement

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

Provisions

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

Supplier Debt and other Short Term Liabilities

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

Interest Income and Expense

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

Commission Expense

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

Dividends

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

Events after the Balance Sheet Date

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

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

Share Capital and Premium

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

Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IFRS 16 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realizable value for the purpose of measuring inventories or value in use for impairment assessment purposes).

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

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

IFRS 16 for lease accounting has been assessed. The Company has no leases with lease-term in excess of 12 months.

IASB approved changes to IFRS 9 and IFRS 7 in September 2019. These changes are obligatory from 2020, but may be adopted early for 2019. The Company has chosen to implement the changes early. It follows from this choice that hedging relationships may be continued unaffected by the IBOR reforms . The IBOR reforms is an ongoing process whereby reference interest rates included in receivables, loans and derivatives are exchanged for new reference rates . Further information about this is provided in note 19.

Note 3 Risk management

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

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

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

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

Organisation and organisational culture

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

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

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

Risk Categories:

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

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

Further details about risk categories are discussed in later Notes

Note 4 Important estimates and considerations regarding application of accounting policies

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

Loss on loans and guarantees

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

Fair value of financial instruments

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

Pensions

The Company's regular pension scheme is a defined contribution plan under which once the contribution is made for the period, which is recorded in compensation expense for that period, no further liability arises. However, there are certain other pension elements for which the Company records a pension liability (see above under Note 2 "Pensions") . Net pension obligations are based on a number of estimates including future investment returns, future interest rate and inflation levels, developments in compensation, turnover, development in the "G" amount (the basic level of pension as determined by the public pension system and used as a yardstick in several calculations nationally) and the general development in the number of disabled persons and life expectancy are of significant importance

. The uncertainty is primarily related to the gross obligation for pensions and not the net amount which is recorded in the financial accounts (balance sheet) . Changes in pension obligation estimates which may result from changes in the factors mentioned above will be charged directly against the Company's recorded equity .

Income Taxation

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

Note 5 Net interest income

NOK 1 000	2019	2018
Interest income		
Interest income from, certificates, bonds and deposits	280,846	380,228
Interest income from residential mortgage loans	5,553,510	4,715,801
Total interest income	**5,834,356**	**5,096,029**
Interest expense		
Interest expense and similar expenses to credit institutions	-45,148	-25,036
Interest expense and similar expenses on issued bonds	3,903,694	3,211,071
Interest expense and similar expenses on subordinated debt	48,356	50,836
Bank resolution Fund *	42,911	-
Other interest expenses	8,494	7,757
Total interest expense	**3,958,307**	**3,244,627**
Net interest income	**1,876,048**	**1,851,402**

* From 2019, SPB1 Boligkreditt has been included in the cost sharing for the Norwegian bank resolution fund.

Note 6 Net gains from financial instruments

NOK 1 000	2019	2018
Net gains (losses) from financial liabilities (1)	-6,958,008	-4,904,674
Net gains (losses) from financial derivatives, hedging liabilities, at fair value, hedging instrument (1,3)	6,990,649	4,849,334
Net gains (losses) from financial assets (2)	-272,077	-234,796
Net gains (losses) from financial derivatives, hedging assets, at fair value, hedging instrument (2,3)	68,140	-3,394
Net gains (losses)	-171,295	-293,531
Net gains (losses)	**-293,531**	**-630,361**

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

(2) SpareBank 1 Boligkreditt AS manages its liquidity risk by refinancing its outstanding bonds ahead of expected maturities and keeping proceeds as a liquidity portfolio. The majority of this portfolio is valued according to observed market values (fair value). Fixed rate bonds and bonds in other currencies than Norwegian kroner are hedged using swaps. These are valued at fair value (though differences may occur because the valuation of the bonds include a credit risk/spread element which the swaps do not contain). Included in assets in the table are also investments which are hedged with natural currency hedges, s well as investments in short term, highly rated bonds from funds received from swap counterparties for collateral purposes, with a matching fx liability to the swapcounterparty as a liability.

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

Note 7 Salaries and remuneration

NOK 1 000	2019	2018
Salary	9,682	10,201
Salaries reinvoiced to SpareBank1 Næringskreditt*	-2,772	-2,870
Pension expenses	1,727	2,055
Social insurance fees	2,536	2,146
Other personnel expenses	606	234
Total salary expenses	**11,780**	**11,766**
Average number of full time equivalents (FTEs)	7	7

* The company's employees have shared employment between SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt. All remuneration is effectuated through SpareBank 1 Boligkreditt and a portion is reinvoiced to SpareBank 1 Næringskreditt. Pension benefit obligations are through membership of a defined contribution scheme, which the Company pays into on behalf of the employees. Se also note 9 for further details on pensions.

