Sbanken boligkreditt

Annual Report 2019

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Content

Key figures 2019

In NOK thousand	Reference	2019	2018
Summary of income statement			
Net interest income		250 053	260 253
Net other income		-14 994	-8 948
Total income		**235 059**	**251 305**
Other operating expenses		-9 258	-10 117
Operating profit before loan losses		**225 801**	**241 188**
Loan losses		-2 204	-1 454
Profit before tax		**223 597**	**239 734**
Tax expense		-46 464	-52 639
Net profit		**177 133**	**187 095**
Balance sheet figures (in million NOK)			
Total loan volume		34 371	34 402
Covered bonds issued (nominal value)		30 005	30 555
Covered bonds issued (carried value)		30 271	30 786
Total assets, end of period		36 359	35 869
Losses and defaults			
Loss rate (%)	1	0,01%	0,00%
Solvency	2		
Common equity Tier 1 ratio		17,6%	16,4%
Tier 1 capital ratio		19,3%	18,2%
Total capital ratio		21,9%	20,7%
Leverage ratio		6,9%	6,5%
Other			
Loan to value	3	53,0%	51,5%
Cover Pool	4	35 803	35 489
Over-collateralisation (OC), (nominal)		18,1%	15,2%

Alternative Performance Measures
Sbanken Boligkreditt AS (the company) discloses alternative performance measures as a supplement to the financial statements prepared in accordance with IFRS. Such performance measures are commonly used by analysts, investors and other stakeholders to evaluate the performance of the company in isolation or relative to the financial industry. The measures are provided to give an enhanced insight into the operations, financing and future prospects of the company. Some of the measures are presented in detail in notes to the financial statement and not repeated here.

References
1) Loss rate is calculated as the loan losses of the period divided by the average loan volume of the period. The measure is commonly used by banks and industry analysts to indicate the performance and quality of the lending book. For interim periods the loan losses for the period is annualised using the number of days in the period to the total number of days in the year.

2) Solvency figures are presented including profit for the period. Please refer to note 3 for further detail.

3) Loan-to-Value (LTV) is calculated as the loan amount divided by the estimated value of the property. When calculating a weighted average of LTV for the entire loan book, the credit balance of mortgages is used as weights. The LTV is provided as a measure of lending risk exposure.

4) Cover pool consist of mortgages and supplementary assets eligible according to the covered bonds legislation in Norway. Please refer to note 9 for further detail.

Board of Directors' report

In accordance with the provisions of the Norwegian Accounting Act, the Board of Directors confirms that the financial statements have been prepared on a going concern basis, and that the going concern assumption applies. Pursuant to Section 3-9 of the Norwegian Accounting Act, Sbanken Boligkreditt AS ('Sbanken Boligkreditt' or 'the company') prepares its annual financial statements in accordance with IFRS.

Sbanken Boligkreditt was established in 2015 as a vehicle to fund the Sbanken group ('the group') by issuing covered bonds based on residential mortgages. The company is a wholly owned subsidiary of Sbanken ASA ('the bank'), located in Bergen, Norway.

Operations in 2019

Norges Bank hiked its key policy rate three times in 2019, from 0.75 per cent to 1.50 per cent. Sbanken Boligkreditt increased its mortgage rates on only two occasions, in June and in September, with the latest hike coming into full effect from 8 November 2019. At the end of the year, the lending rate for the low LTV mortgage product was 2.75 per cent, up from 2.30 per cent at the end of 2018. The 3-month Nibor rate increased during 2019, from around 1.30 per cent to 1.84 per cent by year-end.

In 2019, the Sbanken Boligkreditt established a framework for issuing green bonds, in line with the company's focus on sustainable development and to further diversify funding sources. An independent assessment by Sustainalytics confirms the program's alignment with the UN Sustainable Development Goals and the four pillars of the Green Bond Principles of 2018.

The company's residential mortgage portfolio amounted to a total of NOK 34.4 (34.4) billion, and the company had issued debt securities in the form of covered bonds amounting to NOK 30.0 (30.6) billion at year-end 2019.

Covered bonds issued by Sbanken Boligkreditt have been assigned the highest rating, Aaa, by Moody's Investors Service, last confirmed 5 December 2019.

Financial review

Sbanken Boligkreditt recorded a net profit of NOK 177.1 (187.1) million in 2019.

Operating income

Sbanken Boligkreditt had an operating income of NOK 235.1 (251.3) million in 2019. Net interest income amounted to NOK 250.1 (260.3) million. Net other income showed a net loss of NOK 15.0 (-8.9) million, mainly related to repurchase of issued covered bonds.

Operating expenses

Operating expenses amounted to NOK 9.3 (10.1) million and consisted mainly of administrative expenses relating to the company's hiring of management and administrative resources from Sbanken ASA.

Impairments and losses

Losses on loans amounted to NOK 2.2 (1.5) million, corresponding to a loan-loss ratio of 0.006 (0.004) per cent. At year-end, expected credit losses (ECL) amounted to NOK 5.8 million.

Taxes

The calculated income tax expense amounted to NOK 46.5 (52.6) million, which corresponds to an effective tax rate of 20.8 (22.0) per cent.

Loans to customers

At the end of the year, loans to customers amounted to NOK 34.4 (34.4) billion, unchanged compared to the previous year. During the year the company acquired (net) NOK 13.7 (24.3) billion in residential mortgages from Sbanken ASA, less refinancing, and ordinary repayments from customers during the year.

Capitalisation, liquidity and financial position

Sbanken Boligkreditt had total book equity of NOK 2.5 (2.3) billion at 31 December 2019, corresponding to a common equity Tier 1 capital ratio of 17.6 per cent. At year-end, the Tier 1 capital ratio was 19.3 per cent and the total capital ratio 21.9 per cent. The capital ratios include retained earnings from the full year of 2019 following the company's zero dividend policy. At 31 December 2019, the company had a leverage ratio of 6.9 per cent.

Sbanken Boligkreditt had NOK 30.0 (30.6) billion in outstanding debt issued as covered bonds at 31 December 2019. A total of NOK 3.5 billion in covered bonds were issued during the year. Securities totalling NOK 4.0 billion were redeemed during the year. At year-end, Sbanken Boligkreditt had total liquid assets of NOK 1.8 (1.3) billion. The liquidity coverage ratio (LCR) was 1 330 per cent.

Allocation of profit and dividend

The Board follows a zero dividend policy and has proposed the following allocation of profit for 2019:

	in NOK thousands
Net profit for the year	177 133
Dividend	0
Retained earnings	177 133
Total	177 133

In the opinion of the Board of Directors, following the proposed allocation, Sbanken Boligkreditt will be in a strong financial position that provides flexibility to support the activities planned in the group.

Strategy

The company is a vehicle for funding residential mortgages on competitive terms for the bank. The issuing of covered bonds secured by the company's cover pool ensures favourable funding for the group. The bonds are currently offered in NOK and EUR. Bonds denominated in NOK are listed on Oslo Børs, while the bond denominated in EUR is listed on the Irish Stock Exchange.

The company owns mortgages from retail customers with a maximum loan-to-value (LTV) ratio of 75 per cent. New mortgages are sold through the bank's distribution channels. The bank is responsible for customer relations and customer contact, marketing and product development. Credit underwriting is also performed by the bank pursuant to its credit policy, credit strategy and credit processes.

Sbanken Boligkreditt acquires high-quality, eligible mortgages from the bank. The Board of Sbanken Boligkreditt sets the eligibility criteria. The quality and risk profile of the mortgages included in the cover pool ensures that the company's target rating of Aaa for covered bonds is met.

Corporate governance

Sbanken Boligkreditt's corporate governance principles are based on Sbanken ASA's corporate governance policy. The policy follows the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance.

Sbanken ASA's policy for corporate social responsibility sets the standards for the group's work on both the implementation and the further development of corporate social responsibility.

The Board reviews the financial reporting process. The company follows the group's policy for financial governance, which includes requirements for quality assurance of financial reporting processes to ensure relevant, timely and uniform reporting to the capital market, regulators and internal stakeholders.

Sbanken Boligkreditt's administration reviews the process of internal control over financial reporting and implements adequate and effective internal processes in accordance with established requirements. Processes include control measures to ensure that the financial reporting is of high quality.

The Board of Directors approves the management's proposed financial statements for Sbanken Boligkreditt.

Risk management

Sbanken Boligkreditt's core business is to issue covered bonds secured by residential mortgages and thereby create value by assuming recognised and acceptable risks deriving from this business. The Board of Directors defines the risk limits and principles for risk management. These principles include the identification and assessment of material risks and reporting to the Board of Directors of any such risks, performing risk assessments before any material changes are effectuated and defining limits for each risk category.

The company's risks fall into the following risk categories:

Credit risk

Credit risk is defined as the risk of loss resulting from a customer or counterparty not fulfilling their obligations, at the same time as any collateral pledged fails to cover the outstanding claim. All mortgages owned by the company have been granted by Sbanken ASA pursuant to the bank's credit risk framework. In order to ensure that mortgages acquired by the company are in compliance with regulations and other internal policies, the company has established a set of criteria that must be met before an acquisition is concluded. The company's credit risk is considered to be low.

Market risk

Market risk is defined as the risk of loss due to unfavourable changes in market variables, such as interest rates, exchange rates and credit spreads. The main source of market risk is interest rate risk, and, to a lesser extent, credit spread risk (relating to the management of the company's liquidity portfolio) and currency risk. Interest rate risk is managed in accordance with regulations and internal limits approved by the Board of Directors. Interest rate swaps are utilised to hedge interest rate risk that occurs when customers enter into fixed rate mortgages. Currency risk arising from financing activities in foreign currency is hedged through the use of cross-currency swaps. Any residual currency risk is low and within the company's currency risk limits approved by the Board of Directors. The company's market risk is considered to be low.

Liquidity risk

Liquidity risk is defined as refinancing risk and price risk (the risk of the company being unable to refinance its obligations without a material increase in costs or that financing growth will cost substantially more). Liquidity risk is managed by limits that ensure a sound maturity profile for the company's bonds. A stress test assuming a sharp decline in house prices is performed quarterly and presented to the Board of Directors. The company's liquidity risk is considered to be low.

Operational risk

Operational risk is defined as unexpected fluctuations in profit performance attributable to inadequacy or failure of internal processes or systems, employees or external events. Operational risk is managed by the same principles that apply to the parent bank. Compliance risk is defined under operational risk. The risk is considered to be low.

Capital risk

Capital risk is defined as the risk of the company failing to meet prevailing regulatory capital requirements. The capital risk is considered to be low.

Model risk

Model risk is defined as a financial loss resulting from weaknesses or errors in models used by the bank. The model risk is considered to be low.

Regulatory changes

The countercyclical buffer increased by 0.5 percentage points to 2.5 per cent with effect from 31 December 2019. Following implementation of CRR/CRD IV, the Ministry of Finance in December increased the systemic risk buffer to 4.50 per cent with effect from 31 December 2020 for IRB banks. The requirement will take effect for Sbanken and other standardised method banks from year-end 2022.

Subsequent events

No significant events have occurred after 31 December 2019 that affect the financial statements for 2018. The coronavirus outbreak in 2020 is discussed in more detail in the 'Outlook' section.

Outlook

At year-end 2019, both Statistics Norway (SSB) and Norges Bank's prognoses indicated a balanced outlook for the Norwegian economy, with expectations of moderate GDP growth, a stable unemployment rate and a balanced housing market. Since the turn of the year, the outbreak of the COVID-19 coronavirus has changed the outlook significantly. The virus has spread from China to large parts of the world, including Europe and Norway, and has caused great turmoil in the Norwegian and international capital markets.

On 11 March 2020, the World Health Organization (WHO) officially recognised the outbreak as a pandemic. On 12 March, the Norwegian Government announced that extensive measures would be implemented to combat the outbreak, including the closure of schools and kindergartens. Many businesses were forced to temporarily lay off staff in March, which has led to a major increase in registered unemployment in Norway. Many businesses have also lost their revenue stream and are facing an uncertain future. Sbanken has established a crisis management team to deal with the effects of the outbreak as expediently as possible in relation to staff, customers, investors and other stakeholders. The bank's fully digital business model enables staff to work effectively from home, and since the Government's measures were announced on 12 March, only a handful of the bank's staff have worked from the head office.

On 13 March, the Ministry of Finance followed Norges Bank's advice to lower the countercyclical buffer requirement for banks from 2.5 to 1 per cent, effective immediately. Norges Bank has reduced the key policy rate twice after two extraordinary interest rate meetings in March, first from 1.5 per cent to 1 per cent, then to 0.25 per cent, a record-low level for the Norwegian key policy rate. The Sbanken group followed suit and cut the interest rate on mortgages twice by in sum up to 1 per cent. The bank has also expanded the offer of a three-month instalment-free period to apply to all housing prices customers. In order to support liquidity in the interbank market, Norges Bank has introduced extraordinary F-loans with a maturity of up to 12 months.

Based on the group's strong capital situation, healthy liquidity position and conservative lending portfolio, the Board of Sbanken Boligkreditt AS considers the group to be well positioned to handle the situation. The bank will support its customers by continuing to offer attractive products at competitive terms. The long-term financial implications of the virus outbreak are at this point difficult to predict, but the Board and management are making targeted efforts to minimise the negative consequences of the outbreak.

