Boligkreditt

Annual Report 2020

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SpareBank 1 Boligkreditt's purpose

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

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

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

The Company's issuances of covered bonds mainly take place under the EUR 35,000,000,000 Global Medium Term Covered Note Programme (GMTCN Programme). This Programme was updated on April 20, 2020 and is available on the Company's home page: https://spabol.sparebank1.no.

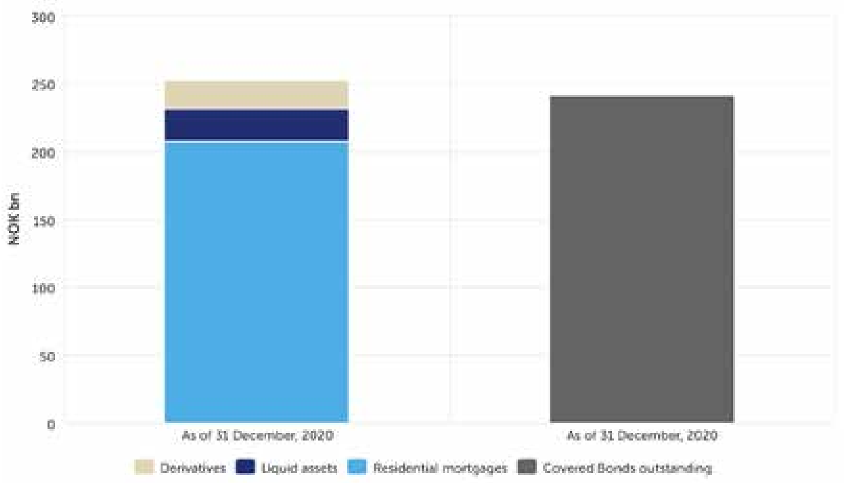
Moody's Ratings Service evaluates the credit quality of the issuances under the GMTCN Programme. The covered bonds are rated Aaa.

Cover pool and outstanding covered bonds[2]

SpareBank 1 Boligkreditt's cover pool consists of residential mortgages and liquid, highly rated assets as well as derivatives hedging liabilities in a foreign currency and/or at fixed rates. The chart below illustrates the balances as of the end of the fourth quarter 2020:

[1] The limit for instalment mortgages is 75 percent, while mortgages which have no scheduled repayment structure are limited to 60 percent. There is a regulatory minimum amortization requirement of 2.5 percent annually for new mortgages with a LTV at 60 percent or above.

[2] The source is the balance sheet figures as of 31st. December 2020 and the cover pool asset liability test for overcollateralization (see notes to the financial statements). Norwegian covered bond issuers are required by law to group derivatives as part of cover pool assets, and not together with the issued covered bonds that they hedge (liability side). This is reflected in the chart..



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

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

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

Residential mortgages key figures

	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019
Weighted Average Current LTV (%)	51.4 %	51.8 %	52.6 %	53.2 %	53.6 %
Weighted Average Original LTV (%)	59.7 %	59.3 %	59.4 %	59.3 %	59.7 %
Average Loan Balance (NOK)	1,507,205	1,488,367	1,470,921	1,456,844	1,443,119
Number of Mortgages in Pool	138,298	138,275	137,427	136,884	132,358
Pct. of non first-lien mortgages	0.0 %	0.0 %	0.0 %	0.0 %	0.0 %
Overcollateralization	4.4 %	4.3 %	7.2 %	4.2 %	4.1 %

Key developments in 2020

During the year, the disruptions caused by the pandemic also covered spreads to widen significantly in the early spring. Domestic kroner level spreads were nevertheless attractive and SpaBol issued a larger than normal amount of approximately NOK 17.6 billion in the market over the year, in addition to a smaller amount via the central bank facility for banks established as a part of the pandemic economic response in March. Outside of NOK, the Company issued a SEK 8.5 bn and a EUR 1 bn covered bond. Both the SEK and the EUR benchmarks were green covered bonds.

The residential mortgage lending volume at SpaBol has increased by 9.3 percent during the year, as measured against the balance of loans as of December 31, 2019. The current mortgage balance is 209 billion kroner (equivalent to approximately EUR 20 billion at the FX rate year-end 2020). The growth was stronger than unusual, underpinned also by growth in the mortgage market.

The Board of Directors views Boligkreditt as well capitalized with a capital coverage ratio of 23.9 percent against a total requirement, including all buffers and the planned increase in the systemic buffer effective year-end 2020, of 16 percent (Pillar 1) plus 0.9 percent (Pillar 2). The countercyclical buffer capital requirement was lowered to 1 percent in March 2020, and remains at that level at year-end.

Total equity Tier 1 capital is 21.3 percent against a total requirement, including buffers, of 14.9 percent. Common equity capital was 19.7 percent against a requirement, including all buffers, of 13.4 percent. It is the Company's policy to maintain capital ratios slightly above the regulatory requirements. When required, additional common equity is paid in by the owner banks in the regular course of business, usually in connection with increases in transferred mortgage volume. Additional Tier 1 and Tier 2 capital is raised in the Norwegian domestic capital market.

Moody's requirement for overcollateralization remains 2.5 percent. Boligkreditt's cover pool overcollateralization at December 31, 2020 was 4.4 percent. The Norwegian government is working in 2021 on implementing the EU's harmonization directive in covered bonds, as well as changes to Article 129 in CRR. This is expected to mean that the required regulatory overcollateralization will increase to 5 percent from 2 percent.

A consent solicitation to convert the outstanding SpaBol £500 million LIBOR covered bond to SONIA was launched in December 2020 and unanimously approved by eligible investors. The bond spread was amended from LIBOR + 27 bps to SONIA + 31.2 bps, which will be effective from February 15, 2021.

Annual accounts

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

The Board views the accounts as presented to be a true representation of SpareBank 1 Boligkreditt's operations and financial position as of the end of 2020. Numbers in brackets refer to the corresponding period last year for comparison.

The total balance sheet at 31.12.2020 amounted to 271 (246) billion kroner. The balance sheet increased primarily due to an increase in mortgage loans and there was also a smaller increase in the value of derivatives hedging issued debt. The Company had in 2020 net interest income of 2,139 (1,876) million kroner. Commissions paid to the owner banks were 1,769 (1,444) million and represent most of the margin between mortgage interest rates and the Company's funding costs. The cost of operations for 2020 was 40.5 (36.1) million kroner including depreciation and amortization. IFRS 9 expected loan losses increased by 18 (decreased by 0.8) million to 30 (12) million. No realized loan losses have occurred. This produces an operating result of 168.4 (225.2) million kroner before tax. The operating result includes scheduled payments to AT1 bondholders, which are classified as distribution to equity capital.

[3] This is calculated according to the Norwegian regulation with derivatives as a part of the cover pool. Mathematically a different (higher) percentage emerges when netting derivatives with the issued debt they hedge, such as is usually done by Moody's.

Mortgage loans for residential properties amounted to 209 (191) billion kroner as of the end of 2020. The Company's own liquid assets were approximately 24 (25) billion kroner.

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

Risk aspects

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

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

Market risk is defined as the risk of losses due to changes in market rates, i.e. interest rates, exchange rates and the prices of financial instruments. At the end of the year SpareBank 1 Boligkreditt AS had issued bonds for approximately 149 billion kroner in EUR, 8.8 billion kroner in GBP and 9.2 billion kroner in Swedish kroner, based on exchange rates at December 31, 2020. However, all borrowing and investments with a fixed rate and all borrowing and investments in a foreign currency, have been hedged by financial currency- and/or interest rate swap agreements or through natural hedges. The collective cash flow therefore matches borrowing in Norwegian kroner with floating rate conditions (NIBOR 3 months). The Company receives collateral from its counterparties in derivative agreements according to certain criteria.

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

The Company had as of December 31, 2020 only moderate interest rate risk and immaterial amounts of currency risk.

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

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

The Company spends much time identifying, measuring, managing and following up on central areas of risk in such a way that this contributes to meeting its strategic goals. The notes 24 through 28 in the 2020 annual accounts provide further information.

Employees and the working environment

SpareBank 1 Boligkreditt had seven employees as of 31.12.2020. The Company employs five males and two females. SpareBank 1 Boligkreditt AS has a Transfer and Servicing Agreement with each shareholder bank which is handling the customer contact and servicing the mortgage portfolio on behalf of the Company. In addition, the Company purchases a significant amount of its support functions from SpareBank 1 SMN, e.g. accounting, HR and finance related back-office functions. Boligkreditt is served by a central SpareBank 1 Alliance unit for IT specific needs.

The working environment is characterised as good, and there is no pollution of the physical environment. There has been zero percent employee absence recorded in 2020 due to sickness. No workplace accidents which might have resulted in property and/or damage to any persons have occurred or been reported during the year.

The Board consists of six persons of which four are male and two are female. SpareBank 1 Boligkreditt AS strives to achieve an even distribution between the genders in recruiting for the staff and the Board. At the end of 2020, a new Board member joined; Heidi Aas Larsen. She replaces Inger Eriksen. Ms.Larsen was in previous years also a Board member.

SpareBank 1 Naeringskreditt AS, which is smaller and finances commercial property lending, but also is a covered bond issuer, has identical staffing to Boligkreditt. Of the seven full time employees employed at year-end in both SpareBank 1 Boligkreditt and Naeringskreditt AS, 1.4 full time equivalents have been allocated to SpareBank 1 Naeringskreditt AS. The Boards of the two companies have almost an identical composition.

Corporate Governance

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

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

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

Shareholders

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

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

SpareBank 1 SR-Bank has been a shareholder since the Company's inception, but has reduced its interest over several years and has now fully exited as a shareholder at the end of 2020. Helgeland Sparebank is expected to join the SpareBank 1 Alliance as a shareholder in 2021. An existing Alliance bank, SpareBank 1 Nordvest, is expected to finalize its merger with another bank, Surnadal Sparebank in 2021.

Social responsibility

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

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

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

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

Several of the owner banks offer 'environmental mortgages', where a discounted rate is offered to consumers planning to build energy efficient houses or for substantial energy efficiency upgrades. These loans will also, included in a broader set based on the top 15 percent of energy efficient housing, qualify for green bond issuance at SpareBank 1 Boligkreditt.

In the area of mortgage finance the originating banks are obligated by Norwegian mortgage market regulation to analyse the sustainability of mortgage debt that borrowers are seeking. They are also obligated to not approve and provide advice to customers who are seeking debt levels which may be or become unsustainable.

Macroeconomic development and outlook[4]

With the outbreak of the pandemic, Norway will record a recession in 2020, like most other countries. The downturn in GDP is estimated to be 3 percent, which is nearly one percent better than anticipated mid-year. Looking ahead, it is private consumption that will provide a boost to growth once the pandemic ends, while aggregate investment will return to growth, but is expected to be somewhat slower. Investment within the oil and gas sector is seen as continuing to shrink into 2022.

Housing investment has delivered negative contributions to growth during 2018 through 2020, which is seen to turn positive in 2021. The housing market, with a high activity level in 2020 (the number of transactions taking place) is likely influenced by pandemic induced lower rates, and house prices increased nationally by 8.7 percent in 2020. With the monetary policy interest rate outlook now slowly changing to an expectation of an increase (in late 2021 or during 2022), it is probably not likely that 2021 will produce the same growth in the residential market.

Both the unemployment rate and trade contributions to GDP in 2020, show the effects of the pandemic. Unemployment increased in the travel and services sectors, and is expected to remain somewhat elevated, even for 2021, on average.

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

Recent data and forecast (per cent)	2018	2019	2020	2021	2022
Mainland GDP growth	2.2	2.2	-3.0	3.7	3.6
Private consumption growth	1.6	1.4	-8.0	8.1	5.9
Mainland investments growth	1.5	4.0	-5.6	1.3	2.4
Unemployment rate	3.8	3.7	4.8	4.5	3.9
CPI growth	2.7	2.2	1.3	2.5	2.4
Annual wage growth	2.8	3.5	2.4	2.1	3.6
Current account surplus to GDP	8.0	2.5	0.9	2.6	3.5

Source: Statistics Norway (SSB) Dec 11, 2020

[4] Macroeconomic projections have been sourced from Statistics Norway as of December 11, 2020.

Future prospects of the Company

The Company has a portfolio of residential mortgage loans with an average loan to value (LTV) slightly above 50 percent, and no loans are in default. The maximum allowable level for a mortgage in a cover pool is 75 percent LTV, with amounts above that level not being eligible as a cover pool asset. During the course of 2020, some mortgages within Boligkreditt' s portfolio were granted a postponement of the loan principal repayment schedule for up to six months, but this had largely returned to normal by year-end (please see special topic article in this annual report).

SpareBank 1 Boligkreditt's residential mortgage portfolio is well diversified, albeit weighted towards the eastern, central and northern regions in Norway (with little exposure in the southwest oil-dominated area of Norway). Mortgage loans in the cover pool are very granular (average size of 1.5 million kroner). The banks in the SpareBank 1 Alliance are required to keep reserves of eligible (i.e. cover pool pre-qualified) mortgages in order to provide replacement assets should this become necessary (i.e. if residential price declines increase LTVs above the eligibility limit for mortgages in the pool). Such reserves in the banks are tested regularly to verify that a 30 percent decline in real estate prices leaves banks with sufficient qualifying reserves for replenishing the cover pool.