Note 8 Salaries and other remuneration of management

Paid in 2019

NOK 1 000	Wage compensation	Bonus	Other compensation	Pension cost	Accrued Pensions	Employee mortgage loan
Management						
Chief Executive Office - Arve Austestad	2,309	-	181	628	6,189	2,519
Chief Operating Officer - Henning Nilsen	1,593	-	92	162	863	7,276
Chief Financial Officer - Eivind Hegelstad	1,575	-	62	165	-	4,025
Total for Management	**5,477**	**-**	**335**	**955**	**7,052**	**13,820**

Paid in 2018

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

All employees have an offer of an employee mortgage loan from SpareBank 1 SR-Bank. The terms and conditions for this include an interest rate one percentage point below the standard rate as determined by the Norwegian Treasury Department from time to time.
Numbers above reflect total compensation, which is split between Boligkreditt and Næringskreditt according to a certain ratio (see note 7 for more detail)

The Board of Directors	Paid in 2019	Paid in 2018
Kjell Fordal	111	108
Rolf Eigil Bygdnes (until 29 March 2019)	89	
Bengt Olsen (from 29 March 2019)	-	
Merete N. Kristiansen	89	87
Inger M.S. Eriksen	89	87
Geir-Egil Bolstad	89	87
Knut Oscar Fleten	89	-
Trond Sørås	24	23
Inge Reinertsen	-	87
Total for the Board of Directors	**580**	**479**

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

Note 9 Pensions

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

	2019	2018
Net pension obligations on the balance sheet		
Present value pension obligation as of Dec 31	13,941	12,955
Pension assets as of Dec 31	4,384	4,172
Net pension obligation as of Dec 31	9,558	8,783
Employer payroll tax	1,826	1,678
Net pension obligation recorded as of Dec 31	**11,383**	**10,461**

	2019	2018
Pension expense in the period		
Defined benefit pension accrued in the period	793	965
Defined contribution plan pension costs including AFP	969	1,133
Pension expense accounted for in the income statement	**2,097**	**2,097**

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

	2019	2018
Discount rate	2.30 %	2.60 %
Expected return on pension assets	2.30 %	2.60 %
Future annual compensation increases	2.25 %	2.75 %
Regulatory cap change	2.00 %	2.50 %
Pensions regulation amount	0.50 %	1,60%/2,00%
Employer payroll taxes	14.10 %	14.10 %
Finance tax	5.00 %	5.00 %

Note 10 Other operating expenses

NOK 1 000	2019	2018
IT and IT operations	11,775	9,565
Purchased services other than IT	10,159	8,310
Other Operating Expenses	2,097	1,987
Depreciation on fixed assets and other intangible assets	328	628
Total	**24,359**	**20,490**

Auditing

Remuneration to PWC (from2019)/Deloitte AS and cooperating companies is allocated as follows:

NOK 1 000	2019	2018
Legally required audit	231	578
Other attestation services, incl. examination services, loan documents sample testing, comfort letters	-	730
Other services outside auditing	125	153
Total (incl VAT)	**356**	**1,461**

Note 11 Taxes

NOK 1 000	2019	2018
Pre-tax profit	225,179	6,503
Permanent differences	-60,097	-54,646
Change in temporary differences	910,739	627,381
Temporary differences from basis swap spread adjustment, shown in other comprehensive income	-74,707	-280,245
Temporary differences from pension estimate deviation, shown in other comprehensive income	-353	5,468
Temporary differences from implementing IFRS 9 ECL model, recorded directly in equity	-	-4,095
Change in temporary differences due to use of previously tax deficit	-	-238,353
Tax base/taxable income for year	**1,000,762**	**62,013**

Tax payable for the year	250,190	15,503
Tax effect of change in temporary differences recorded in OCI / Equity	18,765	69,718
Tax effect of interest on hybrid capital, recorded directly in equity	15,028	13,663
Change in deferred tax	-227,685	-97,257
Tax expense for the year	**56,298**	**1,627**

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

Profit before tax on continuing operations	225,179	6,503
Expected tax expense - tax rate 25 %	**56,295**	**1,626**

Deferred tax		
Financial instruments	-185,462	43,016
Pension liability	-2,846	-2,615
Tax losses to be carried forward	-	-
Effect of implementing IFRS 9 ECL model	-	-1,024
Net deferred tax benefit (-) / deferred tax (+)	**-188,308**	**39,377**

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

Note 12 Other assets

NOK 1 000	2019	2018
Intangible assets *	379	707
Account receivables from SpareBank 1 Næringskreditt AS	499	1,043
Other	12	-
Total	**890**	**1,750**

* Intangible assets

NOK 1 000	
Acquisition cost 01.01.2018	34,305
Acquisitions	897
Disposals	
Acquisition cost 31.12.2018	**35,202**
Accumulated depreciation and write-downs 01.01.2018	33,867
Periodical depreciation	628
Periodical write-down	-
Disposal ordinary depreciation	-
Accumulated depreciation and write-downs 31.12.2018	34,495
Book value as of 31.12.2018	**707**
Acquisition cost 01.01.2019	35,202
Acquisitions	-
Disposals	-
Acquisition cost 31.12.2019	**35,202**
Accumulated depreciation and write-downs 01.01.2019	34,495
Periodical depreciation	328
Periodical write-down	-
Disposal ordinary depreciation	-
Accumulated depreciation and write-downs 31.12.2019	34,823
Book value as of 31.12.2019	**379**
Financial lifespan	3 years
Depreciation schedule	linear

Note 13 Residential mortage loans

Lending to customers are residential mortgages only. The mortgages generally have a low loan-to-value and losses have been very low. The total amount of lending to customers at the end of 31.12.2019 were NOK 191,3 billion. All mortgages carry a variable interest rate.