Bergen, 31 March 2020
The Board of Directors of Sbanken Boligkreditt AS

Mai-Lill Ibsen
(Chair of the Board)

Øyvind Thomassen

Petter Skouen

Henning Nordgulen
(CEO)

Income statement

In NOK thousand	Note	2019	2018
Interest income from financial instruments using the effective interest method	24	898 226	738 719
Other interest income	24	0	0
Interest expense	24	-648 172	-478 466
Net interest income		**250 053**	**260 253**
Net gain (loss) on financial instruments		-14 994	-8 948
Other income		0	0
Other operating income		**-14 994**	**-8 948**
Personnel expenses	25	-415	-483
Administrative expenses	25	-8 843	-9 634
Profit before loan losses		**225 801**	**241 188**
Loan losses	14	-2 204	-1 454
Profit before tax		**223 597**	**239 734**
Tax expense	28	-46 464	-52 639
Profit for the period		**177 133**	**187 095**
Attributable to			
Shareholders		163 722	176 088
Tier 1 capital holders	19	13 411	11 007
Profit for the period		**177 133**	**187 095**

Earnings per share, see note 34

Statement of comprehensive income

In NOK thousand	Note	2019	2018
Profit for the period		**177 133**	**187 095**
Other comprehensive income			
Other comprehensive income that can be reclassified to profit or loss after tax		1 766	-15 421
Other items that can not be reclassified to profit or loss after tax		0	0
Total components of other comprehensive income (after tax)		**1 766**	**-15 421**
Total comprehensive income for the period		**178 899**	**171 674**
Attributable to			
Shareholders		165 488	160 667
Tier 1 capital holders	19	13 411	11 007
Total comprehensive income for the period		**178 899**	**171 674**

Balance sheet

In NOK thousand	Note	31.12.19	31.12.18
Assets			
Loans to and receivables from credit institutions	13	1 701 897	1 168 489
Loans to customers	6,7,8,9,10,11	34 365 353	34 398 637
Net loans to customers and credit institutions		**36 067 250**	**35 567 126**
Commercial paper and bonds at fair value through other comprehensive income (OCI)	29,30,31	86 411	95 644
Derivatives	21	201 842	201 977
Deferred tax assets		3 976	4 738
Other assets		0	0
Advance payment and accrued income		0	0
Total assets		**36 359 479**	**35 869 485**
Liabilities			
Loans from credit institutions	29,31	2 897 390	2 120 543
Debt securities issued	16,18	30 271 177	30 785 688
Taxes payable	28	46 464	52 638
Other liabilities		326 468	258 334
Subordinated loan	18	325 000	325 000
Total liabilities		**33 866 499**	**33 542 203**
Equity			
Share capital		850 000	850 000
Share premium		849 880	849 880
Additional Tier 1 capital	19	226 102	225 893
Other equity		566 998	401 509
Total equity		**2 492 980**	**2 327 282**
Total liabilities and equity		**36 359 479**	**35 869 485**

Statement of changes in equity

In NOK thousand	Share capital	Share premium	Additional Tier 1 capital	Changes in fair value through other comprehensive income	Other equity	Total equity
Balance sheet as at 01.01.18	**600 000**	**849 880**	**125 190**	**-440**	**241 478**	**1 816 107**
Profit for the period to other equity (01.01.18 - 31.12.18)					176 088	**176 088**
Profit for the period to Tier 1 capital holders (01.01.18 - 31.12.18)			11 007			**11 007**
Payments to Tier 1 capital holders (01.01.18 - 31.12.18)			-10 304			**-10 304**
Issued Additional Tier 1 capital (01.01.18 - 31.12.18)			100 000			**100 000**
Net change of financial instruments at fair value through other comprehensive income (01.01.18 to 31.12.18)				-15 421		**-15 421**
Capital increase	250 000	0			-196	**249 804**
Balance sheet as at 31.12.18	**850 000**	**849 880**	**225 893**	**-15 861**	**417 370**	**2 327 281**
Profit for the period to other equity (01.01.19 - 31.12.19)					163 722	**163 722**
Profit for the period to Tier 1 capital holders (01.01.19 - 31.12.19)			13 411			**13 411**
Payments to Tier 1 capital holders (01.01.19 - 31.12.19)			-13 202			**-13 202**
Net change of financial instruments at fair value through other comprehensive income (01.01.19 to 31.12.19)				1 766		**1 766**
Balance sheet as at 31.12.19	**850 000**	**849 880**	**226 102**	**-14 095**	**581 092**	**2 492 980**

Sbanken Boligkreditt AS is a wholly owned subsidiary of Sbanken ASA.

Statement of cash flows

In NOK thousand	Note	2019	2018
Cash flows from operating activities			
Net payments on loans to customers	9	40 881	-6 045 033
Interest received on loans to customers	24	883 951	735 886
Interest received on loans to credit institutions		1 914	1 329
Interest paid on loans and deposits from credit institution	24	-48 364	-28 025
Net receipts/payments from buying and selling financial instruments at fair value	32	10 062	-20 222
Receipts of collateral related to derivatives used in hedge accounting		36 671	185 376
Interest received from commercial paper and bonds	24	2 552	1 595
Other interest cost		-4 048	0
Payments related to administrative expenses	25	-9 387	-10 099
Payments related to personnel expenses		-418	-481
Taxes paid		-52 638	-44 227
Other receipts/payments		-2 120	-2 929
Net cash flows from operating activities		**859 056**	**-5 226 830**
Cash flows from investment activities			
Net cash flows from investment activities		**0**	**0**
Cash flows from financing activities			
Receipts on issued covered bonds	18	3 450 000	9 705 000
Payments on matured and redeemed covered bonds	18	-3 964 475	-4 640 852
Interest paid on covered bonds	24	-562 763	-412 615
Net receipts on loans and deposits from credit institution	13	776 847	1 254 753
Receipts on subordinated loan	18	0	150 000
Interest paid on subordinated loan	24	-12 055	-9 084
Receipts on share capital and share premium net of issuing cost	EQ	0	250 000
Receipts on issued additional Tier1 capital	19	0	100 000
Interest paid on additional Tier 1 capital	EQ	-13 202	-10 304
Net cash flows from financing activities		**-325 648**	**6 386 898**
Total net cash flows		**533 408**	**1 160 068**
Cash at the beginning of the period		1 168 489	8 421
Cash at the end of the period		1 701 897	1 168 489
Change in cash		**533 408**	**1 160 068**
Cash			
Loans to credit institutions		1 701 897	1 168 489
Total cash		**1 701 897**	**1 168 489**

EQ= see statement of changes in equity

Notes

Note 1 – Accounting Principles

Sbanken Boligkreditt AS ("Sbanken Boligkreditt" or "the company") is incorporated in Norway. Its registered office is Folke Bernadottesvei 38 in Bergen, Norway. The company's principal activity is to provide and acquire residential mortgages and finance lending activities by issuing covered bonds.

The parent company Sbanken ASA is listed on Oslo Stock Exchange.

2. Basis for preparation of the financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The company has applied all standards and interpretations approved by International Accounting Standards Board (IASB) and International Financial Reporting Interpretations Committee (IFRIC), as endorsed by EU, that are relevant to the business of the company and that are mandatory for accounting periods starting 1 January 2019.

These financial statements have been prepared under the historical cost convention, except for financial instruments measured at fair value through profit or loss.

The financial statements have been prepared on the basis of the going concern assumption, and were approved by the Board of Directors on 31 March 2020.

3. New and revised standards for the 2019 financial year

The following new standards were taken into use in 2019:

IFRS 16 – Leases
IFRS 16 Leases had effect from 1 January 2019. Under IFRS 16, all future lease payment obligations under the company's material lease agreements with a duration of more than 12 months shall be recognised in the balance sheet as a liability. Correspondingly, the right to future use of leased assets shall be recognised as an asset.

Sbanken Boligkreditt AS has no such lease agreements.

4. New and revised standards for the 2020 financial year or later

Following the IBOR reform, ISAB in September announced changes to IFRS 9 and IFRS regarding hedge accounting and the strict requirement on probable expected transaction, in addition to updated note principles. The changes are effective from 1 January 2020. The IBOR reform has created uncertainty around agreed cash flows and hedging based on reference rates and the IASB announced changes ensures that one can continue with the hedge relationship as before. Sbanken ASA has through the daughter company Sbanken Boligkreditt AS only one hedge in Euro where Nibor is the reference rate.

There are no standards or interpretations yet to come into effect, that is expected to significantly affect the group's accounts.

5. Recognition of income and expenses

Net interest income
Interest income is recognised using the effective interest rate method. This means that interest is recognised as it accrues, with the addition of amortised front-end fees and any other fees, which are considered an integral part of the effective interest rate. The effective interest rate method is used for both balance sheet items valued at amortised cost and balance sheet items valued at fair value. Interest on written-down loans in Stage 3 is recognised using the effective interest rate based on the written-down value of the loan. In Stage 1 and 2, the interest is calculated before any write-downs.

Interest expenses are also expensed using the effective interest rate method.

Net gain/loss on investments in securities
Realised gains and losses are recognised in profit or loss at the time of realisation. Unrealised gains and losses are recognised in other comprehensive income when the investments are classified as available for sale, and in profit or loss when the investments are related to derivatives or other securities classified at fair value.

Operating expenses
Operating expenses consist of administration expenses. Administration expenses are recognised in the period when the services are received.

Losses on loans
Impairment losses on loans to customers and credit institutions are presented under losses on loans in the income statement. Losses in the period linked to individual commitments are presented net after having taken all pledged collateral and any other guarantees into account. See Note 2 on principles relating to the calculation of impairment losses on loans to customers and credit institutions.

Note 1 – Accounting Principles (continued)

6. Currency

Sbanken Boligkreditt's presentation and functional currency is Norwegian kroner (NOK). Transactions in foreign currency are translated into the functional currency at the exchange rate on the transaction date. Realised currency gains or losses from the settlement of transactions and from the translation of monetary items in foreign currency at the exchange rate on the balance sheet date are recognised in profit or loss.

7. Financial instruments

Recognition and derecognition
Financial assets and liabilities are recognised in the balance sheet when the company becomes a party to the instrument's contractual terms. Normal purchases and sales of financial instruments are recognised on the transaction date. Upon initial recognition of a financial asset or a financial liability (asset/liability that is not valued at fair value through profit or loss), the asset or liability is measured at fair value with the addition of transaction expenses that are directly attributable to the acquisition or issuing of the financial assets or liability.

Financial assets are derecognised when (a) the contractual rights to the cash flows from the financial asset expire, or (b) when the enterprise transfers the financial asset in a transaction where all or nearly all risks and rewards of ownership relating to the asset are transferred.

Under IFRS 9, classification in the correct measurement category will be based on both characteristics of the contractual cash flows and the business model for managing the financial assets.

IFRS 9 has the following measurement categories:

A) Debt instruments at amortised cost
Instruments included in this measurement category are instruments held for the purpose of receiving contractual cash flows, where these cash flows only consist of the payment of interest and principle.

The Sbanken Boligkreditt AS uses this category for all loans to customers and credit institutions, and for items included in the accounting item 'Other financial assets'.

B) Debt instruments at fair value through other comprehensive income (FVOCI)
Instruments included in this measurement category are instruments held for the purpose of both receiving contractual cash flows and for sale. The cash flows shall also here consist of the payment of interest and principal only.

The Sbanken Boligkreditt AS uses this category for debt instruments in the company's liquidity portfolio.

C) Debt instruments, derivatives and equity instruments at fair value through profit or loss (FVTPL)
The following instruments will be included in this measurement category:

1) Derivatives shall always be measured at fair value through profit or loss
2) Equity instruments shall as a rule be classified here
3) Debt instruments may be classified here if the criteria for using the fair value option (FVO) are met and if the business model indicates that the instrument is managed and followed up at fair value (trading).

The Sbanken Boligkreditt AS use this category for investments in shares and units.

D) Equity instruments where the OCI option is used, so that the instrument is measured at fair value through other comprehensive income without recycling
The company can choose to recognise equity instruments through other comprehensive income instead of through profit or loss, provided that the instrument is not held for trading purposes. If it chooses to do so, these instruments will not be reclassified to profit or loss upon realisation.

The Sbanken Boligkreditt AS do not use this category.

8. Financial liabilities

The company's financial liabilities consist of debt to credit institutions, covered bonds and subordinated loan.

Debt to credit institutions
Debt to credit institutions are recognised at fair value upon establishment, and subsequently at amortised cost in accordance with the effective interest rate method.

Covered bonds
Sbanken Boligkreditt AS has issued covered bonds. Covered bonds are recognised at fair value upon issuing, including any transactions costs, and subsequently at amortised cost in accordance with the effective interest rate method.

Subordinated loans
Subordinated loans are recognised at fair value upon establishment, including any transactions costs, and subsequently at amortised cost in accordance with the effective interest rate method.

Note 1 – Accounting Principles (continued)

9. Hedge accounting

Sbanken Boligkreditt uses derivatives to hedge against interest rate and currency risk in connection with the issuing of debt in EURO. When the company issues securities in currencies other than Norwegian kroner, the bank's market risk policy states that hedging transactions shall be carried out, so that the bank avoids exposure in foreign currency and thereby minimises currency risk. Upon initial recognition, derivatives and borrowings are designated as hedging instruments and recognised as fair value hedges. Formal earmarking and documentation of the hedging relationship takes place when the hedging relationship is established. There is a direct and documented connection between fluctuations in the value of the hedged item that are due to the hedged risk and the value of the financial derivatives. The hedging is documented with reference to the company's risk management strategy, with a description of the hedged risk and why the hedging is expected to be effective.

The hedging instruments (interest rate and currency swaps) are recognised at fair value, while the hedged items are valued at fair value for the hedged risks (interest rate and currency). Hedge ineffectiveness, defined as the difference between the value adjustment of hedged instruments and the value adjustment of the hedged items, are recognised through profit or loss as it arises. The exemption is the part of the value adjustment caused by a change in basis spreads relating to hedged instruments recognised in other comprehensive income.

10. Hybrid capital

Sbanken Boligkreditt AS has issued hybrid capital instruments. The instruments is perpetual and entitles the issuer to redeem the capital on specific dates, for the first time five years after the date of issue. The terms and conditions of the agreement meet the requirements of the Capital Adequacy Regulations, and the instrument is included in the company's Tier 1 capital for capital adequacy purposes. This means that the company is unilaterally entitled to not pay interest and/or redeem the nominal value of the instrument to the hybrid capital investors. For this reason, the instrument does not meet the definition of debt in IAS 32 and it is classified as equity.