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

* * *

The Board of Directors affirms its conviction that the financial accounts present a correct and complete picture of the Company's operations and financial position at the end of 2020. The financial accounts including notes are produced under the assumption of a going concern.

There have been no incidents of a material nature after year-end which are expected to impact the accounts for 2020.

Of the after-tax result for 2020 of 139.2 million kroner, a dividend of 87.5 million kroner is proposed for common shares, this represents 1.10 kroner per share.

Stavanger, February 9, 2021
The Board of Directors of SpareBank 1 Boligkreditt AS

/s/ Kjell Fordal
Chairman of the Board

/s/ Bengt Olsen

/s/ Merete N. Kristiansen

/s/ Knut Oscar Fleten

/s/ Geir-Egil Bolstad

/s/ Heidi C Aas Larsen

/s/ Arve Austestad
CEO

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

The Board and the chief executive officer have today reviewed and approved the financial accounts for 2020 for SpareBank 1 Boligkreditt AS. The accounts have been prepared in accordance with the International Financial Reporting Standards (IFRS), as adopted by the EU.

To the best knowledge of the Board and the chief executive officer the accounts have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company taken as a whole as of 31.12.2020.

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

Stavanger, February 9, 2021
The Board of Directors of SpareBank 1 Boligkreditt AS

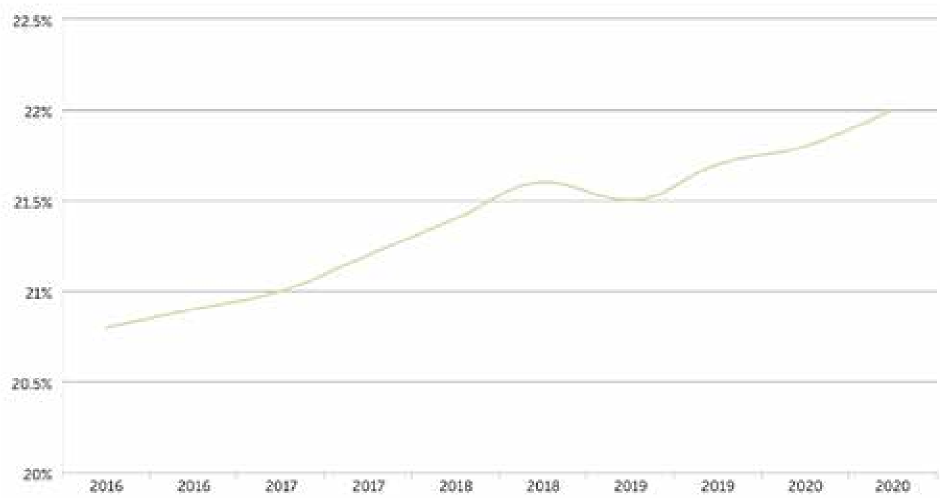
/s/ Kjell Fordal Chairman of the Board	/s/ Bengt Olsen	/s/ Merete N. Kristiansen
/s/ Geir-Egil Bolstad	/s/ Heidi C Aas Larsen	/s/ Knut Oscar Fleten
/s/ Arve Austestad CEO		

Management's Statement with the annual report 2020

SpareBank 1 Boligkreditt

SpareBank 1 Boligkreditt (SpaBol or the Company) is a Norwegian specialized issuer of covered bonds. The Company was set up in 2005 and issued an inaugural EUR denominated covered bond, once the covered bond legislation was passed by parliament in 2007. The uniqueness of SpaBol is that it is owned by the savings banks working closely together in the SpareBank 1 Alliance. The Alliance is Norway's second largest financial institution by lending, and SpaBol therefore an issuer of covered bonds of size and regularity. The Norwegian market share in residential mortgages of the SpareBank 1 Alliance banks is rendered in the chart below, and has according to the real estate valuation firm Eiendomsverdi increased slightly over the years.

Chart 1: Relative market share SpareBank 1 Alliance banks in the aggregate



Source: Eiendomsverdi

Issuances in 2020

With the outbreak of the pandemic, 2020 became a slightly unusual year for issuance of SpaBol covered bonds, in that there was no EUR benchmark placed during the first half. As part of the Norwegian central bank's measures to ensure the smooth functioning of domestic financial markets, a 12-month facility was set up whereby banks could deposit collateral, including covered bonds, in order to obtain central bank funding. With the uncertainty that the pandemic represented in the spring, the central bank facility was important for sentiment. SpaBol arranged a short designated covered bond for its owner banks, which they could use with Norges Bank, but less than 1/3 of this series was actually utilized. This modest use was also reflected in the overall banking landscape.

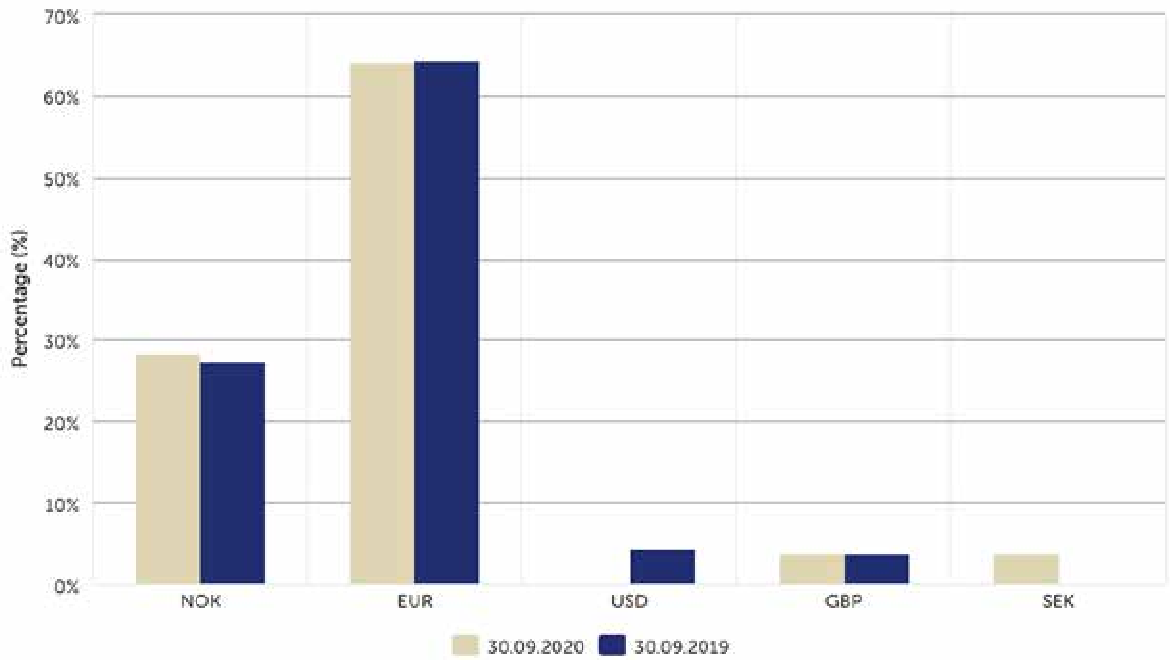
However, the regular domestic covered bond market was in good shape. Pandemic induced spreads were slightly higher than in March, but on April 7, 2020 SpaBol issued a new NOK five-year FRN at NOK 1 bn, which in subsequent April days increased by nearly NOK 5 billion. In early June, an inaugural SEK 7.5 bn benchmark green covered bond was issued, later increased to SEK 8.5 bn. With this issuance, the funding plan for the first half of the year was covered and the EUR return would wait until the 3rd. quarter.

The September EUR 1 bn green covered bond was welcomed by investors, who placed orders for nearly EUR 2.6 bn. Banks took 54%, Asset Managers around 31% while a few insurers and mostly official institutions ended up with 15%. As Norway is not a part of the Eurozone, the ECB does not participate in SpaBol bonds as part of its APP, yet individual central banks placing their reserves has always been a relevant part of the investor community for SpaBol. Across countries, there was good diversification.

During the 4th. quarter, another NOK 5.1 bn was placed in the domestic covered bond market. NOK issued bonds find a natural buyer base across the Scandinavian countries. Also, in the fourth quarter, holders of the £500 million, November 2022 SpaBol covered bond were approached with a solicitation to replace LIBOR with the new SONIA reference rate. In January 2021, investors approved this during the first bondholders meeting.

Outstanding bonds for SpareBank 1 Boligkreditt shows the importance of the EUR market, which will continue to have a key role.

Chart 2: Relative share of outstanding SpareBank 1 Boligkreditt covered bonds, by currency:



All foreign currency issuance is fully hedged to NOK, and there is a policy in place to use only external counterparties with a minimum credit rating, as well as collateral requirements. This is a cover pool positive for investors as it represents a sound and full mitigation of both market and counterparty risk. The USD covered bond segment has been phased out since SpaBol placed more than USD 6 bn between the years of 2010 and 2013. This is partly related to special Volcker rule topics in the U.S, but also partly to the non-development of a domestic U.S. covered bond market.

Green bonds

Green bonds were again issued in 2020, both a SEK and a EUR benchmark. Demand seems to be strong for a green covered bond, though that should ideally be calibrated or adjusted against the general market sentiment at the time of issuance. There might be, similarly, an estimate of a slight pricing advantage to the Issuer for a green bond, but not more than one or perhaps two basis points in the covered bond market in 2020.

The EU commission has proposed details for its green Taxonomy in late 2020, according to which an EPC label of A must be in place for acquired real estate in order for a related financing to fit an EU green bond programme. For buildings built from 2021 and onwards, the EU requirement for green is the NZEB definition, which is to be developed in each country, but with a 20 percent better degree of energy efficiency than such regulation. The EU green proposals for building construction and acquisition are strict, and, if adapted, may lead to SpaBol and other Norwegian issuers may being unable to comply with them for many years. The EU would like there to be renovation of existing properties, which, if a 30 percent energy efficiency improvement is achieved, can be added to the EU green labelled stock of an Issuer. There may be more possibilities for issuers like SpaBol to work alongside this renovation axis, though questions and considerations remain.

SpareBank 1 Boligkreditt's green bonds have been issued under a green bond framework, which is essentially unchanged since late 2017 (first issuance was January 2018). The framework's definition of green means that residential dwellings must be among the best 15 percent of energy efficient houses in the country. This Climate Bond Initiative definition has been established for Norway, and other issuers have followed SpaBol's lead on this topic. Issuers are offering impact calculations of this methodology, which show energy and related Co2 savings. These calculations demonstrate a significant reduction compared to the average housing stock in the country. However, they do not go beyond the requirement that the country's building code places upon construction of a new residences. However, as the number of new houses (which have better degree of energy efficiency) increase, the best 15 percent limit remains constant. That means that buildings built some years ago, which initially was also considered green, will drop out of the green universe. In this way the green definition is dynamic and moves with the market requirements, which are tightening.

Regulations in the Norwegian mortgage market

The tightening of the mortgage market regulatory framework, which took effect from January 2017, was seen as a key driver for the housing market and the slight correction in 2017. The rules were reviewed in 2018, 2019 and last in December 2020, without material changes taking place.

The mortgage lending rules for a bank are:

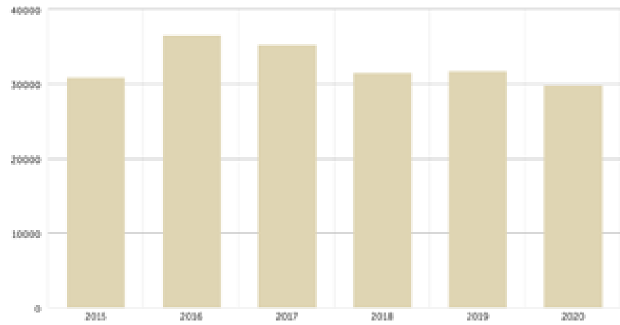
- Loan to value: maximum 85 percent for all mortgages and maximum 60 percent for loans without instalments (revolving credit line mortgage loans); for a property located in Oslo, which is not a borrower's primary residence, the maximum is 60 percent.
- Repayment: minimum 2.5 percent per annum for loan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

For a cover pool for covered bonds, the restriction of LTV is 75 percent at the time of transfer. Norwegian authorities are in the process of making effective the harmonized European regulations for covered bonds (the EU Covered Bonds Directive and changes in Article 129 of the CRR), and this may mean that the LTV for a mortgage in covered pool may increase to 80 percent, as is contained within the new EU regulatory context.