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NOK 1 000	2019	2018
Revolving loans - retail market	42,431,353	45,484,285
Amortising loans - retail market	148,660,350	138,418,290
Accrued interest	229,402	183,912
Total loans before specified and unspecified loss provisions	**191,321,105**	**184,086,488**
		-
Stage 1	183,557,607	177,082,658
Stage2	7,763,498	7,003,830
Stage 3	-	-
Gross loans	**191,321,105**	**184,086,488**
Impairments on groups of loans		
Expected credit loss, stage 1	1,068	3,905
Expected credit loss, stage 2, no objective proof of loss	10,695	8,665
Expected credit loss, stage 3, objective proof of loss	-	-
Total net loans and claims with customers	191,309,342	184,073,918
Total net loans and claims with customers	**184,073,918**	**177,675,130**
Liability		
Unused balances under customer revolving credit lines (flexible loans)	12,028,316	12,304,082
Total	**12,028,316**	**12,304,082**
Defaulted loans		
Defaults*	0.0 %	0.0 %
Specified loan loss provisions	0.0 %	0.0 %
Net defaulted loans	**0.0 %**	**0.0 %**
Loans at risk of loss		
Loans not defaulted but at risk of loss	0.0 %	0.0 %
- Write downs on loans at risk of loss	0.0 %	0.0 %
Net other loans at risk of loss	**0.0 %**	**0.0 %**

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

Loans sorted according to geography (Norwegian counties)

NOK 1 000		Lending 2019	Lending 2019 %	Lending 2018	Lending 2018 %
NO01	Østfold	-7,735,515	4.04 %	-7,079,758	3.85 %
NO02	Akershus	-23,767,409	12.42 %	-22,273,568	12.10 %
NO03	Oslo	-27,048,500	14.14 %	-23,312,977	12.67 %
NO04	Hedmark	-13,946,811	7.29 %	-13,322,545	7.24 %
NO05	Oppland	-7,105,737	3.71 %	-6,503,295	3.53 %
NO06	Buskerud	-13,151,869	6.87 %	-12,457,779	6.77 %
NO07	Vestfold	-8,548,809	4.47 %	-8,003,910	4.35 %
NO08	Telemark	-7,920,355	4.14 %	-7,111,149	3.86 %
NO09	Aust Agder	-240,001	0.13 %	-275,254	0.15 %
NO10	Vest Agder	-637,107	0.33 %	-833,060	0.45 %
NO11	Rogaland	-4,288,510	2.24 %	-8,298,260	4.51 %
NO12	Hordaland	-1,799,093	0.94 %	-2,266,310	1.23 %
NO14	Sogn og Fjordane	-378,758	0.20 %	-383,303	0.21 %
NO15	Møre og Romsdal	-11,536,407	6.03 %	-10,918,164	5.93 %
NO18	Nordland	-13,504,816	7.06 %	-13,286,543	7.22 %
NO19	Troms	-12,359,832	6.46 %	-11,791,342	6.41 %
NO20	Finnmark	-6,189,939	3.24 %	-5,620,549	3.05 %
NO21	Svalbard	-133,252	0.07 %	-147,649	0.08 %
NO23	Trøndelag	-31,016,621	16.21 %	-30,188,501	16.40 %
SUM		**-191,309,342**	**100.0 %**	**-184,073,918**	**100.0 %**

Note 14 Amounts arising from ECL

The following table show reconciliations from the opening to the closing balance of the loss allowance. Explanation of the terms 12-month ECL and lifetime ECL (stage 1-3) are included in note 1-4 the annual account 2019.

	2019			
Loans and advances to customers at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance sheet on 31 December 2018	3,975	**8,678**	**-**	**12,652**
Transfer to 12 month ECL	-	-	-	-
Transfer to lifetime ECL - No objective evidence of loss	-	-	-	-
Transfer to lifetime ECL - objective proof of loss	-	-		-
Net remeasurement of loss allowance	-	-	-	-
New financial assets originated or purchased	450	3,559	-	4,009
Change due to reduced portifolio	-1,400	-3,273	-	-4,673
Other movements	-1,940	1,749	-	-191
Net change	-2,891	2,035		-856
Balance sheet on 31 December 2019	1,084	**10,713**	**-**	**11,797**

Note 15 Share capital and shareholder information

	List of shareholders as of 31.12,2019			List of shareholders as of 31.12,2018		
	No of Shares	**in per cent**	**Share of votes**	**No of Shares**	**in per cent**	**Share of votes**
SpareBank 1 Østlandet	16,961,710	22.29 %	22.29 %	15,539,102	21.61 %	21.61 %
SpareBank 1 SMN	15,898,802	20.89 %	20.89 %	14,879,609	20.69 %	20.69 %
SpareBank 1 Nord-Norge	14,190,446	18.65 %	18.65 %	12,810,567	17.82 %	17.82 %
BN Bank ASA	5,126,131	6.74 %	6.74 %	4,698,769	6.53 %	6.53 %
SpareBank 1 BV	4,776,009	6.28 %	6.28 %	4,624,963	6.43 %	6.43 %
Sparebanken Telemark	3,592,816	4.72 %	4.72 %	3,305,204	4.60 %	4.60 %
SpareBank 1 Ringerike Hadeland	3,486,683	4.58 %	4.58 %	3,231,669	4.49 %	4.49 %
SpareBank 1 Østfold Akershus	3,439,512	4.52 %	4.52 %	3,134,912	4.36 %	4.36 %
SpareBank 1 Nordvest	1,709,929	2.25 %	2.25 %	1,567,456	2.18 %	2.18 %
SpareBank 1 SR-Bank ASA	1,679,661	2.21 %	2.21 %	3,461,175	4.81 %	4.81 %
SpareBank 1 Modum	1,592,003	2.09 %	2.09 %	1,373,943	1.91 %	1.91 %
SpareBank 1 Søre Sunnmøre	1,023,992	1.35 %	1.35 %	892,095	1.24 %	1.24 %
SpareBank 1 Gudbrandsdal	1,012,200	1.33 %	1.33 %	880,485	1.22 %	1.22 %
SpareBank 1 Hallingdal Valdres	982,718	1.29 %	1.29 %	928,863	1.29 %	1.29 %
SpareBank 1 Lom og Skjåk	632,870	0.83 %	0.83 %	576,670	0.80 %	0.80 %
Total	**76,105,482**	**100 %**	**100 %**	**71,905,482**	**100 %**	**100 %**