A share of the profit corresponding to accrued interest is allocated to the hybrid capital investors and accumulated as hybrid capital as part of the company's equity. Correspondingly, interest paid will reduce the hybrid capital upon payment. Transaction costs relating to the issue of hybrid capital are charged to other equity, corresponding to the costs relating to share issues.

11. Fair value

Fair value is the price at which an asset can be sold or a liability settled in a voluntary transaction at arm's length between well-informed parties. For financial assets listed on a stock exchange or another regulated market place, the fair value is the purchase price on the last day of trading up to and including the balance sheet date, and the sales price of an asset that can be acquired or a liability held.

Where the price of a financial instrument is not observable in an active market, the fair value is determined using valuation methods. Valuation methods include the use of recent market transactions carried out at arm's length between well-informed parties, if such are available, reference to the fair value on an ongoing basis of another instrument that is practically identical, discounted cash flow calculations and option pricing models.

Reference is made to Note 32 for a description of the fair value hierarchy.

12. Dividend

Dividend from investments is recognised when the company has an unconditional right to receive the dividend. The proposed dividend is recognised as a liability from the time the general meeting adopts a resolution on the distribution of dividend.

13. Accounting provisions for liabilities

Provisions for liabilities are non-financial liabilities with an uncertain settlement date or amount. The company makes a provision for liabilities when a statutory or self-imposed obligation exists as a result of previous events, when there is a preponderance of probability that the liability will have to be settled and a reliable estimate can be prepared.

14. Tax

The tax expense represents the sum of current tax and deferred tax. Current tax is the tax payable for the period based on the taxable profit/loss for the year, plus any changes in the estimated current tax for previous years.

Deferred tax is calculated on the basis of the differences between the book value and tax value of assets and liabilities at the time of reporting. The deferred tax liability is generally recognised for all taxable (tax-increasing) temporary differences, and the deferred tax asset is generally recognised for all deductible (tax-reducing) temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be offset.

Note 1 – Accounting Principles (continued)

Current tax and deferred tax are recognised as expenses or income in profit or loss, except deferred tax on items recognised directly against equity, in which case the tax is recognised directly in equity, or in cases where they arise as a result of the recognition of a business merger.

15. Segment reporting

Sbanken Boligkreditt AS has only one reporting segment, which comprises mortgages to private individuals. Management follows up the company only in relation to this segment.

16. Related parties

Sbanken Boligkreditt AS defines related parties as:

- Shareholders with significant influence
- Other related parties

All transactions with related parties are carried out on the basis of the arm's length principle. See notes 33 for further information about related parties.

Note 2 – Critical accounting estimates and judgement in applying accounting policies

The preparation of financial statements in accordance with IFRS and the application of the chosen accounting principles require the management to make assessments, prepare estimates and apply assumptions that affect the carrying amounts of assets, liabilities, income and expenses. The estimates and pertaining assumptions are based on previous experience and other factors that are considered to be reasonable under the circumstances. Actual figures may deviate from these estimates. The estimates and the pertaining assumptions are reviewed on a regular basis.

Changes in accounting estimates are recognised in the period when the change occurs if the change only affects this period or in the period when the estimates are changed, and in future periods if the changes affect both current and future periods.

The accounting principles that the company applies when assessments, estimates and assumptions deviate significantly from the actual figures are described below.

A. Fair value of financial assets and liabilities

There is uncertainty attached to the pricing of financial instruments that are not quoted in an active market. This applies in particular to securities that are priced on the basis of unobservable assumptions (Level 3 in the fair value hierarchy), and different valuation techniques are used to determine the fair value of these investments.

Reference is made to Note 32 for a more detailed description of financial instruments valued at fair value.

B. Losses on financial assets

Calculation of impairment

The principles in IFRS 9 relating to impairment of financial instruments are based on the approach that a provision shall be made for expected credit losses (ECL). This represents a change from the previous standard, IAS 39, which was based on the 'incurred loss' principle. It entailed recognising a loss only when there was objective evidence that a loss event had occurred. The change entails, to a much greater extent than before, estimating future credit losses regardless of whether there is objective evidence of a loss event.

The new principles for impairment in IFRS 9 apply to financial instruments that are debt instruments and that are measured at amortised cost or at fair value through other comprehensive income (OCI). They also include loan commitments.

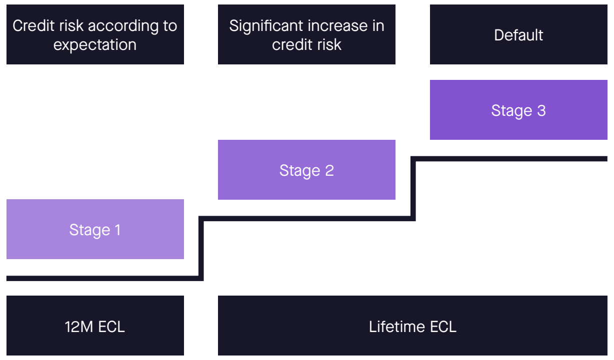
1. Framework used to estimate the provision for ECL

The company has developed a framework used to estimate the provision for expected credit losses (ECL) in accordance with IFRS 9. The company estimates ECL at account level for the following products:

- Residential mortgages

The ECL calculation is based on a three-stage model as illustrated below. At initial recognition, the exposures are allocated to Stage 1. If the credit risk has increased significantly since initial recognition, the exposure migrates to Stage 2. Defaulted exposures are allocated to Stage 3. The provision for assets in Stage 1 corresponds to 12-month expected credit loss (12M ECL), whereas for assets in Stage 2 and 3, the provision corresponds to lifetime expected credit loss (LT ECL). Provisions for Stage 1 and 2 replace the collective impairment model under IAS 39. For individual impairment (Stage 3 assets), there are no significant changes in the rules compared with IAS 39.

Note 2 – Critical estimates (continued)



ECL is an unbiased estimate based on a range of possible outcomes/scenarios. The company's approach to macroeconomic scenarios and forward-looking information is described in further detail in section 4 below.

The company estimates ECL as the sum of marginal losses occurring in each time period from the balance sheet date. The marginal losses are derived from parameters that estimate exposure and loss given default (EAD and LGD) and the marginal probability of default for each period.

12M ECL is the portion of LT ECL resulting from default events that may occur within 12 months after the reporting date.

Probability of Default (PD)
Sbanken Boligkreditt has developed internal statistical models to estimate 12-month PD based on historical default data. The company has an application model that is used to estimate PD at initial recognition and a portfolio model used to estimate PD for all loans and credits in the portfolio on a monthly basis. All PD models provide point-in-time estimates that are adjusted to reflect forward-looking information before they are used for accounting purposes.

In addition to the PD models that provide 12-month PD on the reporting date, Sbanken Boligkreditt has also developed PD curves consisting of marginal 12-month PD throughout the life of the loan. The PD curves are used both in the stage allocation process and to calculate ECL for exposures in Stage 2.

Loss Given Default (LGD)
The LGD represents the expected loss conditional on a default event. The model is based on two components; the likelihood that a defaulted exposure cures (Cure rate) and the expected loss in the event that the exposure does not cure (Loss Given Loss).

For residential mortgages, the cure rate is calculated on a loan-by-loan basis, taking into account characteristics of the underlying collateral.

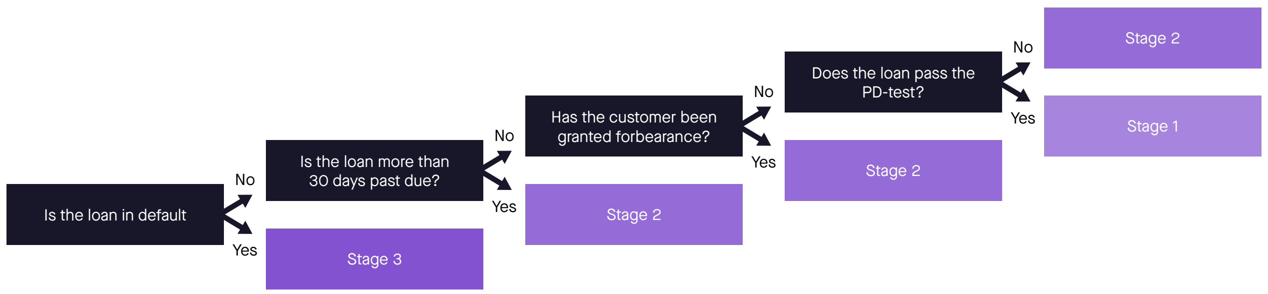
For residential mortgages the expected value of the collateral, when it is realised, is included in the loss-given-loss component.

Exposure at Default (EAD)
The EAD represents the expected exposure at the time of default. For residential mortgages EAD is based on the repayment plan for the loan. This is further adjusted by taking into account the probability of early repayment.

Lifetime
For financial assets in Stage 2, the provisions correspond to LT ECL. For loans and credit with a repayment plan, ECL is calculated over the full remaining contractual period.

2. Staging assessment

The staging assessment is illustrated in the flow chart below. All defaulted loans are allocated to Stage 3. Exposures whose credit risk has increased significantly since initial recognition are allocated to Stage 2. The remaining exposures are allocated to Stage 1.



Note 2 – Critical estimates (continued)

2.1 Significant increase in credit risk
Migration from Stage 1 to Stage 2 is determined by the definition of significant increase in credit risk. The company's assessment of changes in credit risk consists of three elements; a quantitative element, a qualitative element and a back-stop.

2.1.1 Quantitative element
The quantitative element is the main driver of significant increase in credit risk. This is determined by comparing the difference between the 12-month PD on the reporting date and the 12-month PD on the reporting date, expected at initial recognition. This is referred to as the PD test. The PD estimates used in the PD test take into account forward-looking information and are probability-weighted estimates based on a range of possible scenarios.

The PD test consists of two criteria that must both be met in order for the increase in credit risk to be regarded as significant. The change in PD must be more than 250% and it must equal at least 1 percentage points.

2.1.2 Qualitative element
Customers who have been granted forbearance are deemed to have had a significant increase in credit risk. Forbearance takes into account contagion between the customer's different products, which is not necessarily reflected in the PD estimates. The company will implement the qualitative element as a back-stop, which means that all exposures with a forbearance flag will be allocated to Stage 2, unless they are in default.

2.1.3 Back-stop
If an exposure is more than 30 days past due, it will be allocated to Stage 2.

2.2 Migration to lower stage
An exposure that has migrated to Stage 2 can migrate back to Stage 1 if it no longer meets any of the three criteria mentioned above. No explicit quarantine period must be implemented before an exposure can migrate to a lower stage. Exposures in default will migrate to Stage 1 or 2 when they are no longer marked as 'in default'.

3. Definition of default

After the introduction of IFRS 9, the company has changed the definition of default from 60 days (as of 31 Dec. 2017) to 90 days (as of 1 Jan. 2018). Pursuant to the new definition, an exposure is deemed to be in default if:

- **a claim is overdue by more than 90 days and the overdue amount is substantial and/or**
- **one or more of the following external remarks are registered against the customer:**
  - Debt settlement
  - Bankruptcy
- the following internal remarks are registered against the customer:
  - Suspicion of fraud

A substantial amount overdue is defined as an amount exceeding NOK 800. This is referred to as the materiality limit. The materiality limit is the same for all products.
The definition of an overdue claim varies between the products because they have different characteristics. The following definitions apply:

- For instalment loans, claims are defined as arrears

For default marking, the number of days in default is reckoned from the time the arrears exceeds the materiality limit. For credit, the count starts on the first day of overdraft exceeding the materiality limit.

Default occurs at product category level. This means that default is contagious within a product category if a customer has several exposures/accounts in the same category. The following product categories are defined:

Property: Residential mortgages

4. Macroeconomic scenarios

As described earlier, the company includes forward-looking information both in the stage assessment process and in the estimation of ECL. More specifically, a probability-weighted PD is used when assessing whether an exposure has had a significant increase in credit risk. Furthermore, the ECL is a probability-weighted amount based on ECLs determined for each of three scenarios – a base case, a positive scenario and a negative scenario. The forecasts for the different macroeconomic factors in each scenario will be updated on a quarterly basis. The forecast period is set to three years. After this period, the macroeconomic factors will not vary between the three scenarios.

The company will base the macro scenarios on prognoses from Statistics Norway and Norges Company in addition to the company's annual ICAAP process. This will ensure that the macro view of the company is based on external, independent prognoses and that the assumptions underlying the ECL estimation are subject to periodic stress testing.

The company will use an approach that is largely based on expert credit judgement to identify key macroeconomic drivers and their impact on PD, LGD and EAD, as the company does not have sufficient historical data available to build a statistical model for this purpose. The company will group exposures

Note 2 – Critical estimates (continued)

secured by collateral and unsecured assets separately when carrying out this assessment. The process will result in a set of adjustment factors for each scenario that are applied to the estimated PD for the prognosis period. Forward-looking information is included in the LGD estimates for residential mortgages by adjusting the underlying collateral value in accordance with expected developments in the house price index in each scenario.

5. Governance

The company has established a governance structure for the model that is used to calculate provisions for bad debt with clearly defined responsibilities for maintenance of models and methods, the quality and completion of the data that form the basis for the calculations, as well as the preparation of macroeconomic scenarios.

The macroeconomic scenarios are assessed quarterly by the interdisciplinary committee (extended credit committee).

6. Accounting treatment

The recognition of an impairment loss is always made through the use of an allowance account to write down the carrying amount of the asset. If the amount of the impairment loss decreases in a subsequent period, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss. Subsequent recoveries of amounts previously written off are credited to the impairment loss account in profit or loss for the year.

Write-off policy
Sbanken writes off and thereby reduces the carrying amount of a financial asset when there is no reasonable expectation of recovery. This may be when a court of law has reached a final decision, a decision has been made to cancel the debt or an agreement has been reached on debt restructuring. The write-off can relate to the entire asset or a portion of the asset and may constitute a derecognition event. Sbanken maintains the legal claim against the customer even though a write-off has been carried out.