The Norwegian residential real estate market

After a correction in 2017, which was seen as largely due to the regulations introduced and referenced above, as well as high housing production (see chart to the right below), the growth in the price index was 2.8 percent for all of 2018 and 2.5 percent for 2019. Consumer inflation was 3.2 and 1.8 for 2018 and 2019, respectively. This means that in real terms housing was approximately flat for two years, as measured on a national scale (there are regional differences). With the onset of the pandemic, the central bank policy rate was lowered to zero percent for the first time in history, and variable mortgage rates followed suit, nearly halving, to average around 1.8 percent. This probably had an effect on real estate, and prices nationally rose 8.7 percent in 2020 (lead by the capital city, Oslo).s

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



The chart below shows the result of taking the Norwegian houseprice index and divide it by the index of after-tax household income, as calculated by Statistics Norway (SSB) (including an estimate for 2019 and 2020 pertaining to income). This view of real house prices illustrate that residential real estate became materially less expensive in Norway during and after the financial crisis (2008 and 2009) as house prices fell, but incomes continued to grow. However, real house prices are 12 to 13 percent higher in 2020 than they were in 2007. The increase could show the effect of lower interest rates in the latter years compared to the beginning of the period, but perhaps also the increasing standards of the building code for construction of new residences.

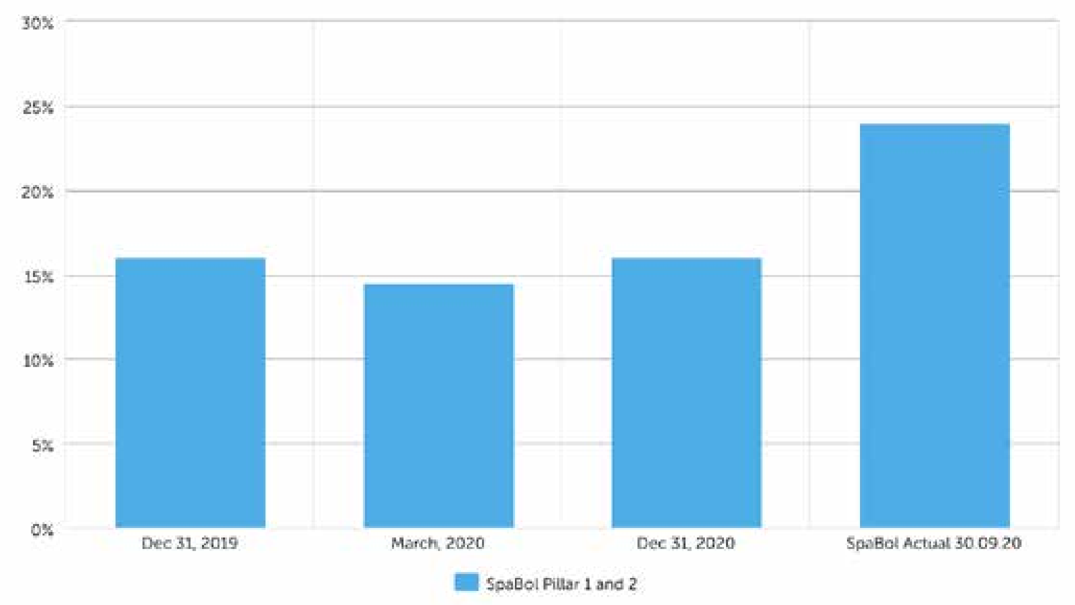
Chart 4: National house price index adjusted for after-tax household income (Index, Jan. 2007=100)

Source: SSB, Eiendomsverdi

Capital requirements

Norwegian capital requirements have been adjusted in 2020. The countercyclical buffer requirement was reduced to 1 percent from a previous level of 2.5 percent after the pandemic hit in March. This reduction was part of the government's package to counter the negative economic effects of the virus. On the other hand, The Finance Ministry decided in 2019 that systemic buffer was going to increase to 4.5 percent, from 3 percent, at the end of 2020. This means overall that the Pillar 1 requirements at the end of 2020 are unchanged compared to a year previously. At the same time, the Norwegian Finance Ministry indicated a desire to adjust the countercyclical buffer during 2021, and possible back to its pre-pandemic level, meaning an increase in overall capitalization requirements in 2021.

Chart 5: Capital requirements and SpaBol actual capitalization level (Pillar and 2)



Boligkreditt calls on its owner banks for capital contributions as and when needed, and especially in connection with larger transfers of mortgages from the banks (mortgage loan growth). During the year, Boligkreditt pays out commissions to its owner banks, which is most of its net interest margin. Surpluses at the end of a year are paid out as regular dividends.

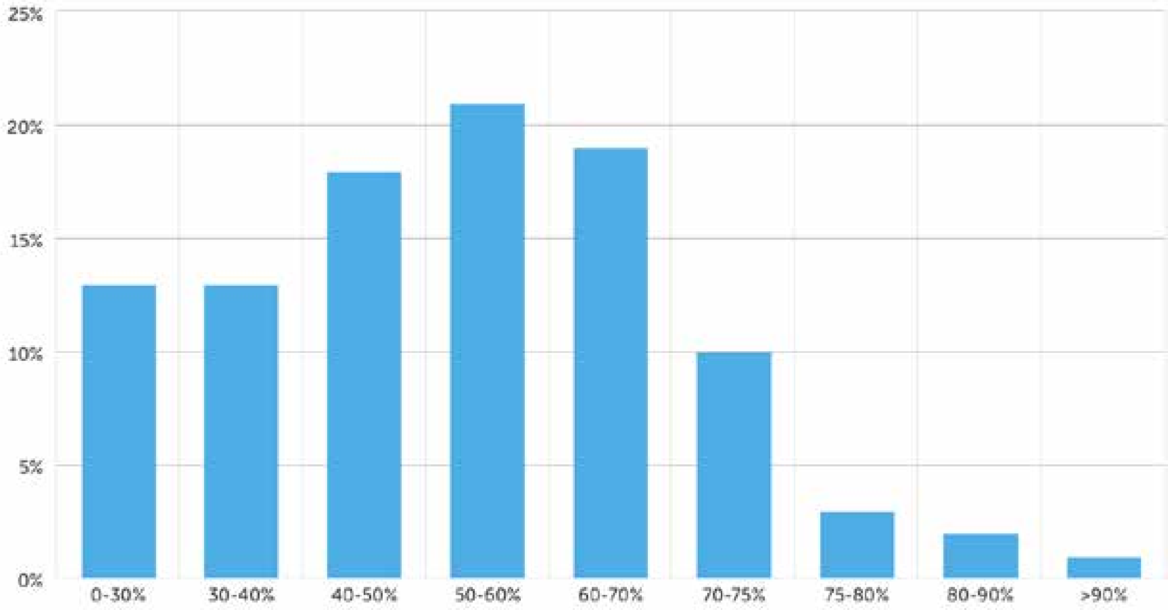
There is also formal Shareholders agreements in place between Boligkreditt and its owner banks, whereby the banks are required to maintain Boligkreditt's equity capitalization at the regulatory requirement as a minimum. This agreement is not deployed in operating practice, as capital is added by the banks regularly, but it is of formal importance, particularly with regards to the credit rating link (i.e. starting point for the covered bond rating) between Boligkreditt and its owner banks. Covered bond issuers in Norway are not subject to MREL requirements and have to meet a Leverage Ratio of 3 percent, rather than 5 percent for banks in general.

Cover Pool

The cover pool metrics continue to exhibit a robust pool profile with an average weighted loan to value (LTV) in the cover pool of 51.4 percent as of December 31, 2020. LTV has been largely stable for the cover pool through the years.

The real estate values are updated for the entire cover pool each quarter based on an automated valuation model (AVM) from the Norwegian company Eiendomsverdi, used by most Norwegian banks. The model is independently tested and validated and has certain parameters built into its valuation settings which allow for a cautious treatment of potential upside valuation outcomes for individual houses. The chart below shows the mortgage loans in the cover pool by LTV interval at year-end 2019.

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



SpareBank 1 Boligkreditt continues to have no arrears beyond 90 days in the cover pool and has never experienced a realized credit loss with regards to any of the mortgage loans in the pool. We stress test the portfolio regularly for potential sharp house price declines, which provides comfort with regards to the robustness of the pool. Mortgage loans in the pool at over 75 percent LTV means some migration has taken place since transfer of the loan to the cover pool, though the parts of these loans representing higher than 75 percent LTV may not be counted as cover assets.

According to the IFRS 9 rules for mortgage loans, expected cumulative losses in the SpaBol mortgage pool at year-end 2020 are approximately 30 million kroner. This is an increase from a year ago, but remains a small portion (1.4 bps) of the portfolio.

Liquid assets in the cover pool

Liquid assets are also included in the cover pool along with residential mortgages. These are cash deposits, government or government guaranteed bonds (Nordic and German) and covered bonds from Nordic issuers. Repos and reverse repos are also tools deployed for liquidity. The minimum level of liquid assets (a SpaBol board approved rule in place) is minimum 180 days of coverage for upcoming redemptions (which are the expected maturities for soft bullet bonds). The actual level of liquid assets may also be higher than the minimum, depending mainly on the timing of new bond issuances. A complete list of liquid assets is presented in every quarterly cover pool reporting on the SpaBol website (www.spabol.no). There are requirements for the rating of bonds held in the portfolio (Aaa/AAA), issuer requirements, and concentrations limits in internal policies, and more broadly in the Norwegian covered bond law. Internal policies also dictate that near term outflows are covered by cash, deposits or zero risk weighted assets only.

Outlook 2021

Issuance in the calendar year 2020 was EUR 1 billion, after a more robust 3.25 bn during calendar year 2019. But there was high NOK issuance and record SEK volume issuance in 2020. The mortgage volume that Boligkreditt funds is expected to increase 2021. In addition to upcoming maturities, financed at least six months ahead of time, growth in transferred mortgages determine the funding volume. Boligkreditt will return to the benchmark EUR market in 2021 with likely two benchmarks. With the LIBOR to SONIA conversion for the existing November 2022 maturity in pound sterling approved by investors, this market may become relevant in 2021 as could the SEK market continue to be.

The growth in mortgage volume seen in 2020 provides the expectation for growth in 2021, though probably at a lesser rate. The pandemic interest rate cuts probably impacted the residential real estate market in 2020, which grew. With more robust Norwegian economic growth, as is projected in 2021, interest will eventually increase, probably calming house price increases compared to the 2020 development.

The SpaBol cover pool is geographically well diversified a cross t he c ountry, w ith o riginating b anks d istributed throughout the country. Credit quality of mortgages, which is strong with low expected and realised losses in the banks, will continue to be high. Both robust economic growth post the pandemic and a low and expected lower unemployment rate support this.

Financial statements 2020

Income statement

NOK 1 000	Note	4. quarter 2020	4. quarter 2019	2020	2019
Total interest income	5	1,125,288	1,628,769	5,119,553	5,834,356
Total interest expenses	5	-482,915	-1,146,064	-2,980,079	-3,958,307
Net interest income		**642,373**	**482,705**	**2,139,474**	**1,876,049**
Commissions to SpareBank 1 banks	6	-600,887	-374,357	-1,769,898	-1,444,292
Net commission income		**-600,887**	**-374,357**	**-1,769,898**	**-1,444,292**
Net gains/losses from financial instruments	7	-36,041	-81,024	-142,200	-171,295
Net other operating income		**-36,041**	**-81,024**	**-142,200**	**-171,295**
Total operating income		**5,445**	**27,324**	**227,376**	**260,462**
Salaries and other ordinary personnel expenses	8, 9, 10	-3,532	-2,744	-12,465	-11,780
Other operating expenses	11	-7,985	-7,015	-28,065	-24,359
Total operating expenses		**-11,517**	**-9,759**	**-40,530**	**-36,139**
Operating result before losses		**-6,072**	**17,564**	**186,846**	**224,323**
Impairment losses on loans and guarantees	15	-7,614	-1,148	-18,429	856
Pre-tax operating result		**-13,687**	**16,416**	**168,417**	**225,179**
Taxes	12	**5,197**	**-4,108**	**-29,239**	**-56,298**
Profit/loss for the year		**-8,490**	**12,308**	**139,178**	**168,880**
Portion attrubutable to shareholders		**-17,307**	**206**	**86,001**	**123,796**
Portion attributable to additional Tier 1 capital holders		**8,816**	**12,102**	**53,177**	**45,084**
Profit/loss for the period		**-8,490**	**12,308**	**139,178**	**168,880**

Overview of Comprehensive Income

NOK 1 000	4. quarter 2020	4. quarter 2019	2020	2019
Profit/loss for the year	-8,490	12,308	139,178	168,880
Change due to basis swap spread adjustment	42,676	-2,983	120,478	-74,707
Tax effect of basis swap spread adjustment	-10,669	746	-30,120	18,677
Estimate deviation for pensions	1,537	-353	1,537	-353
Tax effect of the estimate deviation	-384	88	-384	88
Total profit/loss accounted for in equity	**33,160**	**-2,502**	**91,512**	**-56,294**
Total profit/loss	**24,670**	**9,806**	**230,690**	**112,586**