Hybrid capital

NOK 1000	ISIN	Interest rate	Issued year	Call option	2019	2018
Perpetual						
Hybrid (Tier 1 capital instrument)	NO0010713746	3M Nibor + 310 bp	2014	09.05.2019	-	350,000
Hybrid (Tier 1 capital instrument)	NO0010745920	3M Nibor + 360 bp	2015	23.09.2020	300,000	300,000
Hybrid (Tier 1 capital instrument)	NO0010746191	3M Nibor + 360 bp	2015	29.09.2020	180,000	180,000
Hybrid (Tier 1 capital instrument)	NO0010767643	3M Nibor + 360 bp	2016	22.06.2021	250,000	250,000
Hybrid (Tier 1 capital instrument)	NO0010811318	3M Nibor + 310 bp	2017	01.12.2022	100,000	100,000
Hybrid (Tier 1 capital instrument)	NO0010850621	3M Nibor + 340 bp	2019	30.04.2024	350,000	-
Book value					1,180,000	1,180,000

The issued bonds listed in the table abowe have status as Tier 1 capital instruments in the Company's capital coverage ratio.

Note 16 Liabilities incurred by issuing securities

	Nominal value*	Nominal value*
NOK 1 000	**2019**	**2018**
Senior unsecured bonds	-	1,047,000
Covered bonds	201,758,203	188,169,679
Total debt incurred by issuing securities	201,758,203	189,216,679

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

	Book value	Book value
NOK 1 000	**2019**	**2018**
Senior unsecured bonds	-	1,046,990
Covered bonds	216,579,429	209,973,603
Activated costs incurred by issuing debt	-184,635	-165,808
Accrued interest	1,275,284	1,496,260
Total debt incurred by issuing securities	**217,670,078**	**212,351,045**

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

Senior Unsecured Bonds and notes

Due in	2019	2018
2018	-	1,047,000
Total	**-**	**1,047,000**

Covered bonds

Due in	2019	2018
2019	-	24,954,124
2020	20,035,500	24,963,500
2021	28,881,382	28,894,098
2022	38,749,200	38,749,200
2023	30,356,650	30,378,725
2024	23,451,428	13,916,174
2025	10,648,750	10,648,750
2026	22,210,000	12,185,000
2027	673,042	674,808
2028	2,562,800	2,562,800
2029	23,946,950	-
2038	242,500	242,500
Total	**201,758,203**	**188,169,679**
Total	**201,758,203**	**189,216,679**

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

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

NOK 1 000	2019	2018
NOK	59,978,539	62,711,262
EUR	148,733,048	130,285,193
USD	-	10,707,438
GBP	8,706,679	8,382,733
SEK	251,812	264,420
Total	**217,670,078**	**212,351,045**

Note 17 Subordinated debt

NOK 1000	ISIN	Interest rate	Issued year	Call option from	Maturity	Nominal amount	2019	2018
With maturity								
Subordinated debt	NO0010704109	3M Nibor + 225 bp	2014	07.03.2019	07.03.2024	475,000	-	475,000
Subordinated debt	NO0010826696	3M Nibor + 153 bp	2018	22.06.2023	22.06.2028	250,000	250,000	250,000
Subordinated debt	NO0010833908	3M Nibor + 180 bp	2018	08.10.2025	08.10.2030	400,000	400,000	400,000
Subordinated debt	NO0010835408	3M Nibor + 167 bp	2018	02.11.2023	02.11.2028	475,000	475,000	475,000
Subordinated debt	NO0010842222	3M Nibor + 192 bp	2019	24.01.2024	24.01.2029	300,000	300,000	-
Accrued interest							8,439	6,160
Book value							**1,433,439**	**1,606,160**

The issued bonds listed in the table aboww have status as Tier 2 capital instruments in the Company's capital coverage ratio.

Note 18 Reconciliation of liabilities arising from financing activities

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

			Non-cash changes		
NOK 1 000	**2018**	**Financing cash flows**	**Adjustments**	**Other changes**	**2019**
Liabilities					
Debt incurred by issuing securities	213,393,154	12,608,151	-6,605,642	-305,210	219,090,452
Collateral received in relation to financial derivatives	18,733,053	-5,938,817	-	-376,096	12,418,140
Subordinated debt	1,606,160	-175,000	-	2,280	1,433,439
	233,732,367	6,494,333	-6,605,642	-679,027	232,942,031

Note 19 Financial Derivatives

NOK 1 000	**2019**	**2018**
Interest rate derivative contracts		
Interest rate swaps		
Nominal amount	55,698,553	68,401,281
Asset	2,067,884	2,918,190
Liability	-332,246	-514,399
Currency derivative contracts		
Currency swaps		
Nominal amount	145,222,180	140,302,215
Asset	14,186,570	20,265,604
Liability	-542,709	-56,996
Total financial derivative contracts		
Nominal amount	200,920,732	208,703,496
Asset	16,254,454	23,183,793
Liability	-874,955	-571,395

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

* Change due to basis swap spread adjustment	2019	2018
Asset/Liability	-874,955	-571,395
Net gain (loss) on valuation adjustment of basisswap spreads	-545,419	-470,713
Net asset (+) / liability (-) derivatives	**-1,420,374**	**-1,042,108**

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

Basis swaps are currency swaps and are entered into at a certain cost (spread) between SpareBank 1 Boligkreditt and banks which offer such swaps and which have signed an ISDA agreement with the Company. Changes in the cost are valued each quarter across all of the Company's swaps in accordance with the IFRS rules. An increase in the cost would result in an increase in the value of the basisswaps while a cost decrease would reduce the value of the basis swaps. The effect may be material from quarter to quarter because the Company's portfolio of swaps is extensive. All basisswap value changes will reverse over time towards the point of termination of the swaps.