Note 3 – Segments

Sbanken Boligkreditt AS has only one reporting segment, which comprises home loans to private individuals. Management monitors the company only in relation to this segment.

Note 4 – Capital adequacy

The capital adequacy regulations are intended to improve institutions' risk management and achieve closer concordance between risk and capital. The applicable regulations for Norwegian banks are adapted to the EU's capital adequacy regulations for credit institutions and investment firms (CRD IV/CRR). Sbanken Boligkreditt AS uses the standard method to establish the risk weighted volume for credit risk and the standardised approach (changed from basic method in Q4 19) for operational risk. At the balance sheet date, no exposure was included in the volume for market risk.

In NOK thousand	31.12.19		31.12.18	
	Nominal exposure	Risk-weighted volume	Nominal exposure	Risk-weighted volume
Central governments	35 985	0	45 454	0
Regional governments	3 976	9 939	4 738	11 845
Institutions	1 749 947	349 989	1 233 140	246 628
Secured by mortgages on immovable property	34 292 583	12 065 311	34 341 399	12 065 188
Exposures in default	72 770	72 770	57 237	57 237
Covered bonds	50 426	5 043	50 190	5 019
Total credit risk, standardised method	**36 205 687**	**12 503 052**	**35 732 158**	**12 385 917**
Credit value adjustment risk (CVA risk)		30 647		52 747
Operational risk		357 665		367 727
Total risk- weighted volume		**12 891 364**		**12 806 391**
Capital base				
Share capital		850 000		850 000
Share premium		849 880		849 880
Other equity		403 276		225 421
Additional Tier 1 capital		226 102		225 893
Profit for the period*		163 722		176 088
Total booked equity		**2 492 980**		**2 327 282**
Additional Tier 1 capital instruments included in total equity		-226 102		-225 893
Common equity Tier 1 capital instruments		**2 266 878**		**2 101 389**
Deductions				
Goodwill, deferred tax assets and other intangible assets		-87		0
Value adjustment due to the requirements for prudent valuation (AVA)		0		-95
Common equity Tier 1 capital		**2 266 791**		**2 101 294**
Additional Tier 1 capital		225 000		225 000
Tier 1 capital		**2 491 791**		**2 326 294**
Tier 2 capital		325 000		325 000
Own funds (primary capital)		**2 816 791**		**2 651 294**
Specification of capital requirements				
Minimum requirements CET1 capital	4.5%	580 111	4.5%	576 288
Capital conservation buffer	2.5%	322 284	2.5%	320 160
Systemic risk buffer	3.0%	386 741	3.0%	384 192
Countercyclical capital buffer	2.5%	322 284	2.0%	256 128
Additional Tier 1 capital	1.5%	193 370	1.5%	192 096
Tier 2 capital	2.0%	257 827	2.0%	256 128
Total minimum and buffer requirements own funds (primary capital)	**16.0%**	**2 062 618**	**15.5%**	**1 984 991**
Available CET1capital after buffer requirements		*655 371*		*564 527*
Available Own funds (primary capital)		*754 173*		*666 303*
Capital ratio %				
Common equity Tier 1 capital		17.6%		16.4%
Additional Tier 1 capital		1.7%		1.8%
Tier 2 capital		2.5%		2.5%
Total capital ratio		**21.9%**		**20.7%**

* Expected dividends for the group are deducted in the parent bank's capital ratio calculation.

Note 5 – Leverage Ratio

The leverage ratio requirements is a supplement to the risk-weighted minimum capital requirements and states that the capital base in financial institutions shall also comprise a defined percentage of the value of the company's assets and off-balance-sheet liabilities, calculated without risk weighting. The capital ratio consists of Tier 1 capital and the exposure target follows the rules in the Commission Delegated Regulation (EU) 2015-62. The minimum leverage ratio requirement for Norwegian banks and credit institutions is three per cent and an additional buffer requirement of two per cent for banks.

The table below shows the calculation for the company, on the basis of existing rule proposals and with credit conversion factors based on the current standardised approach, subject to a floor of 10 per cent.

In NOK thousand	Note	31.12.19	31.12.18
Derivatives market value		0	16 600
Potential future exposure on derivatives		48 050	48 050
Loans and advances and other assets		36 157 637	35 667 508
Regulatory adjustments included in Tier 1 capital		0	0
Total leverage exposure		**36 205 687**	**35 732 158**
Tier 1 capital*		**2 491 791**	**2 326 294**
Leverage ratio %		**6.9%**	**6.5%**
Leverage Ratio requirements			
Minimum requirements	3.0%	1 086 171	1 071 965
Buffer requirements credit institutions	0.0%	0	0
Total minimum and buffer requirements (Tier 1 capital)	**3.0%**	**1 086 171**	**1 071 965**
Available Tier 1 capital after minimum and buffer requirements		*1 405 620*	*1 254 329*

* Expected dividends for the group are deducted in the parent bank's capital ratio calculation.

Note 6 – Financial risk management

Sbanken Boligkreditt's risk strategy comprises a combination of its risk culture, risk appetite and risk management principles.

Risk culture

Sbanken Boligkreditt's core business involves issuing or purchasing residential mortgages, property mortgages and funding of the lending activity, primarily through the issuance of covered bonds. Sbanken Boligkreditt shall not assume any material risk other than that deriving from this core business, i.e. primarily credit risk and liquidity risk.

The company shall have a sound risk culture, based on openness, transparency and competence, and shall constantly challenge its methods, processes and procedures in order to improve its performance.

Risk appetite

Sbanken Boligkreditt defined risk within the following risk categories for 2019:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Capital risk
- Model risk

Sbanken Boligkreditt's Board of Directors determines the risk appetite with respect to each of the above-mentioned categories and Sbanken Boligkreditt has in 2019 operated in accordance with the following risk appetite:

- Credit risk: Low
- Liquidity risk: Low
- Market risk: Low
- Operational risk: Low
- Capital risk: Low
- Model risk: Low

Risk management principles

Sbanken Boligkreditt adopts a holistic approach to risk management. The following principles therefore apply:

- Sbanken Boligkreditt's Board of Directors shall establish specific management frameworks for each risk area.
- Risk management and reporting shall be performed in accordance with applicable frameworks and objectives.
- Risk management shall be an ongoing and continuous process.
- Risk reporting shall be framed in an understandable manner and provide a clear picture of Sbanken Boligkreditt's risk situation to all stakeholders.
- Responsibility for entering into agreements that cause the company to incur risk is delegated through personal authorisations.

Organisation of risk management

Sbanken Boligkreditt's organisation of risk management is designed so as to secure implementation of the Company's risk strategy.

Sbanken Boligkreditt does not currently employ any staff. The CEO's services are hired from the parent bank. Sbanken Boligkreditt's functions for handling risk and capital management include:

- The Board of Directors
- The CEO
- The bank's Risk Management function
- The bank's Finance functions, including CFO, Asset and Liability Committee (ALCO) and Treasury
- Internal Auditor
- External Auditor
- Independent Inspector

The Board of Directors

The Board of Directors has the principal responsibility for ensuring that the company manages risk efficiently. The Board of Directors establishes the company's risk policy and guidelines. The Board of Directors revises and approves the risk policy at least yearly. The Board of Directors secures implementation of and compliance with the provisions of the policy, primarily by reviewing and acting on relevant reports. The Board of Directors is further responsible for ensuring that management has sufficient capacity and competence to comply with Sbanken Boligkreditt's requirements for management of defined risk areas in a satisfactory manner. The Board of Directors is responsible for ensuring that Sbanken Boligkreditt has adequate regulatory capital and liquidity to satisfy regulatory, and internal, requirements.

CEO

The CEO of Sbanken Boligkreditt bears the principal operative responsibility for Sbanken Boligkreditt's aggregate risk management and is responsible for establishing an effective control environment. The CEO is responsible for ensuring that the risk policy is implemented. The CEO is also responsible for ensuring that the Board of Directors receives relevant and timely information about any non-compliance from or required changes to the risk policy. In order to secure proper management of relevant risks and a focus on prioritised areas, the CEO is further responsible for establishing clear targets and frameworks for risk management. The CEO also ensures that Sbanken Boligkreditt has adequate systems for identifying, measuring, reporting and monitoring risk and that the company's risk management is adequately documented.

Note 6 – Financial risk management (continued)

The bank's Risk Management function
The bank's Risk Management function is headed by the Chief Risk Officer (CRO).

The CRO establishes the structure and framework for the risk policy, and develops and maintains systems for identifying, measuring, reporting and monitoring risk. The CRO is further responsible for establishing a control structure that ensures that Sbanken Boligkreditt's guiding documents, including non-conformance reporting, comply with relevant requirements.

Risk Management prepares reports, analyses and proposed measures to secure effective risk management in Sbanken Boligkreditt. Risk Management assists with methodology and systems used in Sbanken Boligkreditt's annual assessment of ICAAP – the Internal Capital Adequacy Assessment Process.

The bank's Finance function, including CFO, ALCO and Treasury
Sbanken Boligkreditt's funding activities are operated in close collaboration with the bank's Treasury function, which reports to the Chief Financial Officer (CFO). The bank's liquidity management is exercised in accordance with the bank's policies for respectively liquidity and market risk.

The bank's Treasury function is responsible for Sbanken Boligkreditt's operative liquidity management. This includes the implementation of liquidity operations (Front Office), and settlement functions (Back Office). Monitoring of frameworks (Middle Office) is organised in the parent bank's accounting and controlling department.

All liquidity operations in Sbanken Boligkreditt are embedded in the bank's financing plan, which is determined by the bank's ALCO. The bank's liquidity risk policy contains guidelines on how changes to the funding plan should be implemented, if required.

Internal Auditor
The Internal Auditor reports directly to Sbanken Boligkreditt's Board of Directors and is responsible for controlling the structure and framework of the risk policy, and that guiding documents, including non-compliance reporting, comply with relevant requirements.

External Auditor
The company's External Auditor reports to the shareholders.

Independent Inspector
The Independent Inspector is appointed by Finanstilsynet and mandated to monitor compliance with legislative and regulatory requirements. The Inspector regularly reports to Finanstilsynet on observations and evaluations. The Inspector also reports to the Board of Directors quarterly whether any non-compliances have been identified.

Note 7 – Maximum exposure to credit risk

Credit risk or counterparty risk is the risk of loss as a result of the company's customers and counterparties failing to fulfil their payment obligations. The company's maximum credit exposure will be the book value of financial assets and any associated off-balance sheet liabilities.

The following table shows the company`s maximum credit risk exposure of financial instruments, broken down by measurement categories.

	31.12.19		
In NOK thousand	Gross carrying amounts	Off-balance sheet amounts	Maximum exposure to credit risk
Loans to and receivables from credit institutions	1 701 897	0	1 701 897
Loans to and receivables from central bank and credit institutions	**1 701 897**	**0**	**1 701 897**
Loans to customers, secured	34 371 125	0	34 371 125
Loans to and receivables from customers	**34 371 125**	**0**	**34 371 125**
Other financial assets with credit risk	0	0	0
Financial instruments at amortised cost	**36 073 022**	**0**	**36 073 022**
Commercial paper and bonds	86 411	0	86 411
Financial instruments at fair value through other comprehensive income	**86 411**	**0**	**86 411**
Derivatives	201 842	0	201 842
Financial instruments at fair value through profit and loss	**201 842**	**0**	**201 842**
Gross exposure	**36 361 275**	**0**	**36 361 275**
Other financial assets without credit risk	3 976	0	3 976
Impairment	-5 772	0	-5 772
Total net exposure	**36 359 479**	**0**	**36 359 479**

	31.12.18		
In NOK thousand	Gross carrying amounts	Off-balance sheet amounts	Maximum exposure to credit risk
Loans to and receivables from credit institutions	1 168 489	0	1 168 489
Loans to and receivables from central bank and credit institutions	**1 168 489**	**0**	**1 168 489**
Loans to customers, secured	34 402 204	0	34 402 204
Loans to and receivables from customers	**34 402 204**	**0**	**34 402 204**
Other financial assets with credit risk	0	0	0
Financial instruments at amortised cost	**35 570 693**	**0**	**35 570 693**
Commercial paper and bonds	95 644	0	95 644
Financial instruments at fair value through other comprehensive income	**95 644**	**0**	**95 644**
Derivatives	201 977	0	201 977
Financial instruments at fair value through profit and loss	**201 977**	**0**	**201 977**
Gross exposure	**35 868 314**	**0**	**35 868 314**
Other financial assets without credit risk	4 738	0	4 738
Impairment	-3 567	0	-3 567
Total net exposure	**35 869 485**	**0**	**35 869 485**

Note 8 – Credit risk

Credit risk

Credit risk accounts for the bulk of Sbanken Boligkreditt's risk. Credit risk is defined as the risk of loss resulting from a counterparty not fulfilling its obligations, and pledged collateral not covering the outstanding claim.

The company's lending to the public comprises mass-market exposures to individuals, in the form of loans secured against fixed property.

Credit approval and underwriting is performed by Sbanken ASA. Risk attached to mass-market lending for all credit cases is managed by assessing the borrower's ability and willingness to pay, and by valuing any collateral. Account is also taken of the borrower's aggregate exposure, including any exposure attributable to co-borrowers. Credit assessments are essentially performed by applying automated credit rules in which credit scoring represents a key element.

Credit risk models are used to measure credit risk related to mass-market lending. Credit risk is classified and quantified using a number of different systems, processes and methods. Credit scoring models are based on statistical data. These models estimate the probability of defaults, taking into account factors such as payment history, income, assets and the number of borrowers. Losses on collateralised loans are estimated based on defaults, where the extent of losses is based on the value of collateral in relation to the size of the loan.