Balance sheet 2020

NOK 1 000	Note	2020	2019
Assets			
Lending to and deposits with credit institutions	21,24	6,473,876	9,801,250
Certificates and bonds	21,22,24	34,515,412	28,067,101
Residential mortage loans	14,21,24	208,613,697	191,309,342
Financial derivatives	20,21,22,24	21,396,448	16,254,454
Defered tax asset		281,880	188,308
Other assets	13,21,24	5,018	890
Total assets		**271,286,332**	**245,621,345**
Liabilities and equity			
Liabilities			
Debt incurred by issuing securities	17,19,21,22	239,372,170	217,670,078
Collateral received under derivatives contracts	19,20,21,24,32	16,838,423	12,418,140
Financial derivatives	19,20,21,22	915,540	1,420,374
Deferred tax	12,21	30,120	-
Tax payable	12,21	123,196	250,190
Subordinated debt	18,19,21	1,429,990	1,433,439
Other Liabilities	10,21,23	209,078	148,256
Total Liabilities		**258,918,517**	**233,340,477**
Equity			
Paid-in equity	16	11,698,470	11,418,470
Hybrid capital	16,19	900,000	1,180,000
Accrued equity		-316,424	-408,167
Declared dividends		85,769	90,566
Total equity		**12,367,815**	**12,280,868**
Total liabilities and equity		**271,286,332**	**245,621,345**

Stavanger, 09.02.2021

/s/ Kjell Fordal
Chairman of the Board

/s/ Bengt Olsen

/s/ Merete N. Kristiansen

/s/ Geir-Egil Bolstad

/s/ Heidi C Aas Larsen

/s/ Knut Oscar Fleten

/s/ Arve Austestad
CEO

Changes in Equity

NOK 1 000	Share capital	Additional paid in equity	Dividend	Other Equity	Interest on hybrid capital	Hybrid capital	Total Equity
Balance as of 31 December 2018	**7,190,548**	**3,597,922**	**-**	**-306,173**	**-78,932**	**1,180,000**	**11,583,366**
Change in presentation of interest on hybrid capital	-	-	-	-78,932	78,932		-
Share increase 27 February 2019	280,000	140,000	-	-	-	-	420,000
Share increase 22 May 2019	140,000	70,000	-	-	-	-	210,000
Net income for the period	-	-	-	33,231	45,084	-	78,315
Paid interest on hybrid capital - directly against equity	-	-	-	-	-45,084	-	-45,084
OCI -basisswapspread	-	-	-	-56,030	-	-	-56,030
Proposed dividend for 2019	-	-	90,566	-	-	-	90,566
OCI - pension - annual estimate deviation	-	-	-	-264	-	-	-264
Balance as of 31 December 2019	**7,610,548**	**3,807,922**	**90,566**	**-408,168**	**-**	**1,180,000**	**12,280,868**
Share increase 16 September 2020	186,667	93,333					280,000
Net income for the period	-	-	85,769	53,409	-53,177	-	86,001
Paid interest on hybrid capital - directly against equity	-	-	-	-53,177	53,177	-	-
OCI -basisswapspread	-	-	-	90,359			90,359
Dividend 2019	-	-	-90,566				-90,566
OCI - pension - annual estimate deviation	-	-	-	1,153	-	-	1,153
Other						-280,000	-280,000
Balance as of 31 December 2020	**7,797,215**	**3,901,255**	**85,769**	**-316,425**	**-**	**900,000**	**12,367,815**

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

Cash Flow Statement

NOK 1 000	2020	2019
Cash flows from operations		
Interest received	5,189,270	4,790,476
Paid expenses, operations	-34,661	-39,009
Paid tax	-251,521	-15,503
Net cash flow relating to operations	**4,903,088**	**4,735,964**
Cash flows from investments		
Net purchase of loan portfolio	-19,108,681	-7,189,127
Net payments on the acquisition of government bills	-2,099,005	-575,312
Net payments on the acquisition of bonds	-5,146,575	-3,042,017
Net investments in intangible assets		153
Net investments in fixed assets	-5,040	
Net cash flows relating to investments	**-26,359,301**	**-10,806,303**
Cash flows from funding activities		
Net receipt/payment from the issuance of securities	16,016,622	12,608,151
Net receipt/payment from the issuance of subordinated debt		-175,000
Net receipt/payment of loans to credit institutions	5,157,620	-5,940,551
Equity capital subscription	281,153	630,000
Paid dividend	-90,566	
Net interest payments on funding activity	-3,235,991	-4,241,013
Net cash flow relating to funding activities	**18,128,839**	**2,881,586**
Net cash flow in the period	**-3,327,374**	**-3,188,753**
Balance of cash and cash equivalents at beginning of period	**9,801,250**	**12,990,004**
Net receipt/payments on cash	-3,327,374	-3,188,753
Balance of cash and cash equivalents at end of period	**6,473,876**	**9,801,250**

Quarterly Financial Statements

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

Income Statement

NOK 1 000	4th Quarter 2020	3th Quarter 2020	2th Quarter 2020	1th Quarter 2020	4th Quarter 2019
Total interest income	1,125,288	1,112,955	1,249,912	1,631,398	1,628,769
Total interest expenses	-482,915	-466,886	-878,527	-1,151,751	-1,146,064
Net interest income	**642,373**	**646,069**	**371,385**	**479,646**	**482,705**
Commission and fee expensenes	-600,887	-566,950	-244,043	-358,017	-374,357
Net commission income	**-600,887**	**-566,950**	**-244,043**	**-358,017**	**-374,357**
Net gains/losses from financial instruments	-36,041	5,734	171,895	-283,788	-81,025
Net other operating income	**-36,041**	**5,734**	**171,895**	**-283,788**	**-81,025**
Total operating income	**5,445**	**84,853**	**299,237**	**-162,159**	**27,324**
Salaries and other ordinary personnel expenses	-3,532	-3,844	-1,935	-3,154	-2,744
Other operating expenses	-7,985	-5,340	-7,945	-6,794	-7,015
Total operating expenses	**-11,517**	**-9,185**	**-9,880**	**-9,949**	**-9,759**
Operating result before losses	**-6,072**	**75,668**	**289,358**	**-172,107**	**17,564**
Write-downs on loans and guarantees	-7,614	9,327	-10,905	-9,236	-1,148
Pre-tax operating result	**-13,687**	**84,995**	**278,452**	**-181,343**	**16,416**
Taxes	5,197	-18,169	-65,753	49,486	108,489
Profit/loss for the year	**-8,490**	**66,826**	**212,699**	**-131,857**	**12,308**
Other income and expense	33,160	-53,827	34,353	77,825	-2,502
Total Profit/Loss	**24,670**	**12,999**	**247,052**	**-54,031**	**9,806**

Balance sheet

NOK 1 000	12/31/2020	9/30/2020	6/30/2020	3/31/2020	12/31/2019
Assets					
Lending to and deposits with credit institutions	6,473,876	17,695,451	8,926,842	4,471,962	9,801,250
Certificates and bonds	34,515,412	33,852,412	28,950,758	38,793,444	28,067,101
Residential mortage loans	208,613,697	205,998,995	202,356,280	199,687,454	191,309,342
Financial derivatives	21,396,448	30,074,324	28,051,937	38,900,544	16,254,454
Defered tax asset	281,880	142,782	164,031	233,644	188,308
Other assets	5,018	798	4,479,081	1,831	890
Total assets	**271,286,332**	**287,764,762**	**272,928,929**	**282,088,878**	**245,621,345**
Liabilities and equity					
Liabilities					
Debt incurred by issuing securities	239,372,170	245,303,651	233,899,764	239,812,029	217,670,078
Collateral received under derivatives contracts	16,838,423	23,499,230	20,469,422	27,484,900	12,418,140
Repurchase agreement	0	250,003	2,507,625	-	-
Financial derivatives	915,540	726,670	734,333	723,758	1,420,374
Deferred tax	30,120	19,450	37,393	-	-
Tax payable	123,196	223,594	226,673	230,533	250,190
Subordinated debt	1,429,990	1,429,936	1,430,788	1,433,354	1,433,439
Other Liabilities	209,078	3,960,268	1,271,651	284,635	148,256
Total Liabilities	**258,918,517**	**275,412,801**	**260,577,649**	**269,969,209**	**233,340,477**
Equity					
Contributed equity	11,698,470	11,698,470	11,418,470	11,418,470	11,418,470
Other paid in equity (not yet registered)			0	-	-
Hybrid capital	900,000	900,000	1,180,000	1,180,000	1,180,000
Accrued equity	-316,424	-394,177	-328,033	-346,945	-577,048
Net profit		147,668	80,843	-131,857	168,880
Declared dividends	85,769		0	-	90,566
Total equity	**12,367,815**	**12,351,961**	**12,351,280**	**12,119,669**	**12,280,868**
Total liabilities and equity	**271,286,332**	**287,764,762**	**272,928,929**	**282,088,878**	**245,621,345**

To the General Meeting of Sparebank 1 Boligkreditt AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Sparebank 1 Boligkreditt AS, which comprise the balance sheet as at 31 December 2020, 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 2020, 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.

The company's business activities are largely unchanged compared to last year. We have not identified regulatory changes, transactions or events that qualified as new Key Audit Matters. Our areas of focus are therefore unchanged from 2019.

Key Audit Matter	How our audit addressed the Key Audit Matter
Compliance with regulation for loans to customers	
The mortgage company has loans to private individuals amounting to NOK 208 613 million with collateral in residential and vacation property and has issued covered bonds. Processes and controls have been established to ensure that the entity complies with the various	In order to comply with the requirements in the regulations applicable to issuing covered bonds, the company had established controls in the process of granting and transferring loans. The process included formal controls and segregation of duties, directed at ensuring that the controls were performed before loan approval or transfer of loans from the owner banks to the mortgage company.

requirements mortgage companies are subject to.

Management have considered how the Covid-19 Pandemic will affect the relationship between value of loans and collateral.

The value of the collateral at any time should be above 75 % of the loan value for residential property, and above 60 % of the loan value for vacation property. As compliance with these requirements and the established processes and controls are fundamental to the company's operation, we have focused our attention on this subject.

We also refer to note 14 and 21 in the annual report for a description of the company's loans to customers.

Further, in accordance with applicable regulations the company had engaged us as Independent Inspector to control, on a quarterly basis whether the company complied with the various requirements. Our work as independent inspector includes procedures directed at checking whether the value of collateral exceeds the value of loans with the required limits.

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

We also discussed with management how the Covid-19 pandemic may affect the relationship between value of loans and collateral and the appropriateness of the information provided in the annual report about the pandemic. We observed controls management had put in place to take account for the added risks resulting from the ongoing pandemic.

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

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

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

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

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

Financial instruments – valuation of cross currency basis swaps

The carrying amount of the Company's financial derivatives liability amounts to NOK 915 million as per December 31, 2020, whereof net loss on valuation adjustment of cross currency basis swaps amounts to NOK 424 million as per December 31, 2020.

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

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

The estimates and judgmental assessments related to the valuation of these financial instruments are described in note 19,20 and 21.

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

We tested the Company's controls over the entering into and closing of derivative contracts, including the registration in the Company's systems. Our audit also includes tests to ensure that the Company reconciles transactions with counterparties. Furthermore, we tested the Company's methodology and controls regarding pricing models. We concluded that we could rely on these controls in our audit.

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

We satisfied ourselves that disclosures regarding derivatives were appropriate.

Other information

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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- 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 a true and fair view.

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

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

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

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

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

Opinion on Registration and Documentation

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

Stavanger, 9 February 2021

PricewaterhouseCoopers AS

Arne Birkeland

State Authorised Public Accountant

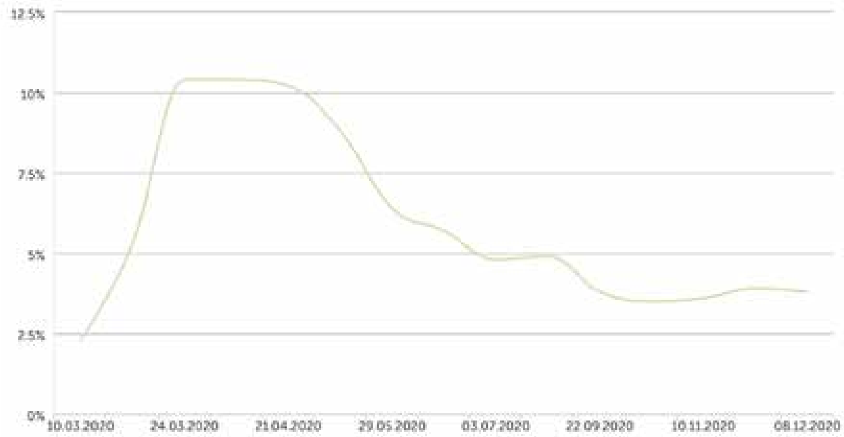
Mortgage repayment during the Covid-19 outbreak

Regulations on the Norwegian mortgage markets have been in place for several years, including a requirement for minimum annual repayments by customers. The Covid-19 outbreak caused Norwegian lenders, including SpareBank 1 banks, to grant postponements on mortgage repayment schedules to customers who asked for this.

Tekst: Eivind Hegelstad
Foto/illustrasjoner: APRIIL

The outbreak of the corona pandemic came as a surprise to most Norwegians, as in many countries. There were immediate employment consequences of the meeting restrictions created by national governments or regional authorities from March 12, 2020. Restaurants, hotels and gyms, all without customers, in late March and April were forced to furlough many of their employees. One of the Norwegian government's specific programmes to mitigate the economic effect of this furlough scheme on companies was to almost immediately cover the full cost of it. This was in contrast to the normal waiting period (16 days) during which such costs are covered by the companies themselves.