IBOR reforms

SpareBank 1 Boligkreditt utlizes derivates which include one or more referance rates which will be reformed, i.e. they are undergoing a process whereby there is to be less discretion by panel banks and industry bodies and more objectivity, based on market transactions, when setting these rates. In general these changes are implemented in markets from 2021.

The Company used the following hedging instruments and have other constellations involving IBOR rates:

1. Fixed rate NOK bonds issued and swapped to 3 months NIBOR exposure
2. Three month EURIBOR bonds issued swapped to a 3 month NIBOR exposure
3. Fixed rate EUR bonds issued and swapped to 3 months EURIBOR exposure
4. Fixed rate EUR bonds issued and swapped to 3 months NIBOR exposure
5. Three months LIBOR GBP bonds issued and swapped to 3 months NIBOR exposure
6. Fixed rate GBP bonds issued and swapped to 3 months NIBOR exposure

When it comes to the reform of Sterling LIBOR, the Company is evaluating a reference rate change from Sterling LIBOR to SONIA for its Sterling FRN, issued in 2017) and for which there are precedence in the market. For other reforms the Company will follow market practice, or sign ISDA protocols as the case may be, to use reformed IBOR rates.

Hedging instruments used, excluding NIBOR contracts, nominal values	2019
EURIBOR contracts under point 2 and 3 above	8,538,414
LIBOR contracts under point 4 above	5,778,450
Totale	**14,316,864**

Collateral received

Collateral received is a contractual feature in the Company's ISDA contracts. For derivative (swap) contracts dated on or after March 1, 2017, all exposure that the Company has to counterparties is collateralized in cash from a threshold of zero. Contracts with a start date prior to 1 March 2017 may be subject to higher thresholds. The Company is entitled to offset all costs and other amounts it incurs with the collateral received, if the counterparty should not perform under the contract. The Company does not post out collateral it has not first received from counterparties.

NOK 1 000	**2019**	**2018**
Collateral received under derivatives contracts	12,418,140	18,733,053

Note 20 Classification of Financial Instruments

NOK 1 000	Financial instruments accounted for at fair value *	Financial assets and debt accounted for at amortised cost	**2019**
Assets			
Lending to and deposits with credit institutions	-	9,801,250	9,801,250
Certificates and bonds	28,067,101	-	28,067,101
Residential mortgage loans	-	191,309,342	191,309,342
Financial derivatives	16,254,454	-	16,254,454
Defered tax asset	-	-	188,308
Other assets	-	-	890
Total Assets	**44,321,555**	**201,110,592**	**245,621,345**
Liabilities			
Debt incurred by issuing securities	176,719,863	40,950,215	217,670,078
Collateral received in relation to financial derivatives	-	12,418,140	12,418,140
Repurchase agreement	-	-	-
Financial derivatives	1,420,374	-	1,420,374
Deferred taxes	-	-	-
Taxes payable	-	-	250,190
Subordinated dept	-	1,433,439	1,433,439
Other liabilities	-	-	148,256
Total Liabilities	**178,140,237**	**54,801,794**	**233,340,477**
Total Equity	**-**	**1,180,000**	**12,280,868**
Total Liabilities and Equity	**178,140,237**	**55,981,794**	**245,621,345**

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

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

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

Note 21 Financial instruments at fair value

Methods in order to determine fair value

General

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

Interest rate and currency swaps

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

Bonds

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

IFRS 7 require a presentation of the fair value measurement of finacial instruments for different levels:

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

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

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

The following table presents the company's assets and liabilities at fair value as of 31.12.2019

NOK 1 000

	Level 1	Level 2	Level 3	Total
Certificates and bonds	19,623,810	8,443,291	-	28,067,101
Financial Derivatives	-	16,254,454	-	16,254,454
Total Assets	19,623,810	24,697,745	-	44,321,555
Debt incurred by issuing securities	-	176,719,863	-	176,719,863
Financial Derivatives	-	1,420,374	-	1,420,374
Total Liabilities	**-**	**178,140,237**	**-**	**178,140,237**

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

NOK 1 000

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

Note 22 Other liabilities

NOK 1 000	**2019**	**2018**
Employees tax deductions and other deductions	548	623
Employers national insurance contribution	645	708
Accrued holiday allowance	994	946
Commission payable to shareholder banks	126,813	132,512
Deposits*	2,471	525
Pension liabilities	11,383	10,461
Expected credit loss unused credit lines (flexible loans)	34	83
Other accrued costs	5,368	4,905
Total	**148,256**	**150,763**

The Company does not have an overdraft facility or a revolving credit facility as of 31.12.2019

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

Note 23 Credit risk

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

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

Credit Exposure

NOK 1 000	2019	2018
Loans to customers	191,309,342	184,073,918
Loans to and deposits with credit institutions	9,801,250	12,990,004
Certificates and bonds	28,067,101	25,271,910
Financial derivatives	16,254,454	23,183,793
Other assets	189,198	-
Total assets	**245,621,345**	**245,521,375**
Unused credit on flexible loans	12,033,187	12,303,478
Received collateral in relation to derivative contracts	-12,418,140	-18,733,053
Total credit exposure	**245,236,393**	**239,091,800**