Counterparty risk, including for derivatives, is included in credit risk. Credit risk also includes concentration risk, including risk relating to material exposure to a specific customer group or geographical area. This risk is mitigated through product and geographical diversification. Rules and tools for credit assessment shall ensure that the bank avoids high-risk credit exposures. Please refer to note 10 for an overview of exposure to credit risk and associated collateral.

Risk classification of lending to the mass market

Risk is measured and monitored by calculating economic capital in the lending portfolio. The main components for this calculation are Probability of Default (PD), Expected Exposure at Default (EAD) and Loss Given Default (LGD).

PD is defined as the probability of a customer defaulting on its exposure during the next 12 months. This could include payment defaults of more than 90 days of a minimum of NOK 800 or other specific matters that affect the customer's ability to service the loan. PD for the mortgage portfolio is calculated using statistical models based on logistic regression of internal data.

The following grouping is used to classify PD:

- Low risk: PD < 1.25%
- Medium risk: PD 1.25%–5%
- High risk: PD > 5%

In NOK thousand	31.12.19	
Gross loans distributed in risk groups	**Mortgages**	**Total**
Low risk	32 491 379	32 491 379
Medium risk	993 861	993 861
High risk	808 852	808 852
Total non-matured or written down	**34 294 092**	**34 294 092**
Non-performing and doubtful loans	77 033	77 033
Total gross loans	**34 371 125**	**34 371 125**
Unutilised credit lines distributed in risk groups	**Mortgages**	**Total**
Low risk	0	0
Medium risk	0	0
High risk	0	0
Total non-matured or written down	**0**	**0**
Non-performing and doubtful loans	**0**	**0**
Total unutilised credit lines	**0**	**0**
Loan- and funding commitments	**0**	**0**
Maximum exposure to credit risk (loans to customers)	**34 371 125**	**34 371 125**

Note 8 – Credit risk (continued)

In NOK thousand	31.12.18	
Gross loans distributed in risk groups	**Mortgages**	**Total**
Low risk	33 338 963	33 338 963
Medium risk	668 656	668 656
High risk	334 779	334 779
Total non-matured or written down	**34 342 398**	**34 342 398**
Non-performing and doubtful loans	59 806	59 806
Total gross loans	**34 402 204**	**34 402 204**
Unutilised credit lines distributed in risk groups	**Mortgages**	**Total**
Low risk	0	0
Medium risk	0	0
High risk	0	0
Total non-matured or written down	**0**	**0**
Non-performing and doubtful loans	**0**	**0**
Total unutilised credit lines	**0**	**0**
Loan- and funding commitments	**0**	**0**
Maximum exposure to credit risk (loans to customers)	**34 402 204**	**34 402 204**

Note 9 – Loans to customers

			31.12.19	
Gross carrying amount - Loans to customers In NOK thousand	**Stage 1, 12-months ECL**	**Stage 2, Lifetime ECL (not impaired)**	**Stage 3, Lifetime ECL (impaired)**	**Total**
Opening balance gross carrying amount (before transfers)	**33 510 854**	**831 544**	**59 806**	**34 402 204**
Transfers to Stage 1 (12-months ECL)	284 343	-280 481	-3 862	0
Transfers to Stage 2 (Lifetime ECL - not impaired)	-1 162 872	1 164 183	-1 311	0
Transfers to Stage 3 (Lifetime ECL - impaired)	-39 480	-25 024	62 937	-1 567
Net new financial assets originated or derecognised	130 491	-124 372	-42 107	-35 988
Changes in interest accrual	3 423	1 483	1 570	6 476
Other movements	0	0	0	0
Closing balance gross carrying amount 31.12.19	**32 726 759**	**1 567 333**	**77 033**	**34 371 125**

			31.12.18	
Gross carrying amount - Loans to customers In NOK thousand	**Stage 1, 12-months ECL**	**Stage 2, Lifetime ECL (not impaired)**	**Stage 3, Lifetime ECL (impaired)**	**Total**
Opening balance gross carrying amount (before transfers)	**27 673 041**	**635 371**	**48 759**	**28 357 171**
Transfers to Stage 1 (12-months ECL)	569 915	-557 974	-11 941	0
Transfers to Stage 2 (Lifetime ECL - not impaired)	-1 011 437	1 060 320	-48 883	0
Transfers to Stage 3 (Lifetime ECL - impaired)	-44 992	-93 317	138 309	0
Net new financial assets originated or derecognised	6 318 022	-213 659	-66 488	6 037 875
Financial assets that have been derecognised				0
Changes in interest accrual	6 305	803	50	7 158
Other movements	0	0	0	0
Closing balance gross carrying amount 31.12.18	**33 510 854**	**831 544**	**59 806**	**34 402 204**

Note 10 – Loans to customers by geographical area

Lending by geographical area*	**31.12.19**		**31.12.18**	
In NOK thousand	**Percentage**	**Gross lending**	**Percentage**	**Gross lending**
Oslo	19.4%	6 660 013	21.0%	7 240 270
Viken	36.1%	12 406 672	36.2%	12 442 583
Innlandet	2.5%	871 084	2.3%	794 758
Vestfold og Telemark	5.5%	1 876 451	4.9%	1 692 618
Agder	1.9%	662 679	1.9%	644 568
Rogaland	6.7%	2 317 097	6.6%	2 271 874
Vestland	14.2%	4 871 023	13.9%	4 778 476
Møre og Romsdal	1.5%	507 713	1.4%	494 447
Trøndelag	4.7%	1 600 376	4.8%	1 636 032
Nordland	3.0%	1 043 046	2.7%	938 568
Troms og Finnmark	4.5%	1 554 971	4.3%	1 468 010
Total gross lending per geographical area	**100.0%**	**34 371 125**	**100.0%**	**34 402 204**

* the basis for the geographical distribution is the customer's residential address and based on the new counties from 01.01.20.

Note 11 – Credit risk exposure and collateral

Credit risk or counterparty risk is the risk of loss as a result of the company's customers and counterparties failing to fulfil their payment obligations. The company's maximum credit exposure will be the book value of financial assets and any associated off-balance sheet liabilities.
The company's customer exposures comprises the bulk of the company's total credit exposure. A high percentage of the company's lending is collateralised. Collateral in the private retail market essentially comprise fixed property.

The table below shows the relationship between total credit exposure and the associated collateral distributed to exposure class. Lending secured by mortgages includes the percentage distributed of exposure relating to the various loan-to-value levels. For example, the line 0-40% means that the exposures amount to less than 40 percent of the value of the collateral. 100% means that the loan amount exceeds the value of the hedging object or that the loan is unsecured. The entire loan per collateral is placed in the same loan-to-value category.

The property values on which the calculations are based are updated in the last month of each quarter and are therefore representative of the current market value. The calculation of loan-to-value does not take into account any additional collateral.

In NOK thousand	31.12.19			31.12.18		
Loan-to-value, secured loans	**Distribution as percentage**	**Gross carrying amounts**	**Unutilised credit lines**	**Distribution as percentage**	**Gross carrying amounts**	**Unutilised credit lines**
0 % - 40 %	23.4%	8 038 714	0	25.7%	8 858 085	0
40 % - 60 %	35.9%	12 322 404	0	37.3%	12 837 653	0
60 % - 80 %	39.3%	13 501 097	0	36.2%	12 447 913	0
80 % - 90 %	1.0%	336 355	0	0.6%	199 549	0
90 % - 100 %	0.3%	103 865	0	0.1%	31 083	0
> 100 %	0.2%	68 690	0	0.1%	27 921	0
Residential mortgages	**100.0%**	**34 371 125**	**0**	**100.0%**	**34 402 204**	**0**

The table below shows the percentage allocation of exposures for home loans for various levels of loan-to-value. Where the entire exposure in the table above is placed at a related loan-to-value level, the relative share of the loan exposure at each level is shown in the table below.

In NOK thousand	31.12.19		31.12.18	
Loan-to-value, residential mortgages (relative distribution)	**Distribution as percentage**	**Gross carrying amounts**	**Distribution as percentage**	**Gross carrying amounts**
0 % - 85 %	99.90%	34 337 403	99.96%	34 389 150
85 % - 100 %	0.07%	23 115	0.03%	9 748
> 100 %	0.03%	10 607	0.01%	3 306
Residential mortgages	**100.0%**	**34 371 125**	**100.0%**	**34 402 204**

Note 12 – Loan to value (LTV) and cover pool

In NOK thousand	31.12.19	31.12.18
Debt related to securities issued, nominal value	30 005 000	30 555 000
Debt related to securities issued, carried value	30 271 177	30 785 688
Loans to customers (gross)*	34 323 261	34 366 012
Average size of loan per customer	1 851	1 872
Number of loans	18 536	18 211
Weighted average since issuing of the loans (months)	54	49
Weighted average remaining maturity (months)	259	262
Average LTV (percent)	53.0	51.5

Cover pool	**31.12.19**	**31.12.18**
Loans secured with mortgages	34 323 261	34 366 012
Not eligible for the over-collateralisation calculation	-380 581	-275 892
Net loans that are in the over-collateralisation	**33 942 680**	**34 090 120**
Supplementary assets	1 480 171	1 122 567
Total cover pool for the over-collateralisation calculation	**35 422 851**	**35 212 687**

	Nominal value	**Carried value**	**Nominal value**	**Carried value**
Over-collateralisation (percent)	18.1	17.0	15.2	14.5
Amount surpassing legal minimum requirements and requirements as indicated by rating agency	4 817 751	4 546 250	4 046 587	3 811 285

*excl. earned interest

Note 13 – Loans to credit institutions – receivables and liabilities

Gross carrying amount - Loans to credit institutions In NOK thousand	Stage 1, 12-months ECL	Stage 2, Lifetime ECL (not impaired)	31.12.19 Stage 3, Lifetime ECL (impaired)	Total
Opening balance gross carrying amount (before transfers)	**1 168 489**	**0**	**0**	**1 168 489**
Transfers between stages	0	0	0	0
Opening balance gross carrying amount (after transfers)	**1 168 489**	**0**	**0**	**1 168 489**
Net new financial assets originated or derecognised	533 408	0	0	533 408
Financial assets that have been derecognised	0	0	0	0
Changes in interest accrual	0	0	0	0
Closing balance gross carrying amount	**1 701 897**	**0**	**0**	**1 701 897**
Maturity:				
Loans with agreed maturity	0	0	0	0
Loans without agreed maturity	1 701 897	0	0	1 701 897
Total	**1 701 897**	**0**	**0**	**1 701 897**

Gross carrying amount - Loans to credit institutions In NOK thousand	Stage 1, 12-months ECL	Stage 2, Lifetime ECL (not impaired)	31.12.18 Stage 3, Lifetime ECL (impaired)	Total
Opening balance gross carrying amount (before transfers)	**8 421**	**0**	**0**	**8 421**
Transfers between stages	0	0	0	0
Opening balance gross carrying amount (after transfers)	**8 421**	**0**	**0**	**8 421**
Net new financial assets originated or derecognised	1 160 068	0	0	1 160 068
Changes in interest accrual	0	0	0	0
Closing balance gross carrying amount	**1 168 489**	**0**	**0**	**1 168 489**
Maturity:				
Loans with agreed maturity	0	0	0	0
Loans without agreed maturity	1 168 489	0	0	1 168 489
Total	**1 168 489**	**0**	**0**	**1 168 489**

Note 14 – Loan losses

In NOK thousand	Stage 1, 12-months ECL	Stage 2, Lifetime ECL (not impaired)	2019 Stage 3, Lifetime ECL (impaired)	Total
Opening balance ECL 01.01.19	**257**	**741**	**2 569**	**3 567**
Changes in PDs/LGDs/EADs on existing portfolio:				
Transfers to Stage 1	6	-306	-265	-565
Transfers to Stage 2	-40	903	-10	853
Transfers to Stage 3	-2	-43	1 640	1 595
Changes in PDs/LGDs/EADs on existing portfolio, with no transfers	-46	-107	408	255
Other changes:				
New financial assets originated	169	324	34	527
Financial assets that have been derecognised	-125	-222	-113	-460
Write-offs, covered by previous write-downs			0	0
Changes to model assumption and methodologies	0	0	0	0
Other movements	0	0	0	0
Closing balance ECL 31.12.19	**219**	**1 290**	**4 263**	**5 772**

In NOK thousand	Stage 1, 12-months ECL	Stage 2, Lifetime ECL (not impaired)	2018 Stage 3, Lifetime ECL (impaired)	Total
Opening balance ECL (Expected credit loss) 01.01.18	**255**	**582**	**1 277**	**2 114**
Changes in PDs/LGDs/EADs on existing portfolio:				
Transfers to Stage 1	9	-239	0	-230
Transfers to Stage 2	-37	304	-20	247
Transfers to Stage 3	0	-6	1 380	1 374
Changes in PDs/LGDs/EADs on existing portfolio, with no transfers	-219	-63	16	-266
Other changes:				
New financial assets originated	434	268	8	710
Financial assets that have been derecognised	-185	-105	-92	-382
Write-offs, covered by previous write-downs			0	0
Changes to model assumption and methodologies	0	0	0	0
Other movements	0	0	0	0
Closing balance ECL (Expected credit loss) 31.12.18	**257**	**741**	**2 569**	**3 567**

Specification of loan losses In NOK thousand	2019	2018
Changes in ECL, stage 1	36	-2
Changes in ECL, stage 2	-546	-159
Changes in ECL, stage 3	-1 694	-1 292
Write-offs	0	0
Recoveries of previously written off loans	0	0
Net cost of loan losses in the period	**-2 204**	**-1 454**

Note 15 – Credit-impaired assets and overdue loans

In NOK thousand				31.12.19			
Credit-impaired assets	**Principal type of collateral held**	**Gross exposure**	**Impairment allowance**	**Carrying amount**	**Fair value of collateral held**	**Net exposure**	**Provisioning ratio after collateral**
Loans to customers:							
Mortgages	Residential property	77 033	-4 263	72 770	72 770	0	0,0%
Total credit-impaired assets		**77 033**	**-4 263**	**72 770**	**72 770**	**0**	**0,0%**

Overdue loans - age distribution
The table below shows the carrying value of overdue loans and overdrawn amounts on credits allocated by number of days after maturity. The table is intended to provide an analysis of exposure where there is inadequate ability or propensity to pay, rather than overdue amounts attributable to a delay in transferring funds. Based on this and the Bank's internal routines for monitoring overdue exposure, the default must exceed NOK 800 for more than 6 days to be included in the second table below.