The registered unemployment rate in mid-April 2020 was the highest that Norway has recorded in modern times, with more than 10 percent unemployed and close to 5 percent partially employed, or underemployed. In contrast, the same registered unemployment rate was 2.3 percent as late as March 10, two days before the corona restrictions were first introduced. After the most severe restrictions ended, the unemployment rate recovered. But it remained higher at year-end 2020, than in the beginning of March. In general, it continues to be employees in the travel and services area who are on the outside of the labour market in Norway.



Source: NAV statistics

Mortgage debt

In a country where having a mortgage debt is the norm, it became clear that there were people working in the affected services industries with current mortgage repayment obligations. More than 80 percent of Norwegian households carry mortgage debt, after choosing to buy rather than rent a home. After not having been responsible at all for the oncoming hardship of meeting their debt amortization schedule, many mortgage holders had a need to address this.

The Norwegian financial services regulator, Finanstilsynet, emphasized in early April 2020 that changing a repayment plan for otherwise credit worthy customers affected by the Covid-19 situation should not necessarily have adverse credit assessment implications. There should be no need to a downgrade a lender's internal customer risk ratings and therefore it should not mean moving, all other things equal, customers from Stage 1 in IFRS 9 to Stage 2 (or 3). This view was supported by publicized views from the European Banking Authority (EBA). However, Norway did not institute a general moratorium for mortgage debt. The country's banks generally offered repayment pauses – or postponements of repayment schedules - of normally up to six months for mortgage customers. This would take place upon customer request and with a reference to the extraordinary pandemic situation. The effect of this was that amounts not paid during the six month postponement period were added as an increment to all remaining scheduled repayments thereafter. Interest payments were not generally affected, with interest paid throughout the instalment pause period.

SpareBank 1 Boligkreditt's portfolio

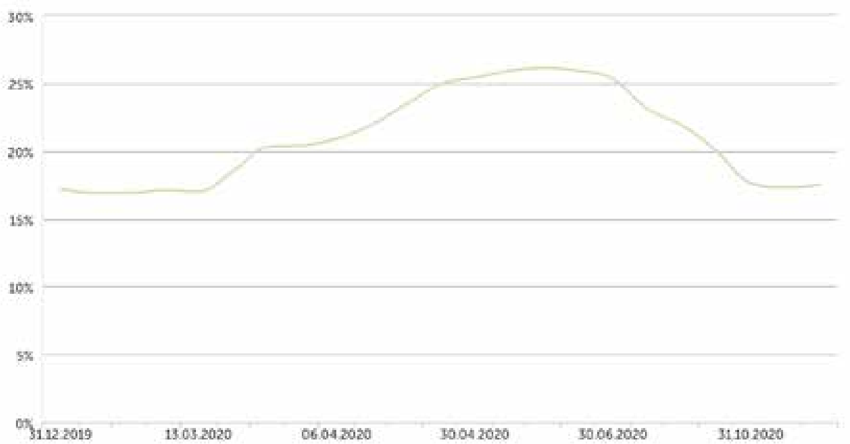
Norway's current regulation for mortgage debt, in place since 2015, and reassessed by the Ministry of Finance periodically, state that residential mortgages with a loan to value (LTV) of 60 percent or more, must have a repayment schedule in place when the mortgage is granted. Repayments must be minimum 2.5 percent of the whole mortgage, annually. Customers with a mortgage below 60 percent loan to value, may not necessarily have a current repayment schedule, and could agree with their bank a different repayment profile. This could include lower than 2.5 percent annual repayments, or also a repayment free period. As Boligkreditt has many mortgages below 60 percent, there are usually a portion of outstanding drawn mortgage debt in a repayment free period, perhaps initially at the establishment of such a mortgage. Prior to the Covid-19 pandemic in early March 2020, mortgages with no current repayment schedule tallied up to approximately 17 percent of Boligkreditt's overall drawn term debt mortgage portfolio.

SpareBank 1 banks accommodating their mortgage customers

SpareBank 1 Boligkreditt is a financing vehicle in the covered bonds space for its owner banks. While mortgages which Boligkreditt finances are transferred to its balance sheet and are its property, Boligkreditt lets its owner banks engage in all customer relations activities on its behalf. These owner banks quickly made application functions available to customers within their online banking sites this spring. As customers applied for the repayment postponements to their mortgages in the first phase of the pandemic, and this was approved by the bank, it was also automatically approved in Boligkreditt for the mortgages transferred to it.

The share of mortgages in Boligkreditt without a currently active monthly repayment schedule thus grew throughout the second quarter of 2020, and reached approximately 26 percent, from the starting and "normal" level of 17 percent. Approximately an additional 9 percent of the drawn term debt mortgage portfolio was therefore affected by the pandemic.

However, during the second half of 2020, the situation has reversed, and mortgage debt financed by Boligkreditt without scheduled monthly repayments, tied to lower LTV, is back almost to its starting level of around the pre-pandemic 17 percent.



Unemployment and GDP

The fact that Boligkreditt's (and other) mortgage customers are again repaying their mortgages, is strongly correlated to the improved unemployment situation in Norway. However, it remains a little elevated at year-end 2020 due to the pandemic. It is also possible that the early January 2021 additional national and some regional Covid-19 restrictions will make it slightly higher. It remains the travel and services industry, and especially hotels and the restaurants, which are mostly affected. In contrast, the latest 2020 GDP estimate for mainland Norway (by Statistics Norway or SSB) is a contraction of 3 percent, which is significantly lower than thought earlier in the year. For 2021 and 2022, GDP is expected to grow 3.6 and 3.7 percent, respectively, while unemployment drops.

Notes to the Accounts

Note 1 General information

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

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

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

The Financial Statements for 2020 is approved by the Board of Directors on February 9, 2021.

Note 2 Summary of significant accounting policies

Presentation Currency

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

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

Assets and liabilities are recognised on the balance sheet at the point in time when the Company establishes real control over the rights of ownership to assets and becomes effectively responsible for the discharge of liabilities. Assets are de-recognised at the point in time when the real risk of the assets has been transferred and control over the rights to the assets has been terminated or expired. Liabilities are de-recognised when they have been effectively discharged.

Residential mortgage loans

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

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

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

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

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

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

Model for loan loss provisioning

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

Within IFRS 9 it is the point-in-time Probability of default (PD) which is critical for the estimates. The cases will reflect as a starting point the actual observed PD. This may be the average seen over the last period, which may be several years if the data is stable. Each scenario then develops, based on the macroeconomic input considerations (unemployment rate and interest rate level), a point-in-time PD for each year over a five-year future period. From five-years and out to the end of the mortgage maturity date, a terminal value is calculated for the loan expected cumulative loss (ECL), which is PD x LGD (loss given default). The LGD rates are also produced in each scenario, under the scenario specific assumptions. As defined in IFRS 9, loans that remain in Stage 1 are not evaluated for an ECL beyond 12 months, while loans with an observed negative risk migration since origination enter Stage 2 or 3, and are then asessed for ECL based on their contractual maturities.

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

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

Segment

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

Securities

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

Hedge Accounting

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

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

Valuation of Derivatives and Other Financial Instruments

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

<u>Liabilities:</u>

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

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

- Temporary mark-to-market differences in the value of an interest rate swap may occur depending on the level at which the 3 months floating rate leg in the swap was last fixed, and the discounting of the remainder of this 3 month term using the rate level at the balance sheet date.
- There is a credit risk element which forms a part of the fair value of the assets in the trading portfolio, which is not reflected in the value of the associated interest and/or currency swaps hedging the trading portfolio assets.
- There may be floating rate assets (bonds) denominated in foreign currency which are hedged via a corresponding foreign exchange liability (issued debt) also on an effective floating rate basis. In such natural asset liability hedges there may be a small element of foreign currency risk which may impact the P&L in that the floating rate coupons

on the asset and the liability are not reset on the same dates and/or may be of different magnitude. Also, a change in a market credit spread element would impact the price of some of the foreign currency assets held (bonds), though not the liability

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

Intangible Assets

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

IFRS 16

The Company uses IFRS 16 to account for its leased office space, which is on a multi-year renewable contract. The cost of which is reflected in note 11, within other operating expenses and with the calculated asset balance in note 13.

Cash and Cash Equivalents

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

Taxes

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

The statutory tax rate for financial services companies is 25 percent.

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

Pensions

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

Defined Contribution Plan

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

The Company has seven employees as of year-end 2020. All employees are included in SpareBank 1 SMNs pension scheme and accrue the same benefits as the other membership in that scheme which are employees of SpareBank 1 SMN.

Cash Flow Statement

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

Provisions

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

Supplier Debt and other Short Term Liabilities

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

Interest Income and Expense

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

Commission Expense

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

Dividends

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

Events after the Balance Sheet Date

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

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

Fair Value Measurement

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

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

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

Standards and interpretations that are issued up to the date of issuance of the financial statements, but not yet effective are disclosed below. The Company's intention is to adopt the relevant new and amended standards and interpretations when they become effective, subject to EU approval before the financial statements are issued.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 - Interest Rate Benchmark Reform - Phase 2

In August 2020, the IASB issued Phase 2 of its project which amends IFRS 9 Financial Instruments, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 7 Financial Instruments: Disclosures, IFRS 4 Insurance Contracts and IFRS 16 Leases. Phase 2 finalizes the Board's response to the ongoing reform of interbank offer rates (IBOR) and other interest rate benchmarks.

The amendments complement Phase 1 issued in 2019 and focus on the effects on financial statements when a company replaces the old interest rate benchmark with an alternative benchmark rate as a result of the reform.

The Phase 2 amendments mainly consist of the following:

- Practical expedient for particular changes to contractual cash flows
- Relief from specific hedge accounting requirements
- Disclosure requirements

The Phase 2 amendments apply only to changes required by the interest rate benchmark reform to financial instruments and hedging relationships. The amendments are effective for annual reporting periods beginning on or after 1 January 2021.

Amendments to IAS 1 - Classification of Liabilities as Current or Non-Current

The International Accounting Standards Board has issued amendments to IAS 1 Presentation of Financial Statements to clarify how to classify debt and other liabilities as current or non-current.

The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. The amendments include clarifying the classification requirements for debt a company might settle by converting it into equity.

The amendments clarify:

- The meaning of right to defer settlement
- That the right to defer must exist at the end of the reporting period
- That classification is not affected by the probability that an entity will exercise its deferral right
- That the terms of a liability would not impact its classification, only if an embedded derivative is an equity instrument itself.

The amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2023. The Group does not intend to early adopt the amendments.

Note 3 Risk management

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

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

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

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

Organisation and organisational culture

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

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

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

Risk Categories:

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

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

Further details about risk categories are discussed in later Notes.

Note 4 Important estimates and considerations regarding application of accounting policies

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

Loan losses

Estimates are made regarding the future path of probability of default rates and loss given default rates under different economic scenarios. Starting with actually observed PD rates for residential mortgages that have or can be transferred to the Company as a proxy for the actual expected PD rates, these scenarios are developed within a base, downside and upside case for the economic development (interest rates and unemployment being important and driving factors). Each quarter the entire portfolio of mortgage loans are run through the Company's IFRS 9 loan loss model and the cumulative expected loss is a function of the current portfolio's risk classification, migration of the mortgage loans on the Company's risk scale since granting the loans and these scenarios for the future. See also the description above under Note 2 " Expected credit loss on mortgage loans; evaluation of impairments (write downs)" and note 14 and 15 for the expected loss details and figures.

Fair value of financial instruments

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

Basis swaps

Basis swaps refer in general to the foreign currency swaps in which the Company engages to hedge its foreign exchange risk exposure. Currency swaps carry a basis swap cost or spread, which is the current market price in basis points to swap one reference rate for another, in the Company's case usually the reference rate of the currency in which a covered bond is issued (for example EURIBOR) and into NIBOR. This basis pricing element is valued at each balance sheet date, and its aggregate value is either an asset or a liability for the Company. The valuation change does not impact the profit and loss statement, but is recorded in other comprehensive income and other equity under IFRS 9, due to the cost of hedging approach.

Pensions

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

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

Note 5 Net interest income

NOK 1 000	2020	2019
Interest income		
Interest income from, certificates, bonds and deposits	222,810	280,846
Interest income from residential mortgage loans	4,896,743	5,553,510
Total interest income	**5,119,553**	**5,834,356**
Interest expense		
Interest expense and similar expenses to credit institutions	38,007	-45,148
Interest expense and similar expenses on issued bonds	2,842,413	3,903,694
Interest expense and similar expenses on subordinated debt	37,900	48,356
Recovery and Resolution Fund*	51,385	42,911
Other interest expenses	10,374	8,494
Total interest expense	**2,980,079**	**3,958,307**
Net interest income	**2,139,473**	**1,876,049**

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

Note 6 Commission expence

Commission expense was NOK 1.769.897.556 for 2020 compared to NOK 1.444.291.522 for 2019. These amounts are the sum of monthly payments, during the period, to Boligkreditt's owner banks, which originate the mortgage loans transferred to the Company. The amounts are calculated by subtracting all of the Company's funding costs, including costs for additional Tier 1 bonds outstanding, from each mortgage interest rate, for the period represented. Included as well in the calculation is a subtraction for Boligkreditt's operating costs.