Lending to customers (residential mortgage loans)

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

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

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

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

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

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

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

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

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

Definition of risk groups - based on probability of default

			Distribution in %		Total lending *	
Risk group	**Lower limit**	**Upper limit**	**2019**	**2018**	**2019**	**2018**
Lowest	0.00 %	0.01 %	85.19 %	85.37 %	162,972,832	156,868,512
Low	0.01 %	0.05 %	10.71 %	10.96 %	20,490,523	20,142,820
Medium	0.05 %	0.20 %	2.73 %	2.35 %	5,224,346	4,325,581
High	0.20 %	0.50 %	0.65 %	0.68 %	1,248,371	1,246,661
Highest	0.50 %	100 %	0.72 %	0.63 %	1,373,270	1,166,695
Total			**100.00 %**	**100.00 %**	**191,309,342**	**183,750,269**

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

Loans to and deposits with credit institutions

SpareBank 1 Boligkreditt only has deposits with financial institutions rated A-/A2 or higher as of 31.12.2019

Bonds and certificates

Rating class		2019	2018
AAA/Aaa	Covered Bonds	21,249,000	15,181,397
	Norw. Government s-t debt	64,864	299,520
	Other government or gov guaranteed bonds	5,639,985	9,522,626
	Financial institutions		
	Total	26,953,849	25,003,543
AA+/Aa1 to AA-/Aa3	Other government bonds	1,061,930	268,368
	Covered Bonds	51,322	-
	Financial institutions	8,852,807	11,671,094
	Total	9,966,059	11,939,462
A+/A1 - A/A2	Financial institutions	948,443	1,318,910
	Total	948,443	1,318,910
Total		**37,868,351**	**38,261,914**

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

Financial derivatives

Derivative contracts are only entered into with counterparties with a certain minimum rating by Moody's Ratings Service. Counterparties must post cash collateral. SpareBank 1 Boligkreditt does not post collateral to a counterparty which has previously not been received.

Note 24 Liquidity risk

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

Boligkreditt's shareholder banks have committed themselves to buying covered bonds in a situation where the primary market for issuance of covered bonds is not functioning. The banks can use covered bonds as collateral with the central bank at any time. The Company may require its shareholder banks to acquire covered bonds from it in an amount which is capped at the amount of the next 12 months upcoming maturities less what the Company holds as its own liquidity reserve. Each shareholder bank's responsibility is pro rata in accordance with its ownership stake in the Company and secondary up to a level of twice its pro rata stake if other banks are unable or unwilling to meet their commitment. Each bank may make a deduction in its commitment for bonds already purchased under this commitment. The table below include expected interest payments, which makes the figures higher than the correspondnig numbers in the balance sheet.

Liquidity Risk - all amounts in 1000 NOK

	31.12.2019	No set term	Maturity 0 to 3 months	Maturity 3 to 12 months	Maturity 1 to 5 years	Maturity more than 5 years
Certificates and bonds	28,067,101	-	5,367,472	6,423,855	15,462,298	813,476
Lending to and deposits with credit institutions	9,801,250	2,549,322	-	-	6,892,095	359,833
Residential mortgage loans	272,128,147	-	1,461,947	4,340,096	22,602,071	243,724,033
Derivatives	16,254,454	-	1,691,795	2,400,376	9,067,204	3,095,078
Other assets with no set term	189,198	189,198	-	-	-	-
Total Assets	326,440,150	2,738,520	8,521,213	13,164,328	54,023,669	247,992,420
Debt incurred when issuing securities	-253,713,303	-	-13,161,128	-17,020,747	-139,013,993	-84,517,434
Other liabilities with a set term	-12,418,140	-	-12,418,140	-	-	-
Derivatives	-1,420,374	-	-16,259	-22,543	-222,881	-1,158,691
Subordinated debt	-1,433,439	-	-	-	-	-1,433,439
Other liabilities	-398,446	-398,446	-	-	-	-
Equity	-12,280,868	-12,280,868	-	-	-	-
Total liabilities and equity	-281,664,570	-12,679,315	-25,595,527	-17,043,291	-139,236,874	-87,109,564
Net total all items		-9,940,795	-17,074,314	-3,878,963	-85,213,205	160,882,856

Interest Rate Risk - all amounts in 1000 NOK

	31.12.2018	No set term	Maturity 0 to 3 months	Maturity 3 to 12 months	Maturity 1 to 5 years	Maturity more than 5 years
Loans to credit institutions	38,261,914	3,484,993	9,534,075	4,563,771	20,065,992	613,083
Residential mortgage loans	254,414,174	-	1,283,825	3,790,611	19,669,530	229,670,208
Derivatives	23,183,793	-	3,119,376	3,747,152	13,766,134	2,551,132
Other assets with no set term	1,750	1,750	-	-	-	-
Total Assets	315,861,631	3,486,743	13,937,276	12,101,534	53,501,656	232,834,423
Debt incurred when issuing securities	-225,769,236	-	-13,936,911	-23,871,498	-144,055,763	-43,905,062
Other liabilities with a set term	-18,733,053	-	-18,733,053	-	-	-
Derivatives	-1,042,108	-	-1,174,639	912,947	-302,491	-477,926
Liabilities with no set term	-205,643	-205,643	-	-	-	-
Subordinated debt	-1,606,160	-	-	-	-	-1,606,160
Equity	-11,583,366	-11,583,366	-	-	-	-
Total liabilities and equity	-258,939,566	-11,789,009	-33,844,604	-22,958,551	-144,358,254	-45,989,148
Net total all items		-8,302,266	-19,907,328	-10,857,016	-90,856,598	186,845,275