Overdue loans			31.12.19		
In NOK thousand	**7-30 days**	**31 - 60 days**	**61 - 90 days**	**More than 90 days**	**Total**
Mortgages	399 051	60 660	19 107	77 033	555 851
Total	**399 051**	**60 660**	**19 107**	**77 033**	**555 851**

In NOK thousand				31.12.18			
Credit-impaired assets	**Principal type of collateral held**	**Gross exposure**	**Impairment allowance**	**Carrying amount**	**Fair value of collateral held**	**Net exposure**	**Provisioning ratio after collateral**
Loans to customers:							
Mortgages	Residential property	59 806	-2 569	57 237	57 237	0	0,0%
Total credit-impaired assets		**59 806**	**-2 569**	**57 237**	**57 237**	**0**	**0,0%**

Overdue loans			31.12.18		
In NOK thousand	**7-30 days**	**31 - 60 days**	**61 - 90 days**	**More than 90 days**	**Total**
Mortgages	507 024	77 583	19 558	59 806	663 971
Total	**507 024**	**77 583**	**19 558**	**59 806**	**663 971**

Note 16 – Liquidity risk

Liquidity risk comprises the following two elements:

- Refinancing risk: The risk of being unable to refinance its obligations as they fall due for payment.
- Price risk: The risk of being unable to refinance its obligations without a material rise in costs.

Liquidity risk shall be managed such that the company minimises its financing costs, at the same time as the refinancing risk is kept within the Board of Directors' specified risk appetite. The company measures liquidity risk over the short and long term.

Management of inherent risk relating to maturity structures
Liquidity transactions in Sbanken Boligkreditt AS are based on the Group's financing plan. The CFO is responsible for ensuring that ongoing forecasts are prepared covering the Group's financing requirements for at least the next 12 months.

Note 17 – Maturity analysis of liabilities

Cash flows, undiscounted

In NOK thousand **2019**	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Without maturity	Total
Maturity overview							
Loans and deposits from credit institutions				2 897 390			2 897 390
Debt securities issued			5 000 000	25 131 900			30 131 900
Interest disbursement, debt securities issued	75 740	70 843	443 187	856 370	0	0	1 446 140
Subordinated loan				325 000			325 000
Interest disbursement, subordinated loan	1 217	2 154	10 228	17 037	0	0	30 636
Taxes payable		25 175	25 175				50 350
Other financial liabilities (ex. accrued interest)	326 468		4 583				331 051
Hybrid capital instrument						225 000	225 000
Interest disbursement, hybrid capital instrument	1 284	2 266	10 735	17 757			32 042
Off-balance sheet commitments	0	0	0	0	0	0	0
Total disbursements	**404 709**	**100 438**	**5 493 908**	**29 245 454**	**0**	**225 000**	**35 469 509**
Financial derivatives							
Outgoing contractual cash flows	n/a	n/a	n/a	4 805 000	n/a	n/a	n/a
Incoming contractual cash flows	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Cash flows, undiscounted

In NOK thousand **2018**	Less than 1 month	1-3 months	3-12 months	1-5 years	More than 5 years	Without maturity	Total
Maturity overview							
Loans and deposits from credit institutions				2 120 543			2 120 543
Debt securities issued			4 000 000	26 724 150			30 724 150
Interest disbursement, debt securities issued	58 150	41 935	361 310	1 129 899	0	0	1 591 294
Subordinated loan				325 000			325 000
Interest disbursement, subordinated loan	979	1 768	8 966	29 400	0	0	41 113
Taxes payable		21 192	31 446				52 638
Other financial liabilities (ex. accrued interest)	188 831						188 831
Hybrid capital instrument						225 000	225 000
Interest disbursement, hybrid capital instrument	1 141	1 942	9 879	31 191			44 153
Off-balance sheet commitments	0	0	0	0	0	0	0
Total disbursements	**249 101**	**66 837**	**4 411 601**	**30 360 183**	**0**	**225 000**	**35 312 722**
Financial derivatives							
Outgoing contractual cash flows	n/a	n/a	n/a	4 805 000	n/a	n/a	n/a
Incoming contractual cash flows	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Note 18 – Debt securities issued

Carried at amortised cost:

In NOK thousand	Currency	31.12.19	31.12.18
Bonds issued	NOK	30 271 177	30 785 688
Subordinated loan	NOK	325 000	325 000
Total debt securities issued		**30 596 177**	**31 110 688**

Specification of covered bonds as at 31.12.19:

ISIN	Issuing company	Nominal value	Currency	Interest	Maturity	Carrying value
NO0010745334	Sbanken Boligkreditt AS	5 000 000	NOK	Nibor + 0.42%	14.08.20	5 001 497
NO0010745342	Sbanken Boligkreditt AS	6 200 000	NOK	Nibor + 0.28%	14.10.21	6 186 357
NO0010786999	Sbanken Boligkreditt AS	7 000 000	NOK	Nibor + 0.57%	27.04.22	7 024 575
NO0010790603	Sbanken Boligkreditt AS	7 000 000	NOK	Nibor + 0.50%	10.02.23	7 024 968
XS1813051858	Sbanken Boligkreditt AS	500 000	EURO	Fixed 0.375%[2]	26.04.23	5 033 780
Total covered bonds						**30 271 177**

[1] All covered bond loans have "soft bullet" with the possibility of extending the maturity by one year.
[2] Entered into a swap-agreement with Nibor + 0.425%

Subordinated loan	Issuing company	Nominal value	Currency	Interest	Maturity	Carrying value
NO0010768120	Sbanken Boligkreditt AS	175 000	NOK	Nibor + 3.00%	22.06.2026[1]	175 000
NO0010821853	Sbanken Boligkreditt AS	150 000	NOK	Nibor + 1.38%	26.04.2028[2]	150 000
Total subordinated loan		**325 000**				**325 000**

[1] First possible call date for the issuer is 22 June 2021. The loan agreement has covenants to qualify as Tier 2 capital.

[2] First possible call date for the issuer is 26 April 2023. The loan agreement has covenants to qualify as Tier 2 capital.

		January - December 2019				
Changes of debt securities:	**31.12.18**	**Issued**	**Matured**	**Redeemed**	**Other adjustments**	**31.12.19**
Covered bonds (nominal)	30 555 000	3 450 000	-867 000	-3 133 000	0	30 005 000
Subordinated loan	325 000	0	0	0	0	325 000
Total	**30 880 000**	**3 450 000**	**-867 000**	**-3 133 000**	**0**	**30 330 000**

Note 19 – Additional Tier 1 capital (hybrid capital)

In NOK thousand	Currency	31.12.19	31.12.18
Additional Tier 1 capital	NOK	225 000	225 000
Total Additional Tier 1 capital		**225 000**	**225 000**

Specification of additional Tier 1 capital as at 31.12.19:

ISIN	Issuing company	Nominal value	Currency	Interest	Maturity*	Carrying amounts
Additional Tier 1 capital						
NO0010768138	Sbanken Boligkreditt AS	125 000	NOK	3M Nibor + 5.3 %	Perpetual [1]	125 000
NO0010821861	Sbanken Boligkreditt AS	100 000	NOK	3M Nibor + 3.25 %	Perpetual [2]	100 000
Total additional Tier 1 capital						**225 000**

[1] The Tier1 capital is perpetual with an option for the issuer to redeem the capital at specific dates, the first time being 22 June 2021.

[2] The Tier1 capital is perpetual with an option for the issuer to redeem the capital at specific dates, the first time being 26 April 2023.

		January - December 2019				
Change of Additional Tier 1 capital	**31.12.18**	**Issued**	**Matured**	**Redeemed**	**Other adjustments**	**31.12.19**
Additional Tier 1 capital	225 000	0	0	0	0	225 000
Total	**225 000**	**0**	**0**	**0**	**0**	**225 000**

As at 31 December 2019, there is NOK 1.1 million in accrued interest related to additional Tier 1 capital.
This has been recognised against the additional Tier 1 capital and the carried value including accrued interest is 226.1 million NOK.

Note 20 – Market risk and sensitivity

Market risk is the risk of loss due to unfavourable changes in market variables, such as interest rates, exchange rates and credit spreads.
Sbanken Boligkreditt is exposed to the following market risks:

- Interest rate risk is the risk of loss resulting from a general change in market rates due to different terms to maturity on the asset and liability sides of the balance sheet.
- Exchange rate risk is the risk of loss resulting from changes in exchange rates.
- Credit spread risk is the risk that interest-bearing securities will fall in value as a result of an increase in the credit spread for corresponding credit instruments in the market.

Interest sencitive balance	Volume (thousand)	Weighted duration	Change in value
Loans to customers	34 365 353	0,12	79 305
Commercial paper and bonds available for sale	86 411	0,26	453
Other assets	1 907 715	0,00	0
Total assets	**36 359 479**	**0,12**	**79 758**
Deposits from customers	0	0,12	0
Debt securities issued	30 271 177	0,08	50 352
Additional Tier 1 capital and subordinated loab	551 102	0,16	1 738
Other liabilities	3 270 322	0,00	0
Equity ex. Tier 1 capital	2 266 878	0,00	0
Total liabilities and equity	**36 359 479**	**0,08**	**52 090**
Total			**27 668**

The table below shows six stress scenarios in accordance with EBA/GL/2018/02: "Guidelines on the management of interest rate risk arising from non-trading activities"). As at 31 December 2019 Sbanken Boligkreditt AS primarily had balance sheet items exposed to interest rate changes for a forward period of three months and less. Consequently, the scenario for terms over 1 - 3 months will have little effect on Sbanken Boligkreditt AS, with the result that Scenario 3 and 6 and Scenario 4 and 5 are nearly identical.

	Over-night	O/N - 1 month	1 - 3 months	3 -6 months	6 - 9 months	9 - 12 months	12 - 18 months	18 - 24 months	2 - 3 years	Total
Scenario 1 : parallel shock up (200bp)	0	-23 975	51 455	0	0	188	0	0	0	27 668
Scenario 2 : parallel shock down (200bp)	0	23 975	-51 455	0	0	-188	0	0	0	-27 668
Scenario 3: short term rates down (300bp) long term rates up (150bp)	0	35 963	-77 182	0	0	-282	0	0	0	-41 502
Scenario 4: short term rates up (300 bp) long term rates down (150 bp)	0	-35 963	77 182	0	0	282	0	0	0	41 502
Scenario 5: short term rates up (300 bp)	0	-35 963	77 182	0	0	282	0	0	0	41 502
Scenario 6: short term rates down (300 bp)	0	35 963	-77 182	0	0	-282	0	0	0	-41 502

Currency
The net currency position (long or short) is measured in each currency. Long and short positions are also summarised. Exposure against limit is the highest absolute value of the long and short position. The exchange rate risk as of 31 December 2019 is NOK 10.584 million.

	USD	SEK	EUR	JPY	CHF	GBP
Net currency position (NOK thousand)	**0**	**0**	**10 584**	**0**	**0**	**0**

Credit spread risk
The calculation of credit spread risk is based on Finanstilsynets Circular 12/2016.

Rating	Market value 31.12.19 (thousand)	Duration (weighted)	Spread change	Credit spread risk
AAA (sovereign)	35 985	1,98	0,00%	0
AAA (covered bonds)	50 426	3,70	0,70%	1 306
AAA (municipalities)	0	0,00	0,00%	0
AA (covered bonds)	0	0,00	0,00%	0
AA (municipalities)*	0	0,00	0,00%	0
Total	**86 411**	**2,98**	**0,51%**	**1 306**

*Municipalities without rating is placed in category AA (municipalities).

Note 21 – Derivatives and hedge accounting

Sbanken Boligkreditt AS uses derivatives to hedge against interest rate and currency risk in connection with the issuing of debt in EUR. When the company issues securities in currencies other than Norwegian kroner, the bank's market risk policy states that hedging transactions shall be carried out, so that the bank avoids exposure in foreign currency and thereby minimises currency risk. Derivatives are recognised at fair value (see Note 1 for further information).

	31.12.19			31.12.18		
In NOK thousand	Nominal value	Positive fair value	Negative fair value	Nominal value	Positive fair value	Negative fair value
Interest and currency derivatives for use in hedge accounting	4 805 000	201 842	0	4 805 000	201 977	0
Total derivatives for use in hedge accounting	**4 805 000**	**201 842**	**0**	**4 805 000**	**201 977**	**0**

The Sbanken Boligkreditt AS uses hedge accounting to ensure an accounting treatment that reflects how interest rate and currency risk is actually managed for loans in foreign currency. The hedged items consist exclusively of debt established by issuing covered bonds and are recognised in accordance with IFRS 9 as a fair value hedge. When debt is issued in foreign currency, separate interest rate and cross currency swaps are entered into, with the same principal and maturity date as the underlying hedged item. So far, a loan of EUR 500 million has been issued with a fixed rate of 0.375 per cent, while the cross currency swap changes principal to NOK and the interest rate to a floating 3-month Nibor plus a margin of 0.425 per cent.

The hedging instruments (interest rate and currency swaps) are recognised at fair value, while the hedged items are valued at fair value for the hedged risks (interest rate and currency).

Hedge ineffectiveness, defined as the difference between the value adjustment of hedged instruments and the value adjustment of the hedged items, are recognised through profit or loss as it arises. The exemption is the part of the value adjustment caused by a change in basis spreads relating to hedged instruments recognised in other comprehensive income. Sources of hedge ineffectiveness can be changes in own credit risk, price changes relating to unilateral collateral, soft bullet structures and minimum rating floors for the issuer.