Note 7 Net Gains from Financial Instruments

NOK 1 000	2020	2019
Net gains (losses) from financial liabilities (1)	-6,074,987	-6,958,008
Net gains (losses) from financial derivatives, hedging liabilities, at fair value, hedging instrument (1,3)	3,648,701	6,990,649
Net gains (losses) from financial assets (2)	2,308,177	-272,077
Net gains (losses) from financial derivatives, hedging assets, at fair value, hedging instrument (2,3)	-24,090	68,140
Net gains (losses)	**-142,200**	**-171,295**

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

(2) SpareBank 1 Boligkreditt AS manages its liquidity risk by refinancing its outstanding bonds ahead of expected maturities and keeping proceeds as a liquidity portfolio. Fixed rate bonds and bonds in other currencies than Norwegian kroner are hedged using swaps. These positions are valued at fair value though differences may occur because the valuation of the bonds include a credit risk/spread element which the swaps do not contain. Included in assets in the table are also investments in short term, highly rated bonds from funds received from swap counterparties for collateral purposes. Such investments do not have swap hegdes.

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

Note 8 - Compensation and related expenses

NOK 1 000	2020	2019
Compensation employees and board members	10,922	9,682
Compensation reinvoiced to SpareBank1 Næringskreditt*	-3,275	-2,772
Pension expenses	1,977	1,727
Social insurance fees	2,332	2,536
Other personnel expenses	510	606
Total salary expenses	**12,465**	**11,780**
Average number of full time equivalents (FTEs)	7	7

* The company's employees have shared employment between SpareBank 1 Næringskreditt and SpareBank 1 Boligkreditt. All remuneration is effectuated through SpareBank 1 Boligkreditt and a portion is reinvoiced to SpareBank 1 Næringskreditt. The company also buys administrative services from SpareBank 1 SMN and SpareBank 1 Gruppen.

Note 9 Salaries and other Remuneration of Management

Paid in 2020

NOK 1 000	Wage compensation	Bonus	Other compensation	Pension cost	Accrued Pensions	Employee mortgage loan
Management						
Chief Executive Office - Arve Austestad	2,366	-	158	644	7,440	1,917
Chief Operating Officer - Henning Nilsen	1,635	-	38	168	970	7,070
Chief Financial Officer - Eivind Hegelstad	1,613	-	25	174		3,941
Total for Management	**5,613**	**-**	**221**	**515**	**8,410**	**12,927**

Paid in 2019

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

All employees have an offer of an employee mortgage loan.

The Board of Directors	Paid in 2020	Paid in 2019
Kjell Fordal (chair person)	114	111
Geir-Egil Bolstad	91	89
Merete N. Kristiansen	91	89
Inger Marie Stordal Eriksen (until 01.12.20)	91	89
Knut Oscar Fleten	25	89
Trond Sørås (substitute member)	91	24
Bengt Olsen	91	-
Rolf Eigil Bygdnes (until 31.03.2019)	-	89
Heidi Aas Larsen (from 01.12.20)		
Total for the Board of Directors	**594**	**580**

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

Note 10 Pensions

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

	2020	**2019**
Net pension obligations on the balance sheet		
Present value pension obligation as of Dec 31	15,037	13,941
Pension assets as of Dec 31	6,451	4,384
Net pension obligation as of Dec 31	8,586	9,558
Employer payroll tax	1,862	1,826
Net pension obligation recorded as of Dec 31	**10,448**	**11,383**

	2020	2019
Pension expense in the period		
Defined benefit pension accrued in the period	820	793
Defined contribution plan pension costs including AFP	1,192	969
Pension expense accounted for in the income statement	**2,012**	**1,762**

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

	2020	**2019**
Discount rate	1.50%	2.30%
Expected return on pension assets	1.50%	2.30%
Future annual compensation increases	2.00%	2.25%
Regulatory cap change	2.00%	2.00%
Pensions regulation amount	0.00%	0.50%
Employer payroll taxes	14.10%	14.10%
Finance tax	5.00%	5.00%

Note 11 Other Operating Expenses

NOK 1 000	2020	2019
IT and IT operations	12,704	11,775
Purchased services other than IT	13,282	10,159
Other Operating Expenses	1,721	2,097
Depreciation on fixed assets and other intangible assets	359	328
Total	**28,065**	**24,359**

Auditing

Remuneration to PWC and cooperating companies is allocated as follows:

NOK 1 000	2020	2019
Legally required audit	600	231
Other attestation services, incl. examination services, loan documents sample testing, comfort letters	194	0
Other services outside auditing	284	125
Total (incl VAT)	**1,078**	**356**

Note 12 Taxes

NOK 1 000	2020	2019
Pre-tax profit	168,417	225,179
Permanent differences	-51,460	-60,097
Change in temporary differences	133,333	910,739
Temporary differences from basis swap spread adjustment, shown in other comprehensive income	120,478	-74,707
Temporary differences from pension estimate deviation, shown in other comprehensive income	1,537	-353
Change in temporary differences due to use of previously tax deficit	-	-
Tax base/taxable income for year	**372,305**	**1,000,762**

Tax payable for the year	136,106	250,190
Tax effect of change in temporary differences recorded in OCI / Equity	-29,735	18,765
Tax effect of interest on hybrid capital, recorded directly in equity	-13,294	15,028
Change in deferred tax	-63,453	-227,685
Tax expense for the year	**29,624**	**56,298**

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

Profit before tax on continuing operations	168,417	225,179
Expected tax expense - tax rate 25 %	**42,104**	**56,295**

Deferred tax		
Financial instruments	-249,221	-185,462
Pension liability	-2,612	-2,846
Tax losses to be carried forward	72	-
Effect of implementing IFRS 9 ECL model		-
Net deferred tax benefit (-) / deferred tax (+)	**-251,761**	**-188,308**

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

Note 13 Other Assets

NOK 1 000	2020	2019
Leases	3,879	-
Fixed assets	320	
Intangible assets	85	379
Account receivables from SpareBank 1 Næringskreditt AS	515	499
Accounts receivable, securities	212	-
Other	7	12
Total	**5,018**	**890**

2020

NOK 1 000	Leases	Fixed assets	Intangible assets	Total
Acquisition cost 01.01.	-	-	1,755	1,755
Acquisitions	4,655	385	-	5,040
Disposals	-	-	-	-
Acquisition cost 31.12.	**4,655**	**385**	**1,755**	**6,794**
Accumulated depreciation and write-downs 01.01.	-	-	1,376	1,376
Periodical depreciation	776	65	294	1,134
Periodical write-down	-	-	-	-
Disposal ordinary depreciation	-	-	-	-
Accumulated depreciation and write-downs 31.12.	**776**	**65**	**1,670**	**2,510**
Book value as of 31.12.	**3,879**	**320**	**85**	**4,284**
Financial lifespan	5 years	5 years	3 years	
Depreciation schedule	linear	linear	linear	

2019

NOK 1 000	Intangible assets	Total
Acquisition cost 01.01.	1,755	1,755
Acquisitions	-	-
Disposals	-	-
Acquisition cost 31.12.	**1,755**	**1,755**
Accumulated depreciation and write-downs 01.01.	1,704	1,704
Periodical depreciation	328	328
Periodical write-down	-	-
Disposal ordinary depreciation	-	-
Accumulated depreciation and write-downs 31.12.	**1,376**	**1,376**
Book value as of 31.12.	**379**	**379**
Financial lifespan	3 years	
Depreciation schedule	linear	

Note 14 Residential mortage loans

Lending to customers are residential mortgages only. The mortgages generally have a low loan-to-value and losses have been very low. The total amount of lending to customers at the end of 31.12.2020 were NOK 208,6 billion. All mortgages carry a variable interest rate.

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NOK 1 000	2020	2019
Revolving loans - retail market	40,078,412	42,431,353
Amortising loans - retail market	168,409,290	148,660,350
Accrued interest	156,170	229,402
Total loans before specified and unspecified loss provisions	**208,643,872**	**191,321,105**
		-
Stage 1	199,787,000	183,557,607
Stage 2	8,856,872	7,763,498
Stage 3	-	-
Gross loans	**208,643,872**	**191,321,105**
Impairments on groups of loans		
Expected credit loss, stage 1	1,207	1,068
Expected credit loss, stage 2, no objective proof of loss	28,968	10,695
Expected credit loss, stage 3, objective proof of loss	-	-
Total net loans and claims with customers	**208,613,697**	**191,309,342**
Liability		
Unused balances under customer revolving credit lines (flexible loans)	12,328,559	12,028,316
Total	**12,328,559**	**12,028,316**
Defaulted loans		
Defaults*	0.0 %	0.0 %
Specified loan loss provisions	0.0 %	0.0 %
Net defaulted loans	**0.0 %**	**0.0 %**
Loans at risk of loss		
Loans not defaulted but at risk of loss	0.0 %	0.0 %
- Write downs on loans at risk of loss	0.0 %	0.0 %
Net other loans at risk of loss	**0.0 %**	**0.0 %**

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

Loans sorted according to geography (Norwegian counties)

NOK 1 000		Lending 2020	Lending 2020 %	Lending 2019	Lending 2019 %
NO03	**Oslo**	26,846,389	12.87%	27,048,500	14.14%
NO11	**Rogaland**	1,178,820	0.57%	4,288,510	2.24%
NO15	**Møre og Romsdal**	12,844,051	6.16%	11,536,407	6.03%
NO18	**Nordland**	15,207,213	7.29%	13,504,816	7.06%
NO21	**Svalbard**	160,465	0.08%	133,252	0.07%
NO30	**Viken**	54,803,072	26.27%	44,654,793	23.34%
NO34	**Innlandet**	21,326,800	10.22%	21,052,548	11.00%
NO38	**Vestfold og Telemark**	17,711,474	8.49%	16,469,164	8.61%
NO42	**Agder**	462,754	0.22%	877,108	0.46%
NO46	**Vestland**	2,228,581	1.07%	2,177,851	1.14%
NO50	**Trøndelag**	35,484,994	17.01%	31,016,621	16.21%
NO54	**Troms og Finnmark**	20,359,083	9.76%	18,549,772	9.70%
SUM		**208,613,697**	**100.0 %**	**191,309,343**	**100.0 %**

Note 15 Amounts arising from ECL

The following table show reconciliations from the opening to the closing balance of the loss allowance. Explanation of the terms 12-month ECL and lifetime ECL (stage 1-3) are included in note 1-4 the annual account 2020.

NOK 1 000	2020			
Loans and advances to customers at amortized cost	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Balance sheet on 31 December 2019	1,085	**10,712**	**-**	**11,797**
Transfer to 12 month ECL	-	-	-	-
Transfer to lifetime ECL - No objective evidence of loss	-	-	-	-
Transfer to lifetime ECL - objective proof of loss	-	-		-
Net remeasurement of loss allowance	-	-	-	-
New financial assets originated or purchased	569	10,777	-	11,346
Change due to reduced portifolio	- 771	- 919	-	- 1,691
Other movements	343	8,431	-	8,774
Net change	141	18,289		18,430
Balance sheet on 31 December 2020	1,226	**29,000**	**-**	**30,226**

Note 16 Share Capital and Shareholder Information

	List of shareholders as of 2020		List of shareholders as of 2019	
	No of Shares	**Share and votes**	**No of Shares**	**Share and votes**
SpareBank 1 Østlandet	17,506,879	22.45%	16,961,710	22.29%
SpareBank 1 SMN	17,431,133	22.36%	15,898,802	20.89%
SpareBank 1 Nord-Norge	14,146,598	18.14%	14,190,446	18.65%
BN Bank ASA	5,436,118	6.97%	5,126,131	6.74%
SpareBank 1 BV	4,734,098	6.07%	4,776,009	6.28%
Sparebanken Telemark	3,894,956	5.00%	3,592,816	4.72%
SpareBank 1 Ringerike Hadeland	3,698,165	4.74%	3,486,683	4.58%
SpareBank 1 Østfold Akershus	3,694,453	4.74%	3,439,512	4.52%
SpareBank 1 Nordvest	1,633,728	2.10%	1,709,929	2.25%
SpareBank 1 SR-Bank ASA	0	0.00%	1,679,661	2.21%
SpareBank 1 Modum	1,856,509	2.38%	1,592,003	2.09%
SpareBank 1 Søre Sunnmøre	1,171,457	1.50%	1,023,992	1.35%
SpareBank 1 Gudbrandsdal	1,141,753	1.46%	1,012,200	1.33%
SpareBank 1 Hallingdal Valdres	983,950	1.26%	982,718	1.29%
SpareBank 1 Lom og Skjåk	642,352	0.82%	632,870	0.83%
Total	**77,972,149**	**100%**	**76,105,482**	**100%**

The share capital consists of 77 972 149 shares with a nominal value of NOK 100. The percent share allocation and share of vote are identical.