Note 25 Interest rate risk

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

The table below include expected interest payments, which makes the figures higher than the correspondnig numbers in the balance sheet. :

Interest rate risk - all amounts in 1 000 NOK

	31.12.2019	**No set term**	**Maturity 0 to 3 months**	**Maturity 3 to 12 months**	**Maturity 1 to 5 years**	**Maturity more than 5 years**
Certificates and bonds	28,067,101	-	15,248,167	6,623,852	5,617,128	577,954
Lending to and deposits with credit institutions	9,801,250	2,549,322	6,892,095	359,833	-	-
Residential mortgage loans	272,128,147	-	272,128,147	-	-	-
Other assets with no set term	189,198	189,198	-	-	-	-
Total Assets	310,185,696	2,738,520	294,268,409	6,983,685	5,617,128	577,954
Debt incurred when issuing securities	-253,713,303	-	-60,046,791	-12,941,127	-96,417,976	-84,307,409
Other liabilities with a set term	-12,418,140	-12,418,140	-	-	-	-
Liabilities with no set term	-398,446	-398,446	-	-	-	-
Subordinated debt	-1,433,439	-	-	-	-	-1,433,439
Equity	-12,280,868	-12,280,868	-	-	-	-
Total liabilities and equity	-280,244,197	-25,097,454	-60,046,791	-12,941,127	-96,417,976	-85,740,848
Net interest rate risk before derivatives	29,941,499	-22,358,935	234,221,618	-5,957,442	-90,800,848	-85,162,894
Derivatives	14,834,080	-	-137,643,978	8,363,656	82,444,360	61,670,043
Net interest rate risk		-22,358,935	96,577,640	2,406,214	-8,356,488	-23,492,852
% of total assets		7 %	30 %	1 %	3 %	7 %

Interest Rate Risk - all amounts in 1000 NOK

	31.12.2018	No set term	Maturity 0 to 3 months	Maturity 3 to 12 months	Maturity 1 to 5 years	Maturity more than 5 years
Loans to credit institutions	38,261,914	-	16,731,647	4,073,168	16,912,910	544,189
Residential mortgage loans	254,414,174	-	254,414,174	-	-	-
Other assets with no set term	1,750	1,750	-	-	-	-
Total Assets	292,677,838	1,750	271,145,821	4,073,168	16,912,910	544,189
Debt incurred when issuing securities	-225,769,236	-	-64,116,430	-17,169,791	-100,941,135	-43,541,879
Other liabilities with a set term	-18,733,053	-18,733,053	-	-	-	-
Liabilities with no set term	-205,643	-205,643	-	-	-	-
Subordinated debt	-1,606,160	-	-	-	-	-1,606,160
Equity	-11,583,366	-11,583,366	-	-	-	-
Total liabilities and equity	-257,897,457	-30,522,062	-64,116,430	-17,169,791	-100,941,135	-45,148,039
Net interest rate risk before derivatives	34,780,381	-30,520,312	207,029,391	-13,096,623	-84,028,225	-44,603,850
Derivatives	22,141,685	-	-115,911,474	11,240,983	85,320,260	41,491,917
Net interest rate risk		-30,520,312	91,117,917	-1,855,640	1,292,034	-3,111,933
% of total assets		10 %	31 %	1 %	0 %	1 %

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

		Sensitivity of net interest rate expense in NOK 1000	
Currency	**Change in basis points**	**2019**	**2018**
NOK	100	51,345	74,394

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

Note 26 Currency risk

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

Net currency exposure in NOK 1000

Currency	2019	2018
EUR	**-244,605**	**53,297**
- Bank Deposits	344	73,092
- Issued Bonds	-148,917,683	-130,451,000
- Derivatives	140,542,218	123,042,469
- Bond investments	8,130,516	7,388,736
USD	**4**	**5,948**
- Bank Deposits	4	5,842
- Issued Bonds	-	-10,707,438
- Derivatives	-	10,707,543
- Bond investments		
SEK	**-**	**-**
- Bank Deposits	**-**	**-**
- Issued Bonds	-251,812	-264,420
- Derivatives	251,812	264,420
- Bond investments	-	-
GBP	**164**	**1,280**
- Bank Deposits	198	1,139
- Issued Bonds	-8,706,679	-8,382,733
- Derivatives	8,706,646	8,382,874
- Bond investments	-	-
Total	**300,156**	**60,524**

P&L effect before tax, in NOK 1000

Currency	Change in Exchange Rate (per cent)	2019	2018
EUR	+10	-24,461	5,330
USD	+10	0	595
SEK	+10	0	-
GBP	+10	16	14
Total		-24,444	5,924

Note 27 Operational Risk

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

The operational risk in SpareBank 1 Boligkreditt AS is limited. The Company is only involved in lending for residential real estate purposes, the placement of liquid assets in highly rated and liquid bonds and the financing of these activities.