It is a condition for the derivate agreement that unilateral collateral is furnished, meaning that the bank receives collateral in cases where the derivative has a positive value, but does not have to provide collateral in cases where the derivate has a negative value. The counterparty in the derivative agreement is Nordea Bank.

	31.12.19			31.12.18		
In NOK thousand	Hedging instrument nominal value	Hedging object nominal value	Inefficiency nominal value	Hedging instrument nominal value	Hedging object nominal value	Inefficiency nominal value
Nominal value loan in Euro (foreign currency loans at fixed interest rates)	500 000	500 000	0	500 000	500 000	0
Total	**500 000**	**500 000**	**0**	**500 000**	**500 000**	**0**

	31.12.19			31.12.18		
In NOK thousand	Hedging instrument carrying amount	Hedging object carrying amount	Inefficiency carrying amount	Hedging instrument carrying amount	Hedging object carrying amount	Inefficiency carrying amount
Carrying amount assets	201 842	0		201 977	0	
Carrying amount liabilities	0	5 033 780		0	5 030 484	
Total	**201 842**	**5 033 780**		**201 977**	**5 030 484**	

	31.12.19			31.12.18		
In NOK thousand	Hedging instrument carrying amount	Hedging object carrying amount	Inefficiency carrying amount	Hedging instrument carrying amount	Hedging object carrying amount	Inefficiency carrying amount
Accumulated change in fair value, outgoing balance	201 842	-220 039		201 977	-221 802	
Accumulated change in fair value, ingoing balance	0	0		0	0	
Total change in fair value	**201 842**	**-220 039**	**-18 197**	**201 977**	**-221 802**	**-19 825**
Recognised through profit and loss			-176			253
Recognised through other comprehensive income			-18 021			-20 078
Total change in fair value	**0**	**0**	**-18 197**	**0**	**0**	**-19 825**

Note 22 – Repricing structure

2019 In NOK thousand	1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Without interest rate exposure	Total
Loans to and receivables from credit institutions	1 701 897						1 701 897
Loans to customers	185 413	34 185 712					34 371 125
Write-downs for collectively assessed impaired loans to customers						-5 772	-5 772
Net loans to customers, central bank and credit institutions	**1 887 310**	**34 185 712**	**0**	**0**	**0**	**-5 772**	**36 067 250**
Commercial paper and bonds at fair value through OCI	76 484		9 927				86 411
Derivatives						201 842	201 842
Deferred tax assets						3 976	3 976
Other assets						0	0
Advance payment and accrued income						0	0
Total assets	**1 963 794**	**34 185 712**	**9 927**	**0**	**0**	**200 046**	**36 359 479**
Liabilities							
Loans and deposits from credit institutions	2 897 390						2 897 390
Taxes payable						46 464	46 464
Debt securities issued	11 187 854	12 058 748	7 024 575				30 271 177
Other liabilities						326 468	326 468
Subordinated loan	150 000	175 000					325 000
Total liabilities	**14 235 244**	**12 233 748**	**7 024 575**	**0**	**0**	**372 932**	**33 866 499**

2018 In NOK thousand	1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Without interest rate exposure	Total
Loans to and receivables from credit institutions	1 168 489						1 168 489
Loans to customers	179 044	34 223 160					34 402 204
Write-downs for collectively assessed impaired loans to customers						-3 567	-3 567
Net loans to customers, central bank and credit institutions	**1 347 533**	**34 223 160**	**0**	**0**	**0**	**-3 567**	**35 567 126**
Commercial paper and bonds at fair value through OCI	25 225	50 577			19 842		95 644
Derivatives						201 977	201 977
Deferred tax assets						4 738	4 738
Other assets						0	0
Advance payment and accrued income						0	0
Total assets	**1 372 758**	**34 273 737**	**0**	**0**	**19 842**	**203 148**	**35 869 485**
Liabilities							
Loans and deposits from credit institutions	2 120 543						2 120 543
Taxes payable						52 638	52 638
Debt securities issued	15 744 071	10 011 133	5 030 484				30 785 688
Other liabilities						258 334	258 334
Subordinated loan	150 000	175 000					325 000
Total liabilities	**18 014 614**	**10 186 133**	**5 030 484**	**0**	**0**	**310 972**	**33 542 203**

Note 23 – Operational risk

Operational risk means unexpected fluctuations in results, which are attributable to inadequacies or failures in internal processes and systems, by employees or external events, which oblige the company to retain financial capital in order to safeguard itself against substantial and unexpected operational losses. The definition also includes legal risk, i.e. the risk that an agreement or legal action cannot be performed in line with underlying assumptions; and compliance risk, i.e. the risk of non-compliance with statutory provisions, internal guidelines, industry standards.

The Group's policy for operational risk, including contingency plans, describes preventive and mitigating measures. In addition to policies and instructions, and procedure and job descriptions, Sbanken ASA has a self-evaluation process for operational risk, which includes Sbanken Boligkreditt. This process is intended to identify operational risk and quantify any potential ensuing losses. This work results in action plans whose implementation is subject to ongoing monitoring. The evaluation is performed annually and includes quarterly updates and follow-up.

Sbanken Group including Sbanken Boligkreditt AS has a documented process for conducting risk assessments. The process also includes the area of ICT and determines an acceptable level of risk, performs assessments, and manages risk by delegating responsibility for monitoring. Reviews of risks and conditions relevant to ICT security are conducted and reported on a quarterly basis together with other risk areas related to operational risk.

Note 24 – Net interest income

In NOK thousand	2019	2018
Loans to and receivables from credit institutions	1 914	1 329
Loans to customers	893 753	735 886
Commercial paper and bonds	2 559	1 504
Total interest income	**898 226**	**738 719**
Loans and deposits from credit institutions	-48 364	-28 025
Debt securities issued	-583 430	-440 751
Subordinated loan	-12 330	-9 690
Other interest expense	-4 048	0
Total interest expense	**-648 172**	**-478 466**
Net interest income	**250 053**	**260 253**

All interest income from customers is related to residential mortgages

Note 25 – Net gain (loss) on financial instruments

In NOK thousand	2019	2018
1) Financial instruments at fair value through profit and loss:		
Gain/(loss) on derivatives (used in hedge accounting)	-176	253
Total gain/(loss) on financial instruments at fair value through profit and loss	**-176**	**253**
2) Financial instruments at amortised cost:		
Gain (loss) by repurchase of own bonds at amortised cost	-12 120	-9 994
Total gain (loss) on financial instruments at amortised cost	**-12 120**	**-9 994**
3) Currency items:		
Gain (loss) on currency items	-1 746	793
Total gain (loss) on currency items	**-1 746**	**793**
4) Realisation of financial instruments at fair value through other comprehensive income		
Gain/(loss) by realisation of financial instruments:	-952	0
Total gain/(loss) by realisation of financial instruments at fair value through other comprehensive income	**-952**	**0**
Total gain (loss) on financial instruments recognised through profit and loss	**-14 994**	**-8 948**

Note 26 – Operating expenses

Other administrative expenses In NOK thousand	2019	2018
Consultants and other external services	-8 713	-9 538
Other operating expenses	-130	-96
Total other administrative expenses	**-8 843**	**-9 634**
Personnel expenses		
Board remuneration	-364	-423
Payroll tax	-51	-60
Total personnel expenses	**-415**	**-483**
Remuneration to the statutory auditor		
Statutory audit	-235	-221
Other certification services	-133	-133
Tax-related services	0	0
Other services	-200	-280
Total remuneration to the statutory auditor	**-568**	**-634**

Remuneration to the statutory auditor is presented including VAT.

Note 27 – Remuneration to the Board of Directors

	2019	2018
Total employees as at 31.12	0	0
Total FTEs as at 31.12	0	0
Average number of employees	0	0

Sbanken Boligkreditt does not have own employees as of 31 December 2019. The company hires management and administrative resources from Sbanken ASA.

Reference is made to note 33.

Remuneration to the Board of Directors In NOK thousand Name and position	Agreed annual board remuneration 2019	Agreed annual remuneration for board committees 2019	Paid board remuneration 2019	Paid committee remuneration 2019	Paid other compensation 2019	Total remuneration paid/received in 2019
The Board of Directors						
Mai-Lill Ibsen (Chairman of the Board)	175	0	175	0	0	175
Petter Skouen	145	0	145	0	0	145
Ragnhild Wiborg (until 25. april 2019)	38	0	38	0	0	38
Øyvind Thomassen	0	0	0	0	0	0

Remuneration to the Board of Directors In NOK thousand Name and position	Agreed annual board remuneration 2018	Agreed annual remuneration for board committees 2018	Paid board remuneration 2018	Paid committee remuneration 2018	Paid other compensation 2018	Total remuneration paid/received in 2018
The Board of Directors						
Petter Skouen (Chairman of the Board)	197	0	197	0	0	197
Mai-Lill Ibsen	114	0	114	0	0	114
Ragnhild Wiborg	114	0	114	0	0	114
Magnar Øyhovden	0	0	0	0	0	0

Note 28 – Tax expense

In NOK thousand	2019	2018
Taxes payable	**46 464**	**52 639**
Change in deferred tax	0	0
Correction of taxes payable previous year	0	0
Total tax expense	**46 464**	**52 639**
Reconciliation of the tax expense		
Profit before tax	223 597	239 734
Expected tax expense at nominal rate of 22 % (in 2019) and 23 % (in 2018)	49 191	55 139
Tax effect from interest to Tier 1 capital holders	-2 951	-2 532
Other differences	224	32
Correction of taxes payable previous year	0	0
Total tax expense	**46 464**	**52 639**
Effective tax rate	**20,8%**	**22,0%**
Change in deferred tax asset (deferred tax):		
Deferred tax assets as at 1 January	**4 738**	**131**
Change recognised through profit and loss	0	0
Change recognised through other comprehensive income [1]	-762	4 607
Total deferred tax assets (deferred tax) as at 31 December	**3 976**	**4 738**
Change related to fixed assets and intangible assets	0	0
Total change in deferred tax assets recognised through profit and loss	**0**	**0**
Change related to commercial paper and bonds	3 976	4 607
Total change in deferred tax asset recognised through other comprehensive income	**3 976**	**4 607**
[1] Change in deferred tax asset of TNOK 144 is related to change in tax-rate of 1 %.	3 976	4 607

In NOK thousand	2018	Profit and loss	Other comprehensive income (OCI)	2019
Change in deferred tax asset (deferred tax)				
Fixed assets and intangible assets	0	0	0	0
Commercial paper and bonds	4 738	0	-762	3 976
Total deferred tax assets (deferred tax)	**4 738**	**0**	**-762**	**3 976**

Deferred tax assets (deferred tax) related to temporary differences:

In NOK thousand	2019	2018
Specification of deferred tax assets (deferred tax)		
Fixed assets and intangible assets	0	0
Commercial paper and bonds	3 976	4 738
Total deferred tax assets (deferred tax)	**3 976**	**4 738**
Deferred tax assets (deferred tax) recognised through profit and loss	0	0
Deferred tax asset (deferred tax) recognised through other comprehensive income	3 976	4 738
Total deferred tax assets (deferred tax)	**3 976**	**4 738**

Note 29 – Classification of financial instruments

In NOK thousand 31.12.19	Financial assets at fair value through profit and loss	Financial instruments at fair value through other comprehensive income	Financial instruments carried at amortised cost	Total
Financial assets				
Loans to and receivables from credit institutions			1 701 897	1 701 897
Loans to customers			34 365 353	34 365 353
Commercial paper and bonds		86 411		86 411
Derivatives (used in hedge accounting)	201 842			201 842
Other assets			3 976	3 976
Total financial assets	**201 842**	**86 411**	**36 071 226**	**36 359 479**
Financial debt				
Loans and deposits from credit institutions			2 897 390	2 897 390
Debt securities issued			30 271 177	30 271 177
Subordinated loan			325 000	325 000
Other liabilities			326 468	326 468
Total financial liabilities	**0**	**0**	**33 820 035**	**33 820 035**

Assets recognised as amortised cost are classified in the category "loans and receivables".

In NOK thousand 31.12.18	Financial assets at fair value through profit and loss	Financial instruments at fair value through other comprehensive income	Financial instruments carried at amortised cost	Total
Financial assets				
Loans to and receivables from credit institutions			1 168 489	1 168 489
Loans to customers			34 398 637	34 398 637
Commercial paper and bonds		95 644		95 644
Derivatives (used in hedge accounting)	201 977			201 977
Other assets			4 738	4 738
Total financial assets	**201 977**	**95 644**	**35 571 864**	**35 869 485**
Financial debt				
Loans and deposits from credit institutions			2 120 543	2 120 543
Debt securities issued			30 785 688	30 785 688
Subordinated loan			258 334	258 334
Other liabilities			325 000	325 000
Total financial liabilities	**0**	**0**	**33 489 565**	**33 489 565**

Assets recognised as amortised cost are classified in the category "loans and receivables".