Hybrid capital

NOK 1000	ISIN	Interest rate	Issued year	Call option	2020	2019
Perpetual						
Hybrid (Tier 1 capital instrument)	NO0010745920	3M Nibor + 360 bp	2015	09.23.2020		300,000
Hybrid (Tier 1 capital instrument)	NO0010746191	3M Nibor + 360 bp	2015	09.29.2020		180,000
Hybrid (Tier 1 capital instrument)	NO0010767643	3M Nibor + 360 bp	2016	06.22.2021	250,000	250,000
Hybrid (Tier 1 capital instrument)	NO0010811318	3M Nibor + 310 bp	2017	12.01.2022	100,000	100,000
Hybrid (Tier 1 capital instrument)	NO0010850621	3M Nibor + 340 bp	2019	04.30.2024	350,000	350,000
Hybrid (Tier 1 capital instrument)	NO0010890825	3M Nibor + 300 bp	2020	08.26.2025	200,000	
Book value					**900,000**	**1,180,000**

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

Note 17 Liabilities incurred by issuing securities

	Nominal value*	Nominal value*
NOK 1 000	**2020**	**2019**
Senior unsecured bonds	-	-
Repurchased senior unsecured bonds	-	-
Covered bonds	220,831,875	201,758,203
Repurchased Covered bonds	-2,500,000	-
Total debt incurred by issuing securities	218,331,875	201,758,203

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

	Book value	Book value
NOK 1 000	**2020**	**2019**
Senior unsecured bonds	-	-
Repurchased senior unsecured bonds	-	-
Covered bonds	240,993,020	216,579,429
Repurchased covered bonds	-2,500,013	-
Activated costs incurred by issuing debt	-201,926	-184,635
Accrued interest	1,081,090	1,275,284
Total debt incurred by issuing securities	**239,372,170**	**217,670,078**

Covered bonds

Due in	2020	2019
2019	-	-
2020	-	20,035,500
2021	24,779,600	28,881,382
2022	41,749,200	38,749,200
2023	30,606,750	30,356,650
2024	28,158,375	23,451,428
2025	31,713,750	10,648,750
2026	22,710,000	22,210,000
2027	11,551,850	673,042
2028	2,712,800	2,562,800
2029	24,107,050	23,946,950
2038	242,500	242,500
Total	**218,331,875**	**201,758,203**
Total	**218,331,875**	**201,758,203**

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

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

NOK 1 000	2020	2019
NOK	72,469,545	59,978,539
EUR	148,882,707	148,733,048
USD	-	0
GBP	8,845,102	8,706,679
SEK	9,174,816	251,812
Total	**239,372,170**	**217,670,078**

Note 18 Subordinated debt

NOK 1000	ISIN	Interest rate	Issued year	Call option from	Maturity	Nominal amount	2020	2019
With maturity								
Subordinated debt (Tier 2 capital instrument)	NO0010704109	3M Nibor + 225 bp	2014	3/7/2019	3/7/2024	475,000	-	-
Subordinated debt (Tier 2 capital instrument)	NO0010826696	3M Nibor + 153 bp	2018	6/22/2023	6/22/2028	250,000	250,000	250,000
Subordinated debt (Tier 2 capital instrument)	NO0010833908	3M Nibor + 180 bp	2018	10/8/2025	10/8/2030	400,000	400,000	400,000
Subordinated debt (Tier 2 capital instrument)	NO0010835408	3M Nibor + 167 bp	2018	11/2/2023	11/2/2028	475,000	475,000	475,000
Subordinated debt (Tier 2 capital instrument)	NO0010842222	3M Nibor + 192 bp	2019	1/24/2024	1/24/2029	300,000	300,000	300,000
Accrued interest							4,990	8,439
Book value							**1,429,990**	**1,433,439**

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

Note 19 Reconciliation of liabilities arising from financing activities

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

			Non-cash changes		
NOK 1 000	**2019**	**Financing cash flows**	**Adjustments**	**Other changes**	**2020**
Liabilities					
Debt incurred by issuing securities	219,090,452	16,016,622	-6,605,642	11,786,279	240,287,711
Collateral received in relation to financial derivatives	12,418,140	5,157,620	0	-737,338	16,838,423
Subordinated debt	1,433,439	0	0	-3,449	1,429,990
	232,942,031	21,174,242	-6,605,642	11,045,492	258,556,124

Note 20 Financial Derivatives

NOK 1 000	**2020**	**2019**
Interest rate derivative contractscontracts		
Interest rate swaps		
Nominal amount	54,965,589	55,698,553
Asset	2,427,317	2,067,884
Liability	-192,716	-332,246
Currency derivative contracts		
Currency swaps		
Nominal amount	139,210,375	145,222,180
Asset	18,969,131	14,186,570
Liability	-297,883	-542,709
Total financial derivative contracts		
Nominal amount	194,175,964	200,920,732
Asset	21,396,448	16,254,454
Liability*	-490,599	-874,955

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

* Change due to basis swap spread adjustment	2020	2019
Liability	-490,599	-874,955
Net gain (loss) on valuation adjustment of basisswap spreads	-424,941	-545,419
Net asset (+) / liability (-) derivatives	**-915,540**	**-1,420,374**

Basis swaps are currency swaps and are entered into at a certain cost (spread) between SpareBank 1 Boligkreditt and banks which offer such swaps and which have signed an ISDA agreement with the Company. Changes in the cost are valued each quarter across all of the Company's swaps in accordance with the IFRS rules. An increase in the cost would result in an increase in the value of the basisswaps while a cost decrease would reduce the value of the basis swaps. The effect may be material from quarter to quarter because the Company's portfolio of swaps is extensive. All basisswap value changes will reverse over time towards the point of termination of the swaps. Changes in basis swap valuations are not included in net income, but is included in other comprehensive income and in equity.

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

IBOR reforms

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

The Company used the following hedging instruments for issued debt:

1. Fixed rate NOK bonds issued and swapped to 3 months NIBOR exposure
2. Three month EURIBOR bonds issued swapped to a 3 month NIBOR exposure
3. Fixed rate EUR bonds issued and swapped to 3 months EURIBOR exposure
4. Fixed rate EUR bonds issued and swapped to 3 months NIBOR exposure
5. Three months SONIA bonds issued and swapped to 3 months NIBOR exposure (effective Feb 15, 2021)
6. Fixed rate GBP bonds issued and swapped to 3 months NIBOR exposure

The issued Sterling LIBOR Nov 22 covered bond has been converted to a SONIA reference rate, which will take effect on Feb 15, 2021. For other reforms the Company will follow market practice, or sign ISDA protocols as the case may be, to use reformed IBOR rates.

Hedging instruments used in debt issued, excluding NIBOR contracts, nominal values	2020	2019
EURIBOR contracts under point 2 and 3 above	7,675,500	8,538,414
SONIA contracts under point 5 above (effective Feb 15, 2021)	5,835,000	
Totale	**13,510,500**	**8,538,414**

Collateral received

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

NOK 1 000	2020	2019
Collateral received under derivatives contracts	16,838,423	12,418,140

Note 21 Classification of Financial Instruments

NOK 1 000	Financial instruments accounted for at fair value *	Financial assets and debt accounted for at amortised cost	Non-financial assets and liabilities	2020
Assets				
Lending to and deposits with credit institutions	-	6,473,876	-	6,473,876
Certificates and bonds	34,515,412	-	-	34,515,412
Residential mortgage loans	-	208,613,697	-	208,613,697
Financial derivatives	21,396,448	-	-	21,396,448
Defered tax asset	-	-	281,880	281,880
Other assets	-	-	5,018	5,018
Total Assets	**55,911,860**	**215,087,573**	**286,898**	**271,286,332**
Liabilities				
Debt incurred by issuing securities**		239,372,170	-	239,372,170
Collateral received in relation to financial derivatives	-	16,838,423	-	16,838,423
Repurchase agreement	-	-	-	-
Financial derivatives	915,540	-	-	915,540
Deferred taxes	-	-	30,120	30,120
Taxes payable	-	-	123,196	123,196
Subordinated dept	-	1,429,990	-	1,429,990
Other liabilities	-	-	209,078	209,078
Total Liabilities	**915,540**	**257,640,583**	**362,394**	**258,918,517**
Total Equity	**-**	**900,000**	**11,467,815**	**12,367,815**
Total Liabilities and Equity	**915,540**	**258,540,583**	**11,830,209**	**271,286,332**

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

** For issued securities, 187 million is accounted for using fair value hedge accounting. The hedged item is adjusted for the change in fair value of the hedged risk which at the same time is recognised in profit or loss. The reason is that cash flows related to such issued securities (covered bonds) are effectively converted, using swaps, to Norwegian kroner from a foreign currency to and/or from fixed interest rates to a 3 month NIBOR rate.

NOK 1 000	Financial instruments accounted for at fair value *	Financial assets and debt accounted for at amortised cost	Non-financial assets and liabilities	2019
Assets				
Lending to and deposits with credit institutions	-	9,801,250	-	9,801,250
Certificates and bonds	28,067,101	-	-	28,067,101
Residential mortage loans	-	191,309,342	-	191,309,342
Financial derivatives	16,254,454	-	-	16,254,454
Defered tax asset	-	-	188,308	188,308
Other assets	-	-	890	890
Total Assets	**44,321,555**	**201,110,592**	**189,198**	**245,621,345**
Liabilities				
Debt incurred by issuing securities**		217,670,078	-	217,670,078
Collateral received in relation to financial derivatives	-	12,418,140	-	12,418,140
Repurchase agreement	-	-	-	-
Financial derivatives	1,420,374	-	-	1,420,374
Deferred taxes	-	-	-	-
Taxes payable	-	-	250,190	250,190
Subordinated dept	-	1,433,439	-	1,433,439
Other liabilities	-	-	148,256	148,256
Total Liabilities	**1,420,374**	**231,521,657**	**398,446**	**233,340,477**
Total Equity	**-**	**1,180,000**	**11,100,868**	**12,280,868**
Total Liabilities and Equity	**1,420,374**	**232,701,657**	**11,499,314**	**245,621,345**

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

** For issued securities, 177 million is accounted for using fair value hedge accounting. The hedged item is adjusted for the change in fair value of the hedged risk which at the same time is recognised in profit or loss. The reason is that cash flows related to such issued securities (covered bonds) are effectively converted, using swaps, to Norwegian kroner from a foreign currency to and/or from fixed interest rates to a 3 month NIBOR rate.

Note 22 Financial Instruments at Fair Value

Methods in order to determine fair value

General

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

Interest rate and currency swaps

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

Bonds

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

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

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

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

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

The following table presents the company's assets and liabilities at fair value as of 31.12.2020

NOK 1 000

	Level 1	Level 2	Level 3	Total
Certificates and bonds	34,515,412	-	-	34,515,412
Financial Derivatives	-	21,396,448	-	21,396,448
Total Assets	**21,699,686**	**34,212,175**	**-**	**55,911,860**
Financial Derivatives	-	915,540	-	915,540
Total Liabilities	**-**	**915,540**	**-**	**915,540**

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

NOK 1 000

	Level 1	Level 2	Level 3	Total
Certificates and bonds	28,067,101	-	-	28,067,101
Financial Derivatives	-	16,254,454	-	16,254,454
Total Assets	**19,623,810**	**24,697,745**	**-**	**44,321,555**
Financial Derivatives	-	1,420,374	-	1,420,374
Total Liabilities	**-**	**1,420,374**	**-**	**1,420,374**

Note 23 Other Liabilities

NOK 1 000	**2020**	**2019**
Employees tax deductions and other deductions	627	548
Employers national insurance contribution	702	645
Accrued holiday allowance	1,082	994
Commission payable to shareholder banks	184,028	126,813
Deposits*	4,361	2,471
Pension liabilities	10,448	11,383
Expected credit loss unused credit lines (flexible loans)	51	34
Accounts payable, secutities	0	0
Other accrued costs	7,779	5,368
Total	**209,078**	**148,256**

The Company does not have an overdraft facility or a revolving credit facility as of 31.12.2020

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

Accounts payable, securities, are such amounts that have been transacted, but not yet settled.