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

Based on these facts there are no reasons which would lead to a different conclusion than that the standard method for the calculation of capital for operational risks are required. The Company therefore applies the standard method under the capital adequacy rules (CRD IV, Pillar 1) as method to calculate the operational risk capital requirement. The capital so calculated amounts to 59.5 million for 31.12.2019 (see also the note for capital adequacy

Note 28 Asset coverage test

The asset coverage is calculated according to the Financial Services Act § 2-31 (Covered Bond Legislation). There is a difference between this asset coverage test and the amounts in the balance sheet; for the purposes of the test mortgage loans which may have migrated above the 75% loan to value level are adjusted. Only that part of the mortgage loan corresponding to a loan to value up to 75% of the collateral is considered. Market values are used for all substitute collateral in the test. In addition any defaulted loans, i.e. loans in arrears at or beyond 90 days, are excluded from the test.

NOK 1 000	2019	2018
Total Covered Bonds	**217,833,870**	**211,466,729**
Residential mortgage loans	190,250,177	182,916,170
Lending to the public sector (gov. bonds/ certificates or gov. guaranteed debt)	357,901	2,443,614
Reverse repo/ depo less than 100 days	5,254,080	9,337,374
Exposure to covered bonds	15,521,382	7,829,441
Derivatives	15,379,500	22,612,398
Total Cover Pool	**226,763,040**	**225,138,997**
Asset-coverage	**104.1 %**	**106.5 %**

Liquidity Coverage Ratio (LCR)	2019	2018
Liquid assets	14,680,356	10,054,367
Cash outflow next 30 days	12,605,694	1,061,996
LCR ratio	116.5 %	946.7 %

Net Stable Funding Ratio (NSFR)	2019	2018
Available amount of stable funding	206,882,321	202,019,676
Required amount of stable funding	198,323,077	191,375,955
NSFR ratio	104.3 %	105.6 %

Note 29 Capital adequacy

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

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

CRD IV is implemented in Norway. The requirement of 17.5% total capital for SpareBank 1 Boligkreditt includes:
Minimum core equity Pillar 1: 4.5 per cent.

- Additional Tier 1 equity capital 1.5 per cent. and additiponal Tier 2 capital 2.0 per cent (can be held as Tier 1 and Tier 2, alternatively as core equity capital)
- Conservation buffer: 2.5 per cent core capital
- Systemic risk buffer: 4,5 per cent. core equity
- Countercyclical buffer: 2,5 per cent. core equity

The Issuer has an additional Pillar 2 requirement which is 0.8 per cent. core equity capital. The total requirement for the Issuer is therefore to have capital of minimum 18.3 per cent. of risk weighted assets. With a management buffer added, the target for capital coverage is 18.7 per cent. as of year-end 2019.

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

Capital. NOK 1 000	2019	2018
Share capital	7,610,548	7,190,548
Premium share fund	3,807,922	3,597,922
Other equity capital	-317,602	-385,104
Common equity	11,010,302	10,403,366
Intangible assets	-379	-707
Declared share dividend	-90,566	-
100% deduction of expected losses exceeding loss provisions IRB (CRD IV)	-420,879	-363,428
Prudent valuation adjustment (AVA)	-16,639	-15,182
Core equity capital	**10,572,405**	**10,024,049**
Hybrid bond	1,180,000	1,180,000
Tier 1 equity capital	**11,752,405**	**11,204,049**
Supplementary capital (Tier 2)	1,425,000	1,600,000
Total capital	**13,177,405**	**12,804,049**

Minimum requirements for capital. NOK 1 000	2019	2018
Credit risk	3,711,268	3,362,169
Market risk	-	-
Operational risk	59,537	62,185
Depreciation on groups of loans	-	-
CVA Risk	329,561	308,572
Difference in capital requirement resulting from transitional floor	-	2,378,276
Minimum requirement for capital	**4,100,367**	**6,111,202**

Capital Coverage

	2019	2018
Risk-weighted assets incl. transitional floor	78,028,001	76,390,017
Capital coverage (requirement w/all buffers, 18.3%)	25.71 %	16.76 %
Tier 1 capital coverage (requirement w/all buffers, 16.3%)	22.93 %	14.67 %
Core capital coverage (requirement w/all buffers, 14.8%)	20.63 %	13.12 %
Leverage ratio (requirement 3%)	5.05 %	4.91 %

Note 30 Related parties

The Company has 191 309 MNOK loans to customers. These are loans acquired from shareholder banks at market values (i.e. nominal value).

SpareBank 1 SR-Bank ASA

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

SpareBank 1 - Alliance

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

SpareBank 1 Næringskreditt AS

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

Note 31 Collateral received

SpareBank 1 Boligkreditt has signed ISDA-agreements including CSAs (Credit Support Annexes) with a number of financial institutions that are counterparties in interest rate and currency swaps. These institutions post collateral in the form of cash deposits to SpareBank 1 Boligkreditt. At the end of the period 31.12.2019 this collateral amounted to NOK 12 418 million. This amount is included in the balance sheet, but represents restricted cash. According to signed ISDA and CSA agreement, it is not permitted for the parties in derivatives transactions to net amounts amongst various transactions.

Note 32 Contingencies and Events after the Balance Sheet Date

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

No events have taken place after the balance sheet date which are expected to have any material impact on the financial statements as of the end of the period 31.12.2019.

Contact Information

SpareBank 1 Boligkreditt AS

Mailing address:
SpareBank 1 Boligkreditt
P.O.Box 250
N-4066 Stavanger
Norway

Visiting address:
Bjergsted Terrasse 1
4007 Stavanger
Norway

Managing Director
Arve Austestad
Phone: +47 5150 9411

Director finance and investor relations
Eivind Hegelstad
Phone: +47 5150 9367

Director risk and operations
Henning Nilsen
Phone: +47 5150 9412