Note 30 – Commercial paper and bonds

31.12.19

Commercial paper and bonds classified as fair value through other comprehensive income

In NOK thousand	Nominal value	Cost value	Fair value	Relative share
State- and state guaranteed securities	35 000	36 045	35 885	41,5%
Covered bonds	50 000	50 269	50 363	58,3%
Accrued interest			163	0,2%
Total commercial paper and bonds	**85 000**	**86 314**	**86 411**	**100,0%**
Listed securities			86 411	100,0%
Non-listed securities			0	0,0%
Total commercial paper and bonds			**86 411**	**100,0%**

31.12.18

Commercial paper and bonds classified as available for sale

In NOK thousand	Nominal value	Cost value	Fair value	Relative share
State- and state guaranteed securities	45 000	46 157	45 345	47,4%
Covered bonds	50 000	50 305	50 143	52,4%
Accrued interest			156	0,2%
Total commercial paper and bonds	**95 000**	**96 462**	**95 644**	**100,0%**
Listed securities			95 644	100,0%
Non-listed securities			0	0,0%
Total commercial paper and bonds			**95 644**	**100,0%**

Note 31 – Classification of financial instruments at amortised cost

Recognised at amortised cost	Carrying value 31.12.19	Fair value 31.12.19
Assets		
Loans to and receivables from credit institutions	1 701 897	1 701 897
Loans to customers	34 365 353	34 365 353
Other assets	3 976	3 976
Total financial assets at amortised cost	**36 071 226**	**36 071 226**
Liabilities		
Loans and deposits from credit institutions	2 897 390	2 897 390
Debt securities issued	30 271 177	30 403 601
Subordinated loan	325 000	331 799
Other liabilities	326 468	326 468
Total financial liabilities at amortised cost	**33 820 035**	**33 959 258**

31.12.19	Level 1	Level 2	Level 3	Total
Loans to and receivables from credit institutions			1 701 897	1 701 897
Loans to customers			34 365 353	34 365 353
Other assets			3 976	3 976
Total financial assets at amortised cost		**0**	**36 071 226**	**36 071 226**
Liabilities				
Loans and deposits from credit institutions			2 897 390	2 897 390
Debt securities issued		30 403 601		30 403 601
Subordinated loan		331 799		331 799
Other liabilities			326 468	326 468
Total financial liabilities at amortised cost		**30 735 400**	**3 223 858**	**33 959 258**

Fair value of financial instruments measured at amortised cost

Cash and cash equivalents, loans to credit institutions and loans to customers and debt securities are measured at amortised cost.

Measurement at amortised cost imply that a financial asset or liability is recognised to the present value of the contractual cash flows using effective interest rate method, adjusted for potential impairment. This measurement method will not necessarily provide a carrying value equal to the fair value of the financial instrument due to volatility in the market, changed market conditions, asymmetrical information and changes in investors risk- and return expectations.

Cash and cash equivalents and loans and advances: Fair value is estimated based on amortised cost as all assets are recognised in the accounts based on the contractual cash flow with floating interest rate and that loans with impairment indicators are written down to fair value of expected cash flows. There is no active market for loan portfolios.
Debt to credit institutions are liabilities with floating interest rate and as there have not been any significant changes in the credit spread, amortised cost is assumed to be a reasonable approximation to fair value.

Debt securities are measured at fair value based on prices sourced from Nordic Bond Pricing. Nordic Bond Pricing has estimated the fair value based on available price information from investment banks and brokers trading in the bond markets.

Note 31 – Classification of financial instruments at amortised cost (continued)

Recognised at amortised cost	Carrying value 31.12.18	Fair value 31.12.18
Assets		
Loans to and receivables from credit institutions	1 168 489	1 168 489
Loans to customers	34 398 637	34 398 637
Other assets	4 738	4 738
Total financial assets at amortised cost	**35 571 864**	**35 571 864**
Liabilities		
Loans and deposits from credit institutions	2 120 543	2 120 543
Debt securities issued	30 785 688	30 934 790
Subordinated loan	325 000	329 094
Other liabilities	258 334	258 334
Total financial liabilities at amortised cost	**33 489 565**	**33 642 761**

31.12.18	Level 1	Level 2	Level 3	Total
Loans to and receivables from credit institutions			1 168 489	1 168 489
Loans to customers			34 398 637	34 398 637
Other assets			4 738	4 738
Total financial assets at amortised cost		**0**	**35 571 864**	**35 571 864**
Liabilities				
Loans and deposits from credit institutions			2 120 543	2 120 543
Debt securities issued		30 934 790		30 934 790
Subordinated loan		329 094		329 094
Other liabilities			258 334	258 334
Total financial liabilities at amortised cost		**31 263 884**	**2 378 877**	**33 642 761**

Note 32 – Fair value on financial instruments

In NOK thousand	31.12.19 Carrying value	31.12.19 Fair value	31.12.18 Carrying value	31.12.18 Fair value
Assets				
Commercial paper and bonds at fair value through OCI	86 411	86 411	95 644	95 644
Derivatives (used in hedge accounting)	201 842	201 842	201 977	201 977
Total assets financial instruments	**288 253**	**288 253**	**297 621**	**297 621**
Derivatives (used in hedge accounting)	0	0	0	0
Total	0	0	0	0

31.12.19	Level 1	Level 2	Level 3	Total
Commercial paper and bonds at fair value through OCI	0	86 411	0	86 411
Derivatives (used in hedge accounting)	0	201 842	0	201 842
Total	**0**	**288 253**	**0**	**288 253**

Financial instruments measured at fair value level 3

In NOK thousand		Total
Opening balance 1 January 2019	**0**	**0**
Net gain/(loss) on financial instruments (unrealised)	0	0
Acquisitions / exits	0	0
Sale	0	0
Settlement	0	0
Transferred from Level 1 or Level 2	0	0
Transferred to Level 1 or Level 2	0	0
Other	0	0
Closing balance at 31 December 2019	**0**	**0**

There has been no transfers of financial instruments between Level 1 and Level 2 in the period January to December 2019

Note 32 – Fair value on financial instruments (continued)

31.12.18	Level 1	Level 2	Level 3	Total
Commercial paper and bonds at fair value through OCI	0	95 644	0	95 644
Derivatives (used in hedge accounting)	0	201 977	0	201 977
Total	**0**	**297 621**	**0**	**297 621**

Financial instruments measured at fair value level 3

In NOK thousand		Total
Opening balance 1 January 2018	**0**	**0**
Net gain/(loss) on financial instruments (unrealised)	0	0
Acquisitions / exits	0	0
Sale	0	0
Settlement	0	0
Transferred from Level 1 or Level 2	0	0
Transferred to Level 1 or Level 2	0	0
Other	0	0
Closing balance at 31 December 2018	**0**	**0**

There has been no transfers of financial instruments between Level 1 and Level 2 in the period January to December 2018

Fair value hierarchy

Financial assets and debt recognised at fair value, due to these having been classified either as held for trade, designated at fair value through profit or loss on initial recognition (fair value option) or held for sale, shall be classified in a fair value hierarchy depending on the reliability of the fair value estimate. At Level 1, assets or liabilities are priced in an active market, at level 2 prices are determined on the basis of observable input data from similar assets (either directly or indirectly) and at level 3 prices are fair value based on unobservable input data.

Level 1: Quoted prices in active markets for identical assets or liabilities that the entity has access to at the reporting date. An active market is a market where quoted prices are easily accessible at a stock exchange or similar trading place, from a broker or other entity that publishes price information. Quoted prices shall represent actual and frequent transactions. For Sbanken Boligkreditt AS, level 1 assets and liabilities comprise listed interest-bearing bonds.

Level 2: Prices other than the quoted prices at level 1 and which are observable either directly or indirectly. Interest-bearing bonds that are valued based on prices sourced from trading places, brokers or other entities that publish price information, but where there is no active market because no official prices are available, are categorised as level 2. When using valuation methods, external data are applied to discounted cash flows (e.g. prices quoted by third parties or prices for similar instruments). The discount rate is implicit in the market interest rate with respect to credit and liquidity risk.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Note 33 – Related party transactions

Liabilities to and receivables from Sbanken ASA

In NOK thousand	31.12.19	31.12.18
Liability related to overdraft facility to Sbanken ASA	2 897 390	2 120 543
Receivables related to deposits in Sbanken ASA	1 701 897	1 001 382
Sbanken ASAs ownership of covered bonds issued by Sbanken Boligkreditt AS	2 006 575	925 282
Sbanken ASAs ownership of subordinated loan issued by Sbanken Boligkreditt AS	325 000	325 000
Sbanken ASAs ownership of additional Tier 1 capital issued by Sbanken Boligkreditt AS	225 000	225 000

Transactions with Sbanken ASA

In NOK thousand	2019	2018
Purchase of services in line with service agreement	6 808	6 480
Interest expense on overdraft facility	48 364	28 025
Interest income on deposits	1 290	1 325
Interest on covered bonds issued by Sbanken Boligkreditt AS	23 898	4 766
Interest on subordinated loan issued by Sbanken Boligkreditt AS	12 330	9 690
Share of result related to Sbanken ASAs ownership of additional Tier 1 capital in Sbanken Boligkreditt AS	13 411	11 007

Sale of residential mortgages to Sbanken Boligkreditt AS:
Sbanken ASA sells home loans to its subsidiary, Sbanken Boligkreditt. Only loans with a LTV lower than 75% may be sold to Sbanken Boligkreditt. The sale and transfer of loans is carried out at market terms and conditions. After the loans have been transferred, Sbanken Boligkreditt AS assumes all the risks and benefits associated with the mortgages sold.

Management agreement between Sbanken ASA and Sbanken Boligkreditt AS:
A management agreement has been entered into between Sbanken ASA and Sbanken Boligkreditt, under the terms of which Sbanken Boligkreditt purchases administrative services from Sbanken ASA. These services relate, inter alia, to the CEO, to Treasury, IT, Finance and Accounting, and Risk Management. The agreement has been entered into at market terms and conditions.

Sbanken Boligkreditt AS's credit facilities:
Sbanken ASA has granted an overdraft facility and a revolving credit facility to Sbanken Boligkreditt. The overdraft is divided in two credit facilities, each in the amount of NOK 3 billion and with a term of 364 days and three years, respectively. The revolving credit facility equals Sbanken Boligkreditt's payment obligations for the next 12 months in respect of issued covered bonds, and with a term extending four months after the last maturity date of issued covered bonds. Both facilities are at floating interest rates, three-month NIBOR plus a margin.

Deposit accounts in Sbanken ASA:
Sbanken Boligkreditt AS has two ordinary deposit accounts with Sbanken ASA with interest at the market rate.

Note 34 – Earnings per share

In NOK thousand	2019	2018
Profit for the period to other equity (shareholders)	163 722 000	176 088 000
Number of shares (weighted average)	100 000 000	100 000 000
Earnings per share (basic)	**1,64**	**1,76**
Earnings per share (diluted)	**1,64**	**1,76**

Note 35 – Subsequent events

There have not been any significant events subsequent to 31.12.19 that affect the financial statements for 2019.

After year-end 2019 the outbreak of the corona virus COVID 19 has spread from China to large parts of the world, including Europe and Norway. For further details we refer to the Board of Directors' report.

Alternative Performance Measures

Sbanken Boligkreditt AS (the company) discloses alternative performance measures as a supplement to the financial statements prepared in accordance with IFRS. Such performance measures are commonly used by analysts, investors and other stakeholders to evaluate the performance of the company in isolation or relative to the financial industry. The measures are provided to give an enhanced insight into the operations, financing and future prospects of the company. Some of the measures are presented in detail in notes to the financial statement and not repeated here.

1) Loss rate is calculated as the loan losses of the period divided by the average loan volume of the period. The measure is commonly used by banks and industry analysts to indicate the performance and quality of the lending book.

2) LTV (Loan-to-Value) is calculated as the loan amount divided by the estimated value of the property. When calculating a weighted average of LTV for the entire loan book, the credit balance of home loans is used as weights. The LTV is provided as a measure of lending risk exposure.

3) Cover pool consist of mortgages and supplementary assets eligible according to the covered bonds legislation in Norway. Please refer to note 12 for further detail.

4) Solvency figures are presented including profit for the period. Please refer to note 4 and 5 for further detail.

Statement

Pursuant to Section 5-6 of the Securities Trading Act

We hereby confirm that, to the best of our knowledge, the yearly financial statements for the company for the period 1 January through 31 December 2019 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.

To the best of our knowledge, the yearly report gives a true and fair:

- Overview of important events that occurred during the accounting period and their impact on the yearly financial statements.
- Description of the principal risks and uncertainties facing the Group over the next accounting period.
- Description of major transactions with related parties.

Bergen, 31 March 2020
The Board of Directors of Sbanken Boligkreditt AS

Mai-Lill Ibsen
(Chair of the Board)

Øyvind Thomassen

Petter Skouen

Henning Nordgulen
(CEO)

Deloitte.

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To the General Meeting of Sbanken Boligkreditt AS

INDEPENDENT AUDITOR'S REPORT

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sbanken Boligkreditt AS, which comprise the balance sheet as at 31 December 2019, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements 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.

IT systems and related controls over financial information

Key audit matters	How the matter was addressed in the audit
The IT systems are important for the capture and processing of the Bank's financial information. Management depends on the accuracy of information flow between the various loan sub-ledgers, data warehouse and the general ledger, which again, among others, form basis for key estimates such as write-downs. We refer to information included in Note 23. It is therefore key for the Bank that access controls, change management controls and controls over query tools are sufficiently designed and implemented, both internally and externally at the Bank's various service	We have evaluated the design and the implementation, and tested the operating effectiveness of the Bank's controls over the information systems that are key to the financial reporting. This includes, among others, the controls over query tools and query scripts used to extract key information used in management's estimation of write-downs. The completion and accuracy of the financial information within the data warehouse have been audited through a combination of; • evaluation of design and test of implementation of key controls; and

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Key audit matters	How the matter was addressed in the audit
providers, to enable such controls to operate effectively. We therefore considered this a key audit matter in our audit.	• reconciliation of key financial information between the data warehouse and the general ledger. We have obtained and evaluated the ISAE 3402-reports issued by the various independent auditors of the Bank's service providers, addressing their internal controls in areas applicable to the Bank's financial reporting. We have also evaluated management's process for monitoring their service providers. As part of our process to understand and evaluate the IT infrastructure and our testing of relevant IT related controls, we have utilized our internal IT-specialists. We have evaluated the appropriateness of the information provided in the notes to the financial statements related to IT-systems and controls in note 23.

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.

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report 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.

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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.

Bergen, 31 March 2020
Deloitte AS

Helge-Roald Johnsen
State Authorised Public Accountant (Norway)

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