Note 24 Credit Risk

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

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

Credit Exposure

NOK 1 000	2020	2019
Loans to customers	208,613,697	191,309,342
Loans to and deposits with credit institutions	6,473,876	9,801,250
Certificates and bonds	34,515,412	28,067,101
Financial derivatives	21,396,448	16,254,454
Other assets	286,898	189,198
Total assets	**271,286,332**	**245,621,345**
Unused credit on flexible loans	12,333,850	12,033,187
Received collateral in relation to derivative contracts	-16,838,423	-12,418,140
Total credit exposure	**266,781,759**	**245,236,393**

Lending to customers (residential mortgage loans)

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

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

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

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

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

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

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

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

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

Definition of risk groups - based on probability of default

			Distribution in %		Total lending *	
Risk group	**Lower limit**	**Upper limit**	**2020**	**2019**	**2020**	**2019**
Lowest	0.00 %	0.01 %	86.40%	85.19%	180,232,905	162,972,832
Low	0.01 %	0.05 %	10.20%	10.71%	21,287,922	20,490,523
Medium	0.05 %	0.20 %	2.19%	2.73%	4,567,348	5,224,346
High	0.20 %	0.50 %	0.63%	0.65%	1,319,655	1,248,371
Highest	0.50 %	100 %	0.58%	0.72%	1,205,867	1,373,270
Total			**100.00%**	**100.00%**	**208,613,697**	**191,309,342**

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

Loans to and deposits with credit institutions

SpareBank 1 Boligkreditt only has deposits with financial institutions rated A-/A2 or higher as of 31.12.2020

Bonds and certificates

Rating class		2020	2019
AAA/Aaa	Covered Bonds	21,456,871	21,249,000
	Norw. Government certificates	499,945	64,864
	Other government or gov guaranteed bonds	10,199,788	5,639,985
	Financial institutions		
	Total	32,156,604	26,953,849
AA+/Aa1 to AA-/Aa3	Other government bonds*	2,358,809	1,061,930
	Covered Bonds	-	51,322
	Financial institutions	5,680,463	8,852,807
	Total	8,039,271	9,966,059
A+/A1 - A/A2	Financial institutions	793,414	948,443
	Total	793,414	948,443
Total		**40,989,289**	**37,868,351**

* bonds issued by German federal states and Swedish municipalities bonds
Fitch/Moody's/S&P rating classes are used. If the ratings differ, the lowest counts. All bonds are publicly listed.

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

Note 25 Liquidity Risk

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

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

Liquidity Risk - all amounts in 1000 NOK

	31.12.2020	No set term	Maturity 0 to 3 months	Maturity 3 to 12 months	Maturity 1 to 5 years	Maturity more than 5 years
Certificates and bonds	34,515,412		10,065,340	3,165,566	18,898,132	2,386,374
Lending to and deposits with credit institutions	6,473,876	6,473,876	0	0	0	0
Residential mortgage loans	263,996,624		1,053,109	3,130,301	16,524,426	243,288,788
Derivatives	21,396,448		3,018,071	2,471,648	9,678,632	6,228,097
Other assets with no set term	286,898	286,898				
Total Assets	326,669,258	6,760,774	14,136,520	8,767,514	45,101,191	251,903,259
Debt incurred when issuing securities	-265,039,389		-1,714,458	-1,254,208	-142,720,524	-119,350,199
Other liabilities with a set term	-16,838,423		-16,838,423			
Derivatives	-915,540		-9,821	-57,165	-251,594	-596,961
Liabilities with no set term	-1,429,990					-1,429,990
Subordinated debt	-362,394	-362,394				
Equity	-12,367,815	-12,367,815				
Total liabilities and equity	-296,953,551	-12,730,209	-18,562,701	-1,311,373	-142,972,118	-121,377,150
Net total all items		-5,969,435	-4,426,181	7,456,142	-97,870,928	130,526,109

Interest Rate Risk - all amounts in 1000 NOK

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

Note 26 Interest Rate Risk

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

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

Interest rate risk - all amounts in 1 000 NOK

	31.12.2020	**No set term**	**Maturity 0 to 3 months**	**Maturity 3 to 12 months**	**Maturity 1 to 5 years**	**Maturity more than 5 years**
Certificates and bonds	34,515,412		20,833,277	3,383,675	9,522,485	775,974
Lending to and deposits with credit institutions	6,473,876	6,473,876	0	0	0	0
Residential mortgage loans	263,996,624		263,996,624			
Other assets with no set term	286,898	286,898				
Total Assets	305,272,811	6,760,774	284,829,901	3,383,675	9,522,485	775,974
Liabilities incurred when issuing securities	-265,039,389		-68,961,327	-1,254,208	-96,672,569	-98,151,285
Other liabilities with a set term	-16,838,423	-16,838,423				
Liabilities with no set term	-362,394	-362,394				
Subordinated debt	-1,429,990					-1,429,990
Equity	-12,367,815	-12,367,815				
Total liabilities and equity	-296,038,010	-29,568,631	-68,961,327	-1,254,208	-96,672,569	-99,581,275
Net interest rate risk before derivatives	9,234,800	-22,807,857	215,868,574	2,129,467	-87,150,084	-98,805,301
Derivatives	20,480,907	0	-133,473,399	10,739,596	77,159,921	66,054,790
Net interest rate risk		-22,807,857	82,395,175	12,869,063	-9,990,162	-32,750,511
% of total assets		7%	25%	4%	3%	10%

Interest Rate Risk - all amounts in 1000 NOK

	31.12.2019	No set term	Maturity 0 to 3 months	Maturity 3 to 12 months	Maturity 1 to 5 years	Maturity more than 5 years
Loans to credit institutions	28,067,101	-	15,248,167	6,623,852	5,617,128	577,954
Lending to and deposits with credit institutions	9,801,250	2,549,322	6,892,095	359,833	-	-
Residential mortgage loans	272,128,147	-	272,128,147	-	-	-
Other assets with no set term	189,198	189,198	-	-	-	-
Total Assets	310,158,696	2,738,520	294,268,409	6,983,685	5,617,128	577,954
Debt incurred when issuing securities	-253,713,303	-	-60,046,791	-12,941,127	-96,417,976	-84,307,409
Other liabilities with a set term	-12,418,140	-12,418,110	-	-	-	-
Liabilities with no set term	-398,446	-398,446	-	-	-	-
Subordinated debt	-1,433,439	-	-	-	-	-1,433,439
Equity	-12,280,868	-12,280,868	-	-	-	-
Total liabilities and equity	-280,244,197	-25,097,454	-60,046,791	-12,941,127	-96,417,976	-85,740,848
Net interest rate risk before derivatives	29,941,499	-22,358,935	234,221,618	-5,957,442	-90,800,848	-85,162,894
Derivatives	14,834,080	-	-137,643,978	8,363,656	82,444,360	61,670,043
Net interest rate risk		-22,358,935	96,577,640	2,406,214	-8,356,488	-23,492,852
% of total assets		7%	30%	1%	3%	7%

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

		Sensitivity of net interest rate expense in NOK 1000	
Currency	**Change in basis points**	**2020**	**2019**
NOK	100	38,166	51,345

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

Note 27 Currency risk

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

Net currency exposure in NOK 1000

Currency	2020	2019
EUR	**-108,808**	**-244,605**
- Bank Deposits	430,906	344
- Issued Bonds	-148,882,707	-148,917,683
- Derivatives	141,069,376	140,542,218
- Bond investments	7,273,617	8,130,516
USD		**4**
- Bank Deposits		4
- Issued Bonds		-
- Derivatives		-
- Bond investments		
SEK	**40**	**-**
- Bank Deposits	**40**	**-**
- Issued Bonds	-9,174,816	-251,812
- Derivatives	9,174,816	251,812
- Bond investments	-	-
GBP	**188**	**164**
- Bank Deposits	117	198
- Issued Bonds	-8,845,102	-8,706,679
- Derivatives	8,845,173	8,706,646
- Bond investments		-
Total	**-108,580**	**-244,437**

P&L effect before tax, in NOK 1000

Currency	Change in Exchange Rate (per cent)	2020	2019
EUR	+10	-21,387	-24,461
USD	+10		0
SEK	+10	4	0
GBP	+10	19	16
Total		-21,364	-24,444

Note 28 Operational Risk

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

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

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

Based on thes e facts there are no reasons which would lead to a different conclusion than that the standard method for the calculation of capital for operational risks are required. The Company therefore applies the standard method under the capital adequacy rules (CRD IV, Pillar 1) as method to calculate the operational risk capital requirement. The capital so calculated amounts to 56.7 million for 31.12.2020 (see also the note for capital adequacy).

Note 29 Asset Coverage Test

The asset coverage is calculated according to the Financial Services Act § 2-31 (Covered Bond Legislation). There is a difference between this asset coverage test and the amounts in the balance sheet; for the purposes of the test mortgage loans which may have migrated above the 75% loan to value level are adjusted.

Only that part of the mortgage loan corresponding to a loan to value up to 75% of the collateral is considered. Market values are used for all substitute collateral in the test. In addition any defaulted loans, i.e. loans in arrears at or beyond 90 days, are excluded from the test.

NOK 1 000	**2020**	**2019**
Covered Bonds	242,074,324	217,833,870
Total Covered Bonds	242,074,324	217,833,870
Residential mortgage loans	207,697,380	190,250,177
Public sector, SSA bond exposure	3,858,900	357,901
Reverse repo/ depo less than 100 days	4,402,964	5,254,080
Exposure to credit institutions (covered bonds)	15,852,466	15,521,382
Derivatives	20,905,849	15,379,500
Total Cover Pool	249,523,946	226,763,040
Asset-coverage	103.1 %	104.1 %
Cover pool including amounts allocated to LCR	252,717,558	
Assets-coverage including amounts allocated to LCR	104.4 %	

Liquidity Coverage Ratio (LCR)	2020	2019
Liquid assets	17,332,393	14,680,356
Cash outflow next 30 days	12,783,956	12,605,694
LCR ratio	135.6 %	116.5 %

Net Stable Funding Ratio (NSFR)	2020	2019
Available amount of stable funding	227,169,644	206,882,321
Required amount of stable funding	217,574,186	198,323,077
NSFR ratio	104.4 %	104.3 %

Note 30 Capital Adequacy

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

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

As of 31. December was the CRR/CRDIV regulation changed so that the average riskweight on exposures secured in residential property in Norway can not be lower than 20 percent.

The European Union has approved new regulatory requirements, CRD IV, which is implemented in Norway. The requirement of 16.0 per cent total capital for SpareBank 1 Boligkreditt includes:

- Minimum core equity Pillar 1: 4.5 percent.
- Additional Tier 1 equity capital 1.5 per cent. and additiponal Tier 2 capital 2.0 percent (can be held as Tier 1 and Tier 2, alternatively as core equity capital)
- Conservation buffer: 2.5 percent core capital
- Systemic risk buffer: 4.5 percent core equity for exposures in Norway. For exposures in other countries, the rate in each country shall be used.
- Countercyclical buffer: 1.0 percent core equity

The Issuer has an additional Pillar 2 requirement which is 0.9 percent. core equity capital. The total requirement for the Issuer is therefore to have capital of minimum 16.9 percent of risk weighted assets. With a management buffer added, the target for capital coverage is 17.3 percent at 31 December 2020.

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

Capital. NOK 1 000	2020	2019
Share capital	7,797,215	7,610,548
Premium share fund	3,901,255	3,807,922
Other equity capital	-282,363	-317,602
Common equity	11,416,107	11,100,868
Intangible assets	-85	-379
Declared share dividend	-85,769	-90,566
100% deduction of expected losses exceeding loss provisions IRB (CRD IV)	-409,225	-420,879
Prudent valuation adjustment (AVA)	-19,711	-16,639
Deferred taxes	-	-
Core equity capital	**10,901,316**	**10,572,406**
Hybrid bond	900,000	1,180,000
Tier 1 equity capital	**11,801,316**	**11,752,406**
Supplementary capital (Tier 2)	1,425,000	1,425,000
Total capital	**13,226,316**	**13,177,406**

Minimum requirements for capital. NOK 1 000	2020	2019
Credit risk	4,040,496	3,711,268
Market risk	-	-
Operational risk	56,724	59,537
Depreciation on groups of loans	-	-
CVA Risk	334,910	329,561
Difference in capital requirement resulting from transitional floor	-	-
Minimum requirement (8%) for capital	**4,432,130**	**4,100,367**

Capital Coverage

	2020	2019
Risk-weighted assets incl. transitional floor*	55,401,623	51,254,583
Capital coverage (requirement w/all buffers, 16.9%)	23.87%	25.71%
Tier 1 capital coverage (requirement w/all buffers, 14.9%)	21.30%	22.93%
Core capital coverage (requirement w/all buffers, 13.4%)	19.68%	20.63%
Leverage ratio (requirement 3.0%)	4.53%	5.05%

* The EU capital adequacy framework (CRR/CRDIV) was incorporated into Norwegian law with effect from 31 December 2019 and the transitional floor for risk weighted assets was accordingly removed at the same time.

Note 31 Related parties

The Company has 208.614 MNOK loans to customers. These are loans acquired from shareholder banks at market values (i.e. nominal value).

SpareBank 1 SMN

The Company acquires significant support services, including accounting services, back-office and other banking services from SpareBank 1 SMN. These services were previously purchased from SpareBank SR Bank. A complete SLA is established between the Company and SpareBank 1 SMN.

SpareBank 1 - Alliance

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

SpareBank 1 Næringskreditt AS

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

Note 32 Collateral received

SpareBank 1 Boligkreditt has signed ISDA-agreements including CSAs (Credit Support Annexes) with a number of financial institutions that are counterparties in interest rate and currency swaps. These institutions post collateral in the form of cash deposits to SpareBank 1 Boligkreditt. At the end of the period 31.12.2020 this collateral amounted to NOK 15.288 million. This amount is included in the balance sheet, but represents restricted cash.

Note 33 Contingencies and events after balance sheet date

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

No events have taken place after the balance sheet date which are expected to have any material impact on the financial statements as of the end of the period 31.12.2020.